

# **Methodology for Assessment of Council Fit for the Future Proposals**

**Local Government — Consultation Paper**  
April 2015



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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

**Submissions are due by 25 May 2015.**

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>.

You can also send comments by mail to:

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Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website <[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)> as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.



# Contents

<b>Invitation for submissions</b>	<b>iii</b>
<b>1 Executive Summary</b>	<b>1</b>
1.1 Introduction	1
1.2 Role of IPART as the Expert Panel	2
1.3 Fit for the Future proposals based on scale and capacity	4
1.4 Addressing the other three criteria	4
1.5 Proposed methodology to assess the proposals	5
1.6 Consultation on the proposed methodology	10
<b>2 Fit for the Future reforms</b>	<b>12</b>
2.1 Background	12
2.2 Fit for the Future framework	13
2.3 Council Improvement Proposal	15
2.4 Council Merger Proposal	15
2.5 Rural Council Proposal	16
<b>3 Proposed assessment methodology</b>	<b>19</b>
3.1 Assessment ratings	20
3.2 Proposed approach to assessing the scale and capacity criterion	20
3.3 Proposed approach to assessment of the other criteria	26
3.4 Proposed FFTF assessment process for councils	33
<b>4 Other considerations in assessing FFTF proposals</b>	<b>35</b>
4.1 Social and community context of the council	35
4.2 Council consultation on FFTF proposals	36
4.3 The impact of water utility performance	37
<b>5 Monitoring and reporting future FFTF performance</b>	<b>38</b>
<b>Appendices</b>	<b>39</b>
A Terms of Reference	41
B ILGRP options for Non-Metropolitan Councils	44
C ILGRP preferred merger options for Sydney Metropolitan Councils	47





# 1 Executive Summary

## 1.1 Introduction

This consultation paper explains our proposed methodology to undertake the role of the Expert Panel in assessing local government Fit for the Future proposals and seeks stakeholder comment.

The NSW Government's Fit for the Future reforms aim to improve the strength and effectiveness of local government in providing services and infrastructure that communities need.<sup>1</sup> The NSW Government has been working with local councils since 2011 on this initiative to strengthen the local government sector. The reform process is expected to benefit ratepayers by leading to councils that will be financially sustainable into the future, and more capable of being strategic partners with other levels of government.

The Government has established four criteria it considers are necessary for a council to be considered 'Fit for the Future' (FFTF).<sup>2</sup> The criteria that characterise a FFTF council have been developed based on the work of Destination 2036, the assessments of the sector by the Independent Local Government Review Panel (ILGRP) and the NSW Treasury Corporation (TCorp),<sup>3</sup> as well as input from the local government sector and IPART<sup>4</sup>. These criteria are:

- ▼ scale and capacity to engage effectively across community, industry and government
- ▼ sustainability
- ▼ effectively managing infrastructure and delivering services for communities, and
- ▼ efficiency.

The Government also announced that councils which are assessed as FFTF will have access to a range of benefits, including access to a streamlined rate variation process and a State Government borrowing facility, priority for other government funding and grants, and eligibility for additional devolved planning powers.<sup>5</sup>

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<sup>1</sup> Office of Local Government (OLG), *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 15.

<sup>2</sup> OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, pp 6-8.

<sup>3</sup> OLG, *Preparing your council's Fit for the Future proposal – Templates and Self-Assessment Tool*, November 2014, p 2.

<sup>4</sup> IPART, *Review of criteria for fit for the future – Final Report*, September 2014.

<sup>5</sup> OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 15.

## **1.2 Role of IPART as the Expert Panel**

The Government asked IPART to perform the role of the independent Expert Panel to assess how council proposals meet the FFTF criteria. Councils are to prepare proposals as to how they will meet the criteria over the medium term (ie, to 2019-20) for submission to us by 30 June 2015. Our role is to ensure a consistent, impartial and balanced assessment of councils' FFTF proposals.

The full terms of reference (ToR) for IPART's role are attached at Appendix A. Box 1.1 provides a summary of the three tasks contained in the ToR:

1. develop a methodology for assessing proposals
2. undertake the assessments of whether each council is FFTF, consistent with the methodology, and
3. provide the Government with a final assessment report by 16 October 2015.

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**Box 1.1 Panel tasks in Terms of Reference**

1. Develop a methodology for assessing Fit for the Future (FFTF) proposals, which must:
    - a) be consistent with the Government's reform agenda for FFTF
    - b) include an assessment of the scale and capacity criterion as a threshold criterion
    - c) include an assessment of the performance against the other FFTF measures that takes into account:
      - i. published guidance materials
      - ii. relative importance of each measure in a council becoming FFTF and the relative robustness of each measure
      - iii. the social and community context and outcomes for each council
    - d) include an assessment of the consultation process undertaken by the council
    - e) consider advice provided by the Ministerial Advisory Group
    - f) identify timescales and approach to consultation
    - g) be published for public consultation for a minimum of 28 days
    - h) be finalised and available to councils no later than the week commencing 1 June 2015.
  2. Undertake an assessment of whether each council is FFTF, consistent with the published methodology, which must:
    - a) operate with consistency, fairness and impartiality
    - b) have an online portal for all councils to submit their FFTF proposals
    - c) publish all councils' proposals and supporting documentation, subject to confidentiality, as soon as practicable after 30 June 2015
    - d) ensure local government knowledge and expertise in the technical assessment of each proposal
    - e) rely on the evidence provided by councils through the online submission process, and additional relevant information
    - f) give councils the opportunity to provide additional information, which may include the opportunity for councils to present in person.
  3. Provide the Minister for Local Government and the Premier by 16 October 2015 with a final report identifying whether or not each council is FFTF and the reasons for this assessment, to be publicly released following Cabinet approval.
- 

A temporary part-time Tribunal member, John Comrie, is being appointed for the period of the assessment process. The member will supplement the existing local government expertise and experience of the Tribunal with first-hand local government industry experience.

### 1.3 Fit for the Future proposals based on scale and capacity

The Government has established the 'scale and capacity' criterion as the threshold criterion for councils.<sup>6</sup> In making a FFTF proposal, councils must first assess their scale and capacity against the ILGRP's recommendations, and submit one of three types of proposals:

- ▼ **Council Merger Proposal** – for councils that need to undertake structural change by merging with one or more other councils to achieve sufficient scale and capacity.
- ▼ **Council Improvement Proposal** – for councils that currently have sufficient scale and capacity without any structural change.
- ▼ **Rural Council Proposal** – for councils with 'Rural Council Characteristics', (eg, small, declining populations spread over a large area) where mergers may not be feasible, but which need to demonstrate plans and strategies for real change in order to increase their capacity and improve performance against the Fit for the Future criteria.<sup>7</sup>

The Office of Local Government (OLG) has developed templates for councils to use for each proposal type, in addition to other resources and guidance to assist councils in assessing their options and preparing their proposals.<sup>8</sup>

### 1.4 Addressing the other three criteria

In each application, the council must also demonstrate how it meets the other three FFTF criteria – 'sustainability', 'effective infrastructure and service management' and 'efficiency'.

The Government has established certain measures with benchmarks for each of the FFTF criteria, which a council must report against to show how it meets these criteria. These measures and benchmarks are set out in Table 1.1.

In each of the templates, the council should report its projected performance to 2019-20 against each of the criteria measures. For councils that have proposed some form of structural change (ie, Merger or Rural Council option), the council is asked to report its estimated future performance based on the new structure. For the Rural Council option, the council is also asked to report its past performance (from 2010-11), to help demonstrate how its projected performance would improve under the new, proposed structure.

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<sup>6</sup> OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 12.

<sup>7</sup> OLG, *Fit for the Future Rural Council Workshop outcomes*, December 2014, p 8.

<sup>8</sup> OLG guidance material and templates can be found at the following government website: <http://www.fitforthefuture.nsw.gov.au/preparing-proposal> [accessed 16 April 2015].

**Table 1.1 Fit for the Future Criteria and Measures**

Criteria and measure	Definition	Benchmark
<b>1. Sustainability</b>		
Operating Performance Ratio	$\frac{\text{Net continuing operating result (excl capital grants and contributions)}}{\text{Total continuing operating revenue (excl capital grants and contributions)}}$	Greater or equal to break-even average over 3 years
Own Source Revenue Ratio	$\frac{\text{Total continuing operating revenue (excl all grants and contributions)}}{\text{Total continuing operating revenue (incl capital grants and contributions)}}$	Greater than 60% average over 3 years
Building and Asset Renewal Ratio	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	Greater than 100% average over 3 years
<b>2. Effective infrastructure and service management</b>		
Infrastructure Backlog Ratio	$\frac{\text{Estimated cost to bring assets to satisfactory condition}}{\text{Total (WDV) of infrastructure, buildings, other structures, depreciable land, and improvement assets}}$	Less than 2%
Asset Maintenance Ratio	$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$	Greater than 100% average over 3 years
Debt Service Ratio	$\frac{\text{Cost of debt service (interest expense and principal repayments)}}{\text{Total continuing operating revenue (excl capital grants and contributions)}}$	Greater than 0% but less than or equal to 20% average over 3 years
<b>3. Efficiency</b>		
Real Operating Expenditure	$\frac{\text{Operating expenditure}}{\text{Population}}$	A decrease in Real Operating Expenditure per capita over time

**Note:** WDV = written down value.

**Source:** OLG, *Fit for the Future Guidance material – Completing Template 3: Rural Council Proposal*, January 2015, p 15.

## 1.5 Proposed methodology to assess the proposals

The Government requested that we develop a methodology upon which to assess council FFTF proposals as a first step in fulfilling the role of the Expert Panel.

Our proposed methodology to assess council FFTF proposals includes:

**1. How we propose to rate council proposals.**

Councils that submit proposals will be rated as either '**fit**' or '**not fit**', with reasons given for the assessment. Councils that do not submit a proposal during the submission process cannot be properly assessed and will therefore be '**deemed not fit**'.<sup>9</sup>

**2. How we propose to assess the scale and capacity criterion, as the threshold criterion.**

All councils must demonstrate that they either currently have, or will have, sufficient scale and capacity with their proposed approach, consistent with the objectives identified by the ILGRP for their region, and the features of strategic capacity in Box 3.1. We will consider first the ILGRP's *preferred option* for each council regarding scale and capacity and whether the council's proposed option is *broadly consistent* with this option.

Based on our approach, if the ILGRP recommended a council to stand-alone or undertake structural change, then the council should demonstrate that they first considered making a proposal on this basis. If the ILGRP recommended a merger as the preferred option and the council did not propose one, the council will be assessed as 'not fit', unless it presents either:

- a sound argument (eg, using a business case) that demonstrates that the proposed approach is superior to the recommended merger, or
- a merger option *broadly consistent* with the ILGRP recommendation to merge councils (eg, with three rather than four councils), supported by a sound argument, or
- a Rural Council Proposal where the council demonstrates that it first meets the 'Rural Council Characteristics' (Box 2.1) and clearly demonstrates how the council plans to achieve real change and improve its capacity.

**3. How we propose to assess the three other criteria (Table 1.1), following our assessment of scale and capacity.**

We propose to assess a council's performance using the specific measures and benchmarks, as shown in Table 1.1. In brief, the approach:

- Scales the benchmark in the order of importance as: 'must meet' or 'must demonstrate improvement in'. The scaling applied to each benchmark indicates the importance of councils achieving operational sustainability over the medium term and having plans to improve capital sustainability performance over this same period. A council's performance against each of the individual benchmarks will inform our overall assessment of whether a council meets the criteria.

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<sup>9</sup> Except for Far West councils that choose not to submit proposals for which no rating will be given.

- Sets timeframes for councils to meet or make improvements towards meeting the benchmarks (ie, within 5 or 10 years).
  - Allows flexibility for councils in meeting the forward benchmarks where there is a Merger or Rural Council Proposal, which may require some short term adjustment to fulfil structural objectives (eg, a temporary increase in asset backlogs in a larger, merged council).
4. **How we will undertake the assessment process, including the timetable, how we will consider information provided by councils through the online portal and other relevant information, and opportunities for council consultation with IPART.**

#### **1.5.1 Other factors that may inform our assessment of FFTF proposals**

During our assessment of proposals, we will also consider other factors that may influence our overall assessment of whether a council meets the FFTF criteria, namely:

- ▼ the social and community context of the council
- ▼ the nature and quality of the supporting information, including the rigour by which the ILGRP's preferred options for scale and capacity were explored by the council, and the robustness and consistency of the assumptions underlying the council's forecasts
- ▼ how the council consulted with its community regarding its proposal or alternative options as relevant, and the outcomes from these consultations, and
- ▼ the impact of the council's water utility business on its General Fund performance, where the council also serves a water utility function (this information is requested in the templates).

#### **1.5.2 Summary of the assessment process**

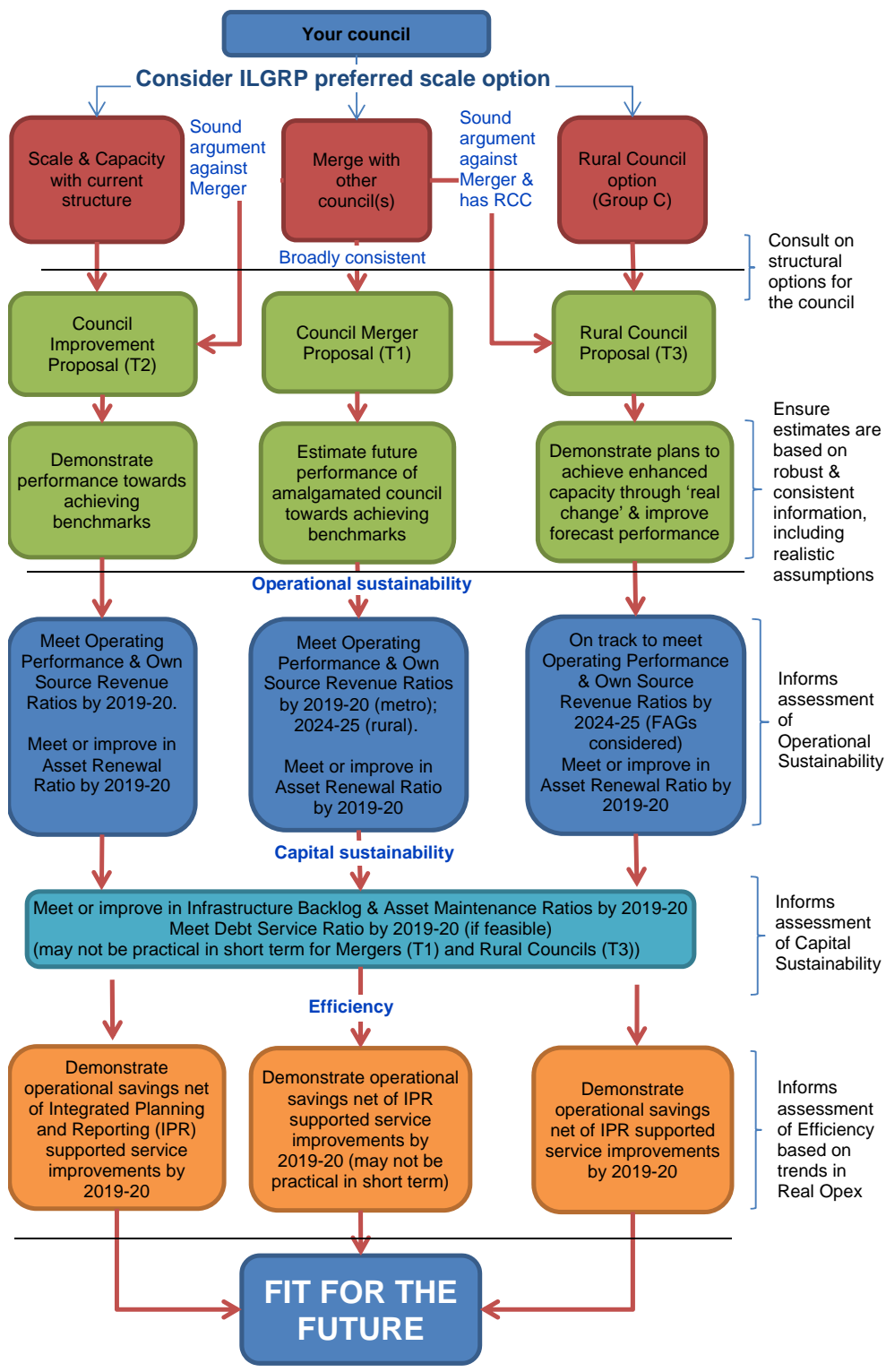
We developed Figure 1.1 to summarise the assessment process for FFTF proposals and the steps a council would need to take to be assessed as FFTF.

This demonstrates that a council should consider the ILGRP's scale and capacity option as the starting point, and how a FFTF council should put forward a proposal broadly consistent with the objectives of the ILGRP for the region, unless there is a sound argument ruling out this option.

#### **1.5.3 Future reporting of FFTF performance**

This paper also outlines how a council may report on its progress to becoming FFTF over time. We propose that councils would report performance each year in their Annual Reports, and that the Auditor General would reassess FFTF performance periodically, as part of the new auditing role for the Audit Office of NSW in the sector.

**Figure 1.1 Proposed assessment process for councils' FFTF proposals**





#### 1.5.4 Submission process for council FFTF proposals

Councils can lodge their FFTF proposals, following the release of the Final Report on the assessment methodology in the week commencing 1 June, by using our dedicated council portal on our website:

[http://www.ipart.nsw.gov.au/Home/Industries/Local\\_Govt/Council\\_Portal](http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Council_Portal).

Proposals are due on 30 June 2015. We will publish additional guidance for councils on how to submit proposals through the online portal on our website.

Once we receive council proposals, we will post non-confidential information on our website as soon as practical. We will also accept public submissions on council FFTF proposals to assist with our assessment during the four weeks after the council deadline, to 31 July, and will post these submissions on our website.<sup>10</sup>

During our assessment process, we may seek further information, or meet with certain councils to clarify aspects of their proposals. IPART's officers will also be available to assist councils with enquiries about the submission process before 30 June.

Once we complete our assessment, we will rate all councils and provide our recommendations to the Government by 16 October 2015.

A timetable for the FFTF assessment process, as well as the consultation process on this consultation paper, is in Table 1.2.

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<sup>10</sup> Submissions we receive from stakeholders outside a formal submission period may be considered by the Tribunal, but will not be published on our website. We will notify stakeholders through our website about formal submission periods.

**Table 1.2 Timeline for FFTF methodology consultation and assessment process**

Date	Milestone
<b>Stage 1</b>	<b>Assessment methodology</b>
27 April 2015	Release of Consultation Paper – Assessment Methodology
11 May 2015	Public Forum – Sydney (webcast)
15 May 2015	Public Forum – Dubbo
18 May 2015	Public Forum – Coffs Harbour
21 May 2015	Public Forum – Wagga Wagga
25 May 2015	Close of public submissions on Consultation Paper – Assessment Methodology
w/c 1 June 2015	Release of Final Report – Assessment Methodology
<b>Stage 2</b>	<b>Council FFTF submissions</b>
30 June 2015	FFTF proposals due from councils
31 July 2015	Close of public submissions on council FFTF proposals
<b>Stage 3</b>	<b>IPART assessment Phase</b>
Until end Aug 2015	Request additional information or meet with councils as required
October 2015	Release FFTF decisions to Minister

**Note:** w/c = week commencing.

## 1.6 Consultation on the proposed methodology

To consult on the methodology contained in this paper, we will:

- ▼ seek and consider feedback in submissions to the paper, and
- ▼ hold four public hearings across NSW, in Sydney (to be webcast) in early May, and three additional regional meetings shortly after in Dubbo, Coffs Harbour and Wagga Wagga, to provide stakeholders with an opportunity for further input.

We will publish stakeholder submissions on our website soon after the close of submissions. Similarly, transcripts from our public forums and any webcast will also be available from our website.

After our consideration of stakeholder feedback, we will release the final report on the assessment methodology, which we intend to apply when assessing council FFTF proposals, in the week commencing 1 June 2015.

### 1.6.1 Questions for stakeholder feedback

IPART has developed a series of questions for stakeholders to consider when submitting comments on this consultation paper.

- 1 How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material? 25
- 2 Which of the 'Rural Council Characteristics' are the most relevant, considering a council must satisfy a majority of the characteristics to be considered a rural council? 25
- 3 Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria? 33
- 4 How should councils engage with their communities when preparing FFTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important. 37
- 5 Should council performance against FFTF proposals be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals? 38

We also invite stakeholders to comment on any other aspect of the proposed methodology.

## 2 Fit for the Future reforms

### 2.1 Background

The Government's objective with the Fit for the Future (FFTF) program is to encourage each council to create its own roadmap of how it will form part of a stronger and more effective local government sector for NSW, and be a sustainable and efficient providers of services to the community.<sup>11</sup>

The Independent Local Government Review Panel (ILGRP) formulated the options for a revitalised system of local government that will remain sustainable and fit-for-purpose well into the middle of the 21st Century. The ILGRP did not take a "one-size fits all approach" to the sector.<sup>12</sup> Instead, it considered the specific characteristics of a region and where necessary it recommended options for structural or boundary change to achieve the overall objective for an improved sector.

The ILGRP, consistent with a "no-one size fits all approach" recommended a number of options for councils, eg.:

- ▼ amalgamate or merge
- ▼ no change
- ▼ combine as a strong Joint Organisation
- ▼ (stand-alone) council within a Joint Organisation<sup>13</sup>
- ▼ rural council, and
- ▼ joint administration.

We reproduce the ILGRP's recommendations for both non-metropolitan councils (which it divided into groups (from A to G)) and metropolitan councils in Appendices B and C, respectively. In addition, Appendix C shows a map of the ILGRP's preferred merger options for the Sydney metropolitan area.

#### 2.1.1 Benefits from reforming the sector

The FFTF reform process is expected to benefit ratepayers by leading to councils that will be financially sustainable into the future, and capable of being strategic partners with other levels of government.

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<sup>11</sup> OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 5.

<sup>12</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 7.

<sup>13</sup> This option mainly relates to larger Group G councils. Group F councils have both this option, and a merger option recommended. ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 112, 115-116.

The ILGRP identified the “need for councils to shift their focus towards a more strategic view of their operations; to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs.” It suggested “a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then ‘plough back’ efficiency gains into infrastructure, services and other benefits for their communities”.<sup>14</sup>

The ILGRP also noted that a number of recent studies in NSW, and elsewhere, clearly demonstrate the potential for amalgamations, where properly managed, to generate both efficiencies and increased strategic capacity, ie, economies of scale and scope.<sup>15,16</sup> In addition, it stated that there is an argument that taxpayers should not be expected to increase grant funding indefinitely to support councils that are unnecessarily small, lack capacity and build excessive costs into the system.<sup>17</sup>

## 2.2 Fit for the Future framework

In response to the ILGRP recommendations, the Government developed a FFTF framework which requires each council to assess its current position and submit a FFTF proposal by 30 June 2015.<sup>18</sup> Figure 2.1 illustrates the FFTF application process. The framework requires councils to submit a proposal based on one of three templates. Figure 2.1 also shows that the choice of template will reflect the council’s proposal as to how it addresses the scale and capacity criterion, as the threshold criterion.

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<sup>14</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 32.

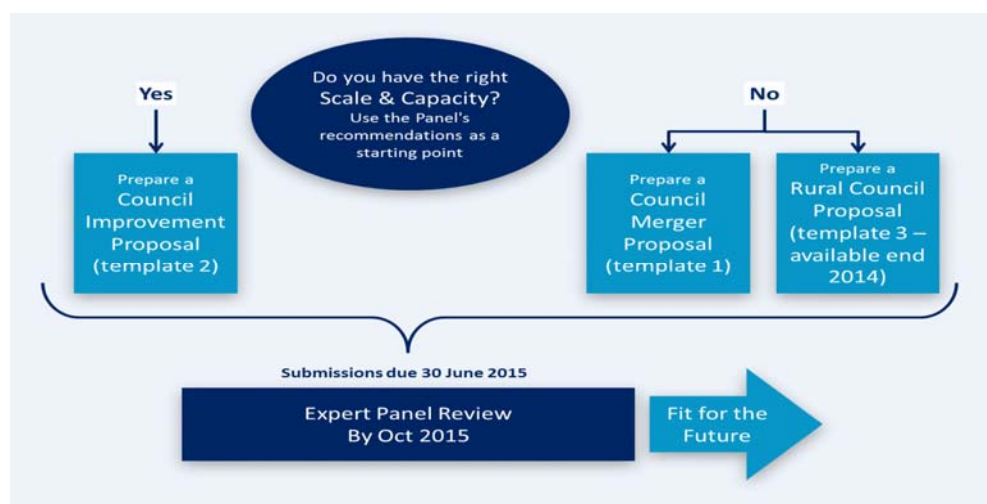
<sup>15</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 73.

<sup>16</sup> Economies of scale refer to when average costs of production decrease as output expands. Economies of scope refer to the situation in which it is less expensive to produce goods jointly than separately. Jeffrey M. Perloff, *Microeconomics*, Pearson International Edition, Fourth Edition, 2007, pp 204, 213.

<sup>17</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 72.

<sup>18</sup> The eight councils in Far Western NSW are not required to, but may nevertheless wish to, submit a proposal pending consultation on establishing a Far West Organisation.

**Figure 2.1 Snapshot – Process for Fit for the Future proposals**



**Source:** See for example: OLG, *Fit for the Future Guidance material – Completing Template 1: Council Merger Proposal*, October 2014, p 4.

Each council (or councils jointly) using the ILGRP recommendations as a starting point, is (are) to submit:

- ▼ A **Council Improvement Proposal** (ie, Template 2) if identified as already having scale and capacity.
  - Councils are to address the three other financial criteria to show current (2013-14) and projected (2016-17 to 2019-20) performance against the seven FFTF benchmarks.
- ▼ If identified as without scale and capacity, either:
  - A **Council Merger Proposal** (ie, Template 1) – councils are to show anticipated benefits and costs of a merger and estimate performance against the seven FFTF benchmarks between 2016-17 and 2019-20, or
  - A **Rural Council Proposal** (ie, Template 3) – demonstrating ‘Rural Council Characteristics’ and providing past (2010-11 to 2013-14) and estimated (2016-17 to 2019-20) performance against the seven FFTF benchmarks.
  - The Rural Council Proposal must include the options that the council plans to undertake to increase their capacity and improve performance against the other Fit for the Future criteria, eg, resource sharing, consolidating or outsourcing existing functions.<sup>19</sup>

<sup>19</sup> OLG, *Fit for the Future Rural Council Workshop outcomes*, December 2014, p 8.

## 2.3 Council Improvement Proposal

The Council Improvement Proposal template is primarily designed for those councils that can demonstrate that they already have sufficient scale and capacity, as recommended by the ILGRP.

Councils may also submit these proposals if they consider that they can demonstrate a strong case to continue with their current structure, despite a different ILGRP recommendation. In some cases, councils may also choose to submit a Council Improvement Proposal, which incorporates some aspects of structural change in their forward planning (eg, sharing some services or resources with other councils).

Where councils are considered by the ILGRP to already have sufficient scale and capacity, our assessment of these proposals will focus on how the council proposal meets the other criteria to show they are FFTF.

We discuss how we propose to assess the other criteria in section 3.

## 2.4 Council Merger Proposal

The ILGRP carried out research and consultation on the subject of scale and capacity and determined that there was not a “one-size fits all approach”.<sup>20</sup> The Government’s FFTF guidance to councils has also stated that “if the [Independent Local Government Review] Panel recommended a merger for your council, then this should be the first option you consider.”<sup>21</sup>

Merger councils are asked to estimate, as robustly as possible, future performance (2016-17 to 2019-20) for each FFTF financial benchmark as part of the other criteria assessment. However, as the merged council does not exist yet, we understand these estimates are indicative only.

In addition, due to the structural changes required for merged councils, it may not be practical for these councils to meet all of the benchmarks by 2019-20, eg, there may be less funds available for asset spending during the adjustment phase. In section 3.3 we discuss how we propose to consider the overall assessment of merged councils relative to the other criteria. In some cases, we

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<sup>20</sup> The ILGRP informed its recommendations on scale and capacity (including the merger recommendations) by looking at the unique characteristics of each area – geography, economic and transport flows, communities, interest and local identity. It also considered a list of criteria for a given council area, including sustainability and strategic capacity, efficiency and effectiveness and accommodating population growth, and whether boundary changes would better achieve the criteria. OLG, *Fit for the Future Guidance material – Completing Template 2: Council Improvement Proposal (Existing Structure)*, October 2014, p 8, and ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 76.

<sup>21</sup> OLG, *Fit for the Future Guidance material – Completing Template 1: Council Merger Proposal*, October 2014, p 7.

may accept forecast improvement in a benchmark based on realistic strategies instead of the requirement that council must meet the benchmark within a certain timeframe.

Consistent with OLG guidance, a Council Merger Proposal is to be submitted by one council in the merger group, but must be endorsed by all councils in the group (ie, by formal council resolution). In addition, councils should consult with their communities and staff on the proposal. We discuss how we propose to consider council consultation to inform our assessment of proposals further in section 4.3.

## 2.5 Rural Council Proposal

The ILGRP recommended the option of creating a new lower cost, largely autonomous 'Rural Council' working within regional Joint Organisations as an alternative to an amalgamation in some rural-remote areas.<sup>22</sup> The option aims to reduce the regulatory and compliance burden on these councils with a regional Joint Organisation undertaking selected regional functions.<sup>23</sup>

The ILGRP identified a number of possibilities for non-metropolitan councils, with respect to structure.<sup>24</sup> The ILGRP allocated non-metropolitan council to a group based on its projected population, size of the rate base and the ability to merge with others (see Table 2.1 for a summary, and Appendix B).<sup>25</sup> We note, for example, that in its assessment the ILGRP recommended that:

- ▼ non-metropolitan Group C councils would be suitable to be a rural council, but in nearly every case the possibility of a merger should be properly assessed before being ruled out, and
- ▼ Group B councils have a second option to establish a rural council, with a merger being the first option.<sup>26</sup>

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<sup>22</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 71.

<sup>23</sup> Joint Organisations (JO) are currently being piloted in the Central West, Hunter, Illawarra, Namoi and Riverina. Fifteen JOs are to be rolled out in regional areas from September 2016. JOs will be enabled through legislation. ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 17.

<sup>24</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, see chapter 15, pp 111-122.

<sup>25</sup> Group A councils are the eight Far West councils that are, at this stage, not required to submit a proposal, but may wish to do so. The ILGRP recommended the creation of a Far West organisation, pending further consultation with these councils on a lasting solution.

<sup>26</sup> According to the ILGRP, Group C councils are those with a projected population of less than 5,000 in 2031 but where a merger may not be realistic. Group B councils have current/projected populations of less than 4,000 but could be readily merged with a neighbour. See ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 112.



**Table 2.1 ILGRP options for non-metropolitan councils**

ILGRP grouping	Definition	Typical Option
A	Western Region Councils	Joint Administration, Council in Far West region or merge
B	Projected population 2031 below 4,000; High merger potential (2014 referrals to Boundaries Commission)	Merge or rural council in JO
C	Projected population 2031 below 5,000; Low/Medium merger potential (2015-16 referrals to Boundaries Commission)	Rural council in JO or merge
D	Potential merger partners for Group B and C councils (2014-16 referrals to Boundaries Commission)	Merge or council in JO
E	Other potential mergers to consolidate major regional centres (2017 referrals to Boundaries Commission)	Merge or council in JO
F	Current and/or projected population 2031 5,000-10,000 (Review status by 2020)	Council in JO or merge
G	Larger rural and regional councils (excluding Hunter, Central Coast and Illawarra)	Council in JO

**Note:** JO = Joint Organisation. We have ordered the options based on the ILGRP's preferred option. However, for some groups this ordering may not apply for each council. For specific recommendations see Appendix B where we reproduce the ILGRP's tables.

**Source:** ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, Table 11, pp 114-116.

A council submitting a Rural Council Proposal is required to demonstrate that the majority of the 'Rural Council Characteristics' listed in Box 2.1 apply to its circumstances. In particular, we will be looking at whether the council has a small and static or declining population spread over a large area. Therefore, we propose that, consistent with OLG guidance, a council which does not meet the majority of these characteristics should not complete the Rural Council Proposal, but rather submit either a Merger or Council Improvement Proposal.<sup>27</sup>

<sup>27</sup> Office of Local Government, *Fit for the Future Guidance Material, Completing Template 3: Rural Council Proposal*, January 2015, p 4.

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**Box 2.1 Rural Council Characteristics (RCC)**

1. Small and static or declining population spread over a large area
2. Local economies that are based on agricultural or resource industries
3. High operating costs associated with a dispersed population and limited opportunities for return on investment
4. High importance of retaining local identity, social capital and capacity for service delivery
5. Low rate base and high grant reliance
6. Difficulty in attracting and retaining skilled and experienced staff
7. Challenges in financial sustainability and provision of adequate services and infrastructure
8. Long distance to a major (or sub) regional centre
9. Limited options for mergers.

**Source:** OLG – *Fit for the Future Guidance material – Completing Template 3: Rural Council Proposal*, January 2015, pp 11-12. The guidance document indicates that these characteristics were based on the ILGRP report and further consultation with rural councils.

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Figure 2.2 shows the possible structural adjustment options previously canvassed by the Government with the local government sector that we propose to take into account when assessing a Rural Council Proposal. We will assess whether a council has demonstrated that it will achieve real change to improve its capacity, and ultimately, its sustainability.<sup>28</sup>

Councils would not be required to adopt all the options in their proposal, and may identify additional options. However, councils should show us how combining two or more of these alternatives would help them to improve financial sustainability, become effective infrastructure and service managers and efficient, and hence become FTFE.

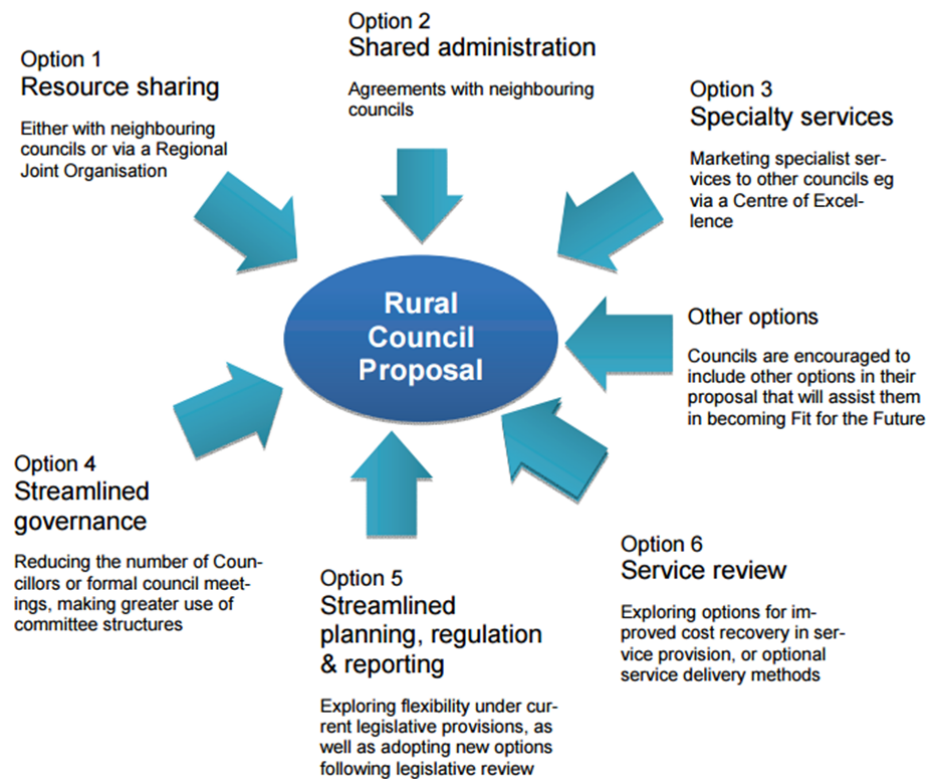
Rural Councils will also have the option of nominating a project that may be suitable for funding under the NSW Government's Small Councils Innovation Fund scheme, which we will refer to the Fund, as appropriate.<sup>29</sup>

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<sup>28</sup> Some of the options would require legislative change to allow councils to utilise their full potential. Other options could be applied under current legislation.

<sup>29</sup> An example could be the development of IT systems allowing shared administrative arrangements with a partner council, or the development of a 'centre of excellence' to provide services to other councils in areas such as engineering or contractual management. OLG, *Fit for the Future Rural Council Workshop outcomes*, December 2014, p 8.

**Figure 2.2 Rural Council Options**



**Source:** OLG, *Fit for the Future Guidance material – Completing Template 3: Rural Council Proposal*, January 2015, p 18.

### 3 Proposed assessment methodology

The aim of the FFTF assessment process is to assess councils and their proposed roadmaps on a number of fronts – scale, strategic capacity, sustainability, infrastructure service provision and efficiency. The Government has already established clear objectives and benchmarks for IPART to follow in making these assessments.

Becoming FFTF is a process; it involves councils assessing where they are now and how they can improve, if necessary, to become FFTF. As current circumstances vary between councils, it is reasonable to expect that some will take longer than others to improve their performance. Therefore, while council FFTF proposals provide an opportunity for councils to demonstrate how they meet or plan to meet the criteria, our assessment process will also need to be flexible and consider the overall merits of each council proposal.

In this section, we set out how we propose to assess council FFTF proposals against these criteria using the information provided in the templates discussed in section 2, and any other information we consider relevant.

### 3.1 Assessment ratings

To determine a rating, we propose to assess councils' proposals as:

- ▼ **Fit** – if the proposal satisfies the four FFTF criteria overall, that is, if the proposal:
  1. First, satisfies the **scale and capacity** criterion. We expect that proposals that are broadly consistent with the ILGRP's preferred options would satisfy this threshold criterion. Our approach to assessing proposals that do not align with ILGRP preferred options will take account of a number of factors as outlined further in section 3.2.
  2. Second, satisfies overall the other criteria of **sustainability, effective infrastructure and service management**, and **efficiency**. Our proposed assessment methodology for these criteria requires councils to demonstrate how they either meet or seek to improve performance against specific benchmarks, outlined further in section 3.3.
- ▼ **Not Fit** – if the proposal does not satisfy the scale and capacity criterion, or does not satisfy overall the other criteria based on our analysis; this rating which would be accompanied by our explanation and, potentially, a recommendation.
- ▼ **Not assessed, deemed Not Fit** – if a council has not submitted a proposal for us to assess.<sup>30</sup>

Further, in undertaking our assessments, we propose to also consider other factors which may influence the results of the FFTF criteria, eg, the social and community context of the council, discussed further in section 4.

### 3.2 Proposed approach to assessing the scale and capacity criterion

Scale and capacity is the threshold criterion for all proposal types. The OLG guidance material specifies that each council must use the ILGRP preferred options as a starting point to assess if it has the appropriate scale and capacity.<sup>31</sup> The ILGRP's scale and capacity options are based on the key elements of strategic capacity, shown in Box 3.1.

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<sup>30</sup> Even councils deemed by the ILGRP to have sufficient scale and capacity need to demonstrate that they satisfy the Other Criteria to be considered 'fit'.

<sup>31</sup> OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 12.

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### Box 3.1 Key elements of Strategic Capacity

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

**Source:** ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 32.

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### 3.2.1 Proposed approach to assessing scale and capacity

To assess whether a council FFTF proposal satisfies the scale and capacity criterion, we propose to consider:

- ▼ For **Council Improvement** and **Merger Proposals**, if the scale and capacity requirements outlined in Box 3.1 are satisfied, which we consider may include a demonstration of sufficient scale such as:
  - an appropriate minimum population size, or
  - a target number of councils in the metropolitan or regional area, or
  - a future plan of the council to achieve scale in the medium to longer term (eg, Sydney fringe councils).<sup>32</sup>
- ▼ For **Rural Council Proposals**:
  - if the majority of rural council characteristics in Box 2.1 are satisfied. A particular emphasis will be on the council demonstrating that:
    - i) it has a small, static or declining population spread over a large area, or
    - ii) there is a long distance to a major (or sub) regional centre, or
    - iii) there are limited options for mergers.
  - if the council has demonstrated plans and strategies for real change to enhance its current capacity to a more sustainable level. In assessing whether this criterion has been met, we will also consider how the new option meets the strategic capacity requirements discussed in Box 3.1 above.

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<sup>32</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 99-103.

The ILGRP also discussed the formation of Joint Organisations.<sup>33</sup> Joint Organisations (JOs) allow councils to come together to formulate ideas and priorities for local and State government at a regional level, and also provide scope for shared services. JOs are not intended to create another tier of government, rather councils will remain at the core of the system, and would 'own' and resource the JOs similar to the existing regional organisation of councils, ie, ROCs.<sup>34</sup> However, the formation of JOs is expected to occur during the next stage of the FFTF reform process, after other structural change and boundary change has been progressed. The Government has stated that it will support councils to establish 15 JOs in regional NSW from September 2016, following a pilot in four regions to develop the model.<sup>35</sup>

### 3.2.2 Consistency with ILGRP preferred options

We propose that all council FFTF proposals that directly align or are *broadly consistent* with ILGRP preferred options on scale and capacity will meet this criterion.<sup>36</sup> In assessing whether a proposal is *broadly consistent* with the objectives of the ILGRP preferred option, we will examine:

- ▼ If the council has first considered the ILGRP's preferred option for scale and capacity.
- ▼ If the preferred option is ruled out by the council (based on a sound argument supported by robust information), we will examine whether the council has attempted to adopt an alternative option which is consistent with ILGRP objectives and the features of scale and capacity in Box 3.1.

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<sup>33</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 79-91.

<sup>34</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 81-83.

<sup>35</sup> OLG, *Fit for the Future: A roadmap for stronger, smarter councils*, September 2014, p 10.

<sup>36</sup> For clarity, we note that in its final report, the ILGRP bolded its preferred options where more than one structural option is recommended. See ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, Tables 8 and 11.

In addition, we intend to examine the proposal's consistency with the broader regional and state-wide objectives of the ILGRP's preferred option, including economic, transport, regional planning and equity objectives.<sup>37</sup> As an example, we will consider the following ILGRP objectives:

- ▼ For Metropolitan areas:
  - create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and federal agencies
  - establish a more equitable pattern of local government across the metropolitan area, taking into account planned development
  - underpin Sydney's status as a global city
  - support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.<sup>38</sup>
- ▼ For Regional or rural areas:
  - ensure that local government in these areas remains in place and is 'fit for purpose' and can maintain community life and identity to the maximum possible extent
  - where possible, create a regional centre with the necessary scale and capacity to anchor a Joint Organisation
  - where possible, ensure that there are close functional inter-relationships (eg, 'overspill' development, commuter catchments, service provision) between a regional centre and adjoining council areas, and
  - address 'councils at risk' in regional areas through amalgamations with adjoining areas.<sup>39</sup>

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<sup>37</sup> The ILGRP identified the need to reduce compliance costs to the community from dealing with a number of small councils and duplication of services, and for councils to become effective partners with the State. ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 72.

<sup>38</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 98-99.

<sup>39</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 85 and 92-93.

We propose to assess scale and capacity based on the ILGRP's recommended *preferred option*, as shown in Table 11 of their report (ie, the preferred option is in **bold type**). Where the ILGRP provided multiple options, but did not express a preference, we will assess scale and capacity as follows:

- ▼ All Group C councils are suitable candidates for the new 'Rural Council' option, but according to the ILGRP in nearly every case the possibility of a merger should be properly assessed by the relevant councils before being ruled out.
- ▼ The ILGRP identified Group D councils as potential merger partners with one or more Groups B and C councils. Where the ILGRP did not express a preferred option, but a merger is an option to consider, consistent with our approach to Group C councils, the merger possibility should be explored.
- ▼ Group E councils were identified as having other potential merger options to consolidate major regional centres, and for some councils, the ILGRP preferred option is a merger. Where this is not the case and the option includes to stand-alone in a JO or to merge, the merger option should be explored.
- ▼ Group F councils were identified as having 2031 populations greater than 5,000 and in some cases, these councils may be able to continue as stand-alone councils for many years to come. However, the ILGRP states that most need to consider whether a merger could improve sustainability and build strategic capacity. Therefore, we consider that where a merger option is also identified, it must also be explored.
- ▼ For councils identified as candidates to resource-share as part of a regional JO, but were considered to have scale and capacity without merging or adopting the Rural Council option (eg, most but not all Group G non-metropolitan councils),<sup>40</sup> the council to stand-alone will be considered the preferred option.

Group A consists of the eight Far West councils to be reviewed separately as part of the establishment of the proposed Western Region Authority.<sup>41</sup> We will consider other options presented by these councils on their merits.

There may be instances where councils may not be able to reach agreements with neighbouring councils on merger options recommended by the ILGRP. In these cases, the council would submit a Council Improvement Proposal or Rural Council Proposal (if it meets the RCC in Box 2.1) to demonstrate how it meets the scale and capacity criterion under an alternative option. In some cases, this may not be possible and may form a reason for a 'not fit' assessment. However, where this occurs, we would identify the other merits of the proposal and what efforts were made by the council to pursue the ILGRP's preferred option.

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<sup>40</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 116.

<sup>41</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 112-116.



Our recommended approach to assessing scale and capacity is summarised in Table 3.1. Our overall assessment of whether the council is FFTF or not is also informed by the council's projected performance against the three other criteria, based on whichever council structure is proposed.

**Table 3.1 Proposed approach to assess the scale and capacity criterion**

<b>ILGRP preferred option</b>	<b>Our assessment approach</b>
<b>No change</b>	Meets criterion
<b>Merger</b>	<ol style="list-style-type: none"> <li>1. Meets criterion if same proposal as preferred by the ILGRP.</li> <li>2. Does not meet criterion if it does not submit the same proposal as preferred by the ILGRP, unless it presents: <ul style="list-style-type: none"> <li>▼ a sound argument (eg a business case) for 'no structural change' which clearly demonstrates why the option proposed is superior to the merger option and indicative of the features of strategic capacity in Box 3.1, or</li> <li>▼ a merger option broadly consistent with the objectives of the ILGRP preferred option, supported by a sound argument (eg, a business case) eg, this may include two or three, not a group of four councils preferred by the ILGRP, or</li> <li>▼ a 'Rural Council Proposal' which satisfies the Rural Council Characteristics developed by OLG, and the council: <ul style="list-style-type: none"> <li>– demonstrates that it considered the merger option but it was not a feasible option to pursue (eg, as supported by a business case)</li> <li>– clearly demonstrates the strategies it plans to undertake to achieve real change, indicative of the features of strategic capacity (as per Box 3.1).</li> </ul> </li> </ul> </li> </ol>
<b>Rural Council Proposal</b>	Meets criterion where the council clearly demonstrates the strategies to enhance its capacity to a more sustainable level.

IPART seeks comments on the following

- 1 How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?
- 2 Which of the 'Rural Council Characteristics' are the most relevant, considering a council must satisfy a majority of the characteristics to be considered a rural council?

### 3.3 Proposed approach to assessment of the other criteria

Following the assessment of scale and capacity, we will assess how council proposals meet the remaining three other criteria, that is:

- ▼ Sustainability (see section 3.3.1).
- ▼ Effective Infrastructure and Service Management (see section 3.3.2).
- ▼ Efficiency (see section 3.3.3).

Our assessment of each of these criteria is based on how councils perform against a set of specific measures and benchmarks. However, we consider these three criteria should be satisfied overall for a council to be considered 'fit'.

We propose to:

1. Scale the benchmarks in order of importance as:
  - a) **'must meet'** where we consider these as key or reasonable benchmarks for councils to meet within a specified timeframe in order to be assessed as fit for the future (FFTF)
  - b) **'must demonstrate improvement in'** where we expect councils, for these benchmarks, to demonstrate a current and/or forecast trend towards meeting the benchmark if it is not feasible to achieve the benchmark within the specified timeframe, and
  - c) **'informs assessment'** – all the benchmarks will inform our assessment of whether a council is FFTF, however, we consider some flexibility is required when considering some benchmarks more than others to take account of particular issues, eg, data integrity issues.
2. Set differential timeframes for councils to meet, or make improvements towards meeting the benchmarks.
3. Provide flexibility for councils in meeting the forward benchmarks where there is a Merger or Rural Council Proposal, which may require some short term adjustment (eg, a temporary increase in asset backlogs).
4. Provide flexibility for Merger Proposal councils since the estimated performance against the benchmarks will be largely assumption-based.

Although our approach allows for some flexibility regarding when councils need to meet benchmarks, we encourage councils to meet all of the benchmarks as early as possible in the future. We will consider the capacity and resources of the council to achieve the benchmarks, as part of our overall assessment.

For a Rural Council proposal the focus is more on the council making a case for adopting a new structure with a solid plan to achieve improvement in the future. In these cases, the information underpinning the forecasts, including the robustness of the plans and the reasonableness of the assumptions, will be particularly important considerations in the assessment process.

Figure 3.1 provides each of the criteria definitions, guidance for each measure and the benchmark against which the measure will be considered. The measures are based on General Fund data.

Figure 3.1 Fit for the Future Criteria, Measures and Benchmarks

Criteria/measure	Definition	Benchmark	OLG Guidance
1. Sustainability			
Operating performance	$\frac{\text{Net continuing operating result}^a \text{ (excl capital grants and contributions)}}{\text{Total continuing operating revenue}^a \text{ (excl capital grants and contributions)}}$	$\geq$ to break-even average over 3 years	All measures, where applicable, should be consistent with the Accounting Code/TCorp measures. The measures should also be based on General Fund data and exclude Water and Sewer Funds.  (a) Where applicable, excludes fair value adjustments, reversal of revaluation decrements, net result on sale of assets and net share/loss of interests in joint ventures.  (b) Expenditure is deflated by the CPI (for 2009 to 2011) and the Local Government Cost Index (2011 to 2014), as published by IPART.  (c) ABS, Regional Population Growth, Australia. The data should be averaged over 2 calendar years, except for 2013-14, where the data for the 2013 calendar year should be used.
Own source revenue	$\frac{\text{Total continuing operating revenue}^a \text{ (excl all grants and contributions)}}{\text{Total continuing operating revenue}^a \text{ (incl capital grants and contributions)}}$	> 60% average over 3 years	
Building and asset renewal	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	>100% average over 3 years	
2. Infrastructure and Service Management			
Infrastructure backlog	$\frac{\text{Estimated cost to bring assets to satisfactory condition}}{\text{Total (WDV) of infrastructure, buildings, other structures, depreciable land, and improvement assets}}$	< 2%	
Asset maintenance	$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$	> 100% average over 3 years	
Debt service	$\frac{\text{Cost of debt service (interest expense and principal repayments)}}{\text{Total continuing operating revenue}^a \text{ (excl capital grants and contributions)}}$	0 to 20% average over 3 years	
3. Efficiency			
Real operating expenditure (ROE) <sup>b</sup>	$\frac{\text{Operating expenditure}^a}{\text{Population}^c}$	decrease in ROE per capita over time	

Source: OLG, *Completing Template 3: Rural Council Proposal*, January 2015, p 15.

Our proposed approach for assessing performance of specific measures against benchmarks for each of the other criteria, ie, sustainability, effective infrastructure and service management, and efficiency, is set out below.

### 3.3.1 Sustainability

Sustainability means that councils will generate sufficient funds over the long term to provide the agreed level and scope of services and infrastructure for communities as identified through the Integrated Planning and Reporting process. We consider that ensuring councils are financially sustainable, and being able to show this will occur into the future, is fundamental to demonstrating a council is FFTF.

We consider that a council's operating performance ratio provides a key measure of financial sustainability and is a benchmark that FFTF councils should meet. Further, a council's ability to raise its own revenue insulates it from a fall in revenue from sources that are outside its control. External funding that does not eventuate may curtail a council's ability to provide services or invest in required infrastructure. Nevertheless, Financial Assistance Grants (FAGs), as an outside funding source, provide a stable income source for rural councils. Therefore, we will consider the impact of FAGs when assessing the sustainability criteria for rural councils, and in particular, the Own Source Revenue ratio.

Table 3.2 shows three performance measures the Expert Panel will consider in forming a judgement on the sustainability of councils.

**Table 3.2 Sustainability criterion – measures and definitions**

Measure	Definition
Operating Performance Ratio	Core measure of financial sustainability – indicates council's capacity to meet ongoing operating expenditure requirements.
Own Source Revenue	Councils with higher own source revenue have greater ability to control their own operating performance and financial sustainability.
Building & Infrastructure Asset Renewal Ratio	Measures whether a council's assets are deteriorating faster than they are being renewed – indicator of whether a council's infrastructure backlog is likely to increase.

Table 3.3 shows the benchmarks and targets we propose to use to consider how the council proposals satisfy each measure for the sustainability criteria. We propose that metropolitan and regional councils **must** be able to meet the proposed benchmarks within five years for operating performance and own source revenue, and at minimum, show improvement for the building and infrastructure renewal measure.

Councils submitting a Rural Council Proposal may not meet these benchmarks given their limited ability to raise revenue, and so our approach requires these councils to show how they **plan to improve** their current performance. Rural councils must demonstrate that they will meet and maintain the benchmark within 10 years (by 2024-25), a projection supported by the current trajectory of their forward estimates.

Where councils submit a merger proposal, the relevant target for each performance measure is determined by whether the merging councils are metropolitan/regional or rural.

**Table 3.3 Proposed approach to assess the sustainability criterion**

Performance measure	Benchmark	All councils (except rural councils)	Rural council (option)	Merger case <sup>a</sup>
Operating Performance Ratio	Greater than or equal to break-even average over 3 years	Must meet within 5 years	Plan to meet within 10 years	Must meet within 5 years for non-rural councils Plan to meet within 10 years for rural councils
Own Source Revenue	Greater than 60% average over 3 years	Must meet within 5 years	Plan to improve within 5 years & consideration of FAGs	Must meet within 5 years for non-rural councils Plan to improve within 5 years & consideration of FAGs for rural councils
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	Meet or improve within 5 years	Meet or improve within 5 years	Meet or improve within 5 years

<sup>a</sup> For mergers, we will also consider whether meeting each of the benchmarks is practical in the short term for the new council.

### 3.3.2 Infrastructure and Service Management

A FFTF council that meets the Infrastructure and Service Management criterion seeks to maximise return on resources and minimise unnecessary burden on the community and business, while working strategically to leverage economies of scale and meet the needs of communities as identified in the Integrated Planning and Reporting process.

Table 3.4 shows the three performance measures the Government requires to be considered in forming a judgement on infrastructure and service management by councils for the FFTF process.

We will be assessing these performance measures for infrastructure performance and debt in a holistic manner, that is, in the context of the council's overall capital sustainability as reflected by its Asset Management Plan (AMP). In addition, we consider there may be data consistency issues that need to be taken into account when interpreting a council's reported asset renewal, backlog and maintenance performance, as there is no current requirement for this data to be routinely audited.

We consider it is reasonable to expect that a council would meet the debt service ratio benchmark where it is feasible for the council to borrow and this is compatible with the council's AMP. A council that uses debt to finance long-lived infrastructure is efficiently allocating costs between the present generation of ratepayers and future ratepayers, regardless of when the benefits accrue.

**Table 3.4 Infrastructure and service management criterion – measures and definitions**

Measure	Definition
Infrastructure Backlog Ratio	Measures how effectively the council is managing its infrastructure. Increasing backlogs may affect the council's ability to provide services and remain sustainable.
Asset Maintenance Ratio	Measures whether the council is spending enough on maintaining its assets to avoid increasing its infrastructure backlog.
Debt Service Ratio	Indicates whether the council is using debt wisely to share the life-long cost of assets and avoid excessive rate increases.

Table 3.5 shows how we propose to assess the three effective infrastructure and service management criteria measures against the benchmarks. As is evident from Table 3.5, a FFTF council **must** meet the Debt Service Ratio measure within five years. The two other measures for this criterion provide more scope for councils to demonstrate **improvement** in the projected performance against the benchmark rather than being required to meet the benchmark.

We should note that the benchmark for the Asset Maintenance Ratio is based on the underlying assumption that previous underspending has occurred, which has resulted in the infrastructure backlog for councils being greater than 2%. This assumption is consistent with TCorp's analysis that one of the major drivers of the Infrastructure backlog is the underspending in the maintenance of assets.<sup>42</sup> Should a council continuously exceed the Asset Maintenance target by spending more on maintenance than is required (ie, the ratio is >100%), this may also indicate the council is not efficiently managing its assets.

<sup>42</sup> TCorp, *Financial Sustainability of the New South Wales Local Government Sector: Findings, Recommendations and Analysis*, April 2013, p 15.

**Table 3.5 Proposed approach to assess the infrastructure and service management criterion**

Performance measure	Benchmark	All councils (except rural councils)	Rural council (option)	Merger case <sup>a</sup>
Infrastructure Backlog	Less than 2%	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years
Asset Maintenance	Greater than 100% average over 3 years	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years
Debt Service	Greater than 0% and less than or equal to 20% average over 3 years	Meet within 5 years	Meet within 5 years	Meet within 5 years

<sup>a</sup> For mergers, we will also consider whether meeting each of the benchmarks is practical in the short term for the new council.

### 3.3.3 Efficiency

A FFTF council that meets the Efficiency criterion would seek to provide services and deliver infrastructure in a manner that achieves value for money for current and future ratepayers.

Table 3.6 shows that real operating expenditure is the benchmark we will consider when measuring the performance of councils for efficiency. We will consider service levels (consistent with community priorities identified in the Integrated Planning and Reporting (IPR) processes) when assessing a council's efficiency. In addition, we will consider the need for any structural adjustment (such as an amalgamation or merger) in assessing the scale and capacity criterion where efficiency gains are not practical in the short term.

**Table 3.6 Efficiency criterion – measures and definitions**

Measure	Definition
Real Operating Expenditure	Indicates how well the council is utilising economies of scale and managing service levels to achieve efficiencies.

Table 3.7 shows how a council must demonstrate improvement in this measure to satisfy the criterion. Metropolitan, regional, and rural councils that propose to be stand-alone are required to demonstrate that operational savings will be achieved by 2019-20. Some discretion will apply to Merger Proposal councils in the short term as this measure may be affected by the transition to new arrangements that may require additional spending to achieve future efficiencies.



**Table 3.7 Proposed approach to assess the efficiency criterion**

<b>Performance measure</b>	<b>Benchmark</b>	<b>All councils (except rural councils)</b>	<b>Rural council (option)</b>	<b>Merger case</b>
Real operating expenditure per capita	A decrease in Real Operating Expenditure per capita over time	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	Demonstrate operational savings (net of IPR supported service improvements) over 5 years but may not be practical in short term

IPART seeks comments on the following

- Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria?

### 3.4 Proposed FFTF assessment process for councils

Figure 1.1 summarised the assessment process for FFTF proposals from a council's perspective, as discussed in sections 3.1 to 3.3, and the steps a council would need to take to be assessed as FFTF.

#### 3.4.1 FFTF proposal supporting information

We will base our assessment on the information provided in council proposals through the online portal using one of the templates OLG developed,<sup>43</sup> and any additional relevant information. This additional information may be provided by the council to support its proposal or may be otherwise gathered by, or provided to, us. Any proposal provided by the council should be supported by a sound argument with relevant documentation. We consider the ToR allows us to assess all information we consider relevant, and to make a judgement on the robustness of the argument, analysis and information used to support any position. Where we consider the position is not sufficiently supported, we may request the council to provide further supporting information.

<sup>43</sup> OLG guidance material and templates can be found at the following government website: <http://www.fitforthefuture.nsw.gov.au/preparing-proposal> [accessed 16 April 2015].

Councils may also wish to support their proposals by using information sourced from:

- ▼ NSW TCorp's Financial Sustainability assessments
- ▼ Integrated Planning and Reporting framework - including community strategic plan (and associated delivery program and operational plan) and resourcing strategy (ie, long term financial plan, workforce management plan and asset management plan)
- ▼ IPART decisions on s 508(2) or s 508A Special Rate Variations.<sup>44</sup>

We consider these information sources may assist councils to support their proposals with robust and consistent data, which will assist us to make a recommendation based on the best available information.

Councils, for all proposal templates, are required to fill in their recent (2013-14) and projected performance (2016-17 to 2019-20) against the seven benchmarks to demonstrate how they are FFTF across the other criteria. In addition, a council lodging a Rural Council Proposal, ie, Template 3, is required to provide the history of its performance against the benchmarks from 2011-12 to 2013-14.

We consider councils should provide as much relevant information or data as is required to support their proposals. Therefore, we consider it would be helpful if a longer time series of data to include 2014-15 and 2015-16 is provided by all councils lodging proposals (no matter the type of proposal). We consider that the additional two years of data would provide us with a better picture of the trend in council performance relative to the benchmarks. The additional two years of data should be available from councils' annual reporting requirements and could be provided without imposing an unreasonable burden.

### **3.4.2 The robustness of supporting information used in FFTF proposals**

As discussed previously, for example in sections 1.5 and 3.2.2, we consider that a sound argument based on robust information is required to demonstrate the relative merits of alternative proposals.

The proposal templates include performance indicators based on past data and forecasts into the future. In developing businesses cases in support of council proposals, we consider it is important that supporting information and any assumptions underpinning this information are based on robust and consistent data. We will also consider the rigour by which ILGRP preferred options for scale and capacity are explored by the council proposals.

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<sup>44</sup> *Local Government Act 1993* (NSW), see: s 508 – Orders under secs 506 and 507, and s 508A – Special variation over a period of years.

Further, as councils' proposals require time series data for each benchmark, we will factor into our assessment the impact of positive or negative one-off performance issues (or adjustments) in the context of assessing long term trends. To assist us in understanding what these adjustments are and why they occurred, councils should explain the reason for any one-off adjustments, consistent with the guidance in OLG's templates.<sup>45</sup> As we are considering council sustainability, it is ongoing performance that is important.

## 4 Other considerations in assessing FFTF proposals

Section 3 explained how we would assess whether a council is FFTF. However, there are additional factors that we will consider in assessing council proposals, as discussed below.

### 4.1 Social and community context of the council

The ToR ask us to consider the social and community context when assessing council FFTF proposals. This may include the demographics of an area, the community's social and economic needs and the sense of local identity. We consider these factors may be particularly relevant when considering the scale and capacity criterion.

The ILGRP identified that:

- ▼ Local government boundaries should not unnecessarily divide areas with strong economic and social inter-relationships; but instead should facilitate integrated planning, coordinated service delivery, and regional development. We will consider these aspects of a council's proposed scale and capacity as part of our assessment.
- ▼ Mechanisms such as Community Boards and new approaches to place management, community engagement and customer service make it possible to maintain local representation and identity within larger council areas.<sup>46</sup>

Therefore, we will also consider how councils have considered these types of alternative mechanisms before developing proposals premised on the social and community context being an argument against the ILGRP's preferred option.

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<sup>45</sup> For example, see: OLG, *Fit for the Future Guidance material – Completing Template 2: Council Improvement Proposal (Existing Structure)*, October 2014, p 11.

<sup>46</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 73-76.

## 4.2 Council consultation on FFTF proposals

The ToR ask us to include an assessment of the consultation process undertaken by the council as part of our assessment of council FFTF proposals.

The ILGRP considered that a policy on boundary changes based on evidence-based assessments should include full community consultation.<sup>47</sup>

OLG's FFTF guidance material also identifies how councils may use findings from community consultation to assist in identifying benefits and costs for proposals.<sup>48</sup> In particular, OLG requires councils to provide evidence on community consultation regarding any proposed merger or new 'rural council' structures.<sup>49</sup> In addition, evidence should be provided of council resolutions in support of merger proposals.<sup>50</sup> OLG also suggested that councils exhibit proposals for mergers for at least 28 days as part of their community consultation.<sup>51</sup>

We will assess a council's consultation process with reference to the OLG guidance materials. We will also consider how balanced was the information that is provided to the community. That is, whether it promoted only the benefits or only the costs of a particular option, or instead informed the community about both the costs and benefits of one or more options.

We acknowledge that there are different ways that councils may capture community feedback or input, including:

- ▼ exhibiting options or proposals for comment
- ▼ a mail-out to all ratepayers with a reply-paid survey
- ▼ fact sheets and media releases
- ▼ an online survey or a random survey of ratepayers, appropriately stratified to capture the population characteristics of the LGA, and
- ▼ public meetings, listening posts, or resident workshops.

We consider that councils should choose methods that reflect the issues that need to be consulted upon, eg, a Merger Proposal would likely require input from residents in multiple councils regarding the implications of change, whereas a Council Improvement Proposal, where the ILGRP recommended that a council already had sufficient scale and capacity, would require more limited consultation, if any. Generally, the nature and extent of the consultation should be commensurate with the significance of the changes involved in the proposal

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<sup>47</sup> ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 74.

<sup>48</sup> OLG, *Fit for the Future Guidance material – Template 1: Council Merger Proposal*, October 2014, p 11.

<sup>49</sup> OLG, *Fit for the Future Guidance material – Completing Template 1: Council Merger Proposal*, October 2014, pp 12-13, and *Fit for the Future Guidance material – Completing Template 3: Rural Council Proposal*, October 2014, p 21.

<sup>50</sup> OLG, *Fit for the Future Guidance material – Template 1: Council Merger Proposal*, October 2014, p 3.

<sup>51</sup> OLG, *Fit for the Future Guidance material – Template 1: Council Merger Proposal*, October 2014, p 2.

and the possible impacts on the community. We will also consider the resources of the council in assessing consultation.

### 4.3 The impact of water utility performance

Councils submitting either a Council Improvement or Rural Council proposal are required to separately report on their water utility performance, where these councils provide water and sewer services. All other sections in the templates require councils to report their General Fund performance which excludes the impact of water business funds.<sup>52</sup>

According to Local Government NSW (LGNSW), the activities of the water business may affect the General Fund, through dividend payments and through internal borrowings between the General and Water Funds. LGNSW also explains how the services of water businesses can contribute to the strategic capacity of a council through economies of scale and scope.<sup>53</sup>

We will assess scale and capacity against the ILGRP objectives and performance against the benchmarks (see Figure 3.1) based on General Fund data only, but will consider how the performance of the General Fund is affected by the water utility business as part of this assessment, as relevant. As part of this assessment, we will also consider cross-subsidisation issues if they arise, noting that cross-subsidisation between the General and Water and Sewer Funds for a council is unlikely to lead to efficient service provision.

IPART seeks comments on the following

- 4 How should councils engage with their communities when preparing FFTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important.

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<sup>52</sup> For example see, OLG, *Fit for the Future Guidance material – Completing Template 2: Council Improvement Proposal (Existing structure)*, October 2014, p 7. OLG state that cl 206 of the *Local Government (General) Regulation 2005* (NSW) requires councils to maintain a separate Water and Sewer Fund.

<sup>53</sup> Local Government NSW, *FFTF – LGNSW Submission: Local Water Utilities*, February 2015, pp 2-4.

## 5 Monitoring and reporting future FFTF performance

Becoming a FFTF council is a process that will take time, particularly where structural change is proposed. There are also benefits from assessing council performance over time to ensure financial sustainability and effective and efficient service delivery. Therefore, we consider that councils should report against their FFTF proposals and be reassessed in the future.

The Government supported the ILGRP's recommendations to improve auditing practices for the local government sector.<sup>54</sup> It recognised the potential value in giving the Auditor General oversight of councils' financial audits to improve quality, consistency, timeliness and financial management more generally. OLG expects to implement this new regime following further consultation with the local government sector and legislative change.<sup>55</sup>

To monitor and report future FFTF performance of councils, we propose that:

- ▼ councils would report performance in their Annual Reports, and
- ▼ the Auditor General would reassess performance periodically as part of the Audit Office of NSW's new auditing role in the sector.<sup>56</sup>

IPART seeks comments on the following

- 5 Should council performance against FFTF proposals be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals?

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<sup>54</sup> OLG, *NSW Government Response – Independent Local Government Review Panel recommendation – Local Government Acts Taskforce recommendations*, September 2014, pp 4, 8-9. Recommendation 3: Place local government audits under the aegis of the Auditor General (5.4), and Recommendation 22: Strengthen requirements for internal and performance auditing as proposed in Box 17 (8.5).

<sup>55</sup> OLG, *NSW Government Response – Independent Local Government Review Panel recommendation – Local Government Acts Taskforce recommendations*, September 2014, pp 4-8.

<sup>56</sup> This timeframe assumes changes from the FFTF process will occur from end 2015-16 onwards.



**Appendices**





## A Terms of Reference



Reference: A1172026

Dr Peter J Boxall AO  
Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop  
SYDNEY NSW 1240

Dear Dr ~~Boxall~~ <sup>Peter</sup>

I write to request that the Independent Pricing and Regulatory Tribunal fulfil the role of the Fit for the Future Expert Advisory Panel, and undertake a review of NSW councils' 'fit for the future' proposals in accordance with the attached Terms of Reference.

Should you require further information please contact Mr David Tow, Executive Director of Cities Branch, Department of Premier and Cabinet on (02) 9228 4353 or [david.tow@dpc.nsw.gov.au](mailto:david.tow@dpc.nsw.gov.au).

Yours sincerely

  
**MIKE BAIRD MP**  
Premier

### ***Terms of Reference for a review of local council Fit for the Future proposals by an Expert Advisory Panel***

I, the Hon Mike Baird MP, Premier of New South Wales, pursuant to section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* request that the Independent Pricing and Regulatory Tribunal act as the Expert Advisory Panel to review local council Fit for the Future proposals, in accordance with these terms of reference:

#### **Introduction**

Based on the recommendations of the Independent Local Government Review Panel (ILGRP), the NSW Government has agreed to an approach to local government reform that seeks to create councils that are strategic and Fit for the Future. A Fit for the Future council is one that:

1. Has the scale and capacity to engage effectively across community, industry and government;
2. Is sustainable;
3. Is efficient;
4. Effectively manages infrastructure and delivers services for communities.

All councils have been called upon to submit a Fit for the Future proposal by 30 June 2015 for assessment by the Expert Advisory Panel (except the eight councils in the Far West, where submitting a proposal is optional).

The Office of Local Government has prepared three templates and associated guidance for the use of councils in making their proposals:

**Template 1: Council Merger Proposal** – where a group of councils have agreed to merge, broadly consistent with the scale and capacity recommendations of the ILGRP.

**Template 2: Council Improvement Proposal** – where councils with demonstrated sufficient scale and capacity, using the Panel's recommendation as a starting point, identify the strategies and actions they will implement to ensure they are Fit for the Future against the sustainability, efficiency, and effective management of infrastructure and services criteria and associated measures and benchmarks.

**Template 3: Rural Council Proposal** – for councils in Group C of the Panel's final report i.e. where the option of a Rural Council was presented with no preferred alternative or other small councils that want to adopt the options and can demonstrate they meet the Rural Council Characteristics.

The guidance documents supporting each template explain what is required from councils in preparing their proposal and in demonstrating they are Fit for the Future.

## Task

The Expert Advisory Panel (the Panel) will assess the Fit for the Future proposals of NSW councils, and prepare a report to the Minister for Local Government with a recommendation on whether each council is Fit for the Future.

## Procedure

The Panel is to:

1. Develop a methodology for assessing Fit for the Future proposals.  
The assessment methodology must:
  - a. be consistent with the Government's local government reform agenda, as outlined in the Fit for the Future documentation
  - b. include an assessment of the scale and capacity criteria as a threshold criterion
  - c. include an assessment of the performance against the fit for the future measures and benchmarks, that takes into account:
    - i. the material published in the template guidance
    - ii. the relative importance of each measure in a council becoming Fit for the Future and relative robustness of the measure
    - iii. the social and community context and outcomes for each council
  - d. include an assessment of the consultation process undertaken by the council
  - e. consider advice provided by the Ministerial Advisory Group
  - f. identify timescales and approach to consultation
  - g. be published for public consultation for a minimum of 28 days
  - h. be finalised and made available to councils no later than week commencing 1 June 2015.
2. Undertake an assessment of whether each council is Fit for the Future, consistent with the published methodology.  
In undertaking this assessment the Panel must:
  - a. operate with consistency, fairness and impartiality
  - b. have in place an online portal for all councils to submit their Fit for the Future proposals
  - c. publish all proposals and supporting documentation (subject to confidentiality requirements) received from councils online as soon as practicable after 30 June 2015
  - d. ensure local government knowledge and expertise in the technical assessment of each proposal
  - e. rely on the evidence provided by councils through the online submission process, as required by the relevant template and any additional relevant information
  - f. give councils the opportunity to provide additional information. This may include the opportunity for councils to present in person.
3. Provide the Minister for Local Government and the Premier with a final report by 16 October 2015 identifying whether or not each council is Fit for the Future and the reasons for this assessment, to be publicly released following Cabinet approval.

## B ILGRP options for Non-Metropolitan Councils

**Table 11: Options for Non-Metropolitan Councils**

Note: †As projected by DP&I without boundary changes or mergers. ‡As defined in the NIEIR cluster-factor analysis (see references). \*Grants as percentage of total revenue in 2011-12: High if >40%, Very High if >50%. ^Based on availability and proximity of a suitable partner. *Councils shown in italics* urgently require a revised long-term asset and financial management plan plus an updated sustainability assessment (see section 15.2).

Council	Popn. 2011	†Popn. 2031	TCorp FSR (Apr 13)	TCorp Outlook (Apr 13)	DLG Inf. Audit (May 13)	‡Rate Base	*Grant Depend-ency	^Merger Potential	Options (preferred options shown in bold where applicable)
<b>Group A: Western Region Councils (see section 16)</b>									
<i>Balranald</i>	2,361	1,700	Weak	Negative	Weak	Low	Very High	Low	Joint administration or merger with Wentworth
<i>Bourke</i>	3,085	2,300	Weak	Negative	Weak	Low	High	Medium	Rural Council; joint administration or merger with Brewarrina
<i>Brewarrina</i>	1,895	1,700	Weak	Negative	Weak	Low	Very High	Medium	Joint administration or merger with Bourke
<i>Broken Hill</i>	19,150	15,100	Very Weak	Neutral	Weak		High	Low	Council in Far West region
<i>Central Darling</i>	2,108	1,800	Very Weak	Negative	Weak	Low	Very High	Low	Unincorporated with Community Boards
<i>Cobar</i>	4,931	4,800	Weak	Negative	Very Weak	Low	High	Low	Council in Far West region (review by 2020)
<i>Walgett</i>	6,860	5,900	Moderate	Negative	Moderate	Low	Very High	Medium	Council in Far West region (review by 2020)
<i>Wentworth</i>	6,787	7,000	Weak	Negative	Weak	Low	High	Low	Council; joint administration or merger with Balranald
<b>Group B: Projected 2031 population below 4,000; 'High' merger potential (2014 referrals to Boundaries Commission)</b>									
<i>Bombala</i>	2,458	2,000	Moderate	Neutral	Moderate	Low	High	High	Merge with Cooma-M and Snowy R or Rural Council in South East JO
<i>Boorowa</i>	2,469	2,700	Moderate	Negative	Strong	Low	Very High	High	Merge with Harden and Young or Rural Council in Tablelands JO
<i>Conargo</i>	1,585	1,800	Sound	Neutral	Strong	Low	Very High	High	Merge with Deniliquin and Murray or Rural Council in Mid-Murray JO
<i>Gundagai</i>	3,753	3,400	Moderate	Negative	Distressed	Low	Very High	High	Merge with Tumut or Rural Council in Riverina CC
<i>Harden</i>	3,680	3,600	Moderate	Negative	Strong	Low	Very High	High	Merge with Boorowa and Young or Rural Council in Tablelands JO
<i>Jerilderie</i>	1,534	1,200	Moderate	Negative	Weak	Low	Very High	High	Merge with Berrigan or Rural Council in Mid-Murray JO
<i>Murrumbidgee</i>	2,338	1,700	Moderate	Neutral	Not avail.	Low	High	High	Merge with Griffith or rural Council in Murrumbidgee JO
<i>Urana</i>	1,180	800	Weak	Neutral	Very weak	Low	Very High	High	Merge with Corowa or Rural Council in Upper Murray JO
<i>Walcha</i>	3,122	2,800	Weak	Negative	Distressed			High	Merge with Uralla or Rural Council in New England JO
<b>Group C: Projected 2031 population below 5,000; 'Low' or 'Medium' merger potential (2015-16 referrals to Boundaries Commission)</b>									
<i>Bogan</i>	3,020	2,600	Moderate	Neutral	Moderate	Low	Very High	Medium	Rural Council in Orana JO or merge with Warren
<i>Carrathool</i>	2,668	2,100	Weak	Neutral	Weak	Low	Very High	Medium	Rural Council in Murrumbidgee JO or merge with Griffith
<i>Coolamon</i>	4,213	4,200	Sound	Negative	Very weak	Low	Very High	Medium	Rural Council in Riverina JO or merge with Bland and/or Temora
<i>Coonamble</i>	4,274	3,100	Sound	Negative	Moderate	Low	High	Medium	Rural Council in Orana JO or merge with Gilgandra
<i>Gilgandra</i>	4,534	4,100	Weak	Neutral	Weak	Low	High	Medium	Rural Council in Orana JO or merge with Coonamble
<i>Hay</i>	3,097	2,100	Moderate	Negative	Moderate	Low	Very High	Low	Rural Council in Murrumbidgee JO
<i>Lockhart</i>	3,082	2,900	Sound	Neutral	Moderate	Low	Very High	Medium	Rural Council in Riverina JO or merge with Wagga Wagga
<i>Tumbarumba</i>	3,440	3,200	Strong	Negative	Very Strong	Low	Very High	Medium	Rural Council in Riverina JO or merge with Tumut/Gundagai

**Source:** ILGRP, Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel, October 2013, pp 114-116.

Wakool	4,080	3,400	Weak	Negative	Moderate	Low	Very High	Medium	Rural Council in Mid-Murray JO or merge with Murray/Conargo/D'quin
Warren	2,877	2,100	Moderate	Neutral	Distressed	Low	High	Medium	Rural Council in Orana JO or merge with Bogan
Weddin	3,734	3,500	Moderate	Negative	Weak	Low	Very High	Medium	Rural Council in Central West JO or merge with Forbes or Cowra
<b>Group D: Potential merger partners for Groups B and C councils (2014-16 referrals to Boundaries Commission)</b>									
Berrigan	8,282	9,300	Moderate	Neutral	Strong	Low	High	High	Council in Mid-Murray JO or merge with Jerilderie
Bland	6,018	5,500	Weak	Neutral	Strong		Very High	Medium	Council in Riverina JO or merge with Coolamon and/or Temora
Cooma-Monaro	10,086	10,800	Weak	Neutral	Weak			High	Council in South East JO or merge with Bombala and Snowy River
Corowa	11,302	13,400	Moderate	Negative	Strong			High	Council in Upper Murray JO or merge with Urana
Cowra	12,526	11,700	Sound	Negative	Very Weak			Medium	Council in Central West JO or merge with Weddin
Deniliquin	7,317	5,700	Moderate	Negative	Weak	Low		High	Council in Mid-Murray JO or merge with Conargo/Murray and Wakool
Griffith	25,292	20,200	Sound	Negative	Moderate			High	Council in Murrumbidgee JO or merge with Murrumbidgee
Murray	7,159	10,900	Moderate	Neutral	Moderate		High	High	Council in Mid-Murray JO or merge with D'quin/Conargo and Wakool
Snowy River	7,752	9,200	Moderate	Negative	Weak			High	Council in South East JO or merge with Bombala/Cooma-Monaro
Temora	5,928	5,000	Sound	Neutral	Strong	Low	High	High	Council in Riverina JO or merge with Coolamon and/or Bland
Tumut	11,272	9,300	Moderate	Neutral	Weak			High	Council in Riverina JO or merge with Gundagai and Tumbarumba
Uralla	6,260	7,400	Weak	Neutral	Very weak	Low	Very High	High	Council in New England JO or merge with Walcha
Wagga Wagga	61,509	73,000	Moderate	Negative	Moderate			Medium	Council in Riverina JO or merge with Lockhart
Young	12,514	13,000	Sound	Negative	Weak			High	Council in Tablelands JO or merge with Boorowa/Harden
<b>Group E: Other potential mergers to consolidate major regional centres (2017 referrals to Boundaries Commission)</b>									
Albury	49,467	57,300	Moderate	Neutral	Moderate			High	Council in Upper Murray JO or merge with Greater Hume (part or all)
Armidale	25,270	31,500	Moderate	Neutral	Moderate			High	Council in New England JO or merge with Guyra
Bathurst Regional	39,936	52,500	Moderate	Negative	Moderate			Medium	Council in Central West JO or merge with Oberon
Blayney	7,186	8,700	Moderate	Negative	Weak			High	Council in Central West JO or merge with Orange
Cabonne	13,188	18,600	Sound	Negative	Moderate			High	Council in Central West JO or merge with Orange
Dubbo	40,491	45,400	Moderate	Neutral	Moderate			Medium	Council in Orana JO or merge with Wellington and/or Narromine
Greater Hume	10,039	11,200	Moderate	Negative	Weak		Very High	High (part)	Council in Upper Murray JO or merge part or all with Albury
Guyra	4,543	5,000	Moderate	Negative	Very weak		High	High	Council in New England JO or merge with Armidale
Narromine	6,929	6,800	Moderate	Neutral	Moderate	Low	Very High	Medium	Council in Orana CC or merge with Dubbo
Orange	39,480	45,800	Sound	Negative	Moderate			High	Council in Central West JO or merge with Cabonne and/or Blayney
Palerang	14,835	23,300	Moderate	Negative	Distressed			High	Council in South East JO or merge with Queanbeyan
Queanbeyan	39,826	53,800	Weak	Neutral	Weak			high	Council in South East JO or merge with Palerang
Wellington	8,937	8,600	Weak	Neutral	Weak	Low	High	Medium	Council in Orana JO or merge with Dubbo
<b>Group F: Current and/or projected 2031 population 5-10,000 (Review status by 2020)</b>									
Cootamundra	7,501	7,100	Moderate	Neutral	Moderate	Low		Medium	Council in Riverina JO or merge with Junee
Forbes	9,471	9,200	Moderate	Neutral	Moderate			Medium	Council in Central West JO; merge with Weddin
Glen Innes-Severn	8,965	8,900	Moderate	Neutral	Weak		High	Medium	Council in New England JO
Gloucester	4,974	5,700	Very Weak	Neutral	Moderate		Very High	Medium	Council in Mid-North Coast JO or merge with Great Lakes and/or Greater Taree
Gwydir	5,074	5,100	Very Weak	Neutral	Distressed		High	Medium	Council in Namoi JO or merge with Moree Plains

Source: ILGRP, Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel, October 2013, pp 114-116.



June	6,091	5,800	Moderate	Neutral	Weak	Low	High	Medium	Council in Riverina JO or merge with Cootamundra
Kyogle	9,537	9,500	Weak	Negative	Moderate		High	Medium	Council in Northern Rivers JO or merge with Lismore or Richmond Valley
Lachlan	6,758	5,400	Moderate	Negative	Weak	Low	Very High	Medium	Council in Central West JO or merge with Parkes
Liverpool Plains	7,769	8,300	Weak	Negative	Moderate		High	Medium	Council in Namoi JO or merge with Gunnedah
Narrandera	6,123	5,300	Sound	Negative	Strong	Low	Very High	Medium	Council in Murrumbidgee JO or merge with Leeton
Oberon	5,207	5,400	Sound	Negative	Moderate			Medium	Council in Central West JO or merge with Bathurst
Tenterfield	7,024	8,500	Weak	Negative	Weak	Low	Very High	Low	Council in New England JO
Upper Lachlan	7,378	7,900	Sound	Neutral	Strong		High	Medium	Council in Tablelands JO or merge with Goulburn-Mulwaree
Warrumbungle	9,927	9,500	Weak	Negative	Moderate		High	Low	Council in Orana JO
<b>Group G: Larger rural and regional councils (excluding Hunter, Central coast and Illawarra)</b>									
Ballina	40,753	45,400	Moderate	Neutral	Weak			Medium	Council in Northern Rivers JO
Bega Valley	32,999	37,100	Sound	Neutral	Strong			Low	Council in South East JO
Bellingen	12,886	13,300	Moderate	Negative	Weak		High	Medium	Council in North Coast JO
Byron	30,825	31,800	Weak	Negative	Weak			Medium	Council in Northern Rivers JO
Clarence Valley	51,252	53,900	Weak	Negative	Weak			Low	Council in North Coast JO
Coffs Harbour	70,933	80,500	Weak	Negative	Weak			Medium	Council in North Coast JO
Eurobodalla	36,993	43,400	Moderate	Neutral	Weak			Low	Council in South East JO
Goulburn-M'waree	28,285	31,800	Moderate	Negative	Very Weak			Medium	Council in Tablelands JO
Great Lakes	35,601	41,600	Moderate	Neutral	Moderate			Medium	Council in Mid-North Coast JO or merge with Gloucester
Greater Taree	47,955	50,600	Very weak	Negative	Very Weak			Medium	Council in Mid-North Coast JO or merge with Gloucester
Gunnedah	12,515	13,400	Sound	Negative	Very Strong			Medium	Council in Namoi JO
Inverell	16,614	19,600	Moderate	Neutral	Moderate			Low	Council in Namoi JO
Kempsey	29,188	28,500	Weak	Negative	Weak			Medium	Council in Mid-North Coast JO
Leeton	11,406	11,200	Moderate	Negative	Moderate			Medium	Council in Murrumbidgee JO or merge with Narrandera
Lismore	44,282	45,300	Moderate	Negative	Weak			Medium	Council in Northern Rivers JO or merge with Kyogle
Lithgow	20,790	20,700	Sound	Negative	Moderate			Medium	Council in Central West JO
Mid-Western Reg.	23,000	26,100	Sound	Negative	Weak			Medium	Council in Central West JO
Moree Plains	14,189	11,100	Moderate	Neutral	Moderate			Medium	Council in Namoi JO or merge with Gwydir
Nambucca	19,286	21,500	Weak	Negative	Moderate			Medium	Council in North Coast JO
Narrabri	13,475	12,400	Moderate	Negative	Very Weak			Medium	Council in Namoi JO
Parkes	15,047	15,600	Moderate	Negative	Weak			Medium	Council in Central West JO or merge with Lachlan
Port Macq-Hastings	74,949	89,400	Weak	Negative	Moderate			Medium	Council in Mid-North Coast JO
Richmond Valley	22,697	24,800	Weak	Negative	Very Weak			Medium	Council in Northern Rivers JO or merge with Kyogle
Shoalhaven	96,043	106,400	Sound	Negative	Moderate			Low	Council in South East JO
Tamworth Regional	58,351	68,800	Moderate	Neutral	Moderate			Medium	Council in Namoi JO
Tweed	88,463	104,300	Moderate	Neutral	Strong			Low	Council in Northern Rivers JO
Wingecarribee	46,042	51,000	Moderate	Neutral	Moderate			Medium	Council in Tablelands JO
Yass Valley	15,516	23,200	Moderate	Negative	Moderate			Low	Council in Tablelands JO

Source: ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 114-116.

## C ILGRP preferred merger options for Sydney Metropolitan Councils

Council/s	Options (preferred option in bold)	Rationale
Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville, Strathfield	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 432,400</li> <li>• Close functional interaction and economic/social links between these councils</li> <li>• Need for unified local government to plan and manage Parramatta Road, the impact and integration of West Connex, inner west redevelopment and proposed major centre at Burwood</li> <li>• 3 of these councils will have fewer than 60,000 people in 2036</li> </ul>
Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)	<ul style="list-style-type: none"> <li>• <b>Amalgamate</b> (eastern two-thirds of Ryde to be included with North Shore group) <b>and</b></li> <li>• Move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) <b>or</b></li> <li>• Adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population approx. 558,500, including about one-third population of Ryde and without other boundary adjustments</li> <li>• Close functional interaction and economic/social links between these councils</li> <li>• Need for stronger unified local government to develop Parramatta as second CBD</li> <li>• Parramatta's northern boundary is very close to its CBD; relocation to M2 would facilitate planning and improve socio-economic mix and community linkages</li> <li>• Incorporation of part of Ryde would strengthen link between Parramatta and 'Global Sydney Corridor' and improve scope for integrated planning around Epping station</li> </ul>
Botany Bay, Randwick, Sydney, Waverley, Woollahra	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 669,400</li> <li>• Close functional interaction and economic/social links between these councils</li> <li>• Need for high-level strategic capacity to promote and support Sydney's ongoing development as Australia's premier global city</li> <li>• Scope to bring together Sydney's international icons and key infrastructure under a single council, and to make better use of the strong rating base of these councils</li> </ul>
Fairfield, Liverpool	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation with Bankstown, Camden, Campbelltown and Wollondilly</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 532,900</li> <li>• Close functional interaction and economic/social links</li> <li>• Need for a higher-capacity council to manage proposed Liverpool regional centre, which is close to Fairfield boundary</li> </ul>
Hornsby, Ku-Ring-Gai	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation <b>and</b></li> <li>• Boundary with Parramatta shifted to M2</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 348,800 (would be reduced somewhat by boundary change)</li> <li>• See comments above re Parramatta boundary change</li> <li>• Strong socio-economic and urban links</li> </ul>
Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 365,400, including about two-thirds population of Ryde</li> <li>• Close functional interaction and economic/social links between these councils</li> <li>• Need for integrated planning for major centres, Sydney Harbour foreshores etc</li> <li>• 3 of these councils projected to have fewer than 50,000 people in 2031</li> </ul>

Source: ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 104-106.

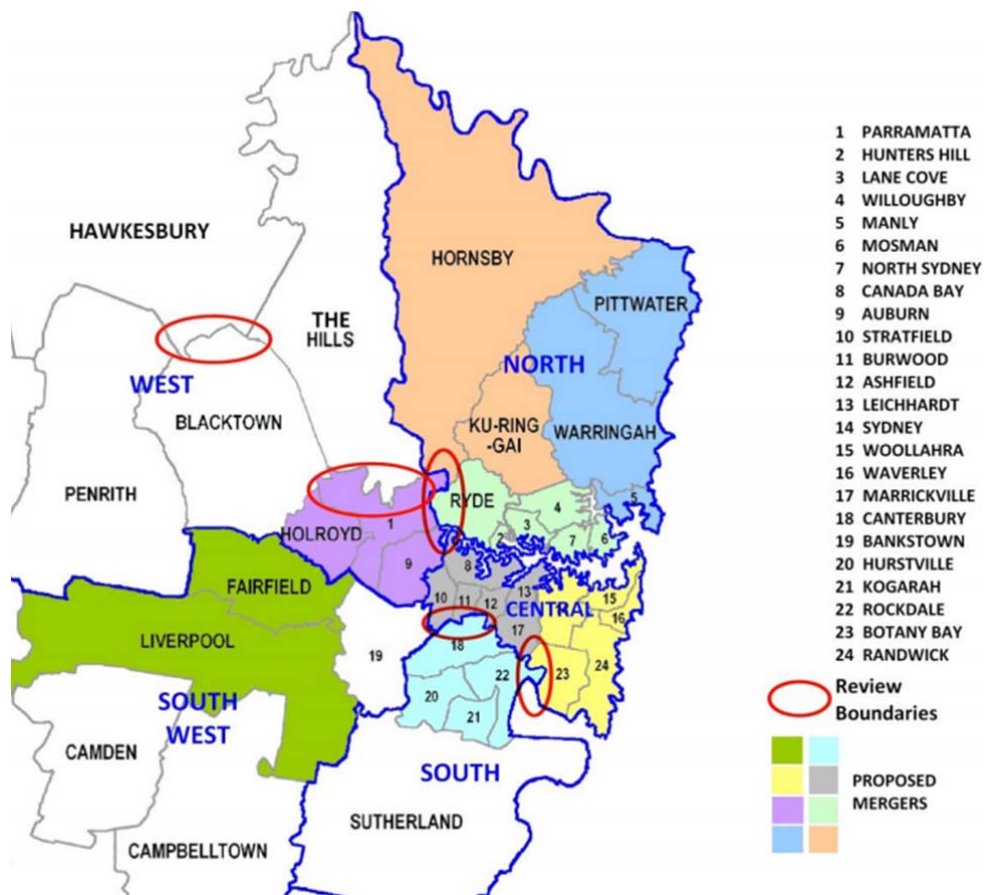
Council/s	Options (preferred option in bold)	Rationale
Canterbury, Hurstville, Kogarah, Rockdale	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation, also including Sutherland <b>and</b></li> <li>• Adjust Rockdale boundary at airport</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 491,600</li> <li>• Close functional interaction and economic/social links between these councils</li> <li>• Need for unified local government to support community development, and plan and manage major centres, redevelopment, foreshores etc</li> <li>• An alternative for Canterbury could be to amalgamate with Bankstown</li> </ul>
Manly, Pittwater, Warringah	<ul style="list-style-type: none"> <li>• <b>Amalgamate or</b></li> <li>• Combine as strong Joint Organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 307,400</li> <li>• Close functional interaction and economic/social links between these councils which constitute an 'island' in the metro region</li> <li>• Need for integrated planning of centres, coast, transport etc</li> </ul>
Bankstown	<ul style="list-style-type: none"> <li>• <b>No change or</b></li> <li>• Combine as strong Joint Organisation with Liverpool, Fairfield, Camden, Campbelltown, Wollondilly</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population of 222,100 on its own</li> <li>• The expected pattern of sub-regional boundaries effectively rules out an amalgamation of Bankstown except with Liverpool: this is considered problematic given the scale and complexity of challenges that would face the resulting entity</li> <li>• An alternative could be to amalgamate with Canterbury as part of the South sub-region</li> </ul>
Blacktown	<ul style="list-style-type: none"> <li>• <b>No change or</b></li> <li>• Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blue Mountains <b>and</b></li> <li>• Possible boundary adjustments with The Hills and Hawkesbury to facilitate NW Growth Centre</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 459,800 on its own, with further substantial growth planned</li> </ul>
Blue Mountains	<ul style="list-style-type: none"> <li>• <b>No change or</b></li> <li>• Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Hawkesbury, Penrith, Blacktown</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 93,300</li> <li>• Specialised role in managing urban areas within National Parks</li> </ul>
Camden	<ul style="list-style-type: none"> <li>• <b>No change or</b></li> <li>• Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Campbelltown, Wollondilly</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 149,300 on its own, with further substantial growth planned</li> </ul>
Campbelltown	<ul style="list-style-type: none"> <li>• <b>No change or</b></li> <li>• Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Camden, Wollondilly</li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 233,800 on its own</li> </ul>
Hawkesbury	<ul style="list-style-type: none"> <li>• <b>No change or</b></li> <li>• Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, The Hills, Blacktown, Penrith, Blue Mountains <b>and</b></li> </ul>	<ul style="list-style-type: none"> <li>• Projected 2031 population 81,500 (without boundary adjustments)</li> <li>• Specialised role in managing peri-urban fringe</li> <li>• May require further boundary adjustments depending on urban growth patterns</li> </ul>

**Source:** ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 104-106.



Council/s	Options (preferred option in bold)	Rationale
	<ul style="list-style-type: none"> <li>Possible boundary adjustments with The Hills and Blacktown to facilitate NW Growth Centre <b>and</b></li> <li>Possible longer term merger with The Hills</li> </ul>	<ul style="list-style-type: none"> <li>Functional, socio-economic and environmental links may justify merger with The Hills</li> </ul>
The Hills	<ul style="list-style-type: none"> <li><b>No change or</b></li> <li>Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, Penrith, Blue Mountains <b>and</b></li> <li>Boundary with Parramatta shifted to M2 <b>and</b></li> <li>Possible boundary adjustments with Blacktown and Hawkesbury to facilitate NW Growth Centre <b>and</b></li> <li>Possible longer term merger with Hawkesbury</li> </ul>	<ul style="list-style-type: none"> <li>Projected 2031 population 275,300 (without boundary changes)</li> <li>See comments above re Parramatta boundary change and possible merger with Hawkesbury</li> </ul>
Penrith	<ul style="list-style-type: none"> <li><b>No change or</b></li> <li>Combine as strong Joint Organisation with Auburn, Holroyd, Parramatta, part Ryde, Blacktown, Hawkesbury, The Hills, Blue Mountains</li> </ul>	<ul style="list-style-type: none"> <li>Projected 2031 population 271,300 on its own</li> <li>Focus on growth management and new regional centre</li> </ul>
Sutherland	<ul style="list-style-type: none"> <li><b>No change or</b></li> <li>Combine as strong Joint Organisation with Canterbury, Rockdale, Kogarah, Hurstville</li> </ul>	<ul style="list-style-type: none"> <li>Projected 2031 population 262,900 on its own</li> </ul>
Wollondilly	<ul style="list-style-type: none"> <li><b>No change or</b></li> <li>Combine as strong Joint Organisation with Liverpool, Fairfield, Bankstown, Camden, Campbelltown <b>and</b></li> <li>Possible longer term merger/s with Camden/Campbelltown/Wingecarribee</li> </ul>	<ul style="list-style-type: none"> <li>Projected 2031 population 59,600 (less if boundary adjustments)</li> <li>Specialised role in managing peri-urban fringe</li> <li>May require substantial boundary adjustments with Camden, Campbelltown and Penrith depending on urban growth patterns</li> <li>Scope for closer linkages with Wingecarribee, perhaps eventual merger of 'non-metropolitan' areas</li> </ul>

**Source:** ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 104-106.



**Source:** ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, p 107.