

Council Improvement Proposal

(Existing structure)



Document tendered by

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Received by

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Resolved to publish Yes / No

Getting started . . .

Before you commence this template, please check the following:

- You have chosen the correct template – only councils that have sufficient scale and capacity and who do not intend to merge or become a Rural Council should complete this template (Template 2)
- You have obtained a copy of the guidance material for Template 2 and instructions for completing each question
- You have completed the self-assessment of your current performance, using the tool provided
- You have completed any supporting material and prepared attachments for your Proposal as PDF documents. Please limit the number of attachments and ensure they are directly relevant to your proposal. Specific references to the relevant page and/or paragraph in the attachments should also be included.
- Your Proposal has been endorsed by a resolution of your Council.

Council name: Armidale Dumaresq Council

Date of Council resolution endorsing this submission: 29th June 2015

1.1 Executive Summary

Provide a summary (up to 500 words) of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies and outcomes.

This report details a stand alone option under the continuous improvement program. As identified by this report the Continuous Improvement Program, is the only recommendation that can be made to the Office of Local Government as Council has not had any approaches by its neighbouring councils for a merger proposal. Council has held meetings with Guyra, Uralla and Walcha Councils of a general nature around Fit for the Future and the ILGRP report. Council believes that these councils will submit either a stand alone option or a rural council option. Council supports the democratic rights of these councils to make these submissions and to support the communities of interest they represent. Council has a number of points in the above detailed recommendations that should be considered if mergers are being proposed. Armidale Dumaresq Council has determined that it can meet the continuous improvement program outcomes as shown in the attached template items and as shown by Councils long term financial plan where a 5 to 10 year time horizon is considered. Council has made a major assessment of its ability to meet the community expectations and service level needs and due to future refinements it will achieve all levels of self funding, asset maintenance and renewals and regulatory obligations. Council is also of a scale and capacity to fund future community improvements, attract staff of a high skill level and to meet all requirements of NSW Planning as to strategic direction.

The council operates a water supply scheme and has long term capacity to meet growth across the shire and some capacity to provide water for regional use if required. Council also operates a sewerage collection and treatment system for the Armidale City area.

Other business units have been established that are financially and strategically supported under the continuous improvement process being a regional airport facility and a regional waste facility.

The benefit of standing alone, are that Armidale Dumaresq Council is able to be a sustainable council into the future and although it will need to enter into a low cost strategy for the foreseeable future to meet its long term asset needs; to implement changes to service levels and divestment of non core services and goods; it can stand alone and the rate base can be contained to delivering services and the growth requirements of the current council area.

In many respects the Armidale Dumaresq Community is better to stand alone and build on its internal capacity to grow to a strong regional city rather than progress to the direction proposed by the ILGRP recommendations.

Council has considered other options to the continuous improvement program including to formally merge with Guyra, Uralla and Walcha, excluding the New England Weeds Authority (County Council).

Currently this option is not available to Council to make a decision, as Council has not received advice from its neighbouring councils to merge. Council has also reviewed the regional responses to Fit For The Future and identified that communities of interest need to be determined regionally and should the government by this process force the merging of councils, that it should also review the current boundaries to realign communities of interest.

Council recognises its role as a regional centre, and to look towards the long term future of the region and its social commitment. As the regional centre Council can see advantages in shared service and contract service provision. Council works closely with its neighbouring councils to provide shared services and support when asked. This process is regionally important and reduces the cost of services. Council has commenced discussion at a regional level to form a New England Joint Regional Organisation (JO) to build on the shared service and contracted service arrangements that presently exist. Council is of the opinion that the JO will provide a high level political and service delivery platform for the future.

Council has attached its resolutions and additional advice to this template for consideration under the assessment process.

1.2 Scale and Capacity

Does your council have the scale and capacity broadly consistent with the recommendations of the Independent Local Government Review Panel?

(ie, the Panel did not recommend your council needed to merge or become a Rural Council).

No

If No, please indicate why you are not proceeding with a voluntary merger or creation of a Rural Council as recommended by the Independent Panel and demonstrate how your council has scale and capacity (up to 500 words).

- Armidale Dumaresq Council was identified to merge with Guyra Shire Council. Council has considered this requirement and the potential merger with Uralla Shire and for Walcha Shire to be a rural council as per the resolutions attached.
- Guyra Shire Council has indicated it is not willing to participate in a voluntary merger with Armidale Dumaresq Council and will submit a rural council model for assessment. Given this position, Council is able to demonstrate it has the scale and capacity to operate as a stand alone council based on the following:
 - Armidale is the regional centre for the New England with significant and well established educational, health, retail and sporting services and facilities available.
 - Armidale has a current population of approximately 25,250 projected to increase to 28,500 by 2021.
 - The University of New England has its main campus in Armidale and generates commerce and employment for the City and region that has flow on benefits to Council and business operators, residents and rate payers.
 - Armidale is well serviced with excellent road, rail and air services, has median real estate housing costs of \$321,000

that means Council is able to attract and employ a wide range of skilled staff to fill vacant positions.

- Council has invested heavily in on-going education and training of its workforce to promote the acquisition of knowledge and creative and innovative skills in the workplace. Over 80% of the workforce hold formal qualifications.
- Council continues to invest in new technologies to consolidate back office functions such as finance, information and communications systems, human resources, procurement and property and fleet management.
- Council employs 258 people across a diverse range of occupational groups and has the capacity and resources to respond to complex and at times unexpected change.
- The Management Executive team is made up of qualified, experienced and knowledgeable leaders who guide and support staff and work constructively with Councillors providing in-depth information and advice that supports informed decision making by Council.
- Council has recently appointed two temporary Project Engineers to enhance the Council's ability to deliver on strategic capital works projects identified in the Community Strategic Plan and the special rate variation approved by IPART in 2014.
- To enhance the development and continuous improvement in Council's approach to strategic asset management and planning the new role of Asset Management Administrator has been created and will be important in helping Council meet its asset backlog and renewals targets.
- Council has undertaken an extensive review of its services and budgets for the next ten years and has identified a need to concentrate on core service areas and to enhance the delivery of asset projects over the 10 year time frame.
- With the financial, physical and human resources now available the Council has the strategic capacity and is well positioned to take on new functions and major projects. A recent example of this is in respect to the development of the Armidale Regional Airport that will be key to the future development of the New England region and the City of Armidale. Council is also in the early stages of planning for and project managing the development of a new Landfill site East of Armidale.
- Over the last few years (demise of NESAC) a general lack of regional collaboration in the New England region has occurred. However, major steps have now been taken to join with Councils in the region including Inverell, Glen Innes Severn, Uralla, Guyra, Walcha and Tenterfield to discuss the formation of a Regional Organisation of Councils for this region. Strong links have also been established with the NSW State Member of Parliament and the Federal Member for New England to help promote regional collaboration. Collaboration in the region has been successful in respect to, the 2012 'Experience the Highs' tourism initiative involving Armidale, Guyra, Uralla and Walcha Councils and with Tenterfield and Glen Innes Severn Councils joining in this initiative to promote the whole region to tourists in 2015.
- Armidale Dumaresq Council has a long history of partnering with state and federal agencies. The Management

Executive Team and Senior Managers are experienced and knowledgeable and have a good understanding with respect to each level of government's key strategies related to regional Australia and seek ways of engaging on an on-going basis to ensure the best outcomes are achieved for the community.

- Council undertakes shared service arrangements with its adjoining councils and the General Managers at the Councils meet and work collaboratively to ensure each council is progressing, that resources are shared and assistance is readily available to meet staff holidays or replacement gaps as required.
- The Councils of Armidale Dumaresq, Guyra, Uralla and Walcha have a long working history and are looking to further develop service level contracts and shared outcomes.

2. Your council's current position

2.1 About your local government area

Explain the key characteristics of your local government area, your community's goals and priorities and the challenges you face in the future (up to 500 words).

You should reference your Community Strategic Plan and any relevant demographic data for this section.

- Armidale Dumaresq Council is located in the New England region of NSW. It is 567km distance from Sydney and 467km from Brisbane via the New England Highway. The total local government area is 4235 sq km, urban area in the city is 34.5 sq km and the number of rateable properties is 10, 051.
- Major industries in the region include educational services, fine and superfine wool production, merino sheep breeding, cattle and lamb production, fruit and vineyards. A number of livestock societies for breeds of cattle and other farmed livestock are represented in Armidale. The Agricultural Business Research Institute is located at the University of New England specialising in a wide range of agribusiness information services to domestic and international livestock industries.
- Improvements in communications infrastructure (NBN) has encouraged relocation of businesses to Armidale clustering in industry areas such as information technology, education and researched.
- In 2000 Dumaresq Shire Council amalgamated with Armidale City Council and was proclaimed Armidale Dumaresq Council on 21 February 2000.
- Over the next 20 years the Armidale Dumaresq local government area is expected to experience an average annual population growth of 1.3% per annum to 34,247 by 2031 (source: *NSW Government Planning & Environment*). The Armidale Dumaresq LGA is expected to age significantly and by 2031 the average age in the area is anticipated to be 40 years and for the New England region 42 years above the NSW state average expected age of 39.5 years.
- The Armidale Dumaresq LGA is a major regional service centre providing a range of community and infrastructure assets to the local community and region. Key community assets/infrastructure include health (1 public, 1 private hospital), aged care services and facilities and education services (University of New England main campus, New England Institute of TAFE campus, 6 secondary schools, three of which are major boarding schools, and a variety of primary and pre-school

institutions).

- In Council's Local Environment Plan provision has been made for future growth and development in residential, commercial and industrial areas. Armidale has three substantial shopping precincts making Armidale a major retail centre.
- Armidale's water supply and sewer services have potential to sustain a substantial increase in population size.
- Armidale has a regional airport that attracts passengers from Tamworth to Tenterfield and west to Inverell. Two airlines (RPTs) operate from Armidale to Sydney. The airport has expansion plans in the range of \$10million in the next 10 years with a future plan to spend a further \$20million on runway upgrades.
- The airport precinct is an area for expansion of industrial land and employment generating businesses. Council will commence this subdivision in the 2015/16 financial year.
- Armidale is the regional centre for sports, education, health and social activity and has been awarded the #3 Hottest travel destination in 2014.

2.2 Key challenges and opportunities

Strengths	Weaknesses
<ul style="list-style-type: none"> • Skills and knowledge of staff • Experienced leadership and management team • Implementation of IT across functions • Policy development skills • Regional centre for education, commercial activity, business, and transport • Workplace relations • Sound financially over 10 years • A compliant Local Environmental Plan (2012) • Local and regional Master Plan (Create 2350) which identifies social, recreational, commercial, industrial and residential growth opportunities and will drive regional employment opportunities (currently under development). • Water supply to meet long term growth in sub region. • Provision of shared and contract services to adjoining councils. • Centre for Government offices and functions. 	<ul style="list-style-type: none"> • Aging workforce • Governance processes – organisational review of policies and procedures to meet future community direction. Review of IP&R documents to align with future budget outcomes. • Asset renewal and maintenance requirements (subject to review). • Regional demands for services funded by Armidale Dumaresq residents rather than regional councils. • Limited range of local employment opportunities and base industries.
Opportunities	Threats
<ul style="list-style-type: none"> • Continued reform of Council's business enterprises (airport, water sewer, waste) • Lease / Sale of airport land to develop business and employment. • Restructure of operational areas of council to build in future efficiencies. • Asset management plan linked to long term financial plan to capture maintenance and replacement areas. • Be a leader in the formation and operation of the Joint Regional Organisation of Councils for the New England • Work closer with adjoining councils to share services and contract service needs. • Work with the community via the IP&R process to review service levels and long term outcomes. 	<ul style="list-style-type: none"> • Additional borrowings for capital works increases pressure on the budget • Operating costs not reduced, efficiencies not realised • Formation of the NE JO does not proceed as planned. • Rates base not sufficient to meet regional growth and demands • Unfunded mergers of councils or changes to state and federal grant allocations forcing a reliance on Armidale Dumaresq ratepayers to fund asset backlogs, loans and commitments made by other councils.

2.3 Performance against the Fit for the Future benchmarks

Sustainability

Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-2.65%	No	-1.6%	No
Own Source Revenue Ratio (Greater than 60% average over 3 years)	79%	Yes	79%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	22.1%	No	71.9%	No

If the Fit for the Future benchmarks are not being achieved, please indicate why.

For example, historical constraints/context, one-off adjustments/factors, council policies and trade-offs between criteria.

Councils operating performance ratio will not achieve the benchmark before 2016/17. Council has historically run operating deficits (excluding capital grants). Council recognises that the process to move towards a positive operating performance ratio can not be achieved over the short term. Our LTFP forecasts a move to a positive ratio in 2017/18 and maintains an average of 1.9 for the remaining 7 years.

Councils own source revenue achieves the benchmark and will continue to do so over the term of the current LTFP averaging approximately 79%

Council will not achieve the benchmark for the Building and Infrastructure Asset renewal Ratio. The current LTFP predicts a 10 year average of approximately 65% with a high in 2015/16 of 92%. Council believes this ratio will improve following the revaluation of

Councils road, bridges, footpaths, kerb and gutter and drainage during the current (2014/15) year. It is expected that asset fair values will be consistent and that annual depreciation costs will reduce. Current roads depreciation approximates \$4.5 Million. A reduction of \$1 million will almost bring the ratio to an average of 100%.

Council has not assessed its assets against the proposed condition assessment criteria proposed under Special Schedule 7 for the three levels of condition rather than the current five levels of condition. It is considered that the changes proposed need to be considered after the revaluation process and that the new criteria is tested to ensure that it is not a manipulation process to shift the real cost of asset renewal and maintenance to a book value that is below the community service level expectation. It is considered that using the new methodology shall substantially reduce the asset valuations for replacement and maintenance and Council would therefore meet these untested benchmarks.

2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2%)	2.9%	No	2.98%	No
Asset Maintenance Ratio (Greater than 100% average over 3 years)	146.15	Yes	96%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	8.11%	Yes	10.49%	Yes

If the Fit for the Future benchmarks are not being achieved, please indicate why.

Council's infrastructure backlog ratio sits at 2.9% in 2013/14 and progresses to a worst case of 3.46% in the 10 year LTFP. The backlog figure is based on what was deemed satisfactory during a detailed review which occurred in 2009. Council has updated this data on an annual basis. Council plans to consult extensively with its community in future years to clearly identify what is satisfactory. It is expected that this will reduce the backlog figure and enable Council to meet the benchmark.

Council's asset maintenance ratio meets the benchmark now and into the future. As part of the current revaluation process, Council is also reviewing its asset maintenance data. This may reflect improved asset maintenance ratios in future. Council's debt service ratio remains well within benchmarks. Council undertook a major borrowing in 2013/14 which pushed its ratio up to 8.11%. Future borrowings for infrastructure are planned with the LTFP averaging 10.48% with a high in 2017/18 of 11.86%.

2.3 Performance against the Fit for the Future benchmarks

Efficiency

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	1.24	Yes	1.31	Yes

If the Fit for the Future benchmarks are not being achieved, please indicate why.

Council expects to continually reduce real operating expenditure per capita.

2.4 Water utility performance

NB: This section should only be completed by councils who have direct responsibility for water supply and sewerage management

Does your council currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework?

No

If NO, please explain the factors that influence your performance against the Framework.

Full cost recovery is achieved for both Water and Sewer. Council achieves the target 75%/25% split in income from Water Usage/Access Charges. However the Water Access charges are not compliant with Best Practice since they are not related to service connection size and Sewer pricing is not compliant since Non-Residential charging is not related to volume of sewage discharge. Compliant pricing will be developed in 2015/16.

In 2005 and 2008 Council resolved not to develop an Integrated Water Cycle Management plan. New IWCM Guidelines were released by the Office of Water in 2014 and Council will move to develop its IWCM using the new guidelines.

How much is your council's current (2013/14) water and sewerage infrastructure backlog?

Water	\$5.57m
Sewer	\$2.73m
	<u>\$8.30m</u>

It should be noted that these figures were determined during a detailed service review in 2009. A further review is necessary in accordance with recent IPR guidelines and community expectations.

2.4 Water utility performance

Identify any significant capital works (>\$1m) proposed for your council's water and sewer operations during the 2016-17 to 2019-20 period and any known grants or external funding to support these works.

Capital works

Proposed works	Timeframe	Cost	Grants or external funding
Strengthen Dumaresq Dam to comply with Dam Safety Standards	2016	\$3.5m	Nil
Strengthen Puddledock Dam to comply with Dam Safety Standards	2019	\$5m	Nil
Update Sewage Treatment Plant to increase capacity.	2018/19	\$5m	Nil

2.4 Water utility performance

Does your council currently manage its water and sewerage operations on at least a break-even basis?

Yes

If No, please explain the factors that influence your performance.

N/A

2.4 Water utility performance

Identify some of your council's strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 period.

Improvement strategies

Strategy	Timeframe	Anticipated outcome
Implement Best Practice pricing for introduction 1 July 2016	End 2015/16	Simplified pricing and best practice
Continue roll out of field mobility maintenance management software	End 2015/16	Efficient, centralised field deployment for maintenance and repair works and fault reporting
Water and sewer network capacity models and servicing strategy	End 2016	Evidence-based network expansion and capacity plans using latest usage data.
New Integrated Water Cycle Management Plan	End 2016	Preferred 30 year plan to meet forecast water and

Sewer Treatment Plan upgrade	Smart metering for high water use customers	End 2017	sewer demands
			Leak detection, short-cycle billing, improved customer experience
	Implement asset condition rating software for sewers	End 2016	Evidence-based investment decisions and prioritization of capex
		2018/19	Higher Capacity Plant

3. How will your council become/remain Fit for the Future?

3.1 Sustainability

Summarise your council's key strategies to improve performance against the Sustainability benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

Council has endorsed the strategies below:

- Reduce funding in non asset functions by a minimum \$1.2 million in year 1 raising to \$1.6 Million over 3 years.
- Return to Core functional areas required by the community.
- Change the focus of asset management from fixing the worst assets first to maintaining condition at the minimum intervention level.
- Ensure councils asset management plans develop a more structured works program rather than being built on customer complaint or lobbyists.
- Reduce donations and contributions to community groups by 12% in 2016/17 and further reductions in future years.
- Suspend grant funded projects and services once the grant has been spent. Council has historically continued to provide the services without the grant funding.
- Income generating services need to cover expenses plus 10% to cover administrative overheads.
- A key improvement process will need to achieve 0.5% to 1% of operating expenditure per annum. Service reviews will be undertaken in 2015/16.
- Not participate in State or Federal Cost shifting programs.

Explain the key assumptions that underpin your strategies and expected outcomes.

For example the key assumptions that drive financial performance including the use of SRVs, growth in rates, wage increases, Financial Assistance or other operating grants, depreciation, and other essential or major expense or revenue items.

The following assumptions have been made:

- Wages growth is averaged at 2.85%.
- Service levels will be reviewed in 2015/16. These reviews will also result in expected reductions in operating expenditure of at least 1%.
- Materials growth is averaged at 2.92%.
- Rates have average growth rates of 2.42% and charges 2.92%. Fees have an average growth rate of 2.94%
- Council has a special variation expiring in 2020/21. It is assumed that a SRV will be submitted to maintain the variation permanently.
- Following revaluations of roads and associated assets in 2014/15, it is expected that depreciation levels will drop by approximately \$900k annually.
- Council will undertake detailed consultation with its community in 2015/16 to determine satisfactory levels for building and infrastructure assets. Council will also apply the condition assessment guidelines as identified in the Integrated Planning and Reporting Manual. It is expected that Councils backlog will decrease by over \$2 million.

3.1 Sustainability

Outline your strategies and outcomes in the table below.

3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1. Focused service levels	a) Review service levels b) Adjust asset management plans c) Discontinue council funding for grant funded projects.	a) completed by June 2016 b) Ongoing with community consultation c) Commencing July 2015	Reduce operational expenditure by \$1.2 million	Improved operating performance and building and infrastructure renewal.
2. Improved asset management plans	Review asset management plans.	Updated asset management plans by June 2016	Asset management plans focussed on achieving minimum intervention levels rather than on customer complaints	Improved building and infrastructure renewals ratio.
3. Reduced contributions and donations	Reduce contributions and donations by 12% in 2016/17 and by more in subsequent years	Notify entities during 2015/16 to commence in 2016/17	Reduce operational expenditure.	Improved operating performance

3.2 Infrastructure and Service Management

Summarise your council's key strategies to improve performance against the Infrastructure and service management benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

Details provided in table above

Explain the key assumptions that underpin your strategies and expected outcomes.

1. Focused service levels

Council will undertake a review of service levels and discuss with the community a need to ensure that services are provided in a timely fashion without being reactionary. It is the reactionary nature of service level actions that are increasing costs and not encouraging a good use of time or resources. (Refer Section 3.3)

2. Improved asset management plans

Council has identified that it can provide a higher level of asset assessment by the employment of an in house advisor. The asset plans and valuation process will be reviewed and service levels identified to produce an annual program of works to maintain assets in a high level condition before undertaking major repair or renewal works to the poorly maintained asset groups. The asset plans will drive the maintenance and repair budgets for roads, bridges, footpaths and buildings.

3. Reduced contributions and donations

As identified by the ILGRP, Councils need to act as businesses not charities and need to review the donations being provided to the community and to assess if these donations are supportive of the whole of community or individuals. Council will assess its contributions to all groups over the next twelve month period and it may withdraw from groups that it traditionally supported across

the region or state. It will focus on donations and contributions to smaller local groups that are not competitive in the NFP sector, a government sponsored agency or a direct competitor to council. Contributions will require a whole of community outcome or benefit and reporting targets against the CSP will be required.

3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.Revalue infrastructure assets	Complete revaluation of Roads, bridges, kerb and gutter, footpaths and drainage.	Completed by June 2015	Updated infrastructure asset values and depreciation rates	Improved Infrastructure backlog ratio
2.Improved asset management plans	Review asset management plans.	Updated asset management plans by June 2016	Asset management plans focussed on achieving minimum intervention levels rather than on customer complaints	Improved asset maintenance ratio and backlog ratio..

3.3 Efficiency

Summarise your council's key strategies to improve performance against the Efficiency measures in the 2016-20 period, including the outcomes you expect to achieve.

Refer table 3.2 and 3.3. Key strategies have been identified in these tables.

Explain the key assumptions that underpin your strategies and expected outcomes.

Council has employed an asset manager to identify areas in the asset systems that require review due to the service levels proposed or due to the valuation process. This position will also assess current and non current assets and develop reporting and review systems to ensure that assets are maintained.

A review of asset service levels is required to be undertaken. Council has prepared this report based on its current asset classifications and service level needs and has not used the recently released asset classes proposed by the NSW Government. It is considered that council would meet the benchmark levels in this report but at this time Council has not reviewed all criteria to determine if such adjustment could provide a false positive and therefore be undermining to the long term asset outcomes or service level needs of the community.

Council will take these new levels of asset determination into consideration as part of its future special schedule 7 considerations.

The Office of Local Government publication, What is meant by Service Levels? Advises;

Levels of service are explained as "...defined service quality for an activity or service area (for example, the road network) against which service performance may be measured". Levels of service are determined through community or customer consultation, and consider.

- *Quality, quantity, safety, capacity, fitness for purpose, aesthetics, reliability, responsiveness, environmental acceptability and costs.*

The impact of changes in demand over time on service levels should be regularly established and accounted for. This will provide a clear understanding of cost implications across the whole lifecycle of the service.

Council shall consider this definition in its review of assets, asset management and service level outcomes.

Contribution reviews have been previously highlighted in this report.

Other efficiency gains are detailed in Section 5.

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.Focused service levels	a)Review service levels b)Adjust asset management plans c) Discontinue council funding for grant funded projects.	a)completed by June 2016 b)Ongoing with community consultation c)Commencing July 2015	Reduce operational expenditure by \$1.2 million	Reduced real operating expenditure per capita
2.Reduced contributions and donations	Reduce contributions and donations by 12% in 2016/17 and by more in subsequent years	Notify entities during 2015/16 to commence in 2016/17	Reduce operational expenditure.	Improved real operating expenditure per capita.

3.4 Improvement Action Plan

Summarise the key improvement actions that will be achieved in the first year of your plan.

Action plan

Actions	Milestones
1. Develop a continuous improvement strategy to reduce costs or improve productivity on an ongoing basis of 0.5% to 1% per annum.	Annual review with future budget preparation
2. Review current and non current assets	Annual review with future budget preparation
3. Undertake a Service Level Review across the organisation	Over the next 9 months
4. Executive Team Restructure	1 st July 2015
5. Continue to review the LTFP in line with the above strategies. Councils LTFP was publically displayed. The LTFP and operational budget 2015/16 was adopted by council 29 th June 2015.	Annual review with future budget preparation

Outline the process that underpinned the development of your Action Plan.

For example, who was involved, any external assistance, consultation or collaboration, and how the council has reviewed and approved the plan.

The business improvement/productivity strategy:

This will cover four (4) key components as follows:

- a) As local government does not operate in a competitive environment, management will continue to analysis business processes and work practices and benchmark against similar commercial and government agencies.
- b) Council has recognised it needs to focus on what it does best and not try to do everything with internal resourcing. Therefore, activities or tasks which are provided more effectively by external parties will be considered.
- c) Operational productivity comes from empowering staff and rewarding them appropriately. Where operational reform has been embraced or new work practices employed which generate real dollar savings, these savings will be retained by the division in that year.
- d) Capital (or project management) is one area which has been identified for potentially significant productivity improvement. As a way to provide some degree of incentives to achieve targets above those which are set in the project scope. Council will reward the division by retaining any financial saving in the function for future identified works. The balance to this is that where a project outcome is below expectation, then it will be for the functions management to adjust operations or service levels to compensate.

Assets:

Council has a very large amount of Non Current assets. Many of these assets have built up over time. Council will review all asset classes and consult with the community over the next 2 years on its function and purpose with the view to liquidate and reduce the amount of asset that has to be renewed and maintained.

Service Level Review:

Council will undertake a review of its service level areas over the next three to nine months to determine its role and function in a number of service areas. It is intended to concentrate on core service areas and to invest in asset renewal and maintenance areas at a progressive rate to meet local service level needs. The community expectation on service levels needs to be reviewed to reduce reactionary outcomes and work towards planned activities. Council has identified a need to maintain small problem areas firstly and progressively work towards larger problem areas once it has a high level of investment in developing asset and community need areas.

Executive Team Restructure:

The proposed restructure is to be implemented in 2015 to split the business unit roles in council from the operational areas. The business units are required to be self funding into the future and not draw on operational funding. All salary and asset components are included in the business unit operational costs.

LTFP:

This plan will be under constant review to reflect the changes or process introduced from the service level review, the asset changes and the business improvement outcomes. Council has commenced adjustments to services and outcomes to reflect a need to invest in asset renewal and maintenance and has structured its LTFP to achieve satisfactory levels of funding over a five to ten year horizon.

3.5 Other actions considered

In preparing your Improvement Action Plan, you may have considered other strategies/actions but decided not to adopt them. Please identify what these strategies/actions were and explain why you chose not to pursue them.

Council has resolved the following 2 resolutions – February 2015 and April 2015. These motions identify the history to establish discussion around Fit for the Future with the adjoining Council areas and to look at the ILGRP Recommendations. Discussions have been held and the adjoining Councils have resolved to stand alone or apply as rural councils.

Motion: 23rd February 2015

Moved Cr O'Connor Seconded Cr Gadd

- (a) That Council make a submission prior to 30 June 2015 under the Council Improvement Proposal (Existing Structure) to stand alone;
- (b) That Council again extend an invitation to Councils of Guyra, Uralla and Walcha to meet with Armidale Dumaresq Council to discuss their directions for Fit for the Future; and
- (c) That Council continue to consult with the Councils of Guyra and Uralla to discuss the future direction of the New England region in the case of a forced merger and to plan together for:
 - (i) A potential merging of Councils should the NSW Office of Local Government undertake the forced merger of Councils;
 - (ii) That an implementation plan be developed to allow any forced merger to be transitioned smoothly;
 - (iii) That any forced merger ensure that political representation is appropriate for the proposed rural and residential areas of a new Council area;
 - (iv) That the State Government honours the provision of funding to merged Councils to ensure that the transition process has adequate finances to meet the costs of merging and assistance to offset some asset renewal works;
 - (v) That discussions are entered with the Office of Local Government that allows the continuation of full funding to a new Council from Federal Assistance Grants and Road to Recovery grants as if the councils remained separate; and
 - (vi) That an open due diligence program is available to allow any forced merger to identify all associated costs, liabilities, and legal action and community impacts.

The Motion on being put to the vote was CARRIED.

Motion: 27th April 2015
Moved Cr Beyersdorf

Seconded Cr Richardson

- (a) That Council reaffirm its Option A decision of 23 February 2015 (resolution 23/15) as set out within the attachment); and
- (b) That Council submits an attachment to Option A which includes merging with Guyra and Uralla Shire Councils, subject to agreement of the boundary adjustments proposed by Glen Innes and Inverell Councils and that Walcha Council be supported in an application as a Rural Council; and
- (c) That Council work with Glen Innes Severn, Inverell and other adjoining Councils to establish future Council boundaries subject to communities of interest and to support the communities in transitioning to the enlarged Council areas; and
- (d) That if Armidale Dumaresq, Guyra, Uralla and Walcha councils (or any combination of these Councils) are merged that the new Council be named "New England Regional Council"; and
- (e) That should the State government not allow Walcha to be a Rural Council, then Council enter into negotiations with the Office of Local Government to determine long term funding arrangements for the Walcha Council area to meet asset maintenance and renewal requirements that will bring the community up to the regional asset standards; and
- (f) That the Office of Local Government guarantee the initial funding of \$11 to 13.5million is allocated to allow the preparation and submission of an implementation and integration plan for consideration based on three or more Councils; and
- (g) That the Office of Local Government provide grant funding opportunities to meet asset replacements and renewals that are unfunded in the Council areas and that this grant funding is provided through NSW Treasury annually to meet the ability of the regional Council to undertake such works or alternatively, that continuous funding of \$2million dollars is provided annually for a ten year period linked to road, and footpath asset renewal and repair to allow improvements and that additional funding be provided for bridge replacements or renewals based on an assessment between the Roads and Maritime Services and Council as a rolling program over twenty years; and
- (h) That Roads to Recovery (R2R) and Federal Assistance Grants (FAGs) are reviewed to ensure that the New England Regional Council is not disadvantaged by the merger of up to four Council areas and that additional direct funding is provided to meet long term asset improvements across the newly formed areas; and
- (i) That the Office of Local Government transfers the New England Weeds Authority to the Joint Organisation and removes its roles and functions from the merged Council entity and from the Local Government Act proclamations; and
- (j) That Council consult with the community on Fit for the Future.

The Motion on being put to the vote was CARRIED.

- Council has submitted Template 2 on the basis that it was not able to submit template 1 due to the adjoining councils not supporting a merger as proposed by the ILGRP.
- Council is committed to Regional Collaboration and supports the development of the New England Joint Regional Organisation. Regional meetings have commenced even though the New England region is not part of the trial JO group.
- Council resolutions support the long term directions of local government; however it considers that State Government intervention is required for merger and boundary adjustments to occur. Council has considered previous reports into the New England Region including;
 1. NSW Boundaries Commission (November 2010) Examination of an amalgamation proposal for the creation of a new Local Government Area to be named "New England Regional" incorporating the whole of the areas of Armidale Dumaresq, Guyra Shire, Uralla Shire
 2. IPART – Review of Criteria for fit for the future September 2014
 3. TCorp - Financial Sustainability of the New South Wales Local Government Sector 2013
 4. Its own internal review documents on a future business model and implementation plan.

Council believes that IPART should again review these documents and consider these in its final report to government.

- Council believes that the actions proposed to be taken over the next two to ten years will allow it to develop a strong position to stand alone and work towards a LTFP that will ensure core services and asset needs are met by the majority of the community.
- The productivity improvements and directions established would also support flexibility in shared services and allow further discussion with our neighbours to gain productivity outcomes above those currently being provided.

4. How will your plan improve performance?

4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-6.48	-2.48	-0.16%	-0.43%	-0.02%	0.22%	No
Own Source Revenue Ratio (Greater than 60% average over 3 years)	70.43%	70.64%	78.53%	78.82%	79.20%	79.40%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	64.01%	92.15%	71.90%	57.71%	52.24%	64.53%	No
Infrastructure Backlog Ratio (Greater than 2%)	2.91%	2.94%	2.98%	3.03%	3.08%	3.13%	No
Asset Maintenance Ratio (Greater than 100% average over 3 years)	0.92	0.95	0.96	0.96	0.97	0.98	No
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	9.45	8.96%	10.49%	11.86%	11.64%	11.25%	Yes
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	1.39	1.32	1.31	1.28	1.25	1.23	Yes

4.1 Expected improvement in performance

If, after implementing your plan, your council may still not achieve all of the Fit for the Future benchmarks, please explain the likely reasons why.

For example, historical constraints, trade-offs between criteria, longer time required.

Operating performance ratio

Council has been adopting deficit budgets (excluding capital grants) for many years. The turn around to a positive ratio cannot be achieved in the short term as the reduction in service levels will be severe and the consultation process needs to occur with the community. Council will not meet the operating performance ratio benchmark by 2019/20 however it will achieve the benchmark by 2020/21. Council's advertised and adopted Long term financial plan does not include the renewal of a rate variation expiring in 2021/22. This process has Councils operating performance ratio achieving a high of 0.54% in 2020/21 then falling again in future years. Council has modelled the inclusion of the variation, which would result in the following results for the last 6 years of the plan.

2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
0.22%	0.54%	0.74%	1.17%	1.04%	1.51%

These results are achieving the benchmark and place Council in a sound financial position for the future.

Own Source Operating Revenue

Council will achieve the benchmark for this ratio for the foreseeable future.

Building and Infrastructure Asset Ratio

Council will not achieve the benchmarks for this ratio during the term of the LTFP. A 10 year average of 65% is noted in the LTFP with a high of 92% in 2015/16. Council has adopted its IPR documents based on the knowledge it has at the moment. In terms of

this benchmark, there are two key inputs that may change

1. Council's depreciation levels are based on the most recent complete valuation which occurred in 2009.
2. Council's Renewal program is based on Asset management plans targeting customer complaints rather than focussing on maintaining conditions at the minimum intervention level.

Council is currently undertaking a complete revaluation of its roads and associated infrastructure assets in accordance with the Local Government Code of Accounting Practice. It is expected that this process will provide more accurate asset values as well as reduced depreciation costs. The changes have not been modelled as the outcomes are unknown at this stage. A change of \$1Million will return the ratio to benchmark levels. By reviewing Council's asset management plan and targeting the asset minimum intervention levels Councils asset spend will be able to increase over time and its asset maintenance will become more targeted. These processes will also improve Council's ratio.

Infrastructure Backlog Ratio

Council will not meet the benchmark for this ratio within it's current LTFP. The ratio will average 3.17% over the 10 year life of the plan. As above there are two factors which affect the outcome of this ratio which may change:

1. Council's backlog figure is based on a detailed analysis which occurred in 2009. These figures have been updated annually in line with CPI. Additionally, the latest guidelines for IPR plans include a different evaluation for what is determined as satisfactory. Council has not undertaken detailed consultation with its community regarding what the community may see as satisfactory. The Council will factor this evaluation into its data during 2015/16. It is expected that this will reduce Council's backlog by at least \$2 Million which will enable Council to meet the benchmark.
2. Council's asset values are based on the most recent valuation which occurred in 2009. A full revaluation is occurring during the 2014/15 year which will be factored into future plans. It is expected that this revaluation will change Asset values however the extent of the change is not known.

Asset Maintenance Ratio

Council will not meet the benchmark for this ratio by 2019/20, however it will meet the benchmark in 2022/23 and expects to continue to meet the benchmark after that. Over the 10 year term of the LTFP, council will average a score of 98%. Historically, Council has not targeted its asset maintenance ratio and has simply provided maintenance as and when required or requested. Council is changing this process in 2015/16. Council is redeveloping its asset management plans which will provide a clearer guide on required maintenance. The building asset ratio will also focus on minimum intervention levels, allowing Council to target

its maintenance costs to achieve the best outcome.

Debt Service Ratio

Council will meet the benchmark for this ratio over the 10 year term of its LTFP with an average of 10.58%. Council has borrowing capacity, but needs to improve its operating performance ratio before undertaking additional borrowings.

Real Operating Expenditure per capita.

Council will meet the benchmark for this ratio over the 10 year term of its LTFP. It is expected that Council can improve on this result with the ongoing review of service levels, the reduction in contributions and donations over time and the policy decision to not fund ongoing projects where grant funds were previously available.

5. Putting your plan into action

How will your council implement your Improvement Action Plan?

For example, who is responsible, how the council will monitor and report progress against achieving the key strategies listed under Section 3. Council has undertaken a detailed review of its roles and functions over the past nine months to examine the organisational structure, the expenditure required in the areas of asset backlogs and general improvements and to look at the structure behind the provision of core services and business unit areas. The reviews are proposed to continue during the next budget year. The councillors and senior staff shall review and report across a large range of council functions and make determinations for inclusions into the long term financial plan. Council will report its determinations to the community and seek advice from the community in instances where the Community Strategic Plan items can not be provided due to fiscal restrictions or that the service is available from the private or not for profit sector. Council will continue to work with the adjoining and regional councils to enhance service provisions and to work towards productivity improvements.

Council's commitment to continuous improvement has been publically advertised as per the Statement from Councils 2015-2016 Operational Plan (Budget Papers).

Productivity Improvement

Council is committed to improving operational productivity. Over the past five (5) years the Business Improvement Team has worked on practices mapping transactional processes. This has either generated significant productivity improvements across a number of activities or has put in place a medium term strategy to implement workplace changes.

These productivity improvements were recognised in the 2015 Special Rate Variation Application on what Council has implemented to improve operations. Whilst this contributed to the success of the SRV Application, Council recognised, at the time, that the community wanted to see other more fundamental work completed around operational and workplace reform.

As part of improving Council's operational bottom line in the Long Term Financial Plan, the Cost Index has been kept at CPI average which traditionally has been about 0.5% less than the Local Government Cost Index. This will mean that over the next five (5) to ten (10) years operational reform, in practice, will need to follow a continuous improvement strategy on 0.5% to 1% per annum.

The business improvement/productivity strategy developed will cover four (4) key components as follows:

- a) As local government does not operate in a competitive environment, management will continue to analysis business processes and work practices and benchmark against similar commercial and government agencies.
- b) Council has recognised it needs to focus on what it does best and not try to do everything with internal resourcing. Therefore, activities or tasks which are provided more effectively by external parties will be considered.
- c) Operational productivity comes from empowering staff and rewarding them appropriately. Where operational reform has been embraced or new work practices employed which generate real dollar savings, these savings will be retained by the division in that year.
- d) Capital (or project management) is one area which has been identified for potentially significant productivity improvement. As a way to provide some degree of incentives to achieve targets above those which are set in the project scope, Council will reward the division by retaining any financial saving in the function for future identified works. The balance to this is that where a project outcome is below expectation, then it will be for the functions management to adjust operations or service levels to compensate.

It is expected that with some simple incentives and process redesign Council can crystallise between \$100,000 and \$200,000 per annum in recurrent productivity improvements. The compounding impact over the LTFP cycle will improve the bottom line over 5% at the lower end of the scale.

Asset Management

Council has a very large amount of Non Current assets. Many of these assets have built up over time. Council will review all asset classes and consult with the community over the next 2 years on its function and purpose with the view to liquidate and reduce the amount of asset that has to be renewed and maintained.

As part of Council's asset management strategy it has recognized that growth needs to be balanced and therefore have built the following into all General Fund Assets groups:

- Once the Asset back log gets to 5% or > no new assets will be built even if grant funded.
- All new assets must be from funding that is in excess of what is required for renewals.

- Renewals must be completed in any given year first.
- Any operating Surplus above 2% can be put into a development reserve.

Preparing for Fit for the Future

Council will undertake a review of its service level areas over the next three to nine months to determine its role and function in a number of service areas. As part of the Fit for the Future program, Councils must ensure that they provide for key service areas across their community and to meet long term asset renewal and maintenance requirements. Like many Councils across New South Wales, Armidale Dumaresq Council has moved into many service areas that it is struggling to support due to reductions in grant funding, general business practices or staffing requirements. The following areas will be reviewed as to a whole of community need, the future funding available to the program, can efficiencies be found to provide the same or a higher level of program outcome and finally is the program a core area of councils operation or could it be provided to the community by another organisation. Council will also need to look at its land ownership, the land maintenance or service levels and can land, buildings and other assets be sold to improve similar asset areas by the redirection of funding.

Council has undertaken a similar review previously and it is important for the community to know and understand that financial, asset and workforce reviews need to be undertaken within all businesses to ensure that the quality of service and asset delivery meets the current community thinking.

The following areas will be reviewed:

- Community Services:
 - Aboriginal Services
 - Recreation Access
 - Volunteer Centre
 - Dementia Respite
 - Community Development
 - Youth Services
- Environment
 - Environment Sustainability Programs
 - Environmental Management
- Waste Management
 - Compost processing, value adding and sales of compost materials
- Sewerage Disposal

- Effluent management and farming practices
- Sludge management and bio solid sales
- Parkland
 - Review of parkland use and return of open space to native vegetation areas
 - Removal of parkland and sale of land for residential and other uses
 - Consolidation of play and sporting areas to develop high level community park and play areas and reduction of play equipment in isolated areas
 - Mowing and maintenance needs of parks, reserves and other land
- Private Works- Review councils role in private works delivery, competitiveness, and specialisation as a commercial operation and identify ways to deliver quality outcomes.
- Business Unit Identification and Dividend Return.
 - Establish business units in the areas of Water, Sewer, Waste, Airport Precinct, Building Inspection and Private works and establish commercial rates of return to fund other council activities.
 - Restructure councils staff to support and maintain a competitive outcome across these areas.
 - Investigate share farming on open space areas of airport
 - Develop for sale industrial, commercial and general use lands to grow business and employment opportunities
 - Review long term transport options at the Airport
 - Review restrictions on land areas to ensure long term growth needs of the airport precinct and aircraft movement areas.
 - Review staffing needs, alternative contract arrangements and higher level service delivery needs with Federal airport authorities.
- Asset Management
 - Review all asset management plans and identify buildings, facilities, roads, and land that can no longer be maintained by council, which can be transferred back to the crown or has reach end of life outcomes.
 - Review insurance requirements and asset renewal targets generally
 - Identify real expenditure needs for all assets to meet Fit for the Future outcomes and community expectations.
 - Revisit Community and Technical service levels
- Staffing
 - Undertake a review of all staffing across council to determine staffing levels to meet legal, statutory and service level commitments into the future.
 - Review training and age restrictions around staff and identify plans to train and bring younger people into Councils workforce as older staff retires.

- Implement technology where appropriate to improve productivity and flexibility.

Executive Team Restructuring

Over the past 3 years Council has reduced its middle management and technical staff to fit into a more lean operation. While this has worked in part it has also created some stress points in the Executive team where there have been strategic and operational gaps. A review of the organisations interactions and outstanding actions by the General Manager recognised that there were critical deficiencies right across the organisation. "The General Manager in consultation with Council has proposed a new executive structure to lead the organisation through the next 5 years operational activities. This structure will be robust enough to meet the demands of "Fit For the Future" once it is implemented.

Feb 2015
Resolution

FOR ACTION

COUNCIL

23/02/2015

TO: General Manager (Glenn Wilcox)

Subject: Fit for the Future
Target Date: 9/03/2015
Notes:
File Reference A14/6487 INT/2015/01083

Moved Cr Beyersdorf Seconded Cr Richardson

- (a) That Council make a submission prior to 30 June 2015 under the Council Improvement Proposal (Existing Structure) to stand alone;
- (b) That Council again extend an invitation to Councils of Guyra, Uralla and Walcha to meet with Armidale Dumaresq Council to discuss their directions for Fit for the Future; and
- (c) That Council continue to consult with the Councils of Guyra and Uralla to discuss the future direction of the New England region and to plan together for:
 - (i) A potential merging of Councils should the NSW Office of Local Government undertake the forced merger of Councils;
 - (ii) That an implementation plan be developed to allow any forced merger to be transitioned smoothly;
 - (iii) That any forced merger ensure that political representation is adequate for the proposed rural and residential areas of a new Council area;
 - (iv) That the State Government honours the provision of funding to merged Councils to ensure that the transition process has adequate finances to meet the costs of merging and assistance to offset some asset renewal works;
 - (v) That discussions are entered with the Office of Local Government that allows the continuation of full funding to a new Council from Federal Assistance Grants and Road to Recovery grants as if the councils remained separate; and
 - (vi) That an open due diligence program is available to allow any forced merger to identify all associated costs, liabilities, and legal action and community impacts.

AMENDMENT

Moved Cr O'Connor Seconded Cr Gadd

- (a) That Council make a submission prior to 30 June 2015 under the Council Improvement Proposal (Existing Structure) to stand alone;
- (b) That Council again extend an invitation to Councils of Guyra, Uralla and Walcha to meet with Armidale Dumaresq Council to discuss their directions for Fit for the Future; and
- (c) That Council continue to consult with the Councils of Guyra and Uralla to discuss the future direction of the New England region in the case of a forced merger and to plan together for:
 - (i) A potential merging of Councils should the NSW Office of Local Government undertake the forced merger of Councils;
 - (ii) That an implementation plan be developed to allow any forced merger to be transitioned smoothly;
 - (iii) That any forced merger ensure that political representation is appropriate for the proposed rural and residential areas of a new Council area;

- (iv) That the State Government honours the provision of funding to merged Councils to ensure that the transition process has adequate finances to meet the costs of merging and assistance to offset some asset renewal works;
- (v) That discussions are entered with the Office of Local Government that allows the continuation of full funding to a new Council from Federal Assistance Grants and Road to Recovery grants as if the councils remained separate; and
- (vi) That an open due diligence program is available to allow any forced merger to identify all associated costs, liabilities, and legal action and community impacts.

The Amendment on being put to the vote was CARRIED .

The Amendment became the Substantive Motion.

The Motion on being put to the vote was CARRIED.

This action sheet has been automatically produced by InfoCouncil to advise you of the outcome at the Council Meeting. A copy of the resolution has been placed in Trim.

Item: 5.4
Title: Fit for the Future
Author: General Manager
Attachments: Nil

Ref: INT/2015/01083
Container: A14/6487

RECOMMENDATION:

- (a) That Council make a submission under the Council Improvement Proposal (Existing Structure) to stand alone prior to 30 June 2015;**
- (b) That Council again extend an invitation to Councils of Guyra, Uralla and Walcha to meet with Armidale Dumaresq Council to discuss their directions for Fit for the Future; and**
- (c) That Council continue to consult with the Councils of Guyra and Uralla to discuss the future direction of the New England region and to plan for:**
 - (i) A potential merging of Councils should the NSW Office of Local Government undertake the forced merger of councils;**
 - (ii) That an implementation plan be developed to allow any forced merger to be transitioned smoothly;**
 - (iii) That any forced merger ensure that political representation is adequate for the proposed rural and residential areas of a new Council area;**
 - (iv) That the State Government honours the provision of funding to merged Councils to ensure that the transition process has adequate finances to meet the costs of merging and assistance to offset some asset renewal works;**
 - (v) That discussions are entered with the Office of Local Government that allows the continuation of full funding to a new Council from Federal Assistance Grants and Road to Recovery grants as if the councils remained separate; and**
 - (vi) That an open due diligence program is available to allow any forced merger to identify all associated costs, liabilities, and legal action and community impacts.**

Introduction:

The Office of Local Government has determined that unless all the Councils agree to merge, and that each Council has passed a resolution to that effect, then a Council can only submit a proposal under the Council Improvement Guidelines.

At the time of writing this report, Armidale Dumaresq Council does not have any advice from its neighbouring Councils of Guyra, Uralla and /or Walcha that they believe their Council will support an option to merge.

As stated in this report, Armidale Dumaresq Council does have the scale and capacity to stand alone and if it undertakes a review of its core activities and reviews what and how it is to deliver goods and services, then it will be able to develop its budgets and programs to meet community expectations.

Report:**A Brief History**

The NSW Government has undertaken a Review into Local Government over the past three years looking at the future needs of communities, to ensure that Councils have the ability to meet the expectations and outcomes of communities and that local government remains strong and sustainable.

To achieve the reviews, the Independent Local Government Review Panel was formulated and tasked with identifying options for a stronger and more effective system of Local Government (Local Government Review, 2013). The Panel made 65 Recommendations to the Government on changes that should be made across NSW and the Government has responded to those recommendations.

Copies of these documents are available at <http://www.fitforthefuture.nsw.gov.au/>.

Armidale Dumaresq Council was formed due to an amalgamation of the Armidale City Council and Dumaresq Council and proclaimed to operate from 21 February 2000. The Council became part of the New England Strategic Alliance of Councils (NESAC) with Guyra, Uralla and Walcha which operated between 2004 and 2009 before being disbanded. Since 2009, Armidale Dumaresq Council has provided corporate shared services to Guyra Shire Council.

During this period a number of reports have been prepared by government including;

- The Vardon Report in 2003
- the 2004 Boundary Commission Report, and
- The Kibble Report in 2009

All reports have recommended amalgamation of the four Councils of Armidale Dumaresq, Guyra, Uralla and Walcha.

The NSW Boundaries Commission (November 2010) undertook an examination of an amalgamation proposal for the creation of a new Local Government Area to be named "New England Regional" which incorporated the whole of the areas of Armidale, Guyra and Uralla Councils. Ultimately the Commission's recommendation to Government did not support the proposed amalgamation and supported the communities' view that the Councils' independence should be maintained. The Boundaries Commission, 2010 did report "that structural reform is needed in the New England region, but not in the form of this proposal".

Since 2010 very little has changed at a regional level, with all Councils remaining in a similar structure to that which existed at this time.

As part of the Independent Review Panel determination, they identified that Armidale Dumaresq and Guyra Councils should merge immediately and that consideration should be

made to include Uralla and Walcha Councils to build a strong regional focus; alternatively Guyra, Uralla and Walcha should all be converted to Local Board status if they remain separate (Independent Local Government Review Panel, April 2013).

The NSW Government has made an assessment of all reports and asked Councils across the State to undertake a review of their individual circumstances and to provide advice to the Office of Local Government by 30 June 2015 as to the long term direction they believe should be undertaken to grow and strengthen local government.

Current Theories - Stand alone, Mergers or Rural Councils

"The people of NSW deserve a great place to live - a strong economy, quality services and a bright and prosperous future. To make this happen, we need everyone to play their part - government, business, communities and local councils. Local councils have a vital role in shaping communities and helping them grow. But the system of local government is not working as well as it should be. More than one-third of the State's councils are facing financial problems.

Many of our growing suburbs are constrained by boundaries that date back to the horse and cart days, and layers of red tape and regulations are making it hard for people to do business, build homes and receive the services they need" Office Local Government, September 2014.

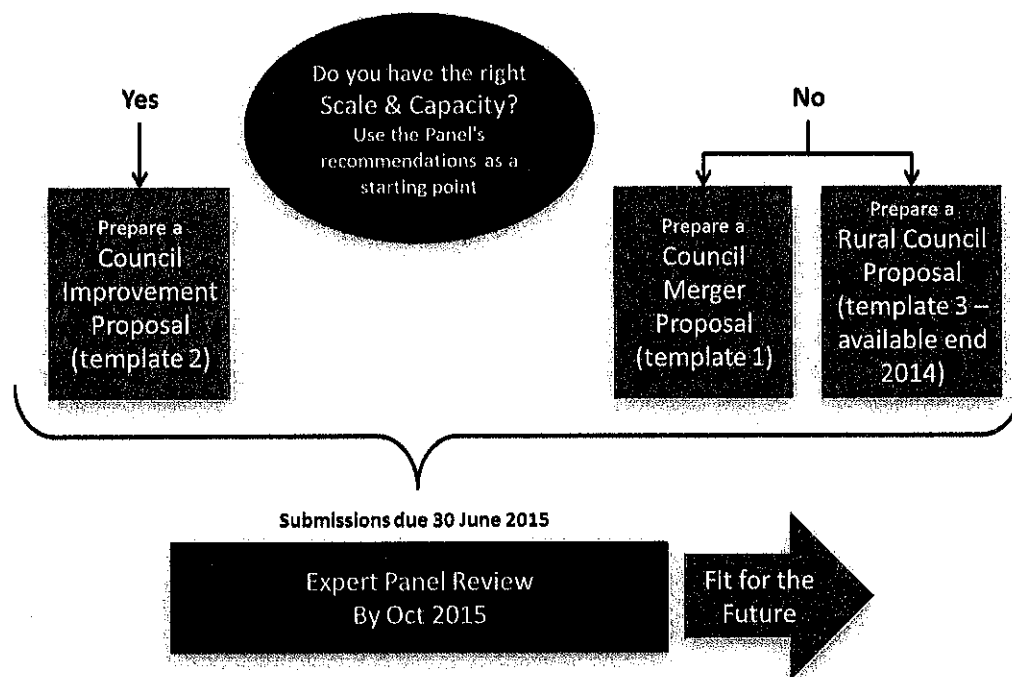
The existing structures of the Shire boundaries relates back to the days before modern systems of transportation and communications. The ability for people to travel long distances in a short time is more regular today allowing them to come to regional centres such as Armidale to attend sport, education and social or commercial activities. Communications has moved from posting a letter to instantly conversing with Council via emails. The distance to attend and receive information from Council is as close as the home computer.

The Minister for Local Government, 2014 advised *"if we were to design local government today we would not create 152 Councils. The original boundaries were based on the transport and communications at the time and how the communities socialised and engaged. With the advancement of transport, communication and infrastructure then the area that communities socialise and engage with each other is much bigger than the old boundaries so the old regional has become the new local"*.

The Office of Local Government has identified three proposals available for Local Government in NSW to consider by the 30 June 2015, these include:

- The Improvement Proposal,
- The Merger (amalgamation) Proposal, or
- The Rural Council Model.

The following diagram identifies the time and consideration options available for Council.



This diagram is based on the guidelines in the Fit for the Future program and can be accessed at: <http://www.fitforthefuture.nsw.gov.au/for-councils>.

Armidale Dumaresq Council is provided with two options only, being to undertake a Council Improvement Proposal (stand alone) or to enter into talks with Guyra, Uralla and/ or Walcha and to work towards a merged Council proposal. The rural Council model is not available to Armidale Dumaresq Council and may only be an option for Walcha Council subject to further clarification.

Levels of Strategic Direction - Stand alone verses Merger Proposal

Why would Armidale Council not take the stand alone option (Council Improvement Proposal) and continue to make structural and financial improvements, rather than enter into a Merger that opens up opportunity for criticism, disharmony and public backlash?

The NSW Office of Local Government and the reports by the Independent Review Panel into Local Government, along with TCorp and IPART, have all identified that the Councils of Armidale Dumaresq, Guyra, Uralla and Walcha need to enter into discussions about the future financial and social sustainability of the New England Area.

Although Armidale Dumaresq Council can demonstrate that it has the scale and capacity to stand alone, it is also in a position that its surrounding Council areas may not be able to meet the scale and capacity targets and will need to discuss with Armidale Dumaresq Council the options around a merger or amalgamation.

The assessment undertaken for this report identified that the residents of Armidale Dumaresq Council may be worse off in the short term (up to 10 years) however if the co-ordination of service delivery, legislative change and community backing occurs, the merger of Councils across the New England could result in a strong administrative and regional group.

To achieve a strong economy and to grow and develop this region, the Councils either have to merge and/or enter into a Regional Joint Organisation that undertakes the provision of services, governance and produces regional outcomes. The four Councils attempted to do this previously under the NESAC arrangements which failed due to structural, governance and political issues. If the New England Region is to grow then mergers of Councils to form a single entity would be required.

This report is based on the two scenarios that Armidale Dumaresq Council either undertakes the Council Improvement Process or that it enters into a proposed merger with the Councils of Guyra and Uralla initially and with Walcha as either a merger or as a Rural Council having its governance, finance and staffing provided through the merger of the other three Councils.

At the time of writing this report, Armidale Dumaresq Council can only consider the stand alone option, but it should remain open minded to the potential forced merger of other councils adjoining its boundaries.

Are Proposals Different in the City to Rural Areas?

The NSW Office of Local Government has required all Councils in NSW to undertake a review process and to identify their scale and capacity by the 30 June 2014.

The Independent Review Panel identified that Councils in Sydney, Newcastle and Wollongong regions are subject to mergers and that many of these Councils are similar to rural Councils as not having an ability to meet the long term asset, financial or social sustainability needs of their communities.

Analysing the Stand Alone proposal

What constitutes a good strategic direction?

The NSW Government has advised that it wishes to drive change in the Local Government sector. Further that, the NSW government has developed a long term strategic plan for the State to make it number one. In order to achieve this it recognised that it needs to have strong local and regional government.

For this to occur in the New England region then the strategic direction needs to;

“have a high medium to long term impact on the activities of the organisation, including the analysis leading to resourcing and implementation of those decisions, to create value for customers and key stakeholders and to outperform competitors” (Hubard,G.,2011).

It is generally argued that Councils fit into the not for profit sector and as such do not have competitors. The NSW Office of Local Government, 2014 has stated in its Scale and Capacity documents that Councils will be required to achieve a 60% self funding capability. This along with changes to the National Disability scheme funding, and that Councils operate businesses in the areas of water supply, sewerage servicing, airports, waste management and building inspections against those of the private and other not for profit sectors; places local Councils in a competitive marketplace.

The Council therefore needs to prepare a business strategy that takes into account the environment, the organisations capabilities, its competitors and its key stakeholders being its residents and competitors.

If Council takes either the Stand Alone option or the Merger option being proposed by government, it will need to address its strategic direction with its community to establish goals for the longer term. The Council will need to go back to the community under the State Governments Integrated Planning and Reporting Guidelines (Office Local Government, 2013) and develop a new strategic direction that focuses on the key service delivery areas that a Council can be reasonably expected to deliver without the inclusion of undeliverable objectives that can not be afforded by the rate payers and users of services.

A good business strategy will deliver what the community needs most of the time and plan to deliver an increasing level of CORE and desired services over the longer term.

Core services are defined as: the services required by the majority of the community that meet the standards and levels of service delivery expected for the rates and charges being paid.

Development of a business strategy

The development of a good business strategy that is affordable by the community will need to look at;

- setting a clear vision,
- identify a strategic intent,
- identify the core purpose of the organisation
- determine its business strategy (Business unit areas e.g. water, sewer, airport, waste, building inspection and approval, etc.)
- determine the corporate strategy (all other areas of service delivery)
- identify the organisational aims, objectives and goals,
- determine an appropriate organisational structure to efficiently deliver agreed services, and
- review the capacity that the Council has as to resources (natural, people and financial) to deliver the strategic outcomes required.

The IP&R process if used correctly by both the Council and the community can assist to drive these strategic directions and set targets for delivery to meet community expectations and the required funding under the Fit for the Future objectives.

Council must therefore take a long term view of where it believes it is going. Let's start by looking at a ten year time frame and answer these questions.

Question 1: What amount of growth and profitability does the organization want to achieve?

The Office of Local Government has decided that a 60% self funding requirement is to be achieved in the future and that this will effectively reduce funding from grants to a maximum of 40%. Armidale Dumaresq Council already has a 62% self funding capability, so currently meeting this direction. In ten years time, this will require the community to continue to raise rates to meet the required level of asset renewal or replacements (upgrades to existing roads, bridges, footpaths, buildings, etc.) as grants reduce. Council will need to look at its business strategies to ensure that self funding continues to be achieved in the commercial areas and does not require support from the corporate strategy side of the organization (general fund). The general fund which is made up from rates and ancillary charges will need to fund the asset renewal side of the organization along with specific grant funding when and if available.

A look at the merger proposals with the adjoining Council areas of Guyra, Uralla and/or Walcha, will need to ensure that any business unit areas can be self funding and that the costs associated with the general fund items are not beyond the means of the community to reasonably fund.

The merger proposal today looks very bleak, but the development of a strategic direction to meet long term funding needs and the careful use of intergenerational loans may deliver service levels beyond those of the smaller Councils' current capacity.

This has been recognized by TCorp and IPART in their reports into local government and a reason behind the recommendation of the Independent Review into Local Governments recommendations.

Question 2: What services or products does it want to produce?

Regardless of whether Armidale Dumaresq Council stands alone or enters into a merger with its neighbours, the Council will need to look at its Core Service areas and to reflect on what the community it serves can logically afford.

The Local Government Act 1993, clause 8 states;

The Council's charter

(1) A Council has the following charter:

- *to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively*
- *to exercise community leadership*
- *to exercise its functions in a manner that is consistent with and actively promotes the multicultural principles*
- *to promote and to provide and plan for the needs of children*
- *to properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible, in a manner that is consistent with and promotes the principles of ecologically sustainable development*
- *to have regard to the long term and cumulative effects of its decisions*
- *to bear in mind that it is the custodian and trustee of public assets and to effectively plan for, account for and manage the assets for which it is responsible*
- *to engage in long-term strategic planning on behalf of the local community*
- *to exercise its functions in a manner that is consistent with and promotes social justice principles of equity, access, participation and rights*
- *to facilitate the involvement of councillors, members of the public, users of facilities and services and Council staff in the development, improvement and co-ordination of local government*
- *to raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants*
- *to keep the local community and the State government (and through it, the wider community) informed about its activities*
- *to ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the Council is affected*
- *to be a responsible employer.*

The NSW Department of Local Government, Councillor Guide section 1.5 identifies the Services and functions that Councils provide.

Councils provide a very wide range of services and functions. Broadly, these may be grouped into five categories, as shown below.

1. Providing and maintaining infrastructure

Providing an appropriate and affordable level of infrastructure is one important contribution a Council makes to its community. For example, councils provide and maintain local roads, bridges, public car parks, airports, footpaths, sporting fields, parks and art galleries. Councils are also responsible for connections to water and sewerage. Councils must consult with their local community about providing and maintaining these public assets.

2. Planning for sustainable development

Councils have a major role in providing long term strategic planning for a local government area as well as town planning, zoning and sub-divisions. In addition, councils are responsible for processing development applications, for building site and compliance inspections, and for ensuring compliance with building regulations.

3. Protecting the environment

Councils also have a major role in helping to protect the environment. They have responsibilities under the Protection of the Environment Operations Act 1997 and can issue various protection of the environment notices including clean up, prevention, compliance cost, provision of records and information and noise control notices.

Councils regularly assess the state of their local environment, provide environmental programs and use their regulatory powers to prevent pollution, or restore degraded environments.

Councils also have environmental protection responsibilities under other legislation. For example, councils are responsible for noxious weed control under the Noxious Weeds Act 1993. They also carry out activities to preserve access and amenity to the environment, such as recycling, management of vegetation including bush land reserves, street cleaning, regulating parking, and controlling dogs and cats (or companion animals). Supporting community development

4. Councils regularly consult with and assess the needs of their community with a view to supporting community development. They provide a range of services, including some aimed at groups in the community with special needs. Community services include libraries, sport and recreation facilities, home care services such as 'meals on wheels', swimming pools, playground facilities and child care centres. Safeguarding public health

5. Councils help maintain high standards of public health and reduce the risk of exposure to a wide range of diseases through activities such as food shop inspections, waste disposal, pest and vermin control and hazardous material containment.

Why does local service provision vary between councils?

While in theory councils can choose the range and quality of services they provide, in practice services may be limited depending on local factors including:

- *availability of finance to fund certain services*
- *size, location and demographics of a local government area*
- *commitment to maintaining existing services*
- *the views, wishes and needs of the community.*

The Act also allows the community to influence decisions of Council.

Question 3: What is the customer or geographic makeup of the area to be serviced?

This question needs to be looked at from a regional perspective and not just a local issue. Armidale Dumaresq Council is a regional city and provides services to the region in the form of sporting fields, business and industrial areas, social service areas and is a hub for State and Federal services, health, education and project delivery.

The current community of Armidale Dumaresq Council is paying the full cost of service delivery within the City area, although within a 10 minute drive other Councils have established residential areas that use and do not pay for services provided. The Independent Panel (2013) have identified these issues of spoke and hub type services and identified this is a reason that Guyra and Uralla should be merged with Armidale Dumaresq Council. The Office of Local Government, Council Improvement Proposal, 2014, question on scale and capacity asks;

Does your Council have the scale and capacity broadly consistent with the recommendations of the Independent Local Government Review Panel? (ie, the Panel did not recommend your Council needed to merge or become a Rural Council).

Armidale Dumaresq Council is recommended to merge with Guyra, Uralla and/or Walcha in the broadest context. This decision has effectively established the geographic boundary and customer base required for a new Council entity.

The serviceable geographic boundaries should also be considered as to the ability of the staff to drive to an area within a reasonable time to undertake works. It is estimated that the average distance a truck crew can drive in an hour is 80 kilometres. It is noted that Armidale Dumaresq Councils area extends outside the 80 kilometre boundary to the east and is presently serviced from a depot at Armidale.

It must be noted at this stage that should the community and government progress further down the merger pathway, that the geographical area needs to be assessed as many rural residents in areas such as Tingha, Bundarra, east of Ebor and North to Glen Innes (Ben Lomond) may not be supportive of the decision as their direct communities of interest lie in other Council areas.

Question 4: What strategy is to be employed to address competition or do we wish to compete?

This is a key question that needs to be asked again regardless of any merger, as it comes back to what is Council's Core business and do we need to compete against private or not for profit organisations. The areas that Council will need to review will include:

- Waste services (recycling, composting etc.);
- Sewerage services and farm process;
- Community Services (aged care, youth services, support service areas); and
- Building and development service areas.

These areas are directly competing against private operators or other not for profit sectors and will require resources to be competitive in the market place and to meet the legislative needs of government.

Waste Services and Sewerage Service areas have a competitive role and efficiencies or lease arrangements should be investigated to ensure that resources and time produce an efficient and effective outcome.

In a merged Council, the Guyra and Uralla Shires have large community services sectors and provide a valuable service to their respective communities. The Council in determining its long term position and cost structures for its community, will need to consider if these areas are provided to a higher level by the private sector and if not how they will fund the large on going costs if an alternative plan can not be developed. Councils cannot be fully competitive in these markets due to legislation, award requirements and lack of flexibility in staffing.

The areas of building and development are currently directly competing with private industry. Councils, due to legislation, must maintain a service when requested however this can be provided under contract. The community will again need to consider the value of an in house service compared to a contracted service and the profit generation required to break even.

Taking a view of the next ten years, it is suggested that a stand alone or merged Council will need to retract its community service areas but will retain the building and development areas which will need to operate on a cost neutral basis.

Question 5: What are the long term positional outcomes?

Assuming that the State Government is prepared to go forward with the proposed merger option for Armidale Dumaresq, Guyra, Uralla and/or Walcha Councils then realistic future goals must be considered.

Armidale Council will need to take the lead in establishing a direction that is fully inclusive of the councils it adjoins and to discuss and plan openly to ensure that the next ten years supports the growth of the local government areas, the towns and villages and that within its own community ensures that funds are not transferred out to the benefit of other interest groups.

Armidale Council should develop a reporting structure that highlights the income generated from the existing shire areas and to show the expenditure within each shire area. The new Council cannot continue the debate which is regularly raised in Armidale Dumaresq community, being that prior to amalgamation in 2000 the Dumaresq Shire had more money and better services than the Armidale City Council.

This is neither a fact nor current reality. It is a destructive debate that as a true business can be overcome by transparent reporting of facts, and good participation by people who want to accept and make changes for the future growth and development of the community.

The long term position should be to encourage economic and population growth, improve Core service delivery, improve efficiency, be transparent in reporting, and establish a strong governance framework and to communicate positive and negative influences.

Question 6: What is the available resource capacity to achieve the outcomes?

Council has both a natural resource capacity in the land it owns, the materials it can extract, the people it employs and the ability to raise money. The capacity to undertake any of the strategic outcomes identified in the first five areas will be dependant on being able to turn resources into the goods and services desired by the community.

It is important in developing the strategic direction that the resource capacity is available to meet the outcomes required. This may include the divestment of resource areas that traditionally have been required by the community, but can be provided by competitors to the organisation at a cheaper or more community orientated delivery system or it may require changes to staff in areas who are not in core or desired areas of community need. It may require the organisation to invest in resources to deliver higher levels of return in areas of road construction or maintenance or in many other areas that the community desires the strategic direction that Council should develop towards.

Creating value for residents and others

As shown in the prior section, local government is here to create long term value for its residents and to discuss with them the long term direction that they would like to see and do this in a cost effective way.

A modern Council understands that the residents pay the cost of a product or service and receive a product or service in return. In a Council we offer different products, some are tangible (water, sewer, waste) where others are based around advice and assistance. The price paid by the ratepayer or resident is spread across many areas of Council and may assist business or industry due to tourism or commercial opportunities, whilst other funding assist the resident such as providing roads and footpaths. Not all ratepayers receive equal service levels and recognition of this is generally not well understood in the community.

In context we ask the questions, would you stop paying taxes because you do not believe in war requiring Australia to not have an Army, or that you never go to hospital so we do not pay for that service or I live out of town so I never use a sporting field or go to a park.

Many services are provided for the social good and we all pay the cost of these to ensure availability of the service. The value of a service to a member of the community reflects their current situation and can be based on age, social need, education, employment activity or financial situation. As shown by recent debate about GP co payments, some services that are available free of charge are moving to a user charge to meet the delivery costs of services (The Conversation, April, 2014).

In creating value for the customer, the Council needs to ensure that under a stand alone or merged Council scenario that its focus is not directed too heavily towards projects that have minimal overall community benefit and work towards the sustainable Core service delivery

areas that are recognised by the majority of the community. Projects that support social development, sustainability and environmental protection need to be identified, supported and developed with the community so that a social understanding and benefit is recognised.

In general, the cost of a service should be exceeded by the value created.

If Armidale, Guyra, Uralla and/or Walcha Councils are to merge as proposed by the Review Panels recommendations, then the new organisation will be required to perform to a higher level than that of the combined structures. Empirical evidence suggests that this is not the case as amalgamations of Councils around Grafton (Clarence Valley Council rated as weak by TCorp) and Tamworth (currently reviewing staff structures and finance to meet long term costs, ABC, December 2014) have shown that these organisations are not in a better position after the amalgamations than the Councils of the New England region.

Appropriate business structures and resultant efficiencies will need to be realised to ensure performance to a higher level than at present.

Creating Value for Key Stakeholders

Like many businesses, Councils tend to look at what they do now and the services they supply rather than to look at what the key stakeholder or their residents would like going forward. This was meant to change with the implementation of the Integrated Planning and Reporting (IP&R) direction under the Local Government Act 1993 however, many Councils took the information and applied it to the business as usual philosophy.

In many respects, the IP&R process missed the bulk of people that are meant to benefit from the direction and allowed the more vocal minority to gain a greater influence on the deliverables. This has resulted in high end projects gaining weight whilst other areas such as asset backlogs continue to diminish.

To make an assessment of the value that is created for the key stakeholder (our residents) then community consultation and community surveys need to be undertaken that ask the residents about the value they receive from Council, from Councillors, from the staff and from the services being delivered. These survey results should assist in driving changes through the Council works program, its social service areas such as tourism or event management and in the performance of all persons representing council. This should reflect the real delivery of Core services that the less vocal majority may require from a stand alone or merged council.

Sustainability Strategy

Sustainability is defined as “development that meets the needs of stakeholders without compromising their ability to meet their needs in the future”, or alternatively, “balancing the needs of the different groups of stakeholders affected by the corporations actions”.

TCorp, 2013 identifies sustainability as “A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community”.

IPART, 2014 advise that the Office of Local Government considers that Councils should provide evidence that:

- resources are prioritised and allocated based on an understanding of strategic requirements and community needs through the Integrated Planning and Reporting process
- high priority operating and capital expenditure programs are managed and delivered with stability and predictability in the overall revenue burden
- resource allocation for service and infrastructure investment is based on an equitable distribution of the revenue burden (rates, user fees, charges and other income) for current and future generations (of ratepayers)
- They can achieve an operating surplus.

TCorp or NSW Treasury has identified that many Councils across NSW are under pressure from a financial sustainability view. This includes the Councils of the New England region (Revitalising Local Government, 2013, pp28/29) with the exception of Armidale Dumaresq Council.

It was noted in the Boundaries Commission, 2010 review that the amalgamation of Councils at that time was not considered appropriate as Armidale Dumaresq Council did not have the financial capacity to fund the costs around the merging of the four councils and that Armidale Dumaresq Council should review its financial ability to meet long term costs especially around assets.

Changes were made following this review and Council successfully applied for a Special Rates Variation (SRV) to assist in meeting the asset backlog identified at that time.

Council is still working to undertake further changes to its budget process and this will require it to look at its internal processes, project based budgets, and to determine the Core service levels that its community requires, and a need to review functional areas of the organisation to ensure that it is both competitive and able to maintain the required 60% self funding options.

Armidale Dumaresq Council over the past ten years has been investing in areas such as community services, environmental projects and social development areas such as art galleries. These areas, although of great social advancement, take Councils away from the Core service areas that support the community. Council's 2013/2014 audit report identified that Council

cannot afford to borrow any more in general fund and needs to undertake a review to bring the general fund back to a sustainable position.

In a merged Council situation, the available funding to meet these kinds of activities of a Council will require public consideration as they will rapidly drag the new Council into an unsustainable position. The appendix at the end of this report (comparative data) highlights the known or public financial capacity of the Councils around Armidale Dumaresq and the potential impacts that maybe experienced if merged.

The combining of two or more unsustainable Councils will only create one larger unsustainable Council.

Armidale Dumaresq Council and its community, being the regional population centre, will be required to support and assist in paying for the sustainability of the rural based Councils and needs to plan for this impact by addressing its own future sustainability through a return to Core business or service delivery.

Meeting stand alone requirements

The Office of Local Government has determined that unless all the Councils agree to merge, and that each Council has passed a resolution to that effect, then a Council can only submit a proposal under the Council Improvement guidelines.

At the time of writing this report, Armidale Dumaresq Council does not have any advice from its neighbouring Councils of Guyra, Uralla and /or Walcha that they believe their Council will support an option to merge.

As stated in this report, Armidale Dumaresq Council does have the scale and capacity to stand alone and if it undertakes a review of its core activities and reviews what and how it is to deliver goods and services, then it will be able to develop its budgets and programs to meet community expectations.

The Council Improvement Proposal (template 2) will require Council to develop a future financial, and community direction that is affordable and takes into account the limitations of residents to meet long term costs.

FOR ACTION

COUNCIL

27/04/2015

TO: General Manager (Glenn Wilcox)

Subject: Fit for the Future
Target Date: 11/05/2015
Notes:
File Reference A14/6487 INT/2015/03536

Moved Cr Beyersdorf Seconded Cr Richardson

- (a) That Council reaffirm its Option A decision of 23 February 2015 (resolution 23/15) as set out within the attachment); and
- (b) That Council submits an attachment to Option A which includes merging with Guyra and Uralla Shire Councils, subject to agreement of the boundary adjustments proposed by Glen Innes and Inverell Councils and that Walcha Council be supported in an application as a Rural Council; and
- (c) That Council work with Glen Innes Severn, Inverell and other adjoining Councils to establish future Council boundaries subject to communities of interest and to support the communities in transitioning to the enlarged Council areas; and
- (d) That if Armidale Dumaresq, Guyra, Uralla and Walcha councils (or any combination of these Councils) are merged that the new Council be named "New England Regional Council"; and
- (e) That should the State government not allow Walcha to be a Rural Council, then Council enter into negotiations with the Office of Local Government to determine long term funding arrangements for the Walcha Council area to meet asset maintenance and renewal requirements that will bring the community up to the regional asset standards; and
- (f) That the Office of Local Government guarantee the initial funding of \$11 to 13.5million is allocated to allow the preparation and submission of an implementation and integration plan for consideration based on three or more Councils; and
- (g) That the Office of Local Government provide grant funding opportunities to meet asset replacements and renewals that are unfunded in the Council areas and that this grant funding is provided through NSW Treasury annually to meet the ability of the regional Council to undertake such works or alternatively, that continuous funding of \$2million dollars is provided annually for a ten year period linked to road, and footpath asset renewal and repair to allow improvements and that additional funding be provided for bridge replacements or renewals based on an assessment between the Roads and Maritime Services and Council as a rolling program over twenty years; and
- (h) That Roads to Recovery (R2R) and Federal Assistance Grants (FAGs) are reviewed to ensure that the New England Regional Council is not disadvantaged by the merger of up to four Council areas and that additional direct funding is provided to meet long term asset improvements across the newly formed areas; and
- (i) That the Office of Local Government transfers the New England Weeds Authority to the Joint Organisation and removes its roles and functions from the merged Council entity and from the Local Government Act proclamations; and
- (j) That Council consult with the community on Fit for the Future.

The Motion on being put to the vote was CARRIED.

This action sheet has been automatically produced by InfoCouncil to advise you of the outcome at the Council Meeting. A copy of the resolution has been placed in Trim.

Item:	5.3	Ref: INT/2015/03536
Title:	Fit for the Future	Container: A14/6487
Author:	General Manager	
Attachments:	1. Action Sheet 5.4 Fit for the Future (Council - 23 February 2015)	

RECOMMENDATION:

- (a) That Council reaffirm its Option A decision of 23 February 2015 (resolution 23/15) as set out within the attachment); and**
- (b) That Council submit an Option B submission to merge with Guyra and Uralla Shire Councils subject to agreement of the boundary adjustments proposed by Glen Innes and Inverell Councils and that Walcha Council be supported in an application as a Rural Council; and**
- (c) That Council work with Glen Innes Severn, Inverell and other adjoining Councils to establish future Council boundaries subject to communities of interest and to support the communities in transitioning to the enlarged Council areas; and**
- (d) That if Armidale Dumaresq, Guyra, Uralla and Walcha councils (or any combination of these Councils) are merged that the new Council be named "New England Regional Council"; and**
- (e) That should the State government not allow Walcha to be a Rural Council, then Council enter into negotiations with the Office of Local Government to determine long term funding arrangements for the Walcha Council area to meet asset maintenance and renewal requirements that will bring the community up to the regional asset standards; and**
- (f) That the Office of Local Government guarantee the initial funding of \$11 to 13.5million is allocated to allow the preparation and submission of an implementation and integration plan for consideration based on three or more Councils; and**
- (g) That the Office of Local Government provide grant funding opportunities to meet asset replacements and renewals that are unfunded in the Council areas and that this grant funding is provided through NSW Treasury annually to meet the ability of the regional Council to undertake such works or alternatively, that continuous annual funding of \$2million dollars is provided annually for a ten year period linked to road, and footpath asset renewal and repair to allow improvements and that additional funding be provided for bridge replacements or renewals based on an assessment between the Roads and Maritime Services and Council as a rolling program over twenty years; and**
- (h) That Roads to Recovery (R2R) and Federal Assistance Grants (FAGs) are reviewed to ensure that the New England Regional Council is not disadvantaged by the merger of up to four Council areas and that additional direct funding is provided to meet long term asset improvements across the newly formed areas; and**

- (i) **That the Office of Local Government transfers the New England Weeds Authority to the Joint Organisation and removes its roles and functions from the merged Council entity and from the Local Government Act proclamations.**
-

Introduction:

In February 2015 the NSW Office of Local Government amended its decision to permit only one submission by each Council as to the Fit for the Future directions to allow Councils the right to submit more than one submission where it was considered that a merger of Councils should be considered but the Councils had not formally resolved to do this. The Independent Review Panels suggested option was for Armidale Dumaresq Council (ADC) and Guyra Shire Council (GSC) to merge immediately and that Uralla Shire Council (USC) and Walcha Council (WC) consider merging. It was also proposed in the final report that a New England JO (joint organisation) be formed over the four Councils. The Ipart review (September 2014) identified that Armidale Dumaresq, Guyra, Uralla and Walcha combine to form one Council with a population as at 2031 of 46,700 persons. At the time of writing this report, Guyra Shire has not advised Council of its decision for Fit for the Future, however the Councils of Uralla, Glen Innes Severn and Inverell have proposed to stand alone with Glen Innes Severn and Inverell proposing major boundary adjustments to acquire areas of Guyra Shire. Walcha Council has not formally advised of its intentions under Fit for the Future however they have indicated that they will look at a Rural Council model.

Report:

Council over the last few months has undertaken a review of the Fit for the Future Guidance material and internal staff reports to discuss the options placed before it from the NSW Office of Local Government and the Independent Review Panel recommendations. Council has considered a regional approach to mergers and considered the individual merger of Councils from a community of interest and a financial view. At the time of Councils last decision at its February 2015 meeting, advice had subsequently become available that allowed the Council to make two submissions on the Fit for the Future structures by the 30th June 2015. At that time Council resolved to submit a report based on the Council Improvement Program or stand alone option as the Councils adjoining Armidale Dumaresq had not resolved any direction therefore only allowing Council the stand alone option. Uralla Council in February resolved to also stand alone whilst Guyra had not resolved any action at the time of writing this report and Walcha has asked the public to complete a survey on the future of the shire by mid April. Uralla Shire Council has also submitted a survey on future directions and rating for public comment.

It is considered that from a regional perspective that the "Council Improvement Proposal (Existing Structure)" or the stand alone proposal is a retrograde step to be taking if the regional community is to develop and grow in population, business, industrial developments and social welfare.

It must also be noted that the stand alone recommendation as adopted does not support the fact that Armidale Dumaresq Council currently provides shared services to Guyra Council in the form of general governance, IT, financial areas, human resources and other advice. Armidale Dumaresq and Guyra Councils are one Council, in all but name, and operate as a regional Council. It would take very little change to bring staff and political structures together to form a cohesive intermediate regional Council entity. The resolutions of Glen Innes and Inverell

Councils to boundary adjust a large section of Guyra Shire Council out of the present area, to support their communities of interest, will ensure that Guyra Shire Council is even less sustainable into the future than its present situation. The merger of the remaining southern areas of Guyra Shire to Armidale Dumaresq Council and to support the communities of interest is a better long term outcome.

A second option being proposed by this report is to formally merge with Guyra, Uralla and Walcha, excluding the New England Weeds Authority (County Council) which may be formed under a Joint Organisation. It is important for the Council and the community to recognise its role as a regional centre, and to look towards the long term future of the region and not be reluctant to consider and discuss a long term merger across the region.

The option to also merge Uralla Council into a regional structure is not a clear cut as that of Guyra Council as Uralla is relatively more independent of shared services than that of Guyra. Uralla Council has recently asked its residents to complete a survey on Fit for the Future and asked questions about special rate variations (SRV) to meet the State Governments stand alone objectives. As shown in the attached comparative data tables, the three Council areas being considered to amalgamate will require large special rate variations to meet the long term asset needs and to stand alone. Armidale Dumaresq Council currently has a SRV in place.

The inclusion of Uralla in a second submission is based around the area of regional influence, the communities of interest and that residential areas of Uralla are being positioned around the Armidale Dumaresq boundaries but are not contributors to the rates, parks and gardens or the other economic hurdles that Armidale Dumaresq residents contribute towards. Although Uralla Shire has stated they can stand alone and possibly could work towards that outcome with an SRV, the long term outcome may see Uralla merging with Armidale into the future.

In considering Walcha as part of this report and that of workshops held with Council, it has been determined that unless the State Government undertakes boundary adjustments to break up Walcha and allocate the Walcha township to a merged Armidale Dumaresq, Guyra and Uralla Council area, that it would be a better outcome to support Walcha as a rural Council and to allow the merged areas of Armidale Dumaresq, Guyra and Uralla Council to support the rural Council by shared services, administration support and general assistance. The comparative information tables identify that a large expenditure of capital is required when the four Councils are merged and this will be beyond the capacity of the rate payers of this region to meet the increased service level needs and expectations.

The Office of Local Government has advised that the rural council model will no longer be legislated as it is difficult to fit all requirements of a rural council into a single piece of legislation. Councils such as Walcha can still submit proposal 3 however there is no information on how this will be assessed by the Independent panel looking at the submissions.

As this enlarged area is centred on the New England Region it would be consistent to identify it as New England Regional Council being similar to the Councils created around Grafton / Maclean (Clarence Valley Regional Council) and Mudgee (Mid Western Regional Council), that recognises the importance of the regional and social economy.

Many changes will occur across all Council areas and the community will need information to advise them of the implementation plans, the revision of community strategic planning, new

budget and financial outcomes and how the New England Regional Council will deliver a service to the standards currently experienced.

The option two proposals to merge for Armidale Dumaresq residents does run the risk that the new Council will need to reduce service delivery below that currently being discussed and re allocate funding to meet the asset and social renewal areas of the rural Councils. The new Council would require time and funding to work with TCorp to develop a plan and funding outcome to offset the cost to be incurred by the merger with Councils such as Walcha and Guyra that are in a poor and declining financial position. If accepted, then annual funding would need to be continued by the state government to allow current service levels in Armidale Dumaresq Council area to remain at a high level and support the Council areas that need greater asset expenditure. By adopting this recommendation, there is no guarantee that current or future state governments will honour this request. It is considered at this stage that Council make a second submission only on the merging of Guyra and Uralla Shire Councils and support Walcha in any application to form a rural Council.

If the New England Region is to grow and develop then local government is required to change to meet our changing social, technologic and business needs. If Councils remain as they are today, then Armidale Dumaresq residents will continue to subsidise the growing urban areas around the Council boundaries and the demands for services that are escalating and reducing the Council's ability to fund the goods and service areas that the Council community require. Change will be unsettling for some; however the majority of residents across the New England Region will be able to adjust to this change.

Financial Implications:

The attached tables highlight the publically available comparative data as reported to the Office of Local Government. The tables have been developed to reflect the reported costs and full research as to true and accurate reporting of asset depreciation, asset plans and other long term financial indicators has not been undertaken.

A due diligence review of financial statements is required to be undertaken to determine real costs, debts and asset backlogs.

The following data is based on the final audited accounts as at the 30 June 2014.

Net operating result

Note 21. Income Statement By Fund	Armidale Dumaresq Council 2014	Guyra Shire Council 2014	Uralla Shire Council 2014	Walcha Council 2014	NERC
	\$ '000	\$ '000	\$ '000	\$ '000	
Water	1,937	303	68	-130	2,178
Sewer	1,842	41	-43	77	1,917
General	-5,320	-1,309	582	41	-6,006
Total:	-1,541	-965	607	-12	-1,911

Income, including capital grants

Note 21. Income Statement By Fund - General - Continuing Operations (General)	Armidale Dumaresq Council 2014	Guyra Shire Council 2014	Uralla Shire Council 2014	Walcha Council 2014	NERC
	\$ '000	\$ '000	\$ '000	\$ '000	
Income from Continuing Operations (General)	32,882	9,551	16,978	9,896	69,307

Income including grants (per ratepayer)

Rank	Council	per Rateable Property \$	Rateable Properties
1	Walcha Council	1,914.74	1,818
2	Uralla Shire Council	1,467.40	2,914
3	Armidale Dumaresq Council	1,466.24	10,250
4	Guyra Shire Council	1,191.59	2,427
	NERC	1474.98	17,409

**Revenue streams***

Note 21. Income Statement By Fund - General - Continuing Operations (General) - Income from Continuing Operations (General) - Income from Continuing Operations (General)	Armidale Dumaresq Council 2014	Guyra Shire Council 2014	Uralla Shire Council 2014	Walcha Council 2014
	\$ '000	\$ '000	\$ '000	\$ '000
Rates & Annual Charges	15,029	2,892	4,276	3,481
User Charges & Fees	8,580	661	4,714	2,241
Interest & Investment Revenue	1,102	55	204	95
Other Revenues	1,538	828	716	233
Grants & Contributions provided for Operating Purposes	5,132	2,647	5,403	2,766
Grants & Contributions provided for Capital Purposes	1,552	1,511	1,588	1,015
Total:	32,933	8,594	16,901	9,831

*As a percentage of the total income, USC, GSC, and WC rely heavily on recurrent grants for ordinary operations.

As part of the Fit for the Future a Council must achieve a long term sustainable position where it is meeting the required level of maintenance and renewals. Currently GSC and WC are well short of this position and do not have enough capacity in the remaining organisation to meet this target. In any merged organisation USC and ADC ratepayer will need to pick up this funding short fall.

Asset maintenance ratio

Special Schedule No. 7 - Report on Infrastructure Assets - Ratios - Asset Maintenance Ratio	Armidale Dumaresq Council 2014	Guyra Shire Council 2014	Uralla Shire Council 2014	Walcha Council 2014
	Ratio:1	Ratio:1	Ratio:1	Ratio:1
Asset Maintenance Ratio	1.17	0.36	1	0.69
Actual Asset Maintenance	10,508.00	999	2,503.00	2,379.00
Required Asset Maintenance	8,966.00	2,782.00	2,501.00	3,441.00
Maintenance Shortfall		1,783.00		1,062.00

Asset maintenance ratio - ranking

Rank Asset Maintenance	Council	Absolute	Variance
		Ratio:1	Ratio:1
1	Armidale Dumaresq Council	1.17	0
2	Uralla Shire Council	1	-0.17
3	Walcha Council	0.69	-0.48
4	Guyra Shire Council	0.36	-0.81

Asset Maintenance as a percentage of road length

Council	per KM Road	Variance	Local Roads KM
	\$	\$	
Uralla Shire Council	1.22	0.07	817
Armidale Dumaresq Council	1.15	0	1,019
Walcha Council	0.86	-0.29	806
Guyra Shire Council	0.43	-0.72	842

In each Council there is an asset back log which will need a period of plus 100% renewal ratio. Roads makes up the majority of the asset back log in general fund. The following table represents the current roads assets.

Current road assets

Special Schedule No. 7 - Report on Infrastructure Assets - Asset Values - Roads	Estimated cost to bring up to a satisfactory standard				Required annual maintenance			
	Armidale Dumaresq Council 2014	Guyra Shire Council 2014	Uralla Shire Council 2014	Walcha Council 2014	Armidale Dumaresq Council 2014	Guyra Shire Council 2014	Uralla Shire Council 2014	Walcha Council 2014
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Sealed Roads Surface	1,057	9,633	0	1,045	519	887	0	500
Sealed Roads Structure	2,937	0	2,500	8,500	1,020	0	1,121	690
Unsealed Roads	2,994	1,983	900	2,000	1,005	728	717	1,600
Bridges	510	1,400	3,600	7,000	262	37	155	237
Footpaths	750	350	70	200	107	17	14	25
Cycle ways	120	0	0	0	38	0	0	0
Kerb and Gutter	942	350	60	500	52	8	14	12
Other	170	0	0	0	0	0	0	0
Road Furniture	0	10	0	0	0	41	0	0
Total:	9,480	13,726	7,130	19,245	3,003	1,718	2,021	3,064
Road Length	1019	842	817	817				

The ratepayer burden associated with the above situation is shown in the table below.

Ratepayer burden

Rank	Council	Per Rateable Property	Rateable Properties
		\$	
1	Walcha Council	233,158.97	1,818
2	Guyra Shire Council	120,320.56	2,427
3	Uralla Shire Council	104,289.98	2,914
4	Armidale Dumaresq Council	71,313.85	10,250

Environmental Implications:

It is considered that these areas require review to assess water, sewerage, drainage and environmental indicators, costs and long term expenditure needs. No assessment is able to be undertaken as access to individual financial, asset and strategic information is not available.

Policy Issues:

All policies and procedures will require review as required under the Acts and Regulations.

Social Implications:

As indicated in the body of the report a social impact will occur but to many people they will see very little change in deliverable services. A general service level reduction will be required at all Councils regardless of a potential merger to bring the Councils budgets back to core service levels and to meet asset backlogs. The merging of Armidale Dumaresq, Guyra and Uralla Council areas will see a slight offset in costs attributed to social and cultural service areas by a larger rate base. The merging of Councils will also support some retention of service areas regionally in the areas of community services, aged services and youth service areas. It is considered that rationalisation will be required in this sector due to competition for service delivery but a strong Council community services area could develop for the region.

A general risk exists in that over time social, employment and influential changes will occur in the villages as a reduced local government presence will reduce direct income support and change the commercial environment of the villages. This is evident in other areas that have amalgamated. As the villages of Uralla and Guyra are located very close to Armidale, the new Council should ensure that master planning is undertaken to encourage residential growth, business development and tourism opportunities to help offset the reduced local government presence. This will be a key challenge to induce local support for a new Council over a long period of time.

As stated a risk to Armidale Dumaresq ratepayers exists as they will see service level reductions in areas as additional funding will be allocated to the shire Council areas to help offset asset renewal and repair costs. This will be above that currently being considered by Armidale Dumaresq Councillors to bring its budget back towards one that funds asset depreciation and core services.

Integrated Planning and Reporting Issues:

The Integrated Planning and Reporting documents will require rewriting with the community and will need to address service level needs and ensuring that the communities develop and grow within the funding available.

Risk Management Issues:

The NSW State Government has taken a position that reform of local government is required. The stand alone or merged options come with risk and these risks will be addressed based on the governments final decision.

Legal Issues:

The main legal issue in a merger is to establish the implementation process and to ensure that the company structure is supportive of the policies, the finances and the service delivery needs of the merged community. To commence this process a new name has been proposed to allow the corporate side of the Councils to establish tax and financial needs.

Review of criteria for fit for the future

Local Government — Final Report
September 2014



Independent Pricing and Regulatory Tribunal

Review of criteria for fit for the future

Local Government — Final Report
September 2014

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1 Executive Summary

The Premier requested the Independent Pricing and Regulatory Tribunal (IPART), under Section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act), to review the assessment criteria for 'fit for the future' councils.

In 2013, the Independent Local Government Review Panel (Review Panel) made a number of recommendations to reform the local government system in NSW. The Review Panel found that there are an unsustainably high number of councils in NSW and that many are financially unsustainable.¹

The NSW Government has decided to reform local government by creating councils that are strategic and 'fit for the future'.

Under the proposed reforms councils are to submit a 'fit for the future' proposal by 30 June 2015 to the Office of Local Government (OLG), for assessment by an expert panel. The expert panel would assess the proposals against sufficiently flexible assessment criteria consistent with the definition of a strategic, 'fit for the future' council.

OLG developed draft criteria and provided them to us on 22 August 2014. We were asked to assess the criteria and report to the Minister for Local Government and the Premier by Wednesday 3 September 2014.

This report presents our assessment of the criteria.

1.1 What have we been asked to do?

The NSW Government has asked us to review the criteria that OLG has developed. The Terms of Reference for the review are presented in Appendix A.

In conducting this review, we are to:

- ▼ review the 'fit for the future' criteria and assess whether the criteria will contribute to meeting the NSW Government's stated objectives of local government reform

¹ NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, p 72.

- ▼ identify the likely outcomes of each of the criterion
- ▼ recommend amendments to the criteria to better meet the NSW Government's stated objectives of local government reform.

OLG provided us with the Government's objective of local government reform and draft criteria (see Appendix B). The objective of local government reform is to:

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and 'strategic capacity' to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel's recommendations.²

The four draft criteria are:

- ▼ Financial sustainability.
- ▼ Effective infrastructure and service management.
- ▼ Efficiency.
- ▼ Scale and capacity.

The proposed reforms, including reducing the number of local governments, are aimed at building a stronger, more effective and financially sustainable local government sector. Once achieved, the Review Panel expects local government in NSW will be able to meet the needs of the local community and will have greater capacity to govern effectively and partner with government and business.

1.2 What have we found?

In our view, scale and capacity is a threshold issue. OLG's proposed Scale and Capacity criterion is based on the Review Panel's framework for restructuring the local government sector. OLG has not further developed this criterion. We support the Review Panel's framework for mergers, rural councils and the formation of regional organisations. We agree that, over time, the resulting larger, stronger councils will be able to better and more efficiently deliver services to their ratepayers.

Therefore, we recommend that councils should consider whether they have enough scale and strategic capacity before considering whether they meet the other 3 criteria namely, are financially sustainable, have effective infrastructure and service management and are efficient. We discuss this issue further in section 3.2.

Practically, we recommend that the criteria be assessed as follows:

² See Appendix B.

- ▼ Councils which are expected to change structures should provide their plan for change by June 2015. These councils would not have to show how they will meet the other criteria until after they have merged.
- ▼ Councils for which the Review Panel recommended no change (ie, they are not expected to merge or form a Joint Organisation) should provide their plan to show how they will meet the other criteria by June 2015.

In relation to the remaining criteria:

- ▼ For OLG's proposed Financial Sustainability and Effective Infrastructure and Service Management measures we are generally satisfied that they will contribute to meeting the Government's objective of reform. However, we have proposed a number of amendments to the benchmarks and have proposed an additional measure for Effective Infrastructure and Service Delivery – the Debt Service Ratio.
- ▼ Efficiency is a measure of the ability of an organisation to effectively use its inputs to produce outputs. In the strict sense, measuring efficiency requires data on the number and price of inputs and outputs. For a service industry such as local government, it is difficult to measure the price of outputs as many are not traded. The measures typically used, including the one proposed by OLG, are measures of cost effectiveness not efficiency.

We note that the four criteria reflect what the Review Panel considered to be the essential elements of an effective system of local government. We consider that if councils meet these four criteria they would be able to govern effectively, and have the capacity to both partner with the State and reduce red tape and bureaucracy for business.

Table 1.1 summarises our assessment of the four criteria that OLG has developed. Our detailed assessment is provided in chapter 4 of this report.

Table 1.1 Summary of IPART's assessment of the criteria

OLG Criteria and measures	OLG Benchmark	IPART Recommendation	Comment
Scale and strategic capacity			
	Has a scale and capacity consistent with the recommendations of the Independent Panel.	Endorse criteria	Note that councils should be assessed on this criterion before being assessed on the other criteria.
Financial Sustainability			
Operating performance ratio	An operating surplus or better (in each year).	A target range of between an operating deficit of 3% and an operating surplus of 10% of operating revenues, averaged over 3 years.	We suggest the benchmark be revised to provide a level of flexibility for small deficits with an upper cap for operating surpluses and a reasonable period for accomplishment.
Own-source operating revenue ratio	Greater than 60% of operating revenue averaged over a 3 year period.	Refer to this measure as the 'Own-source Revenue ratio'. The definition of the Own Source Revenue should be rates and annual charges plus user fees and charges divided by total operating revenue, including capital grants and contributions and include user fees and charges. It should exclude councils' water and sewerage functions.	This ratio should be renamed to reflect that own-source revenue is compared to both capital and operating revenue, and not solely the latter. This measure is highly sensitive to trends in capital grants and contributions.
Building and Infrastructure Asset Renewal ratio			
	A renewal ratio benchmark of greater than 100% (in each year) is proposed.	A renewal ratio benchmark of greater than 100%, averaged over 3 years.	We suggest the benchmark be revised to allow councils a reasonable period to meet the criteria and to be responsiveness to emerging expenditure trends.

OLG Criteria and measures	OLG Benchmark	IPART Recommendation	Comment
Effective Infrastructure and service management			
Infrastructure Backlog ratio	Less than 2% over 3 years.	The Infrastructure backlog ratio should be adopted only if it is audited. Otherwise it should be replaced with Asset Renewals ratio. Less than 2% over 3 years; otherwise councils must show they are moving towards to a ratio of less than 2%. Endorse the measure Asset maintenance ratio. Greater than 1 (ie, council funds all maintenance requirements).	Lack of audited data for this measure means this measure is not robust unless accompanied by consistent reporting requirements for all councils.
Asset maintenance ratio	Greater than 1.		
Debt service ratio		Introduce a new measure - Debt service ratio of greater than 0% and less than or equal to 20%.	Adding this measure ensures that councils use a combination of council resources and borrowings to fund infrastructure.
Efficiency			
Real Opex per head	Trends in real operational expenditure per head.	Adopt OLG measure, be explicit that the deflator is the LGCI. Real opex per head should be either constant or declining for the same level of service. Councils will fail to meet this benchmark if opex per head is increasing and cannot be explained by increases in service levels.	It is very difficult to measure efficiency in local government. We endorse opex per head as a measure, even though it is a measure of cost-effectiveness. It is not practical to compare across councils on the measure because they may offer different services eg. child care, water and sewerage. Service levels should reflect community priorities and be defined in councils' IP&R documentation such as the Community Strategic Plan, Delivery Program and Asset Management Plan.

Source: IPART analysis.

1.3 Recommendations

Our recommendations are listed below in the order in which they are discussed in this report.

Recommendations

- 1 That the Government refer the assessment of councils' against the fit for the future criteria to an independent body. 13
- 2 That councils be assessed as being fit for the future if they meet the majority of the benchmarks for the measures in each of the four criteria. 13
- 3 IPART recommends that the criterion Scale and Capacity be a threshold criterion that should be assessed before the other criteria. 15
- 4 IPART recommends: 15
 - That councils for which the Review Panel recommended neither merging nor forming a rural council should submit their plan addressing the other criteria by 30 June 2015. 15
 - That councils for which the Review Panel recommended either merging or forming a rural council should provide their plan for change by 30 June 2015. The newly formed organisation would then submit their plan addressing the other criteria.. 15
- 5 IPART recommends that the Government conduct state-wide community satisfaction surveys annually as an additional measure of effectiveness of service delivery. The results be published and available for each council in NSW. 16
- 6 IPART recommends that the NSW Government adopt the benchmark for the Scale and Capacity criterion that councils have the scale and capacity consistent with the recommendations of the Review Panel. 21
- 7 IPART recommends adoption of the measure Operating Performance Ratio with the benchmark being amended to a range between an operating deficit of 3% and an operating surplus of 10% of operating revenues. This measure should be averaged over 3 years. 25
- 8 IPART recommends that the definition of the Own Source Revenue Ratio be amended to rates and annual charges plus user fees and charges divided by total operating revenue, including capital grants and contributions. 27
- 9 IPART recommends that the benchmark for the Assets Renewal Ratio be revised to a renewal ratio of greater than 100%, averaged over three years. 29

10	IPART recommends that:	33
	– The Infrastructure Backlog Ratio should be subject to adoption of a clear reporting standard for Special Schedule 7 is established and that this data is audited as part of councils' accounts.	33
	– Councils should demonstrate an Infrastructure Backlog Ratio of less than 2% averaged over three years or improving trends for this ratio.	33
11	IPART recommends that the Government adopts the proposed measure of Asset Maintenance Ratio.	33
12	IPART recommends that the Debt Service Ratio:	36
	– Be included for the criterion Effective Infrastructure and Service Management.	36
	– Have a benchmark of greater than 0% and equal or less than 20% of operating revenue excluding capital grants and contributions, but the decision for a council to take on debt would depend on the council's individual circumstances.	36
13	That the benchmark for the criterion Efficiency be a downward trend in 'real operational expenditure per capita', based on a decrease in the rolling average over the last three years, unless:	41
	– The council can demonstrate the impact on operational expenses resulting from a need for an increase in service levels in line with community priorities through the Integrated Reporting and Planning process.	41
14	That to calculate 'real operational expenditure per capita', operational expenditure be deflated by the Local Government Cost Index.	41

What does the rest of this report cover?

The rest of this report sets out our analysis of the criteria and the implementation of the framework

- ▼ Section 2 discusses the Government's stated objectives of local government reform and the context within which we have made our assessment
- ▼ Section 3 discusses implementation arrangements
- ▼ Section 4 assesses each of the criteria, identifies likely outcomes and recommends amendments to the criteria.

2 | Policy objective of local government reform

In response to the Review Panel's recommendations,³ the NSW Government is undertaking a significant local government reform agenda. OLG advised us that the Government's objective for reform is to:

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and 'strategic capacity' to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel's recommendations.⁴

The Government has requested that IPART undertake a review of the 'fit for the future' criteria developed by OLG. As stated above, our terms of reference require us to assess whether each criterion will contribute to meeting the Government's stated objectives of local government reform, identify the likely outcomes of each criterion and recommend amendments to better meet the stated objectives.⁵

The Government's approach to local government reform is based on the findings and recommendations of the Review Panel. We have therefore developed the context of our assessment from the Panel's final report.⁶ We have drawn the meaning of key terms and the discussion of 'fit for the future' from the Review Panel findings, but also relied on our own experience with, and current role in regulating, local government.

The Review Panel noted that its recommendations were based on 12 key themes related to local government. Box 2.1 lists those themes or objectives we consider most relevant to our review. In assessing the 'fit for the future' criteria we considered how well the criteria meet these objectives.

³ In April 2012, the Independent Local Government Review Panel was appointed by the NSW Government to formulate options for a stronger and more effective system of local government. The Review Panel's recommendations are contained in its report: *Revitalising Local Government*, Final Report, October 2013.

⁴ See Appendix B.

⁵ See Appendix A for the full Terms of Reference.

⁶ NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013.

Box 2.1 Selected key themes from the Review Panel Report

- ▼ The overarching imperative to ensure the long-term sustainability and effectiveness of NSW local government.
- ▼ The policy focus on strengthening 'strategic capacity'- ensuring the right structures, governance models, skills and resources to discharge its responsibilities and realise its potential.
- ▼ Tackling the underlying problems of financial weakness and infrastructure backlogs.
- ▼ Measures to promote greater 'fiscal responsibility' and make associated improvements to local government's efficiency, accountability and political governance.
- ▼ Stronger regional organisations are vital to ensure increased resource sharing and joint planning, and to support vulnerable rural-remote councils.
- ▼ Structural reform – including council amalgamations – is another component of reform, notably in metropolitan Sydney.

Source: NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, p 15.

2.1 Strategic capacity

The Review Panel observed that building a sustainable system of local government requires 'strategic capacity'– both within individual councils and collectively.

It noted that the concept of strategic capacity highlighted:⁷

...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. This implies 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.

The key elements of strategic capacity, as identified by the Review Panel, are outlined in Box 2.2.

OLG expects that sustained improvement against each of its proposed criteria, discussed in Chapter 3, will underpin the strategic capacity of councils over the long term. This capacity, along with a willingness and commitment to collaborate with government, communities and industry stakeholders, will create 'fit for the future' councils.⁸

⁷ Ibid, p 32.

⁸ Office of Local Government, Draft Criteria. See Appendix B.

Box 2.2 Key Elements of Strategic Capacity

- ▼ More robust revenue base.
- ▼ 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: NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, p 32.

2.2 Structural reform of local government

The Review Panel considered the research undertaken by the Australian Centre of Excellence for Local Government⁹ and observed that strategic capacity can be increased by creating larger units of local government and through regional collaboration and resource sharing. Any move to larger organisations implies structural change. The Review Panel considered two central issues related to structural reform in local government:¹⁰

- ▼ The need for increased scale and capacity to enable councils to remain sustainable, provide adequate services, and be valued partners in the system of government.
- ▼ 'Keeping the local' in local government so that community identity and local democracy are maintained.

The Review Panel recommended additional options for local government structures to accommodate the different needs of communities and regions. It concluded that amalgamations and boundary changes would be an essential element of structural reform, but did not advocate a 'one-size-fits-all' policy. The expanded set of local government structures are shown in Box 2.3.

The Review Panel has indicated that the recommended changes will lead to a reduction in the number of local government areas. It observed that the number of councils in NSW has halved during the past century and expects this trend will continue. It notes:

⁹ Australian Centre of Excellence, *Consolidation in Local Government: A Fresh Look*, May 2011.

¹⁰ Ibid, p 71

NSW simply cannot sustain 152 councils; many are highly dependent on grant support; fiscal imperatives demand efficiencies in government across the board; and there are shortages of highly-skilled personnel. The shortage of engineers, for example, is a significant factor limiting the capacity of councils to deal with infrastructure backlogs.

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. Mergers should be pursued where they can make a substantial contribution to addressing financial problems, reducing fragmentation of resources and duplication of effort, and building strategic capacity for the long term. Capacity should be *further* enhanced through regional collaboration via the new Joint Organisations.¹¹

Under the Government's proposed reforms councils will be required to submit a proposal to demonstrate how they will meet the 'fit for the future' criteria by June 2015.

Box 2.3 Expanded set of local government structures

- ▼ Regional 'Joint Organisations' – statutory groupings of local councils established under the LGA that undertake a range of 'high-level' functions on behalf of their members (the mix of functions can vary from region to region)
- ▼ Local councils operating along very similar lines to the current provision of the Act, except for the referral of some regional functions to the new Joint Organisations
- ▼ 'Rural Councils' – a somewhat different type of local council, working as part of a Joint Organisation, and with reduced legislative and compliance responsibilities and a lower cost base more appropriate to rural-remote areas with small populations
- ▼ 'Community Boards' – elected or appointed sub-council organisations that can carry out a range of representational, planning and service delivery functions delegated by the council.

Source: NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, p 71.

¹¹ Ibid, pp 7 and 72.

3 | Implementing the framework

The proposed reforms, including reducing the number of local governments, are aimed at building a stronger, more effective and financially sustainable local government sector. Once achieved, the Review Panel expects local government in NSW will be able to meet the needs of the local community and will have greater capacity to govern effectively and partner with government and business.

Having determined the need for, and nature of the reform, the government needs to put in place a framework that will provide incentives for councils to comply. Although not part of our terms of reference, IPART has considered how this could be achieved.

This section discusses the framework for reform: including how councils will meet the criteria; establishing incentives to reform; and the timeframe for reform.

3.1 Framework for reform

The Government's framework for strategic reform aims to ensure that all councils are 'fit for the future'. This framework, once implemented, is likely to result in fewer, but larger, metropolitan councils and new structures (eg, more formal regional organisations) in regional areas.

We suggest that progress towards the new framework should be undertaken in two stages.

Firstly, councils need to determine whether they are of a scale sufficient to enable them to meet the needs of the local community and have the strategic capacity to partner with the State to deliver strategic priorities. In determining this, councils should have regard to the Review Panel's guidance on which councils within the metropolitan area should merge¹² and other structural recommendations for councils across the state.¹³

¹² NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, Table 8 Merger and boundary change options for Sydney metropolitan councils, pp 104-107 (Reproduced at Appendix C) and Table 6 Options for amalgamating around regional centres, pp 91-92. (Reproduced at Appendix D)

¹³ *Ibid*, Table 11 Options for non-metropolitan councils, pp 114-116. (Reproduced at Appendix D)

IPART recommends that councils make this assessment before considering the other criteria. This will allow councils to develop their plans for becoming 'fit for the future' under their new organisational arrangements, rather than developing financial plans and delivery programs that are superseded by organisational change.

Secondly, they would need to assess whether the council, or merged councils, could satisfy the remaining criteria, either independently or as part of a merged or joint organisation. That is, they would need to demonstrate that the council could be financially sustainable, manage infrastructure and services effectively and be efficient in accordance with the criteria discussed in Section 4 of this report.

The assessment of council (or joint organisation) proposals should be undertaken by an independent body and should allow for discretion around whether the proposal meets the criteria as discussed in the next section. IPART considers that it is well placed to assess each council's proposals against the criteria.

Recommendation

- 1 That the Government refer the assessment of councils' against the fit for the future criteria to an independent body.

3.2 Meeting the criteria

OLG defines a 'fit for the future' council as one that meets all of the criteria benchmarks. This implies that if a council fails on any individual benchmark it would fail the entire test.

IPART considers that the assessment of whether councils are 'fit for the future' should not be so rigid that failing one of many benchmarks would mean an automatic fail of the whole test. This is because a council may meet the objectives of the Government to be strategic and 'fit for the future' even though it does not meet all of the benchmarks.

IPART suggests an approach whereby a council can demonstrate that it is 'fit for the future' if it is able to show that it meets the majority of the benchmarks in all of the criteria. This would be a simple analysis of each criterion and if the council achieves the benchmark on the majority of the measures, they pass that criterion. We recognise that the criteria are mandatory.

Recommendation

- 2 That councils be assessed as being fit for the future if they meet the majority of the benchmarks for the measures in each of the four criteria.

3.3 Establishing incentives for reform

Amalgamating two or more local councils is a difficult undertaking which takes time. From an operational perspective, the key to successful local government reform will be to develop and apply a robust, simple and effective framework that encourages councils to embrace the reform.

However, many councils may resist the need for reform. It should be made clear to councils that change is necessary and that 'no change' is not an option. Therefore, the government may wish to contemplate incentives for councils to reform and sanctions in the event councils choose to take no action.

As well, throughout the process, councils need strong guidance and support to meet the challenges of reform.

3.4 Timeframe for reform

The terms of reference state that councils will be required to submit a 'fit for the future' proposal to OLG by 30 June 2015. This implies that the Government expects councils to be able to demonstrate that they will be 'fit for the future' by then.

We consider that being of the right scale and having strategic capacity are threshold issues for councils to be 'fit for the future'. Councils should establish their new organisational structures before addressing the other criteria of being financially sustainable, having effective infrastructure and service management and being efficient. Therefore, what a council has to provide by 30 June 2015 should depend on whether or not they are expected to change its organisational structure:

- ▼ Councils, for which the Review Panel recommended that they change structures (ie merge or form a rural council), should provide their plan for change by that date. These councils would not have to show how they will address the other criteria until after they have formed the new organisation.
- ▼ Councils, for which the Review Panel recommended no change (ie, they are not expected to merge or form a rural council), should provide their plan to show how they will address the other criteria by that date.

IPART considers that this process should not be rushed. IPART is mindful that councils should have sufficient time to develop their plans and to be in a position to become 'fit for the future'.

We note that councils, whether they are to merge or not, will not be able to achieve the benchmarks for each criteria immediately. To account for this, the criteria need to allow some flexibility and a transition period. This enables, merging councils to consolidate their infrastructure and agree on a future path for reducing infrastructure backlogs consistent with the objectives of the new

expanded council. The combined resources of the larger area support the ability of the council to raise a larger amount of council funds and larger amount of debt in order to fulfil these objectives. The 'fit for the future' framework should be consistent with allowing councils to increase capacity whilst at the same time moving towards these benchmarks.

Recommendation

- 3 IPART recommends that the criterion Scale and Capacity be a threshold criterion that should be assessed before the other criteria.
- 4 IPART recommends:
 - That councils for which the Review Panel recommended neither merging nor forming a rural council should submit their plan addressing the other criteria by 30 June 2015.
 - That councils for which the Review Panel recommended either merging or forming a rural council should provide their plan for change by 30 June 2015. The newly formed organisation would then submit their plan addressing the other criteria..

3.5 Assessing effective service delivery

The current list of measures does not assess effective service delivery. Given the role of councils in providing agreed levels of services to their community, a regular community satisfaction survey concerning infrastructure and service delivery would provide an ongoing measure of the council's success in terms of the Government's stated objectives.

Surveys which cover the qualitative assessment of councils' infrastructure and service delivery to their communities are important for measuring councils' track record in meeting the agreed levels of service identified through their IP&R process. Without such a measure, the criteria lack a consistent measure with which to gauge the effectiveness of service delivery. Community satisfaction surveys have been utilised amongst several NSW councils as well as across Victorian local government. We propose that a similar model could be implemented in NSW.

A community satisfaction survey would be able to measure the following elements of the criteria which are not addressed by the proposed measures, ie whether:

- ▼ service delivery unit costs represent value for money to the community
- ▼ infrastructure and service delivery meet the needs of communities as identified in the Integrated Planning & Reporting process
- ▼ the council has a successful track record in prioritizing resources, delivering infrastructure and operational programs and projects on time and to budget.

As is currently the case in Victoria, the survey should be administered by the State Government to ensure consistency across the State.

Community feedback is difficult to quantify, however the model used by the Victorian Department of Infrastructure and Services applies satisfaction ratings to each segment of local government services and generates an overall index for each council and council area.

Through this process, councils are able to assess their strengths and weaknesses in relation to their service delivery for their community. This ensures councils are able to work towards improving and maintaining their strength in key areas, based on the community response. This ensures a more robust democratic process and an important level of transparency in community consultation.

This implies that a 'fit for the future' council is one which is actively engaged in measuring its service effectiveness for its community. The public reporting process of results for councils across the State may act as a strong incentive for councils to continue improving their satisfaction ratings.

Recommendation

- 5 IPART recommends that the Government conduct state-wide community satisfaction surveys annually as an additional measure of effectiveness of service delivery. The results be published and available for each council in NSW.

4 Assessment of criteria

OLG provided us with four draft criteria to review:

- ▼ scale and capacity
- ▼ financial sustainability
- ▼ effective infrastructure and service management
- ▼ efficiency.

We have assessed these criteria and the measures for assessing them against the stated objective of reform discussed in the previous section.

We have identified the likely outcomes of each criterion and, where appropriate, recommended amendments to the criteria.

4.1 IPART approach

As noted in Section 1.2, in our view, Scale and Capacity is a threshold issue and therefore the first criterion that council proposals should address. We have recommended a 2-stage approach to the 'fit for the future' agenda.

The Review Panel has explicitly recommended a number of mergers and better collaboration amongst rural councils, through the establishment of Joint Organisations, to address the issues of scale and strategic capacity.¹⁴

Councils should identify as a first step, how they can implement the changes consistent with the Review Panel's recommended mergers and restructures, where applicable. Following this, councils should assess if they are 'fit for the future' against the other criteria.

In the following sections we provide further detail on our assessment of each criterion, its definition, measures and benchmarks and our suggested 2-stage implementation approach to the 'fit for the future' reform agenda.

¹⁴ NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, pp 104-109, 114-122.

4.2 Criterion - Scale and Capacity

Ensuring that councils have the right scale, resources and strategic capacity will enable them to govern effectively and partner with the State to provide better services and reduce red tape and bureaucracy for business.

4.2.1 OLG criteria

OLG has proposed that the criterion Scale and Capacity should be measured by councils having the scale and capacity broadly in line with the recommendations of the Review Panel. This means that councils would need to adopt the recommendations of the Review Panel to merge or enter into other arrangements with surrounding councils.

4.2.2 IPART comments on the criterion

We agree with this approach. We note that the Review Panel concluded that "creating a sustainable system that can cope with the challenges of a changing world must involve some reduction in the number of local government areas."¹⁵ The Review panel concluded that 34 councils in Greater Sydney (including Gosford/Wyong), Newcastle and Illawarra did not have sufficient scale. Further, the Review Panel concluded that 50 rural and regional councils did not have sufficient scale.

We recognise that the success of the approach depends on the extent to which councils voluntarily merge or enter into arrangements with their neighbours.

The Review Panel's approach recognises that one size does not fit all situations. Therefore, the Review Panel developed the following hierarchy:

- ▼ Sydney Metro councils – merge or stand alone. The Review Panel recommended council mergers to create 18 councils in metropolitan Sydney and the merger of Gosford and Wyong Councils, and of Newcastle and Lake Macquarie Councils.
- ▼ Regional centres – establish larger regional centres beyond Greater Sydney by merging some councils that are around a regional centre. This would establish a network of regional centres with the scale and capacity to drive growth in regional NSW, facilitate the exchange of information and strengthen liaison with key State and Federal agencies.
- ▼ Rural councils – retain local councils. Councils would refer select regional functions to Joint Organisations. The core functions of Joint Organisations are listed in Box 4.1.

¹⁵ Ibid, p 72.

Box 4.1 Proposed core functions of joint organisations

- ▼ Strategic regional and sub-regional planning.
- ▼ Inter-government relations and regional advocacy.
- ▼ Information and technical exchanges between member councils.
- ▼ Activities of existing County Councils.
- ▼ Regional alliances of local government water utilities.
- ▼ Road network planning and major projects (through Regional Roads Groups).
- ▼ Collaboration with State and federal agencies in infrastructure and service provision.
- ▼ Strategic procurement (which can also include accessing state-wide contracts and arrangements).
- ▼ Other joint activities specified in the proclamation, such as major infrastructure projects, regional waste and environmental management (including weeds and floodplain management), regional economic development, regional library services and 'high level' corporate services or 'back office' functions.

Source: NSW Independent Local Government Review Panel, *Revitalising Local Government*, Final Report, October 2013, p 83.

IPART notes that the Review Panel did extensive research into the approach for establishing the councils with the right scale and strategic capacity before preparing its final report. Using a number of criteria (see Box 4.2) the Review Panel proposed strategies for each council to ensure that it is able to have the correct scale and strategic capacity.

The Review Panel emphasised that focusing on scale would ensure:

- ▼ Greater capacity to leverage operational and administrative efficiencies, thereby improving service delivery and the potential to sustainably fund infrastructure renewal.
- ▼ Improved execution of projects and initiatives that span across councils.
- ▼ Greater capacity to mobilise resources to engage with stakeholders, including communities, across councils, across government and with industry.

However, merging a number of financially unsustainable councils will do little more than produce a larger financially unsustainable council. This new larger council will need to take additional action to become financially sustainable. IPART acknowledges that this will take time.

Box 4.2 Criteria for determining future local government boundaries

▼ Sustainability and Strategic Capacity

Councils need a strong base to ensure their long-term sustainability; to achieve economies of scale and scope; to deliver quality services; to provide a pool of talented councillor candidates; to attract skilled staff; and to develop strategic capacity in governance, advocacy, planning, and management.

▼ Efficiency and Effectiveness

Councils should be able to operate efficiently and effectively within the limits imposed by their location, geography and the characteristics of the communities they serve. They should be able to provide 'value for money' to their ratepayers and external funding agencies.

▼ Integrated Planning

Local government area (LGA) boundaries should not unnecessarily divide areas with strong economic and social inter-relationships; they should facilitate integrated planning, coordinated service delivery, and regional development.

▼ Local Identity and Sense of Place

Consistent with the need for integrated planning, boundaries should reflect a sense of identity and place, including important historical and traditional values. (However, other mechanisms available to maintain local identity should be taken into account.)

▼ Population Growth

The boundaries of a LGA should be able to accommodate projected population growth generated by the LGA over at least the next 25 years.

▼ Accessibility

As a general rule, it should be possible to drive to the boundaries of a LGA from a main administration centre within 60-90 minutes in country areas, and within 30 to 45 minutes in metropolitan areas.

▼ Strong Centre

Each LGA should have a substantial population centre that can provide higher order commercial, administrative, education, health and other services.

▼ Key Infrastructure

As far as possible, key transport infrastructure such as airports and ports, and those nearby urban and regional centres that are principal destination points, should be within the same LGA.

▼ Combining Existing Municipalities

Wherever practicable, amalgamations should combine the whole of two or more existing LGAs without the additional cost and disruption of associated boundary adjustments.

Source: NSW Independent Local Government Review Panel, *Revitalising Local Government*, p 76.

4.2.3 IPART Recommendations

IPART considers that being of the right scale and having strategic capacity are threshold issues for councils to be 'fit for the future'. Being of the right scale is a key component to having strategic capacity as it will enable councils to benefit from economies of scale and scope and be better able to provide infrastructure and services to their communities.

Therefore, councils need to address the scale criterion before considering how to address the other criteria:

- ▼ Councils which are expected to merge should provide their plan for merging. These councils would not have to show how they will meet the other criteria until after they have merged.
- ▼ Council for which the Review Panel recommended no change (ie, they are not expected to merge or form a Joint Organisation) should provide their plan to show how they will meet the other criteria.

Appendices C and D reproduce the Review Panel's recommendations for addressing scale for the NSW councils.

Recommendation

- 6 IPART recommends that the NSW Government adopt the benchmark for the Scale and Capacity criterion that councils have the scale and capacity consistent with the recommendations of the Review Panel.

4.3 Criterion - Financial sustainability

OLG has proposed measures for local government financial sustainability based on a definition developed by TCorp. This assesses councils to be financially sustainable when they can generate sufficient funds over the long term to provide the planned level and scope of services and infrastructure for communities as identified through the Integrated Planning and Reporting process.

To demonstrate financial sustainability, OLG considers that councils should provide evidence that:

- ▼ resources are prioritised and allocated based on an understanding of strategic requirements and community needs through the Integrated Planning and Reporting process
- ▼ high priority operating and capital expenditure programs are managed and delivered with stability and predictability in the overall revenue burden
- ▼ resource allocation for service and infrastructure investment is based on an equitable distribution of the revenue burden (rates, user fees, charges and other income) for current and future generations (of ratepayers)

- ▼ they can achieve an operating surplus.

4.3.1 Measurement of financial sustainability

OLG identified three measures to ensure that the criteria were relevant, robust and applicable to local government.

- ▼ Operating Performance ratio
- ▼ Own-source 'Operating' Revenue ratio
- ▼ Building and Infrastructure Asset Renewal ratio.

Importantly, two key considerations were adopted in this process.

Firstly, OLG sought to develop a simple set of measures that are defensible and provide insights into councils' performance. Secondly, the benchmarks and comparisons were required to be fair and a reasonable basis to underpin assessments of councils' performance for the 'fit for the future' framework.

This report reviews the three measures of financial sustainability referred to above.

In assessing OLG's proposed measures to assess councils' financial sustainability we have assumed:

- ▼ The benchmarks are intended to measure performance on a common basis across all councils and all classifications of councils. This implies assessing and monitoring the performance of councils' General Fund and not their Consolidated Fund which, for some councils, includes other activities such as water and sewerage.
- ▼ Alternatively, if councils' water and sewerage activities are to be included within the 'fit for the future' framework, it is assumed that the measures will be applied separately to councils' Water and Sewerage Fund and to the General Fund, respectively. These measures and benchmarks are not to be applied to councils' Consolidated Fund (combined General, Water and Sewerage Funds), as this performance would not be assessed on a consistent basis across councils.

4.3.2 The Operating Performance Ratio

The operating performance ratio is sometimes referred to as the operating balance ratio.

The operating performance ratio is calculated by dividing operating revenue, excluding capital grants and contributions *less* operating expenses, by operating revenue, excluding capital grants and contributions. The result is usually expressed as a percentage.

The benchmark proposed by OLG for the operating performance ratio is that “councils should have an **operating surplus or better**, to maintain financial sustainability”.¹⁶

We consider that operating performance ratio is a key measure of financial sustainability and is fundamental for councils to be ‘fit for the future’. This is because the operating performance ratio:

- ▼ Broadly supports the Government’s objective that financially sustainable councils are generally able to generate sufficient funds to meet expenditure requirements for the delivery of services and infrastructure.
- ▼ Provides a clear focus on councils’ capacity to meet on-going expenditures through operating (non-capital) revenues.
- ▼ Is an important measure of operating cost recovery. It reflects the extent to which the costs of current works and services are being funded by current ratepayers.

IPART Comment on OLG’s measure

An operating deficit may be appropriate in the short-term but not in the longer term. Sustained operating deficits indicate that a council may be funding some of its current operations through capital grants and contributions and/or additional debt, possibly at the expense of future generations of ratepayers.

A break-even operating performance ratio indicates that a council can fund asset maintenance and renewals required by the consumption of assets ie, as measured by depreciation. This enables capital grants and contributions to remain available to fund infrastructure renewals and/or asset upgrades as these are required. However, a surplus operating result would be required to reduce infrastructure backlogs.

A council with a positive operating balance ie, operating surplus, will be able to fund required maintenance as well as depreciation (renewal) expenses. Capital revenues (ie, capital grants and contributions) will be able to be retained to fund capex. This would include funding for asset renewals to reduce infrastructure backlogs or upgrade or purchase new assets, as required.

We note that this measure is highly sensitive to how councils estimate depreciation expenses as this is often a high proportion of total expenses. Assumptions that underpin estimates of depreciation may vary significantly over time and across similar councils. Depreciation is an accounting estimate of the consumption of the asset during its useful life. However, it does not always accurately reflect the actual degradation pattern of the asset and therefore can be inaccurate.

¹⁶ OLG, p 13.

We also note that changes in performance assessed through this measure are likely to be affected by the following factors:

- ▼ Expansion in a council's role, either by its own policy choices democratically determined or by devolution from another level of government.
- ▼ Increases in significant costs (for example, construction) that are non-controllable by a council. In some cases, special or unique cost pressures are faced by councils located in relatively remote areas.
- ▼ Changes in the community's demographic profile, such as an ageing population, which may induce significant increases in council expenditures in terms of services and/or staffing.
- ▼ The relative socio-economic disadvantage of the LGA. Often these councils experience a combination of a greater reliance by communities upon council (and other government) services and low average household incomes. The former may impact significantly upon the level of a council's expenditures while the latter will often flow through to a higher proportion of outstanding rates. This reduces the recovery of rates revenues. Combined, these factors contribute to higher operating deficits.
- ▼ Unforeseeable events, such as natural disasters. Depending upon their frequency and severity, these events may seriously impact upon a council's financial performance over several years.

Likely outcomes of this measure for OLG's stated objectives

Data provided by OLG on the sector's current performance indicates that over the 2010-13 period:

- ▼ NSW councils averaged a negative operating performance ratio ie, operating deficits of approximately 6% of operating revenue
- ▼ metropolitan councils averaged deficits of about 2.5% of operating revenues
- ▼ regional and rural councils averaged operating deficits of approximately 7% and 7.5%, respectively.

We note that:

- ▼ neither metropolitan, regional nor rural councils have achieved the desired operating surplus benchmark for this measure
- ▼ the reported performance varies quite markedly between metropolitan and regional/rural councils
- ▼ metropolitan councils' operating deficits are typically small and operating surpluses are likely to be relatively commonplace.

Other observations and recommendations

The current benchmark ('an operating surplus or better') does not provide flexibility for small deficits (within 3% of operating revenues), or a break-even operating result. Further, the benchmark requires councils' operating revenues to exceed operating expenses in every year.

In contrast, TCorp's approach provided the flexibility for councils to achieve the benchmark over the short term ie, 3 years. This is more achievable in practice. It would also demonstrate whether a council has the capacity to absorb most financial shocks.¹⁷

We consider that operating surpluses, as with operating deficits, need to be kept within a target range ie, an upper limit not exceeding 10% of operating revenues. This approach is similar to that used in some other states and avoids rates being increased above that absolutely necessary to maintain financial health.¹⁸ Very high operating surpluses accompanied by high and growing cash balances may indicate the capacity for a council to reduce revenues from current ratepayers.

Recommendation

- 7 IPART recommends adoption of the measure Operating Performance Ratio with the benchmark being amended to a range between an operating deficit of 3% and an operating surplus of 10% of operating revenues. This measure should be averaged over 3 years.

4.3.3 The Own-Source Operating Revenue Ratio

OLG proposes own-source revenue ratio be calculated as "rates, utilities and charges divided by operating revenue, including capital grants and contributions.

The proposed measure is similar to the often used 'rates coverage ratio'.

¹⁷ NSW Treasury Corporation (TCorp) - *Financial Sustainability of the NSW Local Government Sector, Appendix 1, Ratings and Definitions*, April 2013. TCorp found that a council could be accorded a 'strong' financial sustainability rating where "It generally has a record of operating surpluses and may occasionally report minor operating deficits...(and)...is able to address its operating deficits.....and any adverse changes in its business with minor revenue and/or expense adjustments."

¹⁸ The South Australian Local Government Association considers that should a council wish to target a very large operating surplus it needs to be equally clear about, and articulate, its reasons for doing so. This course of action would mean that the council is setting rates and/or other fees and charges at levels well in excess of recorded costs and this has negative implications for its community in terms of intergenerational equity. There may nevertheless be compelling reasons for such a strategy. For example the council may have run significant operating deficits in the past and have impending major asset replacement needs in excess of a prudent borrowing level. The Council may wish to build up financial assets or reduce existing liabilities to help it, in the future, fund this impending need. Refer to *Targets for Local Government Financial Indicators*, Local Government Association, South Australia, March 2007, p 3.

We consider that the own-source revenue ratio measures the degree of reliance that a council has on external funding sources such as grants and (developer) contributions. Councils' financial flexibility for funding services and capital works rises as their reliance upon external funding sources is reduced.

OLG has adopted a benchmark for own-source revenue to be greater than 60% of operating revenue averaged over a three-year period.

IPART Comment on OLG's measure

This benchmark is similar to that developed by TCorp. However, TCorp also considers many rural councils are unlikely to achieve the same level of own source revenue as an urban council due to their limited rate base. Further, urban councils should have a much higher own source revenue ratio as these councils not only have access to a larger rate base, but also (have greater) ability to raise income from other services such as car parking.¹⁹

The measure reflects fiscal flexibility and robustness as it measures the percentage of ordinary income that is directly controlled by the council.

We consider that own-source revenues, including user fees and charges:

- ▼ Provide a council with the financial stability to adjust its operating and capital spending (and not just the former), to meet planned expenditure requirements and respond to unexpected events.
- ▼ Are associated with strong financial sustainability in cases where rates revenues are equivalent to 50% or more of total revenue (ie, equivalent to own-source revenues of about 65%). Low and/or falling financial sustainability is often associated with councils with an own-source revenue ratio of less than 33% of total revenue.²⁰
- ▼ Have historically been more reliable and less volatile than revenue from other sources such as government grants and contributions from developers.

Likely outcomes of this measure for OLG's stated objectives

Data provided on the sector's current performance indicates that over 2010-13:

- ▼ NSW councils averaged an own-source revenue ratio of just under 60% ie, marginally below the benchmark
- ▼ metropolitan councils averaged own-source revenue of about 70% of revenues ie, well above the benchmark of 60%

¹⁹ NSW Treasury Corporation (TCorp) - *Financial Sustainability of the NSW Local Government Sector*, April 2013, p 22. On this basis, metropolitan councils should have own-source revenue in excess of 80% of operating revenues although, for simplicity, a uniform benchmark of 60% is used (across all councils).

²⁰ IPART, *Review Framework for Local Government - Final Report*, December 2009, p 100.

- ▼ regional councils averaged own-source revenue of more than 60%
- ▼ rural councils averaged own-source revenue of about 50%.

Based on data provided by OLG we note that rural councils, as a group, have not achieved the benchmark for the own-source revenue ratio. However, metropolitan and regional councils have generally met the benchmark for this measure.

Other observations and recommendations

While a high own-source revenue ratio of more than 60% may be desirable in terms of financial flexibility, it is uncertain if it is generally necessary to achieve financial sustainability. This will also depend upon the level and reliability of other revenue sources, eg, operating grants, as well as expenditure levels over time.

We note that the results of using this measure, as proposed by TCorp, are highly sensitive to trends in councils' capital grants and contributions. These are notoriously lumpy and variable over time. This is likely to mean that the results produced by this measure will not entirely be consistent across councils and across time.

We also recommend that this measure be referred to as the 'Own-source Revenue ratio (and not own-source 'operating' revenue). This would provide a clearer statement that the own-source revenue ratio is intended to embrace financial flexibility with regards to **capital expenses** as well as operating expenses, and not solely the latter. This is also why the calculation method includes capital grants and contributions in the denominator.

Also, some additional clarity needs to be provided to support the use of the term 'utilities' within the proposed calculation method. We assume that this excludes water and sewerage revenues, as discussed above within section 4.3.1.

Finally, it is not clear whether the calculation method for this measure includes user fees and charges. User fees and charges eg, parking fees, conceptually form part of own-source revenues. Exclusion of these fees and charges would have the effect of not recognising a significant contributor to the existing financial flexibility of councils and councils' decision making autonomy.

Recommendation

- 8 IPART recommends that the definition of the Own Source Revenue Ratio be amended to rates and annual charges plus user fees and charges divided by total operating revenue, including capital grants and contributions.

4.3.4 The Building and Infrastructure Asset Renewal Ratio

OLG proposes that the building and infrastructure asset renewal ratio be calculated by dividing a council's renewals expenditure on building and infrastructure assets by depreciation expenses.²¹

The depreciation expense is generally seen as a measure of asset deterioration or consumption.

A renewal ratio benchmark of **greater than 100%** is proposed by the OLG. A ratio of 100% indicates that expenditure on asset renewals matches the cost of asset deterioration for the year. A ratio of below 100% indicates an increasing infrastructure backlog as existing assets are deteriorating faster than they are being renewed. A renewals ratio above 100% indicates a diminishing backlog.

We consider the renewal ratio:

- ▼ represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance²²
- ▼ measures the rate of capital renewal against the rate of asset consumption or deterioration ie, as measured by depreciation expense
- ▼ is a consistent measure that can be applied across councils of different size and location
- ▼ is a well-established measure of performance within the sector and is already reported within council's published financial statements.

²¹ Renewal or extension of the economic (or operating) life of infrastructure assets (such as a local road network with an operating life of 50 years), includes in some cases expenditure of a relatively short term in nature (for example, road re-sealing treatments every 7 to 12 years). At other times, refurbishment of the asset may involve longer term expenditure (such as road reconstruction every 20 to 25 years). Overall, a council's renewals expenditure program will include a mix of short and long term expenditures.

²² The renewals ratio measures the extent to which councils renewal spending refreshes an existing asset's economic life to what it was originally. The renewal of assets does not include the refurbishment of existing assets where this enhances the capacity or quality of performance of those assets above their 'as new' levels. Nor does it include the acquisition of new assets where these deliver an enhanced level of service.

Likely outcomes of this measure for OLG's stated objectives

Data provided on the sector's current performance indicates that over 2010-13:

- ▼ NSW councils averaged an renewals ratio of approximately 70% ie, well below the benchmark of 100%
- ▼ metropolitan councils also averaged an renewals ratio of about 70%
- ▼ regional councils averaged an renewals ratio of just less than 70%
- ▼ rural councils averaged an renewals ratio of just over 70%.

Other observations and recommendations

We note that the use of the renewals ratio is reliant upon accurate cost estimates and management of renewals capital expenditure, ie highly developed asset management planning systems. These plans need to define the service levels provided by each asset and be supported by update budgeted schedules of asset maintenance, renewal and replacement.

The results of using this measure are highly sensitive to how councils estimate depreciation expenses. Assumptions that underpin estimates of depreciation may vary significantly over time and across similar councils. Depreciation is an accounting estimate of the consumption of the asset during its useful life. However, it does not always accurately reflect the actual degradation pattern of the asset and therefore can be inaccurate.

OLG proposes that councils' renewals expenditure exceed depreciation expenses in every year. We propose that the benchmark for this measure be amended so that assessment is based on performance of the renewals ratio averaged over three years. As capital expenditures are bulky and often lagged, a three-year period for the asset renewals ratio is more practically feasible. It also contributes to performance assessment being less reactive and volatile than would be the case with a benchmark that is limited to snapshots of single year performance.

Performance averaged over three years is more responsive in reflecting emerging renewals expenditure trends than performance averaged over a longer period, say five years.

Recommendation

- 9 IPART recommends that the benchmark for the Assets Renewal Ratio be revised to a renewal ratio of greater than 100%, averaged over three years.

4.4 Criterion - Effective infrastructure and service provision

OLG proposes that an effective council plans, designs, manages and delivers infrastructure and services in ways that optimize use of financial, human and natural resources to meet current and future needs. OLG also proposes that council decisions regarding current and planned infrastructure and services should be undertaken in a transparent fashion.

We consider that to demonstrate effective infrastructure and service management, councils should provide evidence that:

- ▼ a strategy is in place that identifies infrastructure requirements based on analysis of existing provision and future need
- ▼ development, maintenance and renewal of infrastructure assets appropriately leverages operation and capital resources, funded by a combination of council finances and borrowing to reduce any backlog
- ▼ it has a track record of success in working strategically with partners to deliver cost effective services that leverage opportunities of scale and scope
- ▼ service delivery unit costs represent value for money to the community
- ▼ infrastructure and service delivery meets the needs of communities as identified in the Integrated Planning & Reporting process
- ▼ it has a successful track record in prioritizing resources, delivering infrastructure and operational programs and projects on time and to budget.

4.4.1 Measurement of effective infrastructure and service management

OLG has suggested two measures to assess this criterion:

- ▼ Infrastructure backlog ratio.
- ▼ Asset maintenance ratio.

We have made the following observations regarding this criterion:

- ▼ it is essential that councils prepare Asset Management Plans and Delivery Programs to ensure good infrastructure management
- ▼ a measure is required that will combine the use of council finances and borrowings to reduce backlogs
- ▼ the criterion refers to service management but the selected measures do not assess service management.

This report reviews the two suggested ratios for effective infrastructure and service management. These both measure infrastructure delivery. Effective service delivery would also be supported by use of a community survey along the lines of that discussed in section 3.5.

IPART proposes adding a new measure for infrastructure financing, ie, the debt service ratio. This would ensure that councils consider whether they leverage their finances with borrowings to reduce infrastructure backlogs.

4.4.2 Infrastructure Backlog Ratio

The infrastructure backlog ratio measures the estimated cost to bring assets to a satisfactory condition divided by total infrastructure, building, other structure and depreciable land improvement assets.

The draft benchmark for the infrastructure backlog ratio is less than 2% on average over three years.

We consider this measure:

- ▼ identifies whether councils are able to reduce their infrastructure backlogs and maintain them within acceptable levels
- ▼ can be applied across councils of different size and location.

IPART comments on this measure

OLG considers that the infrastructure backlog ratio is a consistent measure that can be applied across councils of different sizes and locations. However, the data source for this measure is Special Schedule 7 in council's accounts, which is not an audited item and is therefore not consistent across councils. This is because there is a significant degree of variability between councils regarding how items in Special Schedule 7 are measured. However, it remains the best available source of data for this measure to ensure coverage of all councils.

As Special Schedule 7 is current unaudited, we propose that this measure should only be included if accompanied by a mandate for councils to audit this data. This ensures consistency across councils.

The TCorp benchmark of less than 2% is an ambitious target for councils, which may be difficult for many councils to meet over the long term without significant revisions to their asset base or revenue. We propose that this measure is assessed in a discretionary manner, which allows councils that do not meet the benchmark, to demonstrate they are moving towards it.

The reliability of data for this measure varies significantly between councils. As a result, use of this measure should be accompanied by guidance for councils on how to estimate infrastructure backlogs and link these through its IP&R process.

Likely outcomes of this measure for OLG's stated objectives

OLG data for the period 2010-2013 indicates that:

- ▼ 6% of councils meet or exceed the benchmark of 2%
- ▼ 94% of councils do not meet the benchmark.

This indicates a significant increase in capacity is needed for councils to reduce backlogs to less than 2%

Future amalgamations of councils may in fact deteriorate council measures of backlogs in the short term, whilst also increasing capacity to undertake capital works using debt. For example, a council with relatively small backlogs merging with a council which has a large backlog, may create a new council with a large backlog.

To account for this, the criteria need to allow some flexibility and a transition period. This enables merging councils to consolidate their infrastructure and agree on a future path for reducing infrastructure backlogs consistent with the objectives of the new council area. The combined resources of the larger area support the ability of the council to raise a larger amount of council funds and larger amount of debt in order to fulfil these objectives. The 'fit for the future' framework should be consistent with allowing councils to increase capacity whilst at the same time moving towards these benchmarks.

However, without a consistent measure of backlogs, the level of the proposed benchmark is not a robust figure. The significant reliability issues with data on backlogs may provide councils with an incentive to revise or reduce infrastructure standards to meet the benchmark. Without clear guidance, some councils may also misclassify capital works as operational costs.

To avoid these issues, there needs to be a corresponding shift towards consistent measurement across councils, which includes introducing auditing standards for Special Schedule 7. The criteria should also include measures of both operational and capital sustainability which should be considered along with infrastructure backlog, to determine whether councils meet an overall assessment, as opposed to focusing on specific measures.

Other observations and recommendations

We propose the benchmark should only be adopted if a clear reporting standard for Special Schedule 7 is adopted and that this data is audited as part of council's accounts.

We also propose this benchmark should be applied in a discretionary manner, which allows councils to demonstrate they are moving towards the benchmark.

This allows time for councils to adjust to the new measures and deal with the increased costs of reform in the short term.

Recommendation

10 IPART recommends that:

- The Infrastructure Backlog Ratio should be subject to adoption of a clear reporting standard for Special Schedule 7 is established and that this data is audited as part of councils' accounts.
- Councils should demonstrate an Infrastructure Backlog Ratio of less than 2% averaged over three years or improving trends for this ratio.

4.4.3 Asset Maintenance Ratio

The Asset Maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance. The ratio provides a measure of the rate of asset degradation (or renewal) as it shows whether a council is fulfilling all maintenance requirements, or allowing some assets to degrade. This measure was also used by TCorp in its analysis.

TCorp adopted a benchmark of greater than 1, which implies that asset maintenance expenditure meets or exceeds the requirements (and therefore the council is maintaining or reducing its infrastructure backlog).

IPART Comment on OLG's measure

We agree with the benchmark. The benchmark of greater than 1 is a good indication of whether a council is maintaining or reducing its infrastructure backlogs. A ratio below 1 indicates a potentially increasing infrastructure backlog.

Likely outcomes of this measure for OLG's stated objectives

According to OLG data for the period 2010-2013, only 19% of councils meet or exceed the benchmark. These are mostly metropolitan councils, which suggests that there is little need for change amongst this group of councils.

Regional and rural councils generally do not meet this benchmark. This suggests that these councils require significant sector-wide reform or planning in order to meet maintenance commitments.

Recommendation

11 IPART recommends that the Government adopts the proposed measure of Asset Maintenance Ratio.

4.4.4 Debt service ratio

We propose the inclusion of an additional measure which assesses the appropriate and affordable level of debt servicing by councils.

The current list of measures for this criterion does not include a measure aimed at addressing whether councils use a combination of council finances and borrowings to reduce any backlog.

Appropriately used, debt enables the benefits and costs of long-life assets to be shared equitably between current and future generations of ratepayers. In contrast, continuation of low debt levels within the sector will likely mean that councils will need to increase the revenue (ie, rates and user charges) burden on current ratepayers, if they are to partner the State Government in infrastructure investments. As these investments will also benefit future ratepayers, the cost of these projects should be shared across the generations.

We consider the take up of loan borrowings will be integral to 'fit for the future' councils possessing sufficient strategic capacity to partner the State Government. Therefore, a measure to guide sustainable debt servicing should be included.

IPART's proposed measure

The debt service ratio equals:

$$\frac{\text{debt service expense}}{\text{operating revenue}} \\ \text{(excluding capital grants and contributions)}$$

Debt service expenses include interest expenses and principal repayments.

We prefer the debt service ratio to the interest cover and debt to equity ratios. These ratios are not widely used within the sector and are more familiar to market sector organisations, including state owned corporations. It is also difficult to establish an appropriate benchmark for the debt to equity ratio within general government entities, such as councils.

IPART's Proposed Benchmark

The benchmark for this measure is greater than zero and less than 20% of operating revenue, averaged over a three-year period.

Assessment of this ratio would depend upon, firstly, whether a council has a capital investment program. Small or irregular capital expenditures or those for relatively short lived assets (less than 10 years), are not likely to provide significant benefits to future generations of ratepayers to justify additional borrowings.

Secondly, assessment of the debt service ratio needs to occur within the context of other elements of a council's financial performance, such as its operating balance. Councils with sustained large operating deficits (say, greater than 5% of operating revenues), are not likely to be in the situation to finance significant additional loan borrowings. Similarly, for a well resourced council, a debt service ratio above 20% does not necessarily mean it is over committing its operating revenue to loan repayments.

IPART Comment on this measure

Achieving capital sustainability in an inter-generationally equitable manner generally involves the use of some debt. A very low or zero debt service ratio is generally not appropriate for a council undertaking new capital expenditure for long life infrastructure assets. This is because the funding burden for long life assets is placed on current ratepayers and not shared with future ratepayers who will also benefit from these assets. Current and future generations of ratepayers should equitably share in both the costs and benefits of such long-life infrastructure. This is achieved by the use of debt.

If a council is using debt to partly fund new, renewed or upgraded long life infrastructure assets, this is likely to be prudent, sustainable and contribute significantly to its strategic capacity to fund major investment projects, provided the council has the financial capacity to service the debt i.e. has an operating performance ratio within the benchmark range.

Councils that do not have the capacity to make such borrowings are usually unlikely to be financially sustainable. For example, a council with a very small rates base and large operating deficits will not have the capacity to undertake debt. Under the 'fit for the future' framework, we anticipate that financially unsustainable councils will be encouraged to merge or reform to achieve strategic capacity.

Likely outcomes of this measure for OLG's stated objectives

Many NSW councils, including metropolitan councils, do not currently meet the benchmark and have zero debt. Generally, many councils in both urban and regional NSW have avoided debt to minimise interest expenses in the short term. In doing so, ratepayers have often incurred higher rates than necessary to fund long-life capital investment and/or councils have delayed required asset renewals. This has contributed to increasing infrastructure backlogs. The councils that have made balanced use of debt are often urban-fringe councils with rapidly growing communities that have made necessary major investments in new and upgraded infrastructure.

Based on our research to date, the outcome of applying this measure and benchmark would show most NSW councils do not use appropriate levels of debt to fund long lived infrastructure. This is due to a combination of some

councils being financially unsustainable (and therefore lacking the capacity to take on debt) and a general avoidance of debt as described above. This supports the view that reform of NSW councils is required in order to guide councils towards responsible funding of long lived assets. Using the debt service ratio benchmark in assessing whether councils are 'fit for the future' will ensure that councils that are planning to merge or reform are encouraged to employ best practice when forming plans to reduce infrastructure backlogs and achieve strategic capacity.

Other observations and recommendations

We recommend the debt service ratio measure and benchmark be included within the 'fit for the future' framework as an additional measure of effectiveness of infrastructure management.

We note that some councils ie, those with sustained large operating deficits (say, greater than 5% of operating revenues), or with a very small rates base are not in likely to be in the situation where they can afford significant loan borrowings.

However, we consider that reasonable levels of debt will be an important contributor to the strategic capacity of councils and will be fundamentally necessary if councils are to partner the State and industry in providing major investments in infrastructure. Debt financing is important to enable infrastructure investment to be delivered in a way that equitably distributes the costs and benefits between current and future ratepayers.

Recommendation

12 IPART recommends that the Debt Service Ratio:

- Be included for the criterion Effective Infrastructure and Service Management.
- Have a benchmark of greater than 0% and equal or less than 20% of operating revenue excluding capital grants and contributions, but the decision for a council to take on debt would depend on the council's individual circumstances.

4.5 Criterion - Efficiency

OLG considers that improvements in efficiency will be fundamental to 'fit for the future' councils and will contribute to:

- ▼ minimising unnecessary burden on business and the community that may arise through service delivery pathways, and
- ▼ maximising the focus on the customer, thereby improving front-line presence and contributing to more effective service delivery over time.

OLG also acknowledges that many factors affect efficiency and that it is difficult to measure. However, it proposes that councils have the capacity to achieve economies of scale and scope within their operations so that they can achieve operational efficiency without compromising the level of service provision they provide.

OLG uses a single measure for the efficiency criterion ie, trends in a council's 'real operational expenditure per capita'. Although not explicit, the benchmark appears to be a downward trend in a council's real operational expenditure per capita (real opex per capita) over a particular period of time.

OLG noted that operational expenditure could be measured against a range of factors such as population, assets or financial turnover. It determined that, in the context of improving service delivery and customer focus within Local Government, measuring efficiency relative to population is suitable and an acceptable approach for local government reform.

IPART Comment on OLG's measure

We support a criterion for efficiency as part of the 'Fit for the Future' criteria to ensure that councils seek cost savings which can be invested into infrastructure and ultimately, passed on to ratepayers and other community users of council services.

We acknowledge the difficulties attached to finding a suitable measure of efficiency. Efficiency requires measures of output relative to inputs. For a service industry such as local government, it is difficult to measure the price of many outputs as many are not traded. Those typically used, including the one proposed by OLG, are measures of cost effectiveness not efficiency.

However, a target of efficiency in a more general sense can still be used to drive efficiencies in the local government sector. The efficiency dividend mechanism is commonly applied by Commonwealth, state and territory governments to provide for an annual reduction in funding for the overall running costs of an agency. Although it is considered a blunt instrument, it has proven to be a simple and predictable way to create an incentive for budget constraint in the public sector.

OLG's proposed benchmark for cost efficiency targets a downward trend in 'real opex per capita' over time, which is similar to an efficiency dividend. However, it provides for additional flexibility because:

- ▼ the 'trend' targets can be set over time (rather than requiring reduced total expenditure every year), and
- ▼ it is a function of the number of residents, which allows some growth in expenditure in line with an increasing population and the growing service needs within the community.

It also compares a council's performance to itself over time rather than to a set target of opex growth or other councils' performance. Therefore, it is not affected by differences across councils in scale, service focus or cost composition.

The measure 'trends in real opex per capita' reflects how the value of inflation-adjusted *inputs* per person has grown over time. While this measure directly adjusts for changes in population, in order to measure cost efficiency in the strictest sense, a council's service levels must also remain constant.

However, in practice, a council's service levels are likely to change for a variety of reasons. If a council seeks to provide a new service without reducing any other service levels, opex would increase, all else being equal. Conversely, a reduction in service levels would suggest reduced opex and an apparent increase in efficiency under this criterion.

This underlines the importance of this measure of efficiency being interpreted in the context of the council's performance against other criteria (including effective infrastructure and service management). It also suggests that councils would benefit from some flexibility in the downward trend target to allow some time to restructure or refocus their service priorities when operating expenditure has increased.

It further highlights how councils must prioritise their services, in consultation with their communities under the Integrated Reporting and Planning Framework, to mitigate increased expenditure not linked to community growth.

There will also be circumstances where councils will need to increase their operational expenditure to meet community demands for increased service levels. Accordingly, we suggest that there should be some flexibility in the 'fit for the future' framework to allow such increases.

We considered whether there were any suitable alternative measures of efficiency in local government. Based on available data, we could not find any measure of the ratio of outputs to inputs which more accurately reflects efficiency or productivity across a council's operations.

Specific measures focused on particular services such as library or planning/development services could be derived to measure efficiency in these areas only. However, there would need to be multiple measures to sufficiently gauge efficiency across various council operations. At this stage of the reform agenda, this could be too complex and place an additional burden of reporting requirements on councils.

We also considered other options which link operating expenditure or average costs to labour variables. Overall, while we consider that these measures can also contribute to an assessment of the efficiency of a council's operations, employment expenses, on average, account for around 40% of opex in the local

government sector. Therefore, there is limited value in including an additional labour-focused measure under this criterion.

Likely outcomes of this measure for OLG's stated objectives

OLG data showed that over the period 2004/05 to 2012/13, just 9% of metropolitan councils, 2% of rural councils and no regional council achieved a downward trend in its operational expenditure per capita.

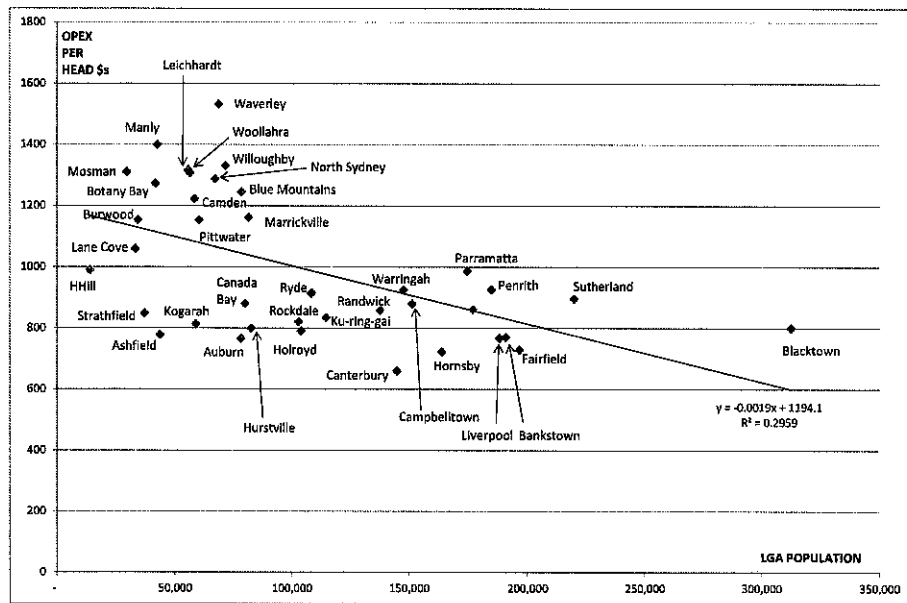
This suggests that most councils would be unable to meet a benchmark based on a downward trend over a three-year period. Councils may also be able to explain why 'real opex per person' is rising irrespective of efficiency performance eg, IPART may have approved a special variation for the council to increase its general income above the rate peg to increase service levels in line with community priorities.

However, in general, the measure will ensure that councils more consistently focus on how they may reduce their expenditure by achieving efficiencies in their operations.

Over time, we expect there to be considerable improvement in the performance of councils against this criterion, especially with the planned increases in scale and capacity of councils.

Other observations and recommendations

Economies of scale and scope refer to the reductions in average costs that may be associated with higher output of a many-product organisation, including a local council. To measure the size of any economies of scale or scope, higher outputs must result in lower average costs. Figure 4.1 suggests that around 30% of the variation in opex per head amongst the councils of Greater Sydney is inversely associated with their population and that opex per head is lower the larger the population of the LGA.

Figure 4.1 Operating costs per head and population in Sydney LGAs

Source OLG, *Comparative Information on NSW Local Government, 2012/13*. We have excluded City of Sydney because working non-residents inflate its opex per head (\$2,645) and we exclude Gosford and Wyong because water and sewerage costs inflate their opex per head.

We endorse the recommendation for the efficiency criterion measure proposed by OLG with some refinement to specify that it is a downward trend that is targeted, and the time period over which this trend should be measured.

We recommend that councils should demonstrate a downward trend in average 'real opex per capita,' based on a three-year rolling average.

To allow for circumstances where councils need to increase their operational expenditure to meet increasing service levels by the community, we consider that councils should be given the opportunity to make a case to be exempt from the benchmark when required.

We also agree that councils should deflate their operational expenses in order to determine the real average annual change in 'opex per capita'.

Councils' costs that are paid for from their general funds will rise, on average, by the Local Government Cost Index (LGCI) published by IPART each year. Therefore, any measure of 'opex per capita' should be deflated by the LGCI to derive the 'real' rate of growth in 'opex per capita'.

Councils which also provide water and sewer services will experience cost growth more in line with changes in utility prices rather than the LGCI, which represents the change in a weighted basket of council costs. However, for

consistency, we recommend that the deflator should be the same for all councils' operations.

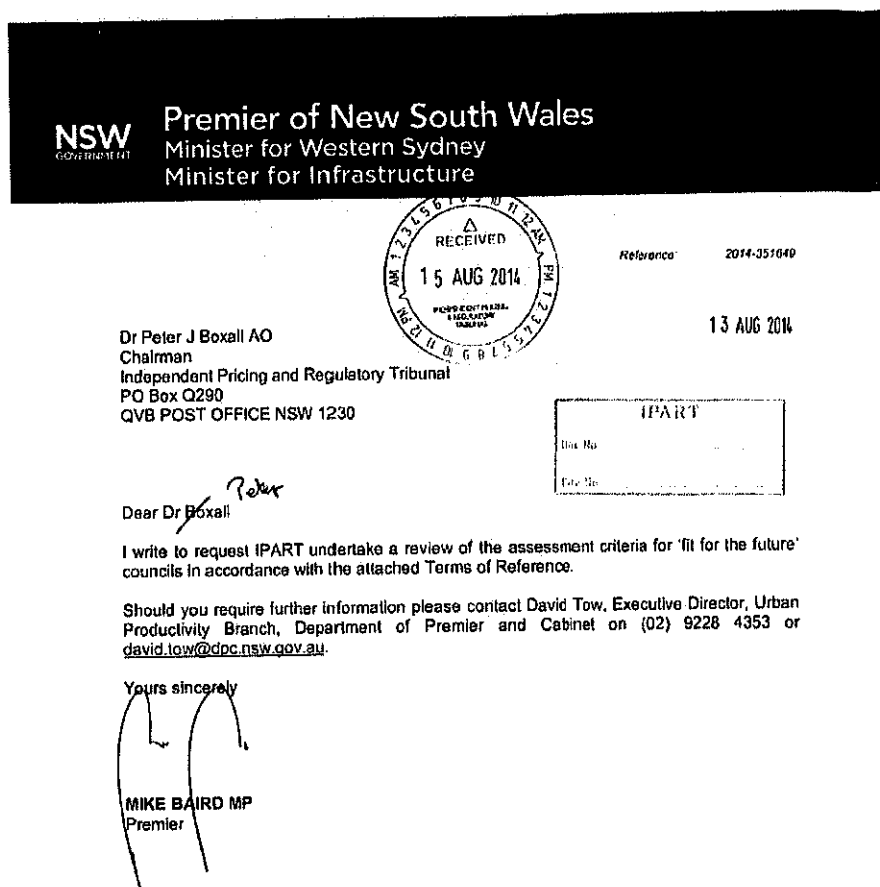
Recommendations

- 13 That the benchmark for the criterion Efficiency be a downward trend in 'real operational expenditure per capita', based on a decrease in the rolling average over the last three years, unless:
 - The council can demonstrate the impact on operational expenses resulting from a need for an increase in service levels in line with community priorities through the Integrated Reporting and Planning process.
- 14 That to calculate 'real operational expenditure per capita', operational expenditure be deflated by the Local Government Cost Index.



Appendices

A Terms of Reference



Draft Terms of Reference for a review by Independent Pricing and Regulatory Tribunal on Local Government Benchmarking in NSW

I, Mike Baird, 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 (IPART) conduct an investigation in accordance with these 'terms of reference'.

Task

In undertaking this investigation IPART is to review the 'fit for the future' criteria to be developed by the Office of Local Government.

Procedure

The Office of Local Government will issue IPART with a draft document outlining the 'fit for the future' criteria. IPART will:

1. Review the 'fit for the future' criteria and assess whether the criteria will contribute to meeting the NSW Government's stated objectives of local government reform
2. Prepare a report for the NSW Government that:
 - a) identifies the likely outcomes of each of the criterion
 - b) recommends amendments to the criteria to better meet the NSW Government's stated objectives of local government reform
3. Provides the report, to the Minister for Local Government and the Premier, by Wednesday 3 September 2014. To enable this, the Office of Local Government will provide IPART with draft criteria by Tuesday 19 August 2014, and work with IPART in developing the draft criteria.

Background

The Independent Local Government Review Panel (Panel) made a number of recommendations regarding general reform of the local government system in NSW. The Panel found that there are too many councils and many are financially unsustainable.

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' through incentives to voluntarily create bigger, stronger councils, particularly in Greater Sydney, and new regional structures outside of Sydney.

Councils will be called upon to submit a 'fit for the future' proposal by 30 June 2015 to the Office of Local Government, for assessment by an expert panel.

The NSW Government has agreed to the Minister for Local Government, developing sufficiently flexible assessment criteria consistent with the definition of a strategic, 'fit for the future' council. A council that is strategic and 'fit for the future' is defined as being financially sustainable; efficient; with the capacity to effectively manage infrastructure and

deliver services; the scale, resources and 'strategic capacity' to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business. It was agreed that IPART would review this criteria.

A handwritten signature in black ink, appearing to be 'Mike Baird', written over the printed name.

The Hon Mike Baird MP

Premier

B | Draft Criteria

Policy objective

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel’s recommendations

Source: Office of the Local Government

Fit for the Future definition, criteria, measures and benchmarks

B Draft Criteria

Fit for the Future

Definition:

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 & Reporting process.



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 & Reporting process.



Efficient service and infrastructure delivery, achieving value for money for current and future ratepayers



Demonstrate strong organisational and regional capacity to mobilise resources to engage effectively across community, industry and government



Criteria/Benchmarks:

Operating Performance Ratio (operating surplus or better)

Own Source Operating Revenue Ratio (>60%)

Building and Infrastructure Asset Renewal Ratio (>1)

Infrastructure Backlog Ratio (<2)

Asset Maintenance Ratio (>1)

Trends in real operational expenditure per capita (consistent performance improvement)

Has the scale and capacity consistent with the recommendations of the Independent Panel

Strategic capacity

Sustained improvement against each of the criteria to underpin the strategic capacity of Councils over the long term.

This capacity, along with willingness and commitment to collaborate in good faith with government, communities and industry stakeholders will underpin fit for the future councils

C | Review Panel recommendations on council
mergers for metropolitan Sydney

Table C.1 Merger and Boundary Change 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"> Amalgamate or Combine as strong Joint Organisation 	<ul style="list-style-type: none"> Projected 2031 population 432,400 Close functional interaction and economic/social links between these councils Need for unified local government to plan and manage Parramatta Road, the impact and integration of West Comex, inner west redevelopment and proposed major centre at Burwood 3 of these councils will have fewer than 60,000 people in 2036
Auburn, Holroyd, Parramatta, Ryde (part), The Hills (part)	<ul style="list-style-type: none"> Amalgamate (eastern two-thirds of Ryde to be included with North Shore group) and Move northern boundary of Parramatta to M2 (balance of The Hills to remain an individual council) or Adjust Parramatta's boundaries to include parts of Ryde and The Hills and combine Auburn, Holroyd and Parramatta as a strong Joint Organisation 	<ul style="list-style-type: none"> Projected 2031 population approx. 558,500, including about one-third population of Ryde and without other boundary adjustments Close functional interaction and economic/social links between these councils Need for stronger unified local government to develop Parramatta as second CBD Parramatta's northern boundary is very close to its CBD; relocation to M2 would facilitate planning and improve socio-economic mix and community linkages Incorporation of part of Ryde would strengthen link between Parramatta and 'Global Sydney Corridor' and improve scope for integrated planning around Epping station
Botany Bay, Randwick, Sydney, Waverley, Woollahra	<ul style="list-style-type: none"> Amalgamate or Combine as strong Joint Organisation 	<ul style="list-style-type: none"> Projected 2031 population 669,400 Close functional interaction and economic/social links between these councils Need for high-level strategic capacity to promote and support Sydney's ongoing development as Australia's premier global city 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
Fairfield, Liverpool	<ul style="list-style-type: none"> Amalgamate or Combine as strong Joint Organisation with Bankstown, Camden, Campbelltown and Wollondilly 	<ul style="list-style-type: none"> Projected 2031 population 532,900 Close functional interaction and economic/social links Need for a higher-capacity council to manage proposed Liverpool regional centre, which is close to Fairfield boundary
Hornsby, Ku-Ring-Gai	<ul style="list-style-type: none"> Amalgamate or Combine as strong Joint Organisation and Boundary with Parramatta shifted to M2 	<ul style="list-style-type: none"> Projected 2031 population 348,800 (would be reduced somewhat by boundary change) See comments above re Parramatta boundary change Strong socio-economic and urban links
Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part), Willoughby	<ul style="list-style-type: none"> Amalgamate or Combine as strong Joint Organisation 	<ul style="list-style-type: none"> Projected 2031 population 365,400, including about two-thirds population of Ryde Close functional interaction and economic/social links between these councils Need for integrated planning for major centres, Sydney Harbour foreshores etc 3 of these councils projected to have fewer than 50,000 people in 2031

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

C Review Panel recommendations on council mergers for metropolitan Sydney

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

D | Review Panel recommendations for regional and rural councils

Table D.1

Table 6: Options for Amalgamations around Regional Centres

Centre	Potential Amalgamation	Comments
Albury	+ Greater Hume (part or whole) Combined 2031 population 68,500	<ul style="list-style-type: none"> Greater Hume's long term sustainability is questionable, but it could continue as a council for some time Boundary changes to merge the southernmost parts of Greater Hume with Albury and/or Corowa appear warranted
Armidale Deniliquin	+ Guyra + Uralla + Walcha Combined 2031 population 46,700	<ul style="list-style-type: none"> Amalgamation has been proposed on several previous occasions and strongly resisted – but the evidence from neighbouring Tamworth is that it would bring considerable benefits Community Boards should be established in the former shires An alternative is to merge Guyra (5,300) with Armidale (32,100), and Uralla (7,600) with Walcha (2,600)
Bathurst	+ Oberon Combined 2031 population 57,900	<ul style="list-style-type: none"> Oberon's long term sustainability is questionable: it could continue as a council for some years but amalgamation would provide a higher capacity base A Community Board should be established in the former Shire
Deniliquin	+ Conargo + Murray Combined 2031 population 18,400	<ul style="list-style-type: none"> Conargo and Murray create a 'doughnut' around Deniliquin Conargo Shire is based in Deniliquin and its projected population of just 2,000 is considered too small to warrant a separate entity Deniliquin is at present the largest urban centre but by 2036 Murray Shire will have a much larger population Wakool might also be included and would increase projected population to 21,200 Community Boards should be established in the former LGAs
Dubbo	+ Narrandine + Wellington Combined 2031 population 60,800	<ul style="list-style-type: none"> Narrandine and Wellington may be sustainable into the medium-long term, although Wellington has a Weak FSR Community Boards should be established for Narrandine and Wellington if amalgamation occurs
Griffith	+ Murrumbidgee Combined 2031 population 21,900	<ul style="list-style-type: none"> Murrumbidgee's projected population of 1,400 is considered too small to warrant a separate entity, especially given its proximity to Griffith: a Community Board would be appropriate Also adjust boundary with Carrathool to reduce 'doughnut' effect around Griffith
Orange	+ Cabonne Combined 2031 population 64,400	<ul style="list-style-type: none"> Cabonne may well be sustainable into the long term, but its recent and projected growth is overspill from Orange Some areas on the northern and western fringes of Cabonne are seeking to move to adjoining councils Slacks Creek could also be added and would increase the projected population to 73,100: it could remain sustainable as a separate council for several decades but amalgamation would provide a much higher capacity base Community Boards should be established as required in the former LGAs
Queanbeyan	+ Peralang Combined 2031 population 77,100	<ul style="list-style-type: none"> Peralang was created in 2004 and has been through a difficult establishment period: its financial position remains questionable and projected substantial growth is essentially ACT and Queanbeyan overspill There may be a case to divide Peralang amongst all its adjoining councils, but this would be very disruptive
Wagga Wagga	+ Lockhart Combined 2031 population 75,900	<ul style="list-style-type: none"> A Community Board would need to be established for Lockhart if a merger proceeded

Table 11: Options for Non-Metropolitan Councils

Notes: This is provided by IPART without boundary changes or mergers. It is defined in the NEMF Planning Factors Analysis (see referenced). Grants are percentage of total revenue in 2011-12. High is >40%, Very High is >50%. Based on availability and proximity of a suitable partner. Councils shown in blue signify require a revised long-term asset and financial management plan due to an updated sustainability assessment (see section 13.2)

Council	Popn. 2011	Popn. 2011	Corp. FSA (Apr 13)	Corp. Outlook (Apr 13)	D.G. Inf. Audit (Apr 13)	Rate Base	Grant Dependency	Merger Potential	Options (preferred options shown in bold where applicable)
Group A: Western Region Councils (see section 16)									
Barranald	2,581	1,700	Weak	Negative	Weak	Low	Very High	Low	Joint administration or merger with Wentworth
Bourke	3,085	2,300	Weak	Negative	Weak	Low	High	Medium	Rural Council; joint administration or merger with Brewarrina
Brewarrina	1,895	1,700	Weak	Negative	Weak	Low	Very High	Medium	Joint administration or merger with Bourke
Broken Hill	19,150	15,100	Very Weak	Neutral	Weak	Low	High	Low	Council in Far West region
Central Darling	2,108	1,800	Very Weak	Negative	Weak	Low	Very High	Low	Unincorporated with Community Boards
Cobar	4,931	4,800	Weak	Negative	Very Weak	Low	High	Low	Council in Far West region (review by 2020)
Walgett	6,860	5,900	Moderate	Negative	Moderate	Low	Very High	Medium	Council in Far West region (review by 2020)
Wentworth	6,787	7,000	Weak	Negative	Weak	Low	High	Low	Council; joint administration or merger with Barranald
Group B: Projected 2031 population below 4,000; High merger potential (2015-16 referrals to Boundaries Commission)									
Bombala	2,458	2,000	Moderate	Neutral	Moderate	Low	High	High	Merge with Cooma-M and Snowy R or Rural Council in South East IO
Boorowa	2,469	2,700	Moderate	Negative	Strong	Low	Very High	High	Merge with Harden and Young or Rural Council in Tablelands IO
Conargo	1,585	1,800	Sound	Neutral	Strong	Low	Very High	High	Merge with Deniliquin and Murray or Rural Council in Mid-Murray IO
Gundagai	3,753	3,400	Moderate	Negative	Distressed	Low	Very High	High	Merge with Tumut or Rural Council in Riverina CC
Harden	3,680	3,600	Moderate	Negative	Strong	Low	Very High	High	Merge with Boorowa and Young or Rural Council in Tablelands IO
Jerilderie	1,534	1,200	Moderate	Negative	Weak	Low	Very High	High	Merge with Berrigan or Rural Council in Mid-Murray IO
Murrumbidgee	2,338	1,700	Moderate	Neutral	Not avail.	Low	High	High	Merge with Griffith or Rural Council in Murrumbidgee IO
Urana	1,180	800	Weak	Neutral	Very weak	Low	Very High	High	Merge with Corowa or Rural Council in Upper Murray IO
Walcha	3,122	2,800	Weak	Negative	Distressed	Low	Very High	High	Merge with Uralia or Rural Council in New England IO
Group C: Projected 2031 population below 5,000; Low or 'Medium' merger potential (2015-16 referrals to Boundaries Commission)									
Bogan	3,020	2,600	Moderate	Neutral	Moderate	Low	Very High	Medium	Rural Council in Orana IO or merge with Warren
Carriathool	2,668	2,100	Weak	Neutral	Weak	Low	Very High	Medium	Rural Council in Murrumbidgee IO or merge with Griffith
Coolumbar	4,213	4,200	Sound	Negative	Very weak	Low	Very High	Medium	Rural Council in Riverina IO or merge with Band and/or Temora
Coonamble	4,274	3,100	Sound	Negative	Moderate	Low	High	Medium	Rural Council in Orana IO or merge with Gilgandra
Gilgandra	4,534	4,100	Weak	Neutral	Weak	Low	High	Medium	Rural Council in Orana IO or merge with Copnamble
Hay	3,097	2,100	Moderate	Negative	Moderate	Low	Very High	Low	Rural Council in Murrumbidgee IO
Lockhart	3,082	2,900	Sound	Neutral	Moderate	Low	Very High	Medium	Rural Council in Riverina IO or merge with Werriga Wagga
Tumbarumba	3,440	3,200	Strong	Negative	Very Strong	Low	Very High	Medium	Rural Council in Riverina IO or merge with Tumut/Gundagai

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Wakool	4,080	3,400	Weak	Negative	Moderate	Low	Very High	Medium	Rural Council in Mid-Murray IO or merge with Murray/Conargo/Dryden
Warren	2,877	2,100	Moderate	Neutral	Distressed	Low	High	Medium	Rural Council in Orana IO or merge with Bogan
Weddin	3,734	3,500	Moderate	Negative	Weak	Low	Very High	Medium	Rural Council in Central West IO or merge with Forbes or Cowra
Group D: Potential merger partners for Groups B and C councils (2014/15 referrals to Boundaries Commission)									
Berrigan	8,282	9,300	Moderate	Neutral	Strong	Low	High	High	Council in Mid-Murray IO or merge with Jerilderie
Bland	6,018	5,500	Weak	Neutral	Strong		Very High	Medium	Council in Riverina IO or merge with Coolamon and/or Temora
Cooma-Monaro	10,086	10,800	Weak	Neutral	Weak			High	Council in South East IO or merge with Bombala and Snowy River
Cowra	11,302	13,400	Moderate	Negative	Strong			High	Council in Upper Murray IO or merge with Urana
Cowra	12,526	11,700	Sound	Negative	Very Weak	Low		Medium	Council in Central West IO or merge with Weddin
Deniliquin	7,317	5,700	Moderate	Negative	Weak			High	Council in Murrumbidgee IO or merge with Murrumbidgee
Griffith	25,292	20,200	Sound	Negative	Moderate			High	Council in Mid-Murray IO or merge with D'Quin/Conargo and Wakool
Murray	7,159	10,900	Moderate	Neutral	Moderate		High	High	Council in South East IO or merge with Bombala/Cooma-Monaro
Snowy River	7,752	9,200	Moderate	Negative	Weak	Low	High	High	Council in Riverina IO or merge with Coolamon and/or Bland
Temora	5,928	5,000	Sound	Neutral	Strong			High	Council in Riverina IO or merge with Gundagai and Tumbarumba
Turner	11,272	9,300	Moderate	Neutral	Weak	Low	Very High	High	Council in New England IO or merge with Walcha
Uralla	6,260	7,400	Weak	Neutral	Very Weak			Medium	Council in Riverina IO or merge with Lockhart
Wagga Wagga	61,509	73,000	Moderate	Negative	Moderate			High	Council in Tablelands IO or merge with Boorowa/Harden
Young	12,514	13,000	Sound	Negative	Weak			High	
Group E: Other potential mergers to consolidate major regional centres (2017 referrals to Boundaries Commission)									
Albury	49,467	57,300	Moderate	Neutral	Moderate			High	Council in Upper Murray IO or merge with Greater Hume (part or all)
Armidale	25,270	31,500	Moderate	Neutral	Moderate			High	Council in New England IO or merge with Guyra
Bathurst Regional	39,956	52,500	Moderate	Negative	Moderate			Medium	Council in Central West IO or merge with Oberon
Blayney	7,186	8,700	Moderate	Negative	Weak			High	Council in Central West IO or merge with Orange
Cabonne	13,188	18,600	Sound	Negative	Moderate			High	Council in Central West IO or merge with Orange
Dubbo	40,491	45,400	Moderate	Neutral	Moderate			Medium	Council in Orana IO or merge with Wellington and/or Narromine
Greater Hume	10,039	11,200	Moderate	Negative	Weak		Very High	High (part)	Council in Upper Murray IO or merge part or all with Albury
Guyra	4,543	5,000	Moderate	Negative	Very Weak	Low	High	High	Council in New England IO or merge with Armidale
Narromine	6,929	6,800	Moderate	Neutral	Moderate		Very High	Medium	Council in Orana IO or merge with Dubbo
Orange	39,480	45,800	Sound	Negative	Moderate			High	Council in Central West IO or merge with Cabonne and/or Blayney
Palerang	14,835	23,300	Moderate	Negative	Distressed			High	Council in South East IO or merge with Queanbeyan
Queanbeyan	39,826	53,800	Weak	Neutral	Weak			High	Council in South East IO or merge with Palerang
Wellington	8,937	8,600	Weak	Neutral	Weak	Low	High	Medium	Council in Orana IO or merge with Dubbo
Group F: Current and/or projected 2031 population 5-10,000 (Review status by 2020)									
Condamundra	7,501	7,100	Moderate	Neutral	Moderate	Low		Medium	Council in Riverina IO or merge with Junee
Forbes	9,471	9,200	Moderate	Neutral	Moderate			Medium	Council in Central West IO, merge with Weddin
Glen Innes-Severn	8,965	8,900	Moderate	Neutral	Weak		High	Medium	Council in New England IO
Gloucester	4,974	5,700	Very Weak	Neutral	Moderate		Very High	Medium	Council in Mid-North Coast IO or merge with Great Lakes and/or Greater Taree
Gwydir	5,074	5,100	Very Weak	Neutral	Distressed		High	Medium	Council in Namoi IO or merge with Moree Plains

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June	6,091	5,800	Moderate	Neutral	Weak	Low	High	Medium	Council in Riverina JO or merge with Coomanderra
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
Naroron	5,207	5,400	Sound	Negative	Moderate		Very High	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
Group G: Larger rural and regional councils (excluding Hunter, Central Coast and Illawarra)									
Baitina	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			Low	Council in Northern Rivers JO
Clarence Valley	51,252	53,900	Weak	Negative	Weak			Medium	Council in North Coast JO
Coffs Harbour	70,933	80,500	Weak	Negative	Weak			Low	Council in North Coast JO
Eurobodalla	36,993	43,400	Moderate	Neutral	Weak			Medium	Council in South East JO
Goulburn-Mulwaree	26,285	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	19,500	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	20,780	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
Narrabri	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	15,500	Moderate	Negative	Weak			Medium	Council in Central West JO or merge with Lachlan
Port Macquarie-Hastings	74,949	89,400	Weak	Negative	Moderate			Medium	Council in Mid-North Coast JO
Richmond Valley	22,697	24,300	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	68,300	Moderate	Neutral	Moderate			Medium	Council in Namoi JO
Tweed	88,463	104,300	Moderate	Neutral	Strong			Low	Council in Northern Rivers JO
Wingcaribbee	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

D Review Panel recommendations for regional and rural councils

**Examination of an amalgamation
proposal for the creation of a new
Local Government Area to be named
“New England Regional”**

Incorporating the whole of the areas of:

**Armidale Dumaresq
Guyra Shire
Uralla Shire**

LOCAL GOVERNMENT BOUNDARIES COMMISSION

November 2010

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CHAPTER 1 INTRODUCTION

The NSW Local Government Boundaries Commission (the Boundaries Commission) is a statutory authority constituted under section 263 of the *Local Government Act 1993*.

It has the function of examining and reporting on any matter referred to it by the Minister for Local Government regarding the boundaries of local government areas and the areas of operation of county councils.

The Boundaries Commission is appointed by the Governor, and has four members.

The Chair is nominated by the Minister for Local Government, one Commissioner is nominated by the Director General of the Department of Premier and Cabinet or his delegate, and two Commissioners are appointed from a panel of councillors nominated by the Local Government and Shires Associations of NSW representing the Local Government industry across New South Wales.

The Boundaries Commission therefore consists of equal representation from State Government and Local Government and is well constituted to independently fulfil its functions.

In 2003, Mr Chris Vardon was appointed by the then Minister for Local Government to undertake a review of the structure of local government in the Peel Region (the Peel Regional Review). He recommended amalgamations and boundary alterations affecting a number of councils in the Peel Region. The then Minister for Local Government put forward a proposal for a New England Regional local government area incorporating the local government areas of Armidale Dumaresq, Walcha, Guyra Shire (part) and Uralla Shire (part), and involving boundary alterations with Inverell Shire. The Councils made submissions suggesting a strategic alliance between four councils as an alternative to amalgamation.

In March 2004, the Local Government Boundaries Commission recommended to the then Minister that Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha local government areas be amalgamated stating:

"Significant benefits of the proposal noted by the Commission are:

- 1. The proposal represents a significant step in a wider local government reform process articulated by the NSW Government Local Government Reform Program. It is likely to achieve meaningful reform.*
- 2. The proposal should mean that the proposed new council has the financial capacity to continue to maintain its assets and provide adequate, efficient and effective services in the medium to long term.*

3. *The proposal should enable the residents to maintain the lifestyle of their choice.*
4. *The proposal should enable the proposed new council to meet its obligations under the Charter outlined in section 8 of the Local Government Act 1993.*

In the event that this proposal does not proceed to implementation immediately, the Commission recommends that the Minister review consideration of the proposal within twelve (12) months, particularly with regard to the success or otherwise of the Strategic Alliance as referred to by the four councils primarily affected by this proposal. The Commission has a number of concerns regarding the Strategic Alliance and does not support it as a means of achieving reform."

[Ref: Examination of a Proposal for a New England Regional Local Government Area, Local Government Boundaries Commission, March 2004]

The New England Strategic Alliance of Councils (NESAC) was formed in 2004. The NESAC Shared Services Charter under which it operated was due to be renewed or terminated within 12 months of the local government elections conducted on 13 September 2008. Walcha Council unilaterally resolved to withdraw from NESAC on 25 February 2009. Uralla Shire Council resolved to withdraw on 24 August 2009. While Guyra Shire Council and Armidale Dumaresq Council continue to work together, NESAC has ceased to operate as originally contemplated.

The Division of Local Government (the Division) wrote to the Councils when it became apparent that NESAC was likely to collapse. The Councils were encouraged to work with each other to address the issues that had prevented NESAC from realising its potential. The Councils were also asked to make submissions on how they intended achieving reform post NESAC. All of the Councils responded and a preliminary analysis of the Councils' submissions identified a number of significant concerns. NESAC subsequently collapsed.

The Division then undertook a review of NESAC to determine the reasons for the failure of NESAC. It concluded that they were complex and interrelated, and included a flawed structure; the lack of a sound governance framework; the failure to make ongoing use of project management methodologies; and *"ultimately, a loss of common will to make the Alliance a success."* (DLG Review of New England Strategic Alliance of Councils – December 2009, p.3)

Following the review, the Division also recommended that the Minister for Local Government appoint an independent person to facilitate a review of the delivery of local government services in the area.

Examination of a Proposal for a new local government area to be named "New England Regional"

In January 2010, the Minister for Local Government, the Hon Barbara Perry MP announced a review of the delivery of local government services in the New England area, following the collapse of the New England Strategic Alliance of Councils (NESAC). The Minister appointed an independent facilitator, Ms Gabrielle Kibble AO, to examine the current and possible arrangements for improving local government service delivery in the area.

On the completion of Ms Kibble's review, a proposal that the existing local government areas of Armidale Dumaresq, Guyra Shire and Uralla Shire Council be amalgamated to create a new local government area to be referred to as New England Regional Council was developed.

In accordance with the provisions of sections 218E(1) and 218F(1) of the *Local Government Act 1993* ("the Act"), on 10 June 2010 the Minister referred the proposal to the NSW Local Government Boundaries Commission (the Boundaries Commission) for examination and report, with regard to the factors listed in section 263(3) of the Act.

To assist the Boundaries Commission in its examination, the Division of Local Government, Department of Premier and Cabinet, provided administrative support to the Boundaries Commission and specialist advice to aid the Boundaries Commission in reaching its determinations regarding the financial impacts of the proposal.

This Report has been prepared by the Boundaries Commission and contains conclusions the Boundaries Commission has reached relating to each factor it has been required to have regard to under section 263(3) of the Act with respect to a proposed New England Regional local government area.

The section 263(3) factors are:

- (a) *the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned,*
- (b) *the community of interest and geographic cohesion in the existing areas and in any proposed new area,*
- (c) *the existing historical and traditional values in the existing areas and the impact of change on them,*
- (d) *the attitude of the residents and ratepayers of the areas concerned,*
- (e) *the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected*

representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area,

- (e1) the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities,*
- (e2) the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned,*
- (e3) the impact of any relevant proposal on rural communities in the areas concerned,*
- (e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards,*
- (e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented,*
- (f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.*

This report also contains recommendations arising out of the Boundaries Commission's examination of the proposal referred to it.

1.1 BACKGROUND

On 10 June 2010, the Minister referred the proposal for the creation of a New England Regional local government area to the Boundaries Commission for examination and report.

The Boundaries Commission wrote to all affected Councils advising of the proposal on 13 July 2010. This letter advised that, in accordance with section 263(2A) of the Act, the Boundaries Commission resolved to hold an inquiry for the purpose of exercising its functions in relation to the proposal.

The Boundaries Commission placed a public notice announcing its examination of the proposal in the following newspapers: the Tamworth Northern Daily Leader on 17 July 2010; the Armidale Express on 19 July 2010; the Armidale Independent on 21 July 2010; and the Guyra Argus on 22 July 2010.

The notice invited interested persons to lodge written submissions with the Boundaries Commission by 14 August 2010 and to indicate whether they wished to make a presentation to the Boundaries Commission at the public hearings into the proposal.

The Boundaries Commission placed a further public notice regarding details of public hearings in the following newspapers: the Tamworth Northern Daily Leader on 29 July 2010; the Armidale Express on 30 July 2010; the Armidale Independent on 4 August 2010; and the Guyra Argus on 5 August 2010.

The notice provided details of the public hearings and advised that people who had indicated their interest in speaking at the public hearings would be contacted regarding the allocation of presentation times.

The proposal, map, public notices and inquiry information have also been made available to the public on the Boundaries Commission web page on the internet, and the Boundaries Commission has accepted written submissions lodged via email, fax and/or post.

The Boundaries Commission continued to receive written submissions up until Wednesday 18 August 2010. The Boundaries Commission received a total of 197 written submissions.

The inquiry hearings took place over two days in Armidale, commencing on 23 August 2010 and concluding on 24 August 2010. Representatives from all of the affected councils addressed the Boundaries Commission. A further 39 individuals and representatives from the NSW Farmers Association, Inverell Shire Council and the United Services Union, also made presentations to the Boundaries Commission.

At the conclusion of the hearings, the Boundaries Commission duly considered all the evidence and materials before it, including the submissions received from the affected councils and other interested individuals and groups, before coming to its conclusions in respect of the proposal.

CHAPTER 2 THE NATURE OF THE PROPOSAL

The proposal examined by the Boundaries Commission recommends the formation of a new local government area to be named New England Regional, to be comprised of the existing areas of Armidale Dumaresq, Guyra Shire and Uralla Shire.

The proposal recommends that these three existing local government areas are amalgamated along the current external boundaries of the three areas.

A detailed technical description of the proposed boundary is contained in Chapter 5 of this Report, and a map of the existing and proposed local government area boundaries is contained in Chapter 7 of this Report.

The Boundaries Commission has examined the proposal and had regard to the factors listed in section 263(3) of the Act. In exercising its functions in respect of the proposal the Boundaries Commission held an inquiry, as required by section 263(2A) of the Act. In the course of the inquiry the Boundaries Commission held public hearings and invited written submissions on the proposal.

CHAPTER 3 SUBMISSIONS

In its public notice advertising the referral of the proposal to the Boundaries Commission, the Boundaries Commission invited written submissions from persons with an interest in putting forward points of view relating to the proposal with reference to the factors detailed in Section 263(3) of the *Local Government Act, 1993*. It was advised that such submissions should be forwarded to the Boundaries Commission by 14 August 2010. The Boundaries Commission continued to accept and consider submissions received by Wednesday 18 August 2010.

The Boundaries Commission received 197 submissions from interested persons for the purposes of its processes in respect of the proposal.

The public notice also indicated that persons making submissions should give written indication by 14 August 2010 whether they wished to speak at public hearings to be conducted by the Boundaries Commission commencing on 23 August 2010.

Some 45 persons (including representatives of the three affected Councils; the United Services Union; the NSW Farmers Association; and Inverell Shire Council) sought such an opportunity and all were allocated speaking times.

All written and oral submissions made to the Boundaries Commission were carefully considered in the course of the Boundaries Commission's deliberations.

Representatives of the affected Councils accepted the Boundaries Commission's invitations to make oral presentations at the inquiry hearing in Armidale commencing on 23 August 2010.

The preparation of this report has been aided by the analysis of material provided to the Boundaries Commission by the affected Councils and other relevant material.

CHAPTER 4 EXAMINATION OF THE PROPOSAL

The Boundaries Commission is required by section 263(3) of the Act to examine and report on the proposal with regard to a number of specific factors or criteria.

The Boundaries Commission's considerations relating to each factor listed in section 263(3) of the Act are now set out.

4.1 FINANCIAL ADVANTAGES AND DISADVANTAGES

4.1.1 INTRODUCTION

Section 263(3)(a) of the Act requires the Boundaries Commission to have regard to *"the financial advantages and disadvantages (including the economies and diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned"*.

The income and expenditure of the three existing councils involved in the proposal have been examined and compared against industry standards and other relevant information to assist in determining the financial advantages and disadvantages of the proposal. The Division of Local Government, Department of Premier and Cabinet has provided relevant data and analysis to the Boundaries Commission to assist it in this regard.

The Division of Local Government's category system of NSW councils for comparative purposes places the proposed new council into group 4 that is an Urban Regional Medium (URM) group of councils.

At the time of preparation of this report, the Division's latest available audited financial information was for the 2008/09 year. Audited financial information for Guyra Shire and Armidale Dumaresq Councils and unaudited financial information for Uralla Shire Council for 2009/10 was also examined. Comparative information on NSW Local Government Councils is only available for 2008/09.

The latest available figures have been reviewed. While direct comparisons between the figures should be treated with a degree of caution, they can be used as a guide in comparing the projected performance of the proposed new local government area to be known as the New England Regional against the industry average for councils of a similar size and nature.

4.1.2 REVENUE FROM ORDINARY OPERATIONS

The proposed new council is estimated to have:

- Total revenue of about \$66.65 million
- 34% of its income from rates and annual charges, less than the average of similar councils (42.11%)
- Similar levels of revenue from user fees and charges of similar sized councils (19.5% compared to the average 20.16%), and
- Higher grants and contributions (31.8% compared to 22.75%) than other similar councils

Revenues from Ordinary Operations for 2008/09 (\$'000)

	Armidale Dumaresq	Guyra Shire	Uralla Shire	Totals	%	2008/09 Group 4 Average
Rates & Annual Charges	15,877	3,041	3,743	22,661	34.0	42.11
User Charges & Fees	10,274	769	1,944	12,987	19.5	20.16
Investment Revenue	Nil	15	197	212	0.3	1.03
Grants & Contributions – Operating	10,059	2,929	8,230	21,218	31.8	22.75
Grants and Contributions – Capital	1,532	2,080	1,256	4,868	7.3	
Other Operating Revenues	2,521	518	276	3,315	5.0	
Profit from Disposal of Assets	512	422	457	1,391	2.1	
Total	40,775	9,774	16,103	66,652	100	

Per capita income for the proposed council is estimated to be about \$1,828.34pa, higher than the average figure for councils in the same category which is estimated to be \$1,129.91pa.

4.1.3 EXPENDITURE FROM ORDINARY ACTIVITIES

The proposed new council is likely to have:

- Total expenditure of \$63.84 million
- Employee costs (40.4%) higher than the group average (33.76%)
- 428 full time equivalent (fte) staff, 119 more than the group 4 average of 309 fte staff
- Borrowing costs (2.6%) slightly less than the group average (2.88%)
- Materials and contracts (26.4%) slightly less than the group average (28.43%)
- Expenditure per capita of \$1,751.25 pa compared to the group average of about \$1,272.27 pa.

Expenditure from Ordinary Activities for 2008/09 (\$'000)

	Armidale Dumaresq	Guyra Shire	Uralla Shire	Totals	%	2008/09 Group 4 Average
Employee costs	16,385	3,205	6,219	25,809	40.4	33.76
Materials & Contracts	10,291	2,606	3,979	16,876	26.4	28.43
Borrowing Costs	1,442	51	153	1,646	2.6	2.88
Depreciation	6,213	1,739	1,505	9,457	14.9	22.88
Other Expenses	5,083	1,168	1,219	7,470	11.7	
Interest and Investment Losses	2,584	0	0	2,584	4.0	12.02
Total	41,998	8,769	13,075	63,842	100.00	
Surplus/(Deficit) on Ordinary Activities	-1,223	1,005	3,028	2,810		

In relation to expenditure the new council would be expected to have higher expenditure on employee costs than similar councils but comparable expenditure on materials and contract costs. There is no indication that the proposed new council would be able to achieve a reduction in staff and consequently in employee costs within a reasonable period under the current conditions.

Over the past three years the percentage of expenditure for material and contracts has reduced slightly, this could possibly be as a result of the NESAC activities.

4.1.4 FINANCIAL RATIOS

Debt Service Ratio

The debt service ratio is used to assess the degree to which revenues from ordinary activities are committed to repaying debts. The ratio assesses the impact of loan principal and interest repayments on the discretionary revenue of councils. The Division of Local Government's accepted benchmark for debt service ratio is <10% satisfactory, 10% to 20% is fair, and >20% is of concern.

The debt service ratio for Armidale Dumaresq Council showed improvement over three years with a downwards trend, with a 2008/09 figure of 8.20%, which is at the higher end of the acceptable benchmark. Continued action by the Council would seem desirable to the Boundaries Commission. The ratios for Guyra Shire and Uralla Shire Councils of 3.41% and 2.90% respectively show that they can comfortably meet their existing debt obligations.

Debt Service Ratios

	2006/07 (%)	2007/08 (%)	2008/09 (%)	2008/09 Group average
Armidale Dumaresq	10.39	9.88	8.20	7.10
Guyra Shire	4.35	8.53	3.41	3.09
Uralla Shire	6.74	6.19	2.90	2.30

As can be seen from the above table the debt service ratios for all three Councils are slightly higher than that for similar sized councils but would appear to be sustainable without amalgamation.

The proposed new council is estimated to have a debt service ratio of about 3.4%, which is lower than the average for councils in group 4 for 2008/09 and well below the benchmark of 10%.

Unrestricted Current Ratio

This indicator measures a council's ability to meet its financial obligations as they fall due.

A ratio of 1:1 indicates that sufficient assets are on hand to meet current liabilities. Ratios of less than 1:1 are unsatisfactory. Ratios between 1:1 and 2:1 are satisfactory. Ratios greater than 2:1 are generally viewed as good.

Unrestricted Current Ratios

	2006/07 (%)	2007/08 (%)	2008/09 (%)	2008/09 Group Average
Armidale Dumaresq	2.49	2.48	2.18	2.25
Guyra Shire	2.78	2.31	3.39	3.78
Uralla Shire	0.64	1.24	3.62	3.52

The unrestricted current ratio for Armidale Dumaresq Council, while satisfactory, has gradually declined over three years reflecting its increasing exposure to debt servicing costs. The Boundaries Commission, by majority, is of the view that attention needs to be given to this aspect before amalgamation could be considered.

The unrestricted current ratio for Guyra Shire Council has improved slightly, while the unrestricted current ratio for Uralla Shire Council has improved markedly over three years.

The proposed new council's ratio is likely to be approximately 2.6, which would be satisfactory.

4.1.5 CASH AND INVESTMENTS

The current unrestricted cash reserves for Armidale Dumaresq (12% of total reserves), Guyra (19%) and Uralla (21%) are adequate to meet normal operational investments.

Cash and Investments (\$'000) 2008/9

	Armidale Dumaresq	Guyra Shire	Uralla Shire
Externally Restricted	7,890	3,501	3,814
Internally Restricted	5,174	1,888	1,604
Unrestricted	1,774	1,328	1,448
Total	14,838	6,717	6,866

The Boundaries Commission notes that all three Councils had exposure to losses on investments related to collateralized debt obligations (CDOs). Armidale Dumaresq Council experienced the largest unrealised loss (\$7.1 million in 2007/08 and \$3.1 million in 2008/09). This resulted in all three councils having to write down their investments in recent financial years and accounted for most of

the deficit experienced by Armidale Dumaresq Council in the last two financial years, and resulted in the qualifications of the 2008/2009 financial statements of all three Councils.

The Boundaries Commission is of the majority view that amalgamation would not result in a material improvement to the availability of current unrestricted cash reserves to meet normal operational needs of the council.

4.1.6 RATES

Rates and Annual Charges Outstanding

Outstanding rates ratio is a measure of the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts. The industry benchmark is 10% or less.

Rates and Annual Charges Outstanding

	2006/07 (%)	2007/08 (%)	2008/09 (%)	2008/09 Group Average (%)
Armidale Dumaresq	11.43	11.23	11.71	6.0
Guyra Shire	10.52	7.41	7.84	8.9
Uralla Shire	6.39	11.19	9.33	7.71

The ratio for all three councils is reasonably high, with only Guyra showing steady improvement over three years. Similarly only Guyra has a ratio lower than the group average for councils of a similar size.

The ratios for both Uralla Shire Council and Guyra Shire Council are below the benchmark of 10% and are regarded as satisfactory, notwithstanding that they are above the average for councils of a similar size.

Armidale Dumaresq's 2008/09 ratio of 11.71% is over the benchmark of 10% which is regarded as unsatisfactory. This may indicate that the area is suffering a degree of hardship perhaps due to a natural disaster or climatic conditions, or it may indicate that Council is not actively pursuing outstanding rates. Pursuant to section 564 of the Local Government Act, councils may accept payment of rates and charges due and payable by a person in accordance with an agreement made with the person.

The Boundaries Commission, by majority, is of the view that attention needs to be given to debt recovery by each council.

It is predicted that the outstanding rates ratio for the proposed council would be approximately 10.8%, just over the benchmark of 10%.

Rating Issues

Each council has its own rating structure. The proposed merger would require a revision of the rating systems. In order to overcome any potential hardship caused if the new council were to be established the Commission would recommend that changes in rate levels should be introduced over a number of years.

Average Rates Levied (2008/09)

Rating Type	Name of Sub Category	No of Assessments	Land Values as at 1 July 2009
Armidale Dum.			
Residential	Armidale City	7,643	642,061,780
Business	Armidale City	531	154,041,779
Farmland	Armidale City	12	4,591,700
Residential	Non Urban	1,053	184,839,950
Business	Non Urban	24	4,420,930
Farmland	Non Urban	878	562,867,360
Mining	Non Urban	10	1,861,120
Guyra			
Farmland		804	601,777,540
Residential	Guyra	834	39,511,000
Residential	Tingha	281	700,790
Residential	Village	122	3,130,960
Residential	Guyra Rural	22	2,855,100
Residential	Tingha Rural	5	47,870
Residential	Other Rural	45	3,649,320
Residential	Rural	94	9,207,810
Business	Guyra	105	4,869,560
Business	Tingha	31	85,510
Business	Village	9	331,200
Business	Other	12	385,510
Mining		6	146,080
Uralla			
Residential		1,359	73,252,100
Residential	Rural Residential	748	95,099,900
Farmland		585	454,585,550
Business		156	10,396,640

It should be noted that the above table does not include water, sewerage, and waste disposal charges, which are derived from user pays charges and fees from funds which are restricted solely for the purpose of delivery of these services.

Special Rate Variation History

All NSW councils are entitled to raise additional rates revenue if given approval for a "special variation to general income" by the Minister for Local Government.

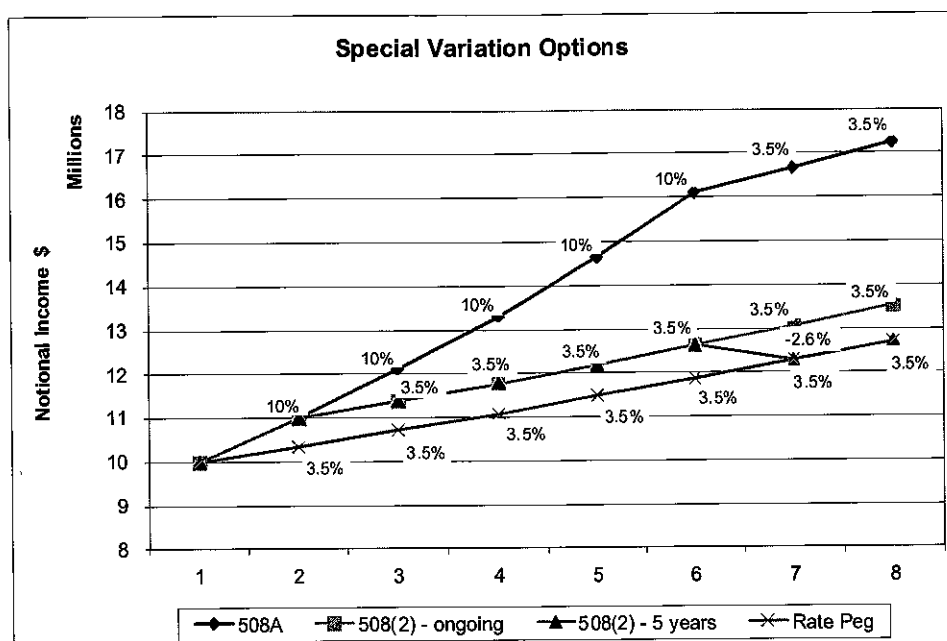
There are two sections in the Local Government Act pursuant to which councils can request approval to increase income above the rate peg amount: section 508(2) and section 508A.

The appropriate type of special variation depends on the council's needs and purpose for the funds.

- Section 508(2) allows for a one off percentage increase above the rate peg for a specified year. This percentage increase can either remain permanently in the council's rate base or it can be for a fixed period. Where it is for a fixed period the additional increase above the rate peg (indexed by the rate peg for the second and subsequent years of the period) is removed from the council's revenue base at the end of the period for which the special variation has been granted.
- Section 508A allows a council to increase its general income by an amount greater than the rate peg each year, up to a maximum of 7 years, following which (in the absence of another approved special rate variation) the council is only permitted to increase its rates by the rate peg amount.

The following graph provides an example of how the different types of special rate variations could affect a council's rates:

Examination of a Proposal for a new local government area to be named "New England Regional"



All three Councils the subject of the proposal being examined by the Boundaries Commission have received approval for special rate variations. These are shown in the table below.

Special Rate Variation History

Year Granted	Type of Variation	%Approved	Period (yrs)	Reason
Armidale Dumaresq				
2005/06	s.508(2)	5.78	7	Infrastructure maintenance & renewal
Guyra Shire				
2008/09	s.508(2)	15.02	1	Renewal of rural roads
2009/10	s.508(2)	8.43	Ongoing	Infrastructure maintenance & renewal
Uralla Shire				
2003/04	s.508(2)	4.06	Ongoing	Infrastructure maintenance & renewal

The "ongoing" special rate variations for both Guyra and Uralla means that the Councils do not have to reduce their rated income by a specified amount in future years.

Armidale Dumaresq Council received a special rate variation for 7 years only, expiring in 2011/12. This means that the Council will need to reduce its rates revenue by the amount of the extra income they would have received, indexed by each years rate peg, at the beginning of 2012/13. Any application to continue this variation would need to be made to the Independent Pricing and Regulatory Tribunal (IPART) and would need to demonstrate community support. Should Armidale Dumaresq not apply for the continuation of this variation or an unsuccessful application is made, the income for this council from rates may fall slightly in the year the variation approval expires. The effect of the special Rate variation in financial year 09/10 was approximately \$259,000.

4.1.7 ASSETS/CAPITAL EXPENDITURE

Expenditure on Assets

The table below shows a comparison between the estimated expenditure needed to maintain assets to their current standard and the actual programmed maintenance expenditure.

Condition of Public Works (All Assets)

	Estimated Expenditure to Maintain Current Standard 2008/09 (\$'000)	Actual Maintenance Program 2008/09 (\$'000)	Difference (Actual Expenditure – Estimated Expenditure) (\$'000)
Armidale	4,689	4,165	-524
Dumaresq			
Guyra Shire	1,655	1,385	-270
Uralla Shire	2,354	2,463	109
Totals	8,698	8,013	-685

For both Armidale Dumaresq and Guyra Shire Councils the actual maintenance program is less than the estimated expenditure required to maintain assets at their current standard. Armidale Dumaresq Council has recorded a shortfall in asset maintenance spending over 5 financial years.

By contrast Uralla Shire Council reported spending more than required on asset maintenance over 4 financial years.

It should be noted that the amount of estimated expenditure needed to maintain assets at their current standards is not subject to audit, but is an assessment made by councils.

In the event of amalgamation, income from the sale of surplus assets maybe available to reduce debt and/or replace or renew existing assets. The Boundaries Commission, by majority, is of the view that decisions about asset management would fall within the asset management policy and plans which are required under Integrated Planning and Reporting.

4.1.8 BUSINESS ACTIVITIES

Armidale Dumaresq Council operates water supply and sewerage services. Both of these business activities recorded deficits in the 2008/09 financial year of

\$1.675 million and \$1.161 million respectively. These deficits would clearly have an adverse impact on the financial health of this Council.

Guyra Shire Council also operates a water supply service and a sewerage service. Both activities reported surpluses in the 2008/09 financial year of \$99,000 and \$42,000 respectively.

Uralla Shire Council, like Armidale Dumaresq Council and Guyra Shire Council, operates a water supply service and a sewerage service. The water supply service reported a deficit in the 2008/09 financial year of \$120,000. The sewerage service recorded a surplus of \$70,000. Uralla Shire Council also identifies private works and an aged care centre (McMaugh Gardens) as business activities. The private works reported a deficit of \$70,000 and the aged care facility a surplus of \$126,000.

These deficits seem to indicate that these councils have failed to maintain proper pricing principles for maintenance and renewal of these assets.

Overall for each council these activities have minimal impact on finances as they are restricted funds.

The Boundaries Commission is advised that if the councils were amalgamated all three water supply and sewerage services would need to continue.

4.1.9 ESTIMATED SAVINGS IN RELATION TO THE PROPOSAL

Assumptions

- The proposed New England Regional Council consists of 12 elected representatives with the same allowances paid as Armidale Dumaresq Council
- The only senior officer would be the new general manager and the two senior officers currently engaged by Armidale Dumaresq Council
- There are no other savings in employee costs in the short term
- Possible one-off savings from consolidation of plant and equipment

Operational Savings

	\$
Mayor/Councillors	200,000
General Manager	<u>253,500</u>
Total	453,500

While the Boundaries Commission recognises that savings may be achieved in overhead costs such as insurances, fees and in natural attrition of staff no evidence has been presented to the Boundaries Commission that this has occurred following other amalgamations.

4.1.10 FINANCIAL ASSISTANCE GRANTS

Financial Assistance Grants (FAGs) are provided by the Commonwealth Government to local government under the provisions of the *Local Government (Financial Assistance) Act 1995*. Federal funding can be project-specific or part of the annual fiscal equalisation and is distributed through the NSW Local Government Grants Commission. In 2009-2010 the estimated grant entitlement for NSW councils amounts to \$611 million.

There are two components to the grant:

- a **general purpose** component of \$441 million, which is determined according to a fiscal equalisation model that attempts to equalise the financial capacity of councils by assessing their relative cost and revenue needs; and
- a **local roads** component of \$171 million, which is determined on the basis of population, local road and bridge length.

Both components are paid to councils as untied grants, which can be used by local authorities according to their own local priorities. A minimum grant "safety net" applies to the general-purpose component.

The NSW Local Government Grants Commission's recommendations require endorsement by the NSW Minister for Local Government prior to approval by the Commonwealth Minister for Regional Australia, Regional Development and Local Government.

Financial Assistance Grants Allocated 2010-2011 (preliminary)

Local Government Area	Estimated Resident Population as at 30/6/09 (p)	General Purpose (final) (\$)	Per Capita (\$)	Local Roads (final) (\$)	Total Allocated (final) (\$)
Armidale Dumaresq	25,696	2,760,148	107.42	1,188,166	3,948,264
Guyra Shire	4,521	1,127,535	249.40	778,645	1,906,180
Uralla Shire	6,238	1,187,789	109.41	810,527	1,998,316
Total	36,455	5,075,472	139.23	2,777,288	7,852,760

The NSW Local Government Grants Commission is sensitive to the need for grant stability during periods of structural reform. Accordingly, the Grants Commission has in place a distribution principle, which states that:

"where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities."

Therefore, if the amalgamation proposal were implemented and subject to there being no significant data changes, it would be expected that FAG funding for the new council entity would continue at 2010-11 levels for at least four years.

It should be noted that the "four-year" element of the amalgamation principle recognises limitations in the availability of data required by the Grants Commission to assess grant needs beyond that two-year time frame. For that reason the discretionary element of the principle allows the Grants Commission the flexibility to carefully monitor grant outcomes and limit change, should that be necessary.

4.1.11 FINANCIAL VIABILITY

Armidale Dumaresq Council has incurred a loss before capital items for five years, with a cumulative loss of \$10.131 million. In 2008/09 it recorded an operating deficit of \$1.223 million. If this trend continues Council will not be able to provide for the replacement of its assets as they are being used. The Forsyth's Report (2009, p.9) predicts that if Council implements its long term asset renewal proposal this will result in an unacceptable reduction in its liquidity levels and cash reserves (Forsyth's Report, p.9).

Council's debt service ratio of 8.20% is at the high end of what is acceptable. The Forsyth's Report recommended that the Council address the issue of long term debt (Forsyth Review, p.12).

Council relies on grants and contributions for 21% of its income, which is considered sustainable. Income from rates and annual charges accounts for 39% of its income. It has total unrestricted cash and investments of \$1.771 million.

In the circumstances, Council has indicated that it does not have the financial capacity to maintain all of its assets at a satisfactory level in the longer term

The gradual decline in the unrestricted current ratio for this Council indicates an increasing exposure to debt servicing costs. Further the renewal proposals, while positive will most likely result in an unacceptable reduction in liquidity levels and reserves.

Council's main expenditure is employee related, which represents 39% of its total expenditure. Employee related costs increased by \$1.625 million in 08/09. This increase is as a result of increased staff numbers. In 06/07 there were 228 full time equivalent staff, in 07/08 there were 237 full time equivalent staff and in 08/09 there were 262 full time equivalent staff. The staff increase of 10.5% in 08/09 is one of the highest for all local councils.

The Boundaries Commission notes that this increase is largely attributable to Armidale Dumaresq Council taking over the provision of finance, IT and plant, fleet and web operations on behalf of NESAC. The Boundaries Commission further notes that as a result of the winding up of NESAC Armidale Dumaresq Council will be reviewing these positions and some employees will be redeployed to their original councils.

Council also has a large expenditure on materials and contracts. In 08/09 this amounted to 24.5% of total expenditure. However over three years expenditure for materials and contracts has been reduced.

Guyra Shire Council had revenue from ordinary operations in 2008/09 of \$9.1 million. This is an increase of \$1 million on the previous year. However Council's main source of income is from grants. In 2008/09 this accounted for 50.77% of its total revenue. The average grants income for similar councils is 40.06% of revenue. Reduction to grant revenue could have a significant adverse impact on the sustainability of this Council over the long term.

Total expenditure for Guyra in 2008/09 was \$8.1 million a decrease of \$0.1 million on the previous year, as a result of reducing costs on other expenses. It should be noted that employee related expenses increased by \$0.1 million in 2008/09.

The debt service ratio for 2008/09 was satisfactory and has improved significantly from 2008/07.

Overall Guyra achieved an operating surplus of \$1.001 million.

In 2008/09 Guyra had unrestricted cash and investments of \$1.321 million. Council's unrestricted current ratio was 3.39 which has improved over three years is good indicating that Council is able to meet its financial obligations as they fall due.

However its capital expenditure program is less than the estimated cost to maintain assets in a satisfactory condition. In 2008/09 the programmed maintenance expenditure for Guyra was \$270,000 less than the estimated cost to maintain assets in a satisfactory condition, continuing a trend in shortfall

spending which has occurred for 5 financial years, which the Boundaries Commission notes is common with other councils in NSW.

Uralla Shire Council had total income of about \$16.1 million in 2008/09 and incurred a surplus of \$3.021 million, which was a significant improvement on the prior year's surplus of \$0.221 million. This was largely a result of increased income from grants of \$1.1 million, together with a reduction in expenditure on materials and contracts.

However Council's main expenditure is in employee related expenditure. This amounted to 47.6% of total expenditure. This reflects the large number of full time equivalent staff employed by Council. In 2008/09 Council reported 115 full time equivalent staff, an increase of 13.9% on the previous year. It should be noted that these 115 full time equivalent staff, equate to 136 employees of which, Council has advised that 57 are employed using funds received from Federal Government appropriations and because of this these staff are employed subject to the funding continuing.

Council's main source of income is from grants which represents 52.4% of its total revenue. As with Guyra Shire Council, this is well above the average of 41.41% for comparable councils.

A high reliance on grants for income is considered to be unsustainable in the long term. Particularly, with specific purpose grants, there is no certainty that the grant funding will continue at the same level into the future and should the grant funding discontinue or decrease Council could be left with a significant revenue shortfall. In these circumstances Council would then be required to either discontinue the service/function which it was providing to the community from these grant funds or reallocate its resources creating pressure on other services and functions provided by Council.

Uralla Shire Council advised the Boundaries Commission that its high proportion of grants revenue is a reflection of the fact that it includes \$4.09 million in the form of contested Federal appropriations for the provision of Community Services Program through Tablelands Community Support Options; Kamilaroi Aged and Disabled Services, McMaugh Gardens Aged Care Center and Tablelands Community Transport.

Council goes on to advise that *"If the contract for service funds are removed from Council's financial statements and budgets there will be no effect on Council's core business responsibilities of roads and bridges; waste, re-cycling and environment; water; sewer; health and buildings; footpaths; parks and gardens because the Staff are employed subject to funding and the community services provided have no residual expectation from the Community."* (Submission Uralla Shire Council to LGBC 11 August 2010, p.2)

Its programmed expenditure to maintain its assets in 2008/09 was slightly higher (\$0.1 million) than the estimated expenditure needed to maintain assets at their current standard.

Council's debt service ratio has also improved over previous years to 2.90% in 2008/09 down from 6.19% in 2007/08 and well below the benchmark of 10%.

The proposed New England Regional Council should have total revenue of \$66.65 million, with a net surplus of \$2.81 million. This surplus represents the combined surpluses from Uralla Shire and Guyra Shire Councils. It should be noted that both these Councils have a high dependence on grant funding which is considered by the Boundaries Commission as unsustainable in the long term.

Capital expenditure will need to increase if asset maintenance is to keep pace with deterioration.

Unrestricted cash and investments are expected to be approximately \$4.1 million, more than adequate to meet normal operational activities and sufficient to assist in funding the shortfall in capital expenditure.

The proposed council is likely to have a lower level of income from rates and annual charges (34%) compared to the group average (42%) for councils of a similar size. It is also likely to have a greater reliance on grants and contributions compared to similar councils, (31% compared to 19.5%).

Per capita expenditure is estimated to be \$1,828pa more than the category average of about \$1,129pa.

4.1.12 CONCLUSION

Both Guyra Shire and Uralla Shire Councils rely on grants for a significant proportion of their respective incomes.

It is generally held that a high reliance on grants for income (greater than 30% of revenue) is considered to be unsustainable in the long term. Particularly, with specific purpose grants, there is no certainty that the grant funding will continue at the same level into the future and should the grant funding discontinue or decrease council could be left with a significant revenue shortfall. In these circumstances council would then be required to either discontinue the service/function which it was providing to the community from these grant funds or reallocate its resources creating pressure on other services and functions provided by council.

Amalgamation of the Councils would reduce the percentage of revenue obtained from grants to 31%. However, this is still a higher proportion of revenue than similar group 4 councils where income from grants is on average 19.5% of revenue.

The Boundaries Commission notes that Armidale Dumaresq Council would contribute to 75% of the debt of the proposed new council but contribute only 55% of the revenue. Consequently Uralla Shire and Guyra Shire Council residents and ratepayers would be required to share this debt burden. Further, the Boundaries Commission is of the view that amalgamation would not result in a material improvement to the availability of current unrestricted cash reserves to meet normal operational needs of the council and does not provide a sound platform for amalgamation.

While some small ongoing savings could be identified associated with a reduction in councillor fees, the majority of Boundaries Commissioners were not persuaded by the information examined that the proposal had significant financial advantages for the residents and ratepayers of the areas concerned.

As a result of the employment protection provisions contained in the Local Government Act, the proposed amalgamated council would be required to maintain staff. This would result in the proposed council having 119 more full time equivalent staff than the average full time equivalent staff number for similar sized councils for some time into the future.

The Boundaries Commission notes that if the councils were amalgamated all three water supply and sewerage services would need to continue.

The Boundaries Commission was not able to obtain in-depth financial analysis and projections given its resource constraints, so has been unable to further assess the proposal in this regard. Therefore the Boundaries Commission has been limited to considering publically available audited financial information.

The Boundaries Commission notes the general need for further examination of council finances and sustainability, including previously amalgamated councils in NSW to better inform decisions in future.

See recommendations 4, 5, 6 and 7.

These conclusions of the Boundaries Commission are by majority.

4.2 COMMUNITY OF INTEREST AND GEOGRAPHIC COHESION

Section 263(3)(b) of the Act requires the Boundaries Commission to have regard to *"the community of interest and geographic cohesion in the existing areas and in any proposed new area."*

In outlining the proposal to the Boundaries Commission on the first day of the public hearing on 23 August 2010, an officer of the Division of Local Government gave an overview of the findings of the Kibble Review and presented the main aspects of the proposal.

With regard to community of interest, the proposal states that:

"A clear community of interest exists between Armidale Dumaresq, Guyra Shire and Uralla Shire Councils. Furthermore, those councils face significant threats to their long term viability if a coordinated approach to regional strategic planning and service delivery is not implemented."

An amalgamation of the Armidale Dumaresq, Guyra Shire and Uralla Shire Council areas is therefore considered to be the only viable option to improve local government services in the New England area in the long term."

The Boundaries Commission notes the history of local government in the area subject of this inquiry process and the general community of interest and geographic cohesion centred around Armidale.

When considering this region, the 1973 Barnett Inquiry report recommended creation of a district comprising a slightly larger area than this proposal covers. It recommended inclusion of the then areas of Armidale City, Shires of Guyra, Uralla and Dumaresq and Walcha.

Reform discussions between those Councils in 1997 also canvassed amalgamation and/or boundary alterations across that broader area.

Following an inquiry conducted in late 1999, the former Armidale City Council and Dumaresq Shire Council resolved to proceed with a voluntary amalgamation. The new Armidale Dumaresq Council was proclaimed and commenced operations on 21 February 2000.

During that inquiry process, a submission made by Dr David Brunkhorst, Director, Institute for Bioregional Resource Management, also identified a far wider community of interest spreading into the shires of Walcha, Guyra and Uralla.

"The evidence given by Dr Brunkhorst at the public hearing and contained in his submission, maps communities of interest across a variety of different factors. It can be seen, that depending on the measure chosen, that the community may not only be Armidale/Dumaresq but Guyra, Uralla and Walcha Shires as well. As one person making a submission seeking the transfer of properties said, "a community of interest is more than where you get your car serviced". This is undoubtedly so, and needs to be considered on a much wider scale than what is the closest service town to the place of residence."

[Ref: SECTION 263 INQUIRY ARMIDALE & DUMARESQ COUNCILS, December 1999]

In 2004 Mr Chris Vardon, OAM, Facilitator who conducted the regional review of the Peel area, recommended creation of a New England Regional Council involving the local government areas of Armidale Dumaresq, Guyra, Uralla and Walcha.

"The dominating community of interest for people in the Armidale region is their dependency on, and linkage to, Armidale. As in any other region in NSW, there are local communities of interest embedded under the region. These include Guyra, Uralla and Walcha, all of which have strong local affiliations, heritage and traditions. Tingha is largely in the same position. Rural areas have both an historic and a contemporary sense of the importance of their industries and cultures.

None of this, however, would be endangered by the establishment of a regional council, and better planning supported by a stronger resource base would protect and strengthen local features."

[Ref: Proposal for the creation of a new New England Regional Council, December 2003]

4.2.1 ARMIDALE DUMARESQ COUNCIL

In its submission to the Boundaries Commission, Armidale Dumaresq Council stated its support for the proposal and detailed preferences for representation and implementation issues. No impediments in relation to community of interest or geographic cohesion were identified.

4.2.2 GUYRA SHIRE COUNCIL

In its submission Guyra Shire Council advocates for an alternate reform option involving a restructure of the affected councils under a shared senior executive arrangement. It advises that Council will continue to champion reform but that amalgamation is not the preferred option, and details preferences for implementation details if the current proposal proceeds. No impediments in relation to community of interest or geographic cohesion were identified.

In an open letter to the residents of Guyra Shire, the Mayor of Guyra states:
"Our geographic proximity to Armidale and the economic and social influence of that community on Guyra has convinced those reviewing Councils that we hold a strong community of interest with Armidale Dumaresq Council."

Submissions and petitions received from Guyra residents expressed concern that Armidale may be plotting a 'takeover' of surrounding areas and fears that service delivery and representation may be diminished.

4.2.3 URALLA SHIRE COUNCIL

In its submission to the Boundaries Commission, Uralla Shire Council states that:

"Much is made of the "Community of Interest" while very little attention is paid to a "Community". Each community within our Council areas is unique, however imbedded within each is a rural character. It matters little, as one resident recently stated "where I am forced to work" rather than "where I chose to live"."

Council also refers to its involvement in an Australian Research Council (ARC) funded project 'Cultural Asset Mapping for Planning and Development in Regional Australia (CAMRA)' which has the potential to redefine 'community'.

Council also expresses concern that *"It is the strongly held view of Uralla Shire Council and its Community that an amalgamation of the rural shires with the larger region would reduce Uralla to a service centre."*

Submissions and petitions received from residents of Uralla Shire expressed concern that there may be less direct service delivery and local decision making than currently enjoyed, and that this may diminish communities of interest over time. They also distinguish their local communities of interest in close knitted rural communities and villages as unique and precious to them.

4.2.4 OTHER ISSUES

The Boundaries Commission notes that other suggestions, alternatives and requests have been made by the affected councils and by community groups and individuals with regard to the boundaries of the proposed New England Regional local government area.

It is therefore important that the Boundaries Commission clarify its role. The *Local Government Act 1993* does not give the Boundaries Commission power to make significant amendments to proposals for boundary alterations or amalgamations. In this regard, it may only make recommendations concerning the proposal currently before it.

The Boundaries Commission notes that some comments were made in submissions and at public hearings regarding support for alteration to the existing boundaries between Uralla Shire Council and Walcha Council; and Uralla Shire Council and Inverell Shire Council.

While the Boundaries Commission considers that there may be merit in such boundary alteration suggestions, they are not part of the proposal currently before the Boundaries Commission for its examination and report. However, consideration could be given to preparing a proposal for these suggested boundary alterations for the consideration of the Division of Local Government or the Boundaries Commission at some future time. Such a proposal could be initiated by an appropriate minimum number of electors. The mechanisms available for initiation of such a proposal are set out in section 218E of the Act

4.2.5 CONCLUSION

The Boundaries Commission notes that in the past a broader community of interest and reform has been recommended than that covered by the current proposal.

The Boundaries Commission is of the view that should any further amalgamations be considered in the future that consideration could be given to the possible inclusion of Walcha local government area.

The Boundaries Commission admires and supports the passion of Uralla and Guyra residents for their close knitted local communities and rural and village lifestyles. The Boundaries Commission has greatly appreciated their interest and involvement in this inquiry. However, on balance, the majority of the Commissioners are not convinced that there is no affinity with Armidale.

The Boundaries Commission notes that many submissions also reflected a vision of the entire New England region, and people saw themselves as residents of the region who conduct business in and enjoy the whole of the region. By majority the Commissioners are of the view that under the broader view of community interest a relationship exists between the three local government areas.

4.3 HISTORICAL AND TRADITIONAL VALUES

Section 263(3)(c) of the Act requires the Boundaries Commission to have regard to *"the existing historical and traditional values in the existing areas and the impact of change on them."*

The Boundaries Commission notes that the historical information contained hereunder is obtained from other sources.

4.3.1 ARMIDALE DUMARESQ

First settled by Europeans in the 1830s, the town of Armidale was named after the Scottish home of the Crown Commissioner of Lands.

Initially a centre for wool production, it prospered with the discovery of gold in 1852 and became a centre for tertiary education after World War II. It is still renowned for its fine wool and beef cattle.

Set in a historic pastoral community, Armidale has a cosmopolitan feel amid old world grace along with an established modern university. A flourishing arts and cultural scene includes many fine museums and galleries.

Heritage buildings, grand cathedrals and tree-lined streets make Armidale a picturesque base for exploring the New England region. Surrounded by the rugged beauty of several national parks, the city has extensive parks and gardens with spectacular deciduous trees.

[Source: Tourism NSW: www.visitnsw.com.au]

The Boundaries Commission notes the range of detailed historic information papers available on the Armidale Dumaresq Council website, including a paper on Boundaries chronicling the history of Council's establishment and various boundary debates and options covering the entire area affected by this proposal up until approximately 1980.

"The Armidale City Council's boundary request in July 1979 involved the extension of the city boundaries to take in some 400 square kilometres of surrounding shires. It extended west to Saumarez Creek, north to Newholme, Sunnyside Road and included Puddledock Dam, east to Burying Ground Creek, Blue Hole and south to the Black Lane. Not surprisingly, a fierce debate took place in the newspapers and radio between representatives of Armidale and surrounding Dumaresq, Guyra and Uralla Shire councils."

[Ref: <http://www.armidale.nsw.gov.au/files/10577/File/Boundaries.pdf>]

In 1999 the former Armidale City and Dumaresq Shire Councils lodged a voluntary amalgamation proposal for creation of the current Armidale Dumaresq Council, which commenced operations in February 2000.

4.3.2 GUYRA SHIRE

Guyra "Top of the Range" is centrally located between the major population centres of the New England Region and tourists staying in Guyra are within easy reach of a wide variety of attractions.

Clean air, beautiful gardens, historic unique natural attractions and a friendly atmosphere. Guyra, a town of about 2000 people, is located in the heart of the New England Tablelands midway between Sydney and Brisbane on the New England Highway. At 1320 metres above sea level, Guyra is the highest town on the Tablelands. This gives tourists staying in Guyra exposure to a wide variety of attractions, while offering a quiet location in our charming community town.

Within the Shire area you can find a unique and diverse blend of recreational activities and facilities, from relaxed farmstays, bed and breakfasts, trout fishing, horse riding, bird watching, fossicking, bush walks through our beautiful National Parks and reserves, museums, scenic picnic areas and local parks. Or simply stroll down the main street and browse through some of our specialty shops such as the old book and memorabilia shop, an antique shop, art and craft shops, nurseries or enjoy a hearty meal at our cozy country style coffee shops, cafes, restaurants, hotels/motels and much more. Historically the Guyra area has supported and continues to support extensive rural timber and mining industries.

Tourist facilities and activities located within the Council area include Malpas Dam, Tingha/Copeton Recreation Reserve (eastern foreshores of Lake Copeton), Guy Fawkes River National Park - Ebor Falls, Cathedral Rocks National Park, Moredun Dams, Green Valley Farm, Mother of Ducks Lagoon, Llangothlin Lagoon Wildlife Refuge and Little Llangothlin Nature Reserve, Mushroom Rock, Trout Fishing, Bush Walking, Bird Watching, Holiday Farms, Historical Sites, Fossicking, Historic Black Mountain and Ben Lomond Railway Stations, Historical Museum, Arts and Crafts, Antique Farm Machinery at Guyra Railway Station.

The Guyra area is famous for its prime lambs, wool, beef and potatoes. The annual Guyra Lamb and Potato Festival held in late January is an exciting promotion for those industries.

During the winter months the occasional snowfall creates great interest among travellers. Conversely, Guyra boasts what has been described as the best summer climate in Australia. The autumn colours in the New England can only be described as beautiful.

[Source: Guyra Shire Council website link to <http://www.nsw.com.au/guyra/tourism.html>]

4.3.3 URALLA SHIRE

The name Uralla was taken by European settlers from the dialect of the Anaiwan Aboriginals who first occupied the area. Uralla is said to mean "ceremonial meeting place". Appropriately named, Uralla is situated approximately 547 km north of Sydney and 487 km south of Brisbane.

Surrounded in history, Uralla is a wonderful place to visit, the climate is great, the locals are friendly and there is much to see and do around the area. More detailed information regarding attractions, landmarks, history and accommodation is available by visiting our Visitor Information Centre located on the main street in Uralla.

Uralla is varied and abundant in historical charm. From Captain Thunderbolt (Fred Ward) the gentleman bushranger to examples of early pioneering spirit, you will be swept back in to the past when you visit this town that is proud and conserving of its historical heritage.

The Heritage walk takes in numerous architectural examples of the 1800's. McCrossin's Mill boasts a display depicting the early gold rush days, a Chinese Joss House and is, itself, a fine example of early architecture and community spirit.

Uralla Shire has a reputation of offering "country village" rural style quality of life in a largely unspoiled environment. The Shire has a reputation of a strong artistic community, and a positive interest in the history and heritage of the area. The history of the Shire is bound up with diverse cultures. This includes "an Indigenous population", "early European settlers" and "Chinese workers" especially during the gold-rush period. Arts and cultural activities already exist within the Shire – arts and craft business, museums, studies, festivals and tourist attractions. Being an industry in its own right, the Shire plays a crucial role in the economic development in the area. The Shire provides services, a place of work and a quality of life for the employees and their families – they pay rates, spend their wages in the community, become members of the local sporting clubs and their children attend local schools. Council consults regularly on cultural development and environmental quality, urban design, community services, open space and recreation, heritage, and informs the Shire residents monthly via a newsletter delivered into every mail box.

[Source: Uralla Shire Council website]

4.3.4 HISTORY OF BOUNDARY CHANGES

The Boundaries Commission notes the long history of debate and discussion on appropriate local government structures within the New England region.

Armidale City was proclaimed a Municipality in 1863, then a city in 1885, Dumaresq Shire was formed in 1906, and Guyra Shire was first constituted in 1906.

In 1917 a portion of Guyra Shire was transferred to Nymboida Shire, and in 1959 portions were transferred to Dumaresq Shire and Uralla Shire.

In 1940 the Gallop inquiry considered a proposal for the transfer of 7000 acres from Dumaresq to Armidale, which did not proceed. Another proposal lodged in 1945 sought 7000 acres from Dumaresq and extension taking in the aerodrome site and the New England University College, which also did not proceed.

In 1959, areas of Guyra and Uralla Shires totalling 15,000 hectares were added to Dumaresq Shire, following petitions by residents.

Armidale City remained unaltered until there were adjustments to the boundary between Armidale City and Dumaresq Shire, which took effect in 1961 and 1971.

In 1973, the *Report of the Committee of Inquiry into Local Government Areas and Administration in NSW*, Chaired by Mr C J Barnett, recommended creation of a new District comprising the areas of Armidale City, and the Shires of Guyra, Uralla and Dumaresq and Walcha.

A detailed history of the boundaries of the former areas of Armidale and Dumaresq up to 1979 is available on the Council's website at <http://www.armidale.nsw.gov.au/files/10577/File/Boundaries.pdf>.

In 1990 there was a proposal by Armidale City to merge with Dumaresq Shire and in 1997 there were merger discussions between the Councils mentioned in the Barnett Report.

The current Armidale Dumaresq local government area was created following the voluntary amalgamation of Armidale City and Dumaresq Shire Councils, and commenced operations on 21 February 2000.

The Boundaries Commission has carefully reviewed the most recent December 2003 proposal for creation of a New England Regional Council incorporating Armidale Dumaresq, Walcha, Guyra Shire (part) and Uralla Shire (part), and involving boundary alterations with Inverell Shire.

The Boundaries Commission examined and reported on that proposal in March 2004, and recommended that the proposal should proceed to implementation. It

also recommended that in the event that the proposal did not proceed to implementation immediately, that the Minister review it again within 12 months, particularly with regard to the success or otherwise of the proposed strategic alliance of councils.

The New England Strategic Alliance of Councils (NESAC), which was formed in 2004, dissolved in 2009. In January 2010, the Minister for Local Government, the Hon Barbara Perry MP, appointed an independent facilitator to examine the current and possible arrangements for improving local government service delivery in the area. The proposal the subject of this examination and review was the outcome of that review. Unlike the proposal considered by the Boundaries Commission in 2004, this proposal excluded Walcha Shire Council from the proposed local government area.

4.3.5 CONCLUSION

The Boundaries Commission notes the shared historical and traditional values of the New England region areas that are the subject of this inquiry process.

The Boundaries Commission has noted Uralla Shire Council's submissions regarding possible impacts on village identity and community governance, and supports and praises the close knit community in this area.

From its examination of historical and traditional values of the affected areas, on balance the majority of the Boundaries Commissioners consider that no impediment to the amalgamation proposal is presented in this regard.

A view was expressed that there could be some obstacles arising from differing expectations of city and rural residents and ratepayers of service delivery and the ability to pay for such services. This was not the majority view of the Boundaries Commission.

4.4 RESIDENTS' AND RATEPAYERS' ATTITUDES

Section 263(3)(d) of the Act requires the Boundaries Commission to have regard to *"the attitude of the residents and ratepayers of the areas concerned"*.

The Boundaries Commission has held a public inquiry, but was not required to conduct a plebiscite, in relation to this proposal.

In considering the attitudes of residents and ratepayers, the Boundaries Commission has had regard to the submissions made to it by the affected councils, as well as submissions from individuals and community groups and submissions made at the public hearings.

The Boundaries Commission received 197 written submissions with regard to the proposal. Of these, 90% opposed the proposal, 2% supported the proposal and 8% were neutral.

Key statistics summarising the submissions:

- 53% of the submissions were made by residents of the Uralla Shire, including a submission from Uralla Shire Council;
- 43% from residents of the Guyra Shire, including a submission from the Guyra Shire Council;
- 3% from residents of Armidale Dumaresq, including a submission from Armidale Dumaresq Council;
- 1% from other council areas.
- 90% of the written submissions opposed amalgamation

It should be noted that while 197 written submissions were received, this included some petitions and letters signed by more than one individual (eg husband and wife). The total number of individuals who signed submissions to the Boundaries Commission was 354.

45 oral submissions were made to the Boundaries Commission at the public hearings which were held in Armidale on 23 and 24 August. Of these:

- Three were from the Councils impacted by the proposal;
- One was from the United Services Union;
- One was from the NSW Farmers Association (Uralla Branch);
- One was from Inverell Shire Council;
- 39 members of the public;
- 89% of the oral submissions opposed amalgamation

The most common reasons that submissions gave for opposing to the proposal were:

- That there is insufficient evidence that the amalgamation is of financial advantage;
- That there is no common community of interest between two rural shires and an urban council/university town;
- That the amalgamation would result in a loss of services, especially to remote rural communities; and
- The proposed amalgamation would have a negative impact on rural communities by reduction in representation and consequently a reduction in services, which would become focused on the larger population areas of Armidale.

The Boundaries Commission notes the concern expressed by Uralla Shire Council residents that comments made to the Facilitator during the regional review process do not appear to have been reflected in the proposal for a New England Regional Council.

The Boundaries Commission notes that just over 50% of submissions opposing the proposal for were made by residents of the existing Uralla Shire, and that approximately 900 Uralla residents attended the public meeting held by the Facilitator in Uralla and that all the speakers at that meeting opposed the proposal.

The Boundaries Commission also notes that a very small minority of residents were in favour of the proposal.

The following excerpts from submissions give an indication of the range of views expressed by residents and ratepayers in the local government areas affected by the proposal:

"We vehemently oppose the proposed amalgamation of Uralla Shire with Armidale Dumaresq Council. It is our understanding that Uralla Shire is financially viable. Uralla Shire not only provides significant employment for the people of Uralla, but also acts as a focus of identity and independence for the town."

"Our Council is an integral part of the social fabric of our Community. By removing the council for something that is not proven (ie amalgamation) it will cause serious long term harm and detriment to the people of our area."

"Our Uralla Shire council is solvent, with money in the bank. Armidale/Dumaresq is not – it has huge debts and would use our funds and doubtless sell our hard-built local assets to pay down what it owes, with little or no guarantee of any continued service to the residents of Uralla."

"The Armidale-Dumaresq Council has an urban, academic focus and although geographically close it does not share a common culture with the adjoining rural councils."

"It is my firm wish that the Uralla Shire Council remain autonomous as it holds a strong track record of sound financial management and service to the Community."

4.4.1 CONCLUSION

In examining the submissions, the Boundaries Commission noted objections to the proposal regarding:

- the level of representation
- continuation of provision of services, particularly to rural and remote areas
- evidence that there is any financial advantages in amalgamation and
- absence of community of interest between two rural councils and an urban/university council.

The Boundaries Commission has also noted that differing views are held by each of the Councils and communities across the affected area. Heartfelt concerns and fears were expressed that any changes to local government boundaries could fundamentally change and/or threaten everyday life and the strong community bonds within villages and townships in the area.

The Boundaries Commission considers that meaningful local government reform can be achieved when the integrity and character of localities are protected and residents are ensured continued access to and involvement in decision-making and the provision of effective and affordable services appropriate to their needs.

Ultimately, it is up to the community to encourage a more sustainable local government entity, which improves both the quality of life and the environment and ensures the equitable, effective and efficient allocation of resources to meet community needs. The strength of community involvement and commitment to the affected areas provides a sound base for this.

The Boundaries Commission acknowledges the strong attitudes of rural residents and ratepayers opposing forced amalgamation.

See recommendation 8.

4.5 REPRESENTATIONAL ISSUES

Section 263(3)(e) of the Act requires the Boundaries Commission to have regard to *"the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area"*.

The proposal, if implemented, would change the representation ratios, when compared with those currently applicable in each of the existing local government areas.

The following table sets out the current representation levels, and also shows the expected resultant figures for the proposed new local government area.

Local Government Area	Estimated Population	No. Councillors	Ratio of elected representatives to population
Armidale Dumaresq	25,696	10	2,569.6
Guyra Shire	4,521	6	753.5
Uralla Shire	6,238	9	693.1
Proposed New England Regional	36,455	12	3,037.9

Many submissions from residents and ratepayers have expressed concern regarding the level of representation they will receive should the amalgamation proposal be implemented. From the information provided above, the proposal will impact on the representation of people in the existing local government areas, particularly to those residents of the Guyra and Uralla local government areas.

There are important ways in which resident and ratepayer attitudes can be represented in council decision-making processes.

For example, the Boundaries Commission supports the concept of community/precinct committees, providing they are based on an appropriate model and are adequately resourced.

4.5.1 CONCLUSION

It is clear that if the proposal proceeds, it will impact on existing representational arrangements, particularly in rural areas.

If the Government decides to implement the amalgamation proposal, the Boundaries Commission recommends that there be a maximum of twelve councillors, including the mayor. The Boundaries Commission does not support the recommendation contained in the proposal that the mayor be popularly elected.

Should the amalgamation proposal proceed to implementation, it would be a matter for the new council to determine what role, if any, community or precinct committees would play. The Boundaries Commission supports the concept of community/precinct committees on the proviso that council is responsible for ensuring they are appropriately structured, resourced, and accountable.

The Boundaries Commission does not support the ward system contained in the proposal and is of the view that the wards as proposed may have an adverse impact on the representation of rural communities. Accordingly the Boundaries Commission recommends that in the event of amalgamation that the new council is comprised of twelve popularly elected councillors representing the entire local government area.

However to assist in ensuring that rural communities have the opportunity to maintain their level of representation, the Boundaries Commission recommends that at the first election of councillors that there is a requirement that three of the elected candidates are from the current Uralla Shire Council area; three from the current Guyra Shire Council area; and six are from the current Armidale Dumaresq Council area.

See recommendations 9 and 10.

4.6 SERVICE DELIVERY AND ACCESS

Section 263(3)(e1) of the Act requires the Boundaries Commission to have regard to *"the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities."*

4.6.1 INTRODUCTION

It is proposed to review the services provided by the Councils affected by this proposal and, where possible, those of the proposed New England Regional Council and compare them to industry standards and statutory requirements. This will assist in determining whether the proposal will have an impact on the provision of adequate, equitable and appropriate services and facilities.

The council's charter comprises a set of principles that are to guide councils in carrying out their functions. Councils may add other principles, provided they are not inconsistent with those contained in the charter. The council's charter provides the minimum requirements and is set out in section 8(1) of the *Local Government Act 1993*, as follows:

"8(1) A council has the following charter:

- to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively
- to exercise community leadership
- to exercise its functions in a manner that is consistent with and actively promotes the principles of multiculturalism
- to promote and to provide and plan for the needs of children
- to properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible, in a manner that is consistent with and promotes the principles of ecologically sustainable development
- to have regard to the long term and cumulative effects of its decisions
- to bear in mind that it is the custodian and trustee of public assets and to effectively account for and manage the assets for which it is responsible
- to facilitate the involvement of councilors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government

- *to raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants*
- *to keep the local community and the State government (and through it, the wider community) informed about its activities*
- *to ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the council is affected*
- *to be a responsible employer."*

4.6.2 COMPLIANCE WITH STATUTORY REPORTING REQUIREMENTS

Councils are required to submit their annual reports to the Division of Local Government by 30 November each year. The annual report must include a State of the Environment report (SoE) and a statement on the council's performance in relation to access and equity activities to meet residents' needs.

As the Government's Integrated Planning and Reporting reforms are being implemented by councils in stages, the Division is no longer reporting on compliance with social/community plan reporting requirements. All councils are scheduled to have commenced operating under the Integrated Planning and Reporting framework by 2012/13.

The following information highlights the level of compliance with these deadlines.

Submission of Annual Reports

A council's Annual Report contains important information of interest to residents, ratepayers and other stakeholders. Armidale Dumaresq submitted its annual report on time in 2006/07 and 2007/08, while Guyra submitted its annual report on time in 2006/07. Uralla did not submit its annual report on time for any of the three years and all the Councils submitted their annual reports late in 2008/09.

The annual report is considered to be the primary mechanism by which a council communicates information about its activities to the community. Under section 428(1) of the *Local Government Act 1993*, all councils are required to publish an annual report by 30 November each year.

Submission of Annual Reports

Year	Armidale Dumaresq	Guyra Shire	Uralla Shire
2006/07	Yes	Yes	No
2007/08	Yes	No	No
2008/09	No	No	No

It would appear that the failure of the Councils to submit annual reports arose as a consequence of difficulties which were encountered with the implementation of the new IT platform across the NESAC group of Councils. These difficulties resulted in the qualification of Armidale Dumaresq's financial report for 2006/07.

State of the Environment (SoE) Report

All three Councils submitted their SoE Reports on time in 2006/07. None of the Councils submitted their SoE Report on time in 2007/08 and only Armidale Dumaresq managed to submit its SoE Report on time in 2008/09.

State of the Environment Report

Year	Armidale Dumaresq	Guyra Shire	Uralla Shire
2006/07	Yes	Yes	Yes
2007/08	No	No	No
2008/09	Yes	No	No

Financial Report

All the Councils managed to submit their financial report to the Division of Local Government on time except in 2006/07 when both Armidale Dumaresq and Guyra missed the submission deadline.

Financial Report

Year	Armidale Dumaresq	Guyra Shire	Uralla Shire
2006/07	No	No	Yes
2007/08	Yes	Yes	Yes
2008/09	Yes	Yes	Yes

Access and Equity Statements

Both Armidale Dumaresq and Guyra Shire Councils submitted their Access and Equity Report on time in all three years. By contrast Uralla Shire Council only managed to submit its report on time in 2006/07.

Access & Equity Report

Year	Armidale Dumaresq	Guyra Shire	Uralla Shire
2006/07	Yes	Yes	Yes
2007/08	Yes	Yes	No
2008/09	Yes	Yes	No

4.6.3 LIBRARY SERVICES

Library Expenses per capita

This indicator measures the expenditure from continuing operations spent on library services per head of population. The table below shows the current expenditure of the three Councils the subject of the Proposal

Library Expenses per capita (\$)

	Armidale Dumaresq	Guyra Shire	Uralla Shire	Average for all NSW Councils
2006/07	51.39	40.49	40.32	43.32
2007/08	68.82	43.46	43.54	44.35
2008/09	43.71	29.91	41.33	48.80

(Data source: Public Library Services Division, State Library of New "Public Library Statistics" 2008/09)

Some factors affecting this indicator are:

- the size of the library service
- the type of service eg regional, mobile etc
- the demographic characteristics of the population
- council budget
- library opening hours
- the level of services offered
- the proportion of non-resident borrowers and visitors

As can be seen from the table above, expenditure by both Armidale Dumaresq Council and Guyra Shire Council dropped significantly in 2008/09. Further, Guyra Shire Council spent significantly less in 2008/09 than the State average and than in previous years on library services. By comparison Armidale Dumaresq spent significantly above the average on 2006/07 and 2007/08. The Boundaries Commission notes that Uralla Shire receives library services provided by Tamworth Regional Council.

Based on the current level of expenditure of the Councils, it could be expected that the proposed new council would continue to spend at least the state average on library services.

4.6.4 DOMESTIC WASTE SERVICES

Domestic waste collected – kilograms per capita per annum

This indicator measures the effectiveness of a council's efforts to minimise domestic waste.

Waste Services (kilograms/capita pa)

	Armidale Dumaresq	Guyra Shire	Uralla Shire
2006/07	229.20	203.32	446.82
2007/08	187.85	189.87	447.80
2008/09	Not available	Not available	Not available

(Data Source: Department of Environment, Climate Change and Water NSW "NSW Local Government Waste & Recovery Report" 06/07 & 07/08)

Recyclables – kilograms per capita per annum

This indicator measures the effectiveness of a council's recycling services.

Recycling Services (kilograms/capita pa)

	Armidale Dumaresq	Guyra Shire	Uralla Shire
2006/07	437.21	109.44	233.23
2007/08	1,065.56	56.44	295.14
2008/09	Not available	Not available	Not available

(Data Source: Department of Environment, Climate Change and Water NSW "NSW Local Government Waste & Recovery Report" 06/07 & 07/08)

Recycling results in the avoidance of environmental impacts associated with resource extraction, materials production and manufacturing processes. It also provides greenhouse benefits, energy and water savings, as well as landfill space saved.

The table above shows that both Armidale Dumaresq and Uralla Shire Councils have been successful in increasing the amount of recycling occurring in their local government area, while it would appear that recycling in the Guyra Shire Council area has declined.

It would be expected that the proposed New England Regional Council would continue with the level of recycling currently occurring. It is possible that the

proposed amalgamations could lead to economies of scale and increased efficiencies resulting in more recycling at a lower per capital cost.

4.6.5 PLANNING AND DEVELOPMENT SERVICES

Number of Development Applications (DA's) determined

This number gives an indication of the level of development activity in a local government area.

Mean time for determining DAs

The mean (or average) time in calendar days measures the speed at which DAs are determined, with the exception of Armidale Dumaresq Council in 2006/07, the mean or average time for processing DAs for every council is within acceptable limits for processing times (40 days).

Number of DAs and DA Mean Time

	Armidale Dumaresq		Guyra Shire		Uralla Shire	
	Number of DAs	DA Mean Time	Number of DAs	DA Mean Time	Number of DAs	DA Mean Time
2006/07	212	45	107	29	153	9
2007/08	235	30	98	21	135	22
2008/09	186	31	58	21	66	23

(Date Source: NSW Department of Planning – Social Development Performance Monitoring)

As can be seen the number of DAs processed by both Guyra Shire and Uralla Shire Councils are significantly lower than Armidale Dumaresq Council. It would be expected that economies of scale could be achieved if the councils were amalgamated.

Environmental Management and Health Expenses per capita (\$)

The protection of the environment and the maintenance of public health are also council responsibilities.

Environmental Management & Health Expenses/capita pa

	Armidale Dumaresq	Guyra Shire	Uralla Shire	Mean Group 4 Councils	Mean NSW Councils
2006/07	46.95	23.89	35.42	16.91	26
2007/08	23.82	23.80	28.39	16.24	27
2008/09	39.96	26.38	22.53	17.24	30

In 2008/09 25% of councils spent between \$15 and \$30 per capita on environmental management and health expenses, 19.1% of councils spent between \$30 to \$45, while 38.2% of councils spent more than \$45 per capita.

It is evident from the table above that both Guyra Shire and Uralla Shire Councils spent close to the mean per capita expenditure for councils in NSW, while, except for 2007/08, Armidale Dumaresq Council spent more on environmental management and health than both the mean for NSW councils and the mean for councils of a similar size.

In their submissions to the Boundaries Commission Uralla Shire Council and a number of Uralla residents highlighted Council's environmental plans including an e-waste recycling plant; a program which has very successfully prolonged the life of Councils landfill site; and a long term plan for the Uralla Shire to be carbon neutral.

It is projected that the proposed New England Regional Council would spend approximately \$35.30 per capita on environmental management and health, slightly higher than the mean expenditure for all NSW councils and approximately double the mean expenditure for similar councils (Group 4).

4.6.6 NET RECREATION AND LEISURE SERVICE EXPENSES/CAPITA

Councils have a significant role in the provision of recreation and leisure services. They provide and/or maintain parks, playing fields, swimming pools, walking and cycle tracks and multi-purpose recreation facilities. They also fund, assist and provide information to the community about sport and recreation organisations.

This indicator measures the net amount spent on recreation and leisure services per head of population and takes into consideration any revenue received for these services.

Net Recreation and Leisure Expenses/capita pa (\$)

	Armidale Dumaresq	Guyra Shire	Uralla Shire	Mean for Category 4 Councils	Mean for NSW Councils
2006/07	85.62	54.71	39.99	68.10	72
2007/08	105.09	49.65	46.94	92.19	76
2008/09	111.98	48.25	35.85	95.17	83

Due to economies of scale councils with smaller populations will generally have higher costs per capita than councils with larger populations. However, as illustrated in the table above, Armidale Dumaresq Council, which has the largest population of the three Councils under consideration in the proposal, also has the highest expenditure per capital on recreation and leisure services, spending significantly more than similar councils and the mean per capita expenditure for all NSW councils.

By contrast both Guyra and Uralla Shire Councils spend significantly less per capita than the group average for councils of a similar size, as illustrated in the table below:

	Guyra Shire (\$)	Group 9 Average (\$)	Uralla Shire (\$)	Group 10 Average (\$)	Mean for NSW Councils (\$)
2006/07	54.71	110.36	39.99	107.24	72
2007/08	49.65	125.20	46.94	102.64	76
2008/09	48.29	146.39	35.85	119.78	83

Possible explanations for this could be that the smaller councils do not have sufficient revenue to expend on leisure and recreation services and accordingly these communities may not be receiving the same level of services as communities else where in NSW, or have fewer facilities but they use them for multiple purposes (eg multipurpose playing field(s)).

Indeed in NSW in 2008/09 only 15.8% of councils spent less than \$60 per capita on recreation and leisure services, with most councils (54.6%) spending more than \$90 per capita on these services. (Source: Snapshot of NSW Councils 2008/09). This suggests that the Group average may be distorted by a council which is currently making a significant capital investment in community recreation and leisure services.

However the submissions received by the Boundaries Commission from Uralla Shire Council residents and ratepayers overwhelmingly endorsed the level of service received from Council, and further indicated that they were prepared to accept a lower level of service in return for lower rates.

4.6.7 COMMUNITY SERVICES EXPENSES/CAPITA

This measures the amount spent per person on services such as community centres and halls, senior citizens centres, aged care centres, child care centres and youth centres.

Community Services Expenses/capita pa (\$)

	Armidale Dumaresq	Group 4 Average	Guyra Shire	Group 9 Average	Uralla Shire	Group 10 average	Average for all NSW Councils
2006/07	36.37	63.4	212.37	133.66	732.13	191.09	54
2007/08	49.71	68.71	224.44	163.00	813.43	184.57	59
2008/09	49.23	77.97	225.03	187.84	803.32	216.12	65

From the table above it is evident that both Guyra Shire Council and Uralla Shire Council are spending significantly more on community services than the average expenditure for similar councils. By contrast Armidale Dumaresq Council is spending significantly less than the average for similar sized councils.

The high expenditure by both Guyra and Uralla Shire Councils may be a result of the high level of specific purpose grants they receive for facilities such as aged and child care services.

It is also noted that Uralla Shire Council provides a number of community services to neighbouring councils such as community options program and community transport to Armidale Dumaresq, Guyra Shire and Walcha Shire Councils.

If the councils were amalgamated the per capital expenditure would average out to be approximately \$198 pa, which is significantly more than the Group 4 average for similar councils.

4.6.8 CONCLUSION

The overwhelming majority of submissions received by the Boundaries Commission from rural residents and ratepayers expressed satisfaction with the level of services and facilities they were receiving from their councils.

From examination and comparison of the information available to the Boundaries Commission relevant to delivery of service currently undertaken by the Councils the subject of the proposal the Boundaries Commission was not able to identify

any clear evidence that they are currently not providing their communities with an adequate, equitable and appropriate services and facilities.

The proposed council should be able to meet the charter set out in section 8(1) of the *Local Government Act, 1993*.

From the information available to the Boundaries Commission, there was no clear evidence that the proposed amalgamation would result in significant improvements to services to the community.

See recommendation 3.

4.7 EMPLOYMENT IMPACTS

Section 263(3)(e2) of the Act requires the Boundaries Commission to have regard to *"the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned."*

4.7.1 INTRODUCTION

Amendments to the *Local Government Act 1993* protect the employment of all staff (except those designated as senior officers) in situations such as those covered by this proposal. Accordingly, it is proposed to review, in general terms, the organisational structure of Armidale Dumaresq, Guyra Shire and Uralla Shire Councils in order to assist in determining the impact of the proposal on the staff of these Councils.

4.7.2 DISCUSSION

There are only five designated senior officers in the existing Councils. These are the three general managers and two senior officers employed by Armidale Dumaresq Council. Accordingly, it is likely that up to five employees out of the total staff employed could be adversely affected by the proposal.

This conclusion is based on the assumption that the Councils involved will resolve all issues related to the transfer of any other staff affected by the proposal, consistent with the recent amendments to the legislation.

The Boundaries Commission notes that the *Local Government Amendment (Employment Protection) Act 2003* was assented to on 15 July 2003. The amendments will ensure that where an organisational restructure occurs within a council due to its structural reform by way of constitution, amalgamation or boundary alteration, the existing employment conditions of staff are protected.

The amendments prevent staff-shedding in anticipation of an amalgamation, constitution or boundary alteration by ensuring that staff cannot be made redundant without their permission during the proposal period for restructure. The proposal period runs from receipt by the Minister of a formal proposal for structural reform until the Minister decides either not to proceed with the proposal or until it is implemented by way of Proclamation.

A non-senior staff member who is transferred from one council to another as a result of structural reform will have the terms and conditions of their employment continued until other provision is duly made under any Act or law. The contract of employment will not be taken to have been broken by the transfer. The

transferred staff member's accrued rights, including recreation leave, sick leave, long service leave and superannuation, will be preserved.

Where the conditions of employment of staff members of a council are changed during a proposal period, and those changes are not approved by the Minister, then the council to whom those staff are transferred will not be bound by those altered conditions of employment.

There can be no forced redundancy of a transferred non-senior staff member for 3 years after the transfer.

In the event of structural reform by way of constitution, amalgamation or boundary alteration of a local government area, councils affected must notify staff vacancies internally and select candidates from within where an adequately trained pool of staff exists. Transferred non-senior staff will be preferred candidates for positions where they are qualified to fill the position.

4.7.3 CONCLUSION

The Boundaries Commission notes the employment protection provisions contained in the amendment to the *Local Government (Employment Protection) Act 2003*.

If the proposal is implemented, the Boundaries Commission notes that up to five employees out of the total staff employed by the existing Councils may be adversely affected, with their future employment to be determined by the new council.

Based on the information provided the Boundaries Commission notes that there would be more than 428 full time equivalent council employees in the proposed New England Regional Council area.

This is considerably higher than 309, which is the average number of full time equivalent employees for similar sized Group 4 councils.

The Boundaries Commission also notes that the Union opposed the proposed amalgamation.

4.8 IMPACT ON RURAL COMMUNITIES

Section 263(3)(e3) of the Act requires the Boundaries Commission to consider the impact of any relevant proposal on rural communities in the areas concerned.

The Boundaries Commission is mindful that if the proposal is implemented, some of the factors that are likely to impact on rural communities are:

- size of the proposed new local government area
- distance of the main administrative centre from outlying towns and villages
- cost of telecommunications in contacting the main administrative centre of the new council

The Boundaries Commission notes that the proposed new council will cover a large geographic area of some 11,778.45 square kilometres.

The Boundaries Commission received a number of submissions from rural residents and ratepayers expressing concern that under an amalgamated council remote and outlying areas would be most adversely impacted. These residents and ratepayers held the view that in large council areas, those areas with low numbers of residents were likely to receive lower levels of services, particularly in regard to road maintenance, than those areas with a higher population. These submissions emphasised the critical importance of road maintenance for these outlying residents as essential to enable them to access facilities and services such as schools, medical services and retail outlets, and essential services such as police and fire brigade.

4.9 DIVIDING THE AREA INTO WARDS AND REPRESENTATION

Sections 263(3)(e4) and (e5) of the Act requires the Boundaries Commission to consider the desirability (or otherwise) of dividing the resulting area or areas into wards and representation impacts of the proposal.

The Boundaries Commission notes that currently both Guyra Shire and Uralla Shire are divided into three Wards, while there are no wards in the Armidale Dumaresq area.

The proposal recommends that the new area be divided into 6 wards of 2 councillors each, resulting in a governing body of 12 councillors.

Local Government Area	Population	Councillors	Population per Councillor	Wards	Councillors per ward
Armidale Dumaresq	25,696	10	2,569.6	0	
Guyra Shire	4,521	6	753.5	3	2
Uralla Shire	6,238	9	693.1	3	3
Proposed New England Regional	36,455	12	3,037.9	6	2

The proposal further recommends that the ward boundaries would be distributed so that:

- one ward would encompass the Guyra Shire Area plus the towns of Bundarra, Boorolong, Duval and Donald Creek;
- one ward would incorporate the remaining areas of the Uralla Shire;
- with the remaining Armidale Dumaresq Council area being divided into 4 wards – Armidale rural; Armidale southern urban; Armidale central urban; and Armidale northern urban.

The proposal made this recommendation on the basis that *"it was most likely to best ensure the representation of communities from throughout the new council area."* (Kibble Report 2010, p.57)

The Boundaries Commission received 25 written submissions which addressed the issue of representation and wards.

The majority of these submissions (72%) argued that the ward system contained in the proposal would disadvantage and marginalise the rural areas of Uralla Shire and Guyra Shire, with the proposed new area's representation being dominated by councillors representing the former Armidale Dumaresq area. These submissions presented a view that the proposed wards would further

reduce the representation of these communities and lead to an erosion of the abilities of these communities have input into the type and level of services and facilities provided to them.

4.9.1 CONCLUSION

The Boundaries Commission does not support the ward system detailed in the proposal. If this proposed amalgamation proceeds, the Boundaries Commission recommends that there be twelve popularly elected councillors representing the entire undivided local government area.

Also, to assist in ensuring that rural communities have the opportunity to maintain their level of representation, the Boundaries Commission recommends that the first election requires three candidates from the current Uralla Shire area; three from the current Guyra Shire area; and six from the current Armidale Dumaresq area.

See recommendations 9 and 10.

4.10 OTHER MATTERS

Section 263(3)(f) of the Act requires the Boundaries Commission to have regard to *"such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas"*.

4.10.1 TRANSFER OF AREAS TO ADJACENT COUNCILS

The Proposal does not contain any recommendations for the transfer of areas to adjacent council areas.

However the Boundaries Commission did receive submissions from Inverell Shire Council and members of the public (including some petitions) requesting boundary adjustments as follows:

- transfer those parts of Guyra and Uralla Shire Councils that constitute the Tingha and Bundarra areas to the jurisdiction of Inverell Shire Council (47 submissions including several petitions, some form letters and one submission from Inverell Shire Council). Additionally the Boundaries Commission notes that the Vardon Report 2004 also included a recommendation for this area to be transferred to Inverell Council area;
- transfer of the Kentucky, Wollun and Salisbury areas to Walcha Shire Council (2 submissions);
- transfer of Ben Lomond village to Glen Innes Severn Council (1 submission).

The Boundaries Commission is of the view that the request to transfer the areas of Tingha and Bundarra to Inverell Shire Council may be worthy of consideration, particularly as a number of residents of these areas indicated their support for this proposal.

4.10.2 COUNTY COUNCIL MEMBERSHIP

The New England Tablelands Weeds County Council (NEWA) delivers noxious weed management services to Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha Shire Councils. It is funded by contributions for its constituent Councils and grants for the NSW Department of Industry and Investment. The governing body of NEWA is composed of one elected representative from each of the constituent Councils and a chairperson.

The proposal recommends that NEWA continue to stand alone as a County Council as the most efficient and effective way to deliver weed management services to the New England Area. It recommends that the membership of NEWA is comprised of representatives from the proposed New England Regional Council and Walcha Shire Council.

The Boundaries Commission did not identify any impediments to the proposal arising from NEWA and its continuation.

CHAPTER 5 DESCRIPTION OF THE BOUNDARY OF THE PROPOSED NEW ENGLAND REGIONAL LOCAL GOVERNMENT AREA

Area about 11778.45 square kilometres; commencing at the confluence of Gwydir River and Copces Creek at Lake Copeton; and bounded thence by that creek and Irwins Creek upwards to the southern prolongation of the eastern boundary of Portion 264, Parish of Swinton, County of Hardinge; by that prolongation and boundary and the eastern boundary of Portion 262 and its prolongation northerly to the generally northern boundary of the County of Hardinge; by part of that boundary generally easterly to the eastern boundary of Lot 1, D.P.588622; by part of that boundary of northerly, the northern boundaries of Lots 1 and 2 easterly, the generally north eastern boundary of Lot 3, D.P.588622 generally south-easterly and a line south-easterly to, again the generally northern boundary of the County of Hardinge; by part of that boundary generally south-easterly, the generally western boundaries of Portions 9 and 10, Parish of Single, and their prolongation, generally southerly to Copces Creek; by that creek upwards to the southern boundary of Portion 35; by that part of that boundary and the generally eastern boundary of that Portion, generally easterly and generally northerly, the southern and eastern boundaries of Portion 11, easterly and northerly, again the generally northern boundary of the County of Hardinge, generally south-easterly to the range forming the southern watershed of Macintyre River on the eastern boundary of Portion 37, Parish of Single; by part of that range generally easterly to the western boundary of Portion 115, Parish of Eden, County of Gough; by part of that boundary southerly, the generally southern and part of the eastern boundaries of that portion generally easterly and northerly to again, the range forming the southern watershed of Macintyre River; by part of that range generally easterly to western boundary of Lot 1, D.P.841482; by part of that boundary northerly to the generally southern boundary of the County of Gough; by part of that boundary generally easterly to the generally south-western boundary of Lot 3, D.P.786388; by part of that boundary and a line north-westerly, the generally south-eastern boundary of Lot 1, D.P.786388 generally north-easterly, a line easterly, part of the generally south-western and part of the eastern boundaries of Lot 2, D.P.786388 generally south-easterly and northerly to again the range forming the southern watershed of Macintyre River; by part of that range and Waterloo Range generally easterly and Great Dividing Range south-easterly to the northern boundary of Portion 22, Parish of Ben Lomond; by part of that boundary, the western and part of the southern boundaries of that portion westerly, southerly and easterly to again the Great Dividing Range; by that range generally south-easterly to Inn Road; by that road generally easterly to the southern prolongation of the western boundary of Lot 1, D.P.554313; by that prolongation and boundary northerly, part of the northern boundary of that Lot easterly to the Macleay Range; by that range generally north-easterly to Ben Lomond (Mountain); by a line generally easterly

to the generally south-western boundary of Lot 61, D.P.705133; by part of that boundary and part of the generally south-eastern boundary of that lot generally south-easterly and generally north-easterly to again a line generally easterly towards Mount Mitchell; by that line to its intersection with the generally north-eastern boundary of Portion 22, Parish of Towagal, County of Clarke; by part of that boundary generally south-easterly to Sara River; by that river downwards and Guy Fawkes River and Pantons Creek upwards to the generally eastern boundary of Portion 49, Parish of Guy Fawkes; by that boundary, the generally eastern boundary of Portion 38, the eastern boundary of Portion 37 and part of the eastern boundary of Portion 35 generally southerly, the northernmost northern and part of the generally eastern boundaries of Portion 36 easterly and generally southerly, the northernmost northern and generally eastern boundaries of Portion 39 easterly and generally southerly, part of the north eastern boundary of Portion 43 south-easterly, the northern and eastern boundaries of Portion 47, a line, and part of the eastern boundary of Portion 24 easterly and southerly and the generally northern boundary of Portion 26 and its prolongation generally easterly, southerly and easterly to the range partly forming the generally north-eastern boundary of the Parish of Lookout, County of Clarke; by that range generally south-easterly to the western boundary of Lot 6 DP623563; by part of that boundary and part of the south-western boundary of that lot, southerly and south-easterly to again the range forming the generally north-eastern boundary of the Parish of Lookout; by that range generally south-easterly, part of the generally eastern boundaries of the Counties of Vernon and Clarke, generally southerly, the southern boundary of the Parish of Kunderang, County of Vernon and its prolongation, westerly to Trap Creek; by that creek, Fitzroy Creek and Kunderang Brook, downwards, Macleay River and Blue Mountain Creek, upwards to the north-eastern prolongation of the generally south-eastern boundary of Lot 13 DP704004; by that prolongation and boundary, the generally southern and generally south-western boundaries of that lot and its prolongation, generally south-westerly, generally westerly and generally north-westerly to again the Blue Mountain Creek; by that creek upwards to generally southern boundary of the Parish of Enmore, County of Sandon; by part of that boundary generally south-westerly, the road forming the generally south-eastern boundaries of Portions 202 and 203, Parish of Lawrence, generally south-westerly to the range forming the southern watershed of Mihi Creek; by that range, generally south-westerly and north-westerly to the north western corner of Portion 101, Parish of Eastlake; by a line north to the southern boundary of Portion 120; by part of that boundary, the southern boundaries of Portions 10 and 11, westerly, the generally south-eastern boundary of the Parish of Blacknote, generally south-westerly to the east most south-eastern corner of Portion 464, Parish of Sandon, the generally southern boundary of that lot the southern and western boundaries of Portion 465 and the western boundary of Portion 460, and its prolongation generally westerly and northerly, a line west about 61 chains, a line north about 41 chains, a line east about 15 chains to the south-eastern corner of Portion 467 Rem, part of the generally southern boundary of the Parish of Sandon, generally north-westerly to the southernmost south-western corner of Portion 56, Parish of

Tara, County of Inglis, part of the generally eastern boundaries of the Parishes of Tara and Looanga, generally northerly to the northern most corner of Portion 92; by the Nandewar Range generally westerly to the eastern boundary of Portion 18, Parish of Roumalla, County of Hardinge; by part of the western, southern and eastern boundaries of that portion, southerly, westerly and northerly, the southern, north-eastern and northern boundaries of Portion 40, Parish of Winton, County of Inglis, easterly, north-westerly and westerly to the road from Bundarra to Bendemeer; by that road, north-westerly to the Nandewar Range; by that range, generally north-westerly to the south-western corner of Portion 67, Parish of Roumalla, County of Hardinge; by the road from Bundarra to Bendemeer, north-westerly to the northern boundary of Portion 14, Parish of Retreat, County of Inglis; by that boundary, westerly, the boundaries of Portion 20, northerly, westerly and again northerly, the eastern boundary of Portion 2, the eastern and northern boundaries of Portion 19, northerly and westerly to the south-eastern corner of Portion 29; the Nandewar Range, generally north-westerly to the east most corner of Portion 42; by part of the generally north-eastern boundary of the Parish of Retreat, generally north-westerly to the northern most corner of Portion 12; by the Nandewar Range, generally north-westerly to the generally western boundary of the Parish of Cooper, County of Hardinge; by part of that boundary generally northerly, the generally eastern boundaries of Portions 126, 125 and 134, generally northerly, again part of the generally western boundary of the Parish of Cooper, generally north-westerly, the southern boundaries of Portions 91, 59 and 58, easterly to the Gwydir River, aforesaid and by that river downwards to the point of commencement.

CHAPTER 6 RECOMMENDATIONS

The Boundaries Commission has examined the proposal announced by the Minister for Local Government in May 2010 to amalgamate the entire Armidale Dumaresq, Uralla Shire and Guyra Shire local government areas to form a new local government area named "New England Regional".

Having considered the amalgamation proposal, the submissions presented to the Boundaries Commission by the affected Councils, the submissions from members of the public and community groups, and other material, and having regard to the factors set out in section 263(3) of the Act, the majority of the Boundaries Commission considers that the proposal should not proceed to implementation.

Key recommendations of the Boundaries Commission are:

1. The Boundaries Commission is of the view that structural reform is needed in the New England region, but not in the form of this proposal. Further the Boundaries Commission accepts the need for structural reform of local government in NSW.
2. The Boundaries Commission has noted with disappointment the failure of the strategic alliance to achieve meaningful reform in this region, leaving amalgamation as the only option which appears possible. This is a very disappointing discovery for the sector as a whole.
3. Having regard to the factors listed in section 263(3) of the Act and the information presented to it at the public hearing, and in the written submissions and contained in other material available during this inquiry, the majority of the Boundaries Commission has formed the view that at this time there is insufficient evidence to demonstrate that implementation of this proposal would result in significant benefits.
4. The majority of the Boundaries Commission was not persuaded by the available information that the proposal offers significant financial or service delivery advantages to the residents and ratepayers of the areas concerned.
5. The current financial circumstances of the Armidale Dumaresq Council particularly in the area of debt. Although, the Council has made efforts to improve its financial position it does not demonstrate a sound platform to support amalgamation.
6. The reliance on grants by the Councils is of concern to the Boundaries Commission, particularly in comparison to councils of a similar size.

7. As a result of the employment protection provisions contained in the Local Government Act, the proposed amalgamated council would be required to maintain staff. This would result in the proposed council having 119 more full time equivalent staff than the average full time equivalent staff number for similar sized councils for some future time.
8. The Boundaries Commission noted the significant opposition to the proposal expressed by the residents and ratepayers of both Uralla Shire and Guyra Shire areas.
9. The Boundaries Commission does not support the proposal that the Mayor be popularly elected or the wards system detailed in the proposal. If this proposed amalgamation proceeds, the Boundaries Commission recommends that there be twelve popularly elected councillors representing the entire undivided local government area and that the Mayor is elected by the councillors.
10. To assist in ensuring that rural communities have the opportunity to maintain their level of representation, the Boundaries Commission recommends that the first election requires three candidates from the current Uralla Shire area, three from the current Guyra Shire area, and six from the current Armidale Dumaresq area.

Other matters

- In view of the comments made in submissions and public hearings, that the Minister consider the transfer of the areas of Tingha and Bundarra to Inverell Shire Council.
- The Boundaries Commission is of the view that further significant work is required to address the financial sustainability of rural councils and that a public inquiry empowered by section 740 of the *Local Government Act, 1993* should be undertaken in the New England region to comprehensively assess reform options and develop a proposal for the long term viability of Armidale Dumaresq, Uralla Shire, Guyra Shire and Walcha Shire.
- The Boundaries Commission also recommends that Armidale Dumaresq Council, Uralla Shire Council, Guyra Shire Council and Walcha Shire Council be monitored closely by the Division of Local Government during transition to the new integrated planning and reporting system, and that investigations be undertaken to identify any grounds for placing them under administration.
- Given the upcoming State Election in March 2011, the Boundaries Commission recommends June 2011 as an appropriate time for

Examination of a Proposal for a new local government area to be named "New England Regional"

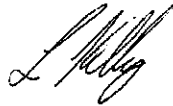
commencement of the public inquiry process, and that monitoring and investigations by the Division should commence immediately.

The Boundaries Commission looks forward to receiving meaningful reform options and outcomes for these communities in the future.

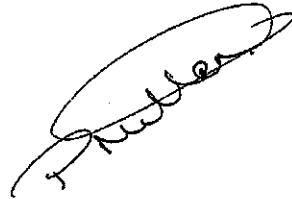
MR IAN DICKSON
CHAIRPERSON



CLR LEO KELLY OAM
COMMISSIONER



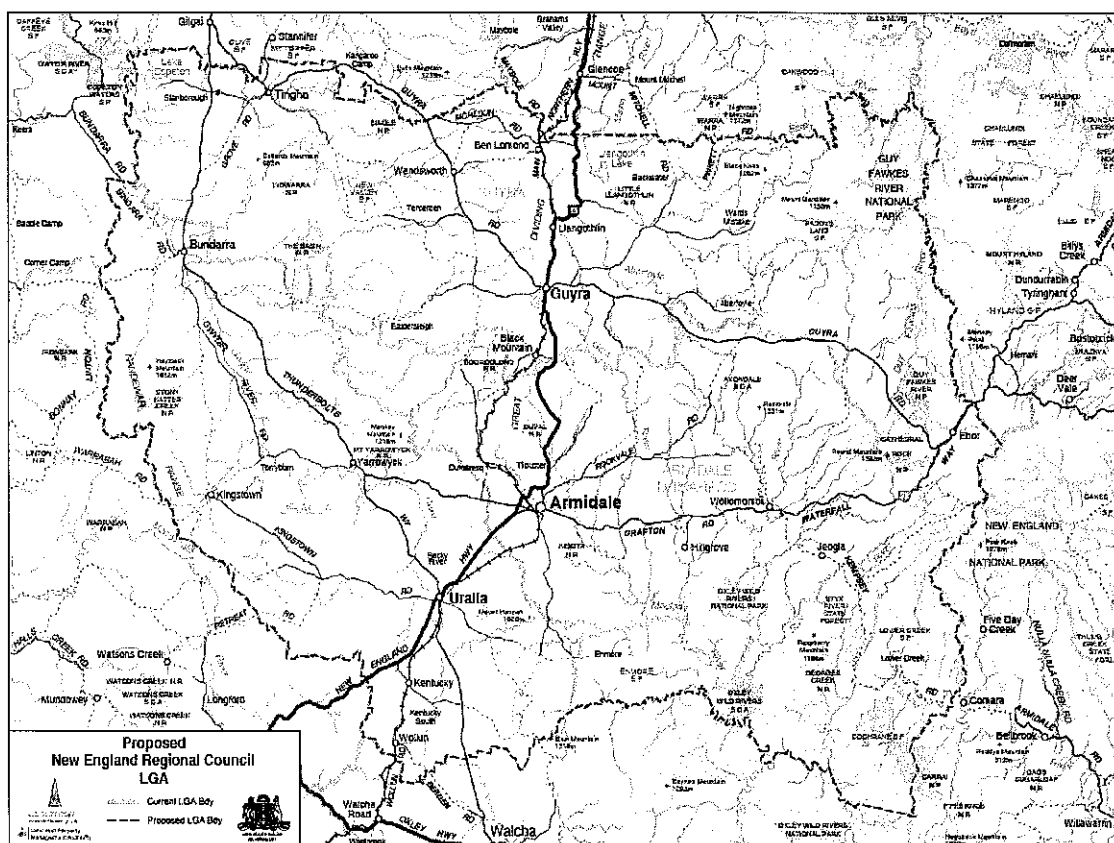
CLR PHYLLIS MILLER OAM
COMMISSIONER



MS MICHELLE SQUIRE
COMMISSIONER



CHAPTER 7 MAP



NH:SB A10/4765 O/2010/01774

Mrs Gabrielle Kibble AO
New England Regional Review
Locked Bag A5045
SYDNEY SOUTH NSW 1235

25 February 2010

Dear Mrs Kibble

NEW ENGLAND REGIONAL REVIEW SUBMISSION.

Thank you for the opportunity to contribute this Council's suggestions as to the future of Local Government service delivery in the Southern New England area. Council wishes to reinforce its previously stated position of a preference for voluntary amalgamation. If voluntary amalgamation is not recommended, Armidale Dumaresq Council would be prepared to consider options other than amalgamation that may emanate from the NESAC review, provided that they deliver significant structural changes that both eliminate duplication and provide a smooth and efficient management regime.

Council has conducted workshops prior to making this submission and considered the following governance areas, and would now like to outline its recommended approaches for your consideration.

Voluntary Amalgamation

At its Extraordinary Council meeting on 15 February 2010 Council resolved the following:

That, given the issues identified by the Division of Local Government's Review of NESAC, the findings of the Forsyth Review and the withdrawal of Walcha Council and Uralla Shire Council from the New England Strategic Alliance, Armidale Dumaresq Council advise the Division of Local Government that it stands ready to cooperate with Guyra Shire Council, Uralla Shire Council and Walcha Council to deliver Local Government representation for the New England region based on a voluntary amalgamation model.

Council wishes to make the point that it has not deviated from its long-standing commitment to reform with the objectives of reduced duplication and delivery of efficient and effective services throughout the Southern New England area.

Should some or all of the other Councils within the review area not support a voluntary amalgamation as an outcome, Armidale Dumaresq Council believes that its community should not be penalised by the loss of representation of its elected members, by being invited to participate in the reform process to work towards a whole of area election by 2012 if possible. In this context we refer to Clause 218C, 2b of the Local Government Act 1993, as amended, which allows for the continuation in office of any or all of the councillors of any area dissolved by proclamation, until such time as elections for the newly constituted amalgamated Council can be held.

Armidale Dumaresq Council refers to the process followed with the successful amalgamation of the two former Councils, Armidale City Council and Dumaresq Shire Council in 2000. The process followed, after a voluntary amalgamation had been agreed and formally committed to in 1999, was that the two Councils worked together for some six months or so, with a joint implementation committee, until the promulgation of the amalgamated Council on 20 February 2000. An interim Council was appointed for a period of some three months before elections were held for the new Council in May 2000. This interim Council, consisting of the twelve Armidale City and six Dumaresq Councillors, oversaw the potentially difficult initial period of the new amalgamated Council into one entity until elections could be held for the new entity. This ensured a smooth transition and is recognised as a successful model. A significant reason why the amalgamation was successful, and the transition period relatively painless, was due to the leadership of the then Mayors, Richard Torbay and the late Peter Monley, together with the commitment of the Councillors and staff from both Councils.

Council recognises, however, that the previous amalgamation only involved two Councils. Four Councils are currently involved in a potential amalgamation, whether voluntary or forced, and this would naturally bring greater challenges. This stated, Council believes that the Armidale City and Dumaresq Council merger model could be used and modified as appropriate, with details such as setting up a merger implementation committee with the appropriate binding delegations, involving representatives from each Council who would report back to their respective Council, or alternatively if other Councils are unwilling or unable to adopt a voluntary approach, then work with any administrator that maybe appointed.

Ward Systems versus Undivided Areas

Armidale Dumaresq Council, although wishing to see and encourage representation from the New England Strategic Alliance Councils, believes that any new Council area created should be undivided. This stated, should any recommendation be to establish wards, Council would cooperate and contribute to details such as the structure and number of wards. The position to support an undivided area option was not taken lightly and the following factors were considered:

- Wards may build in parochialism when there is a need from day one for people to be thinking holistically and representing the whole community.
- The merger of Armidale City and Dumaresq Shire Councils reinforces the view that an undivided approach is the best option.
- Wards could potentially lose good candidates.
- Fewer opportunities for minority groups, specifically Aboriginal representation.
- It would be difficult to undo wards in the future due to the process required to change this system of election.
- The ward boundaries would have to be continually reviewed and altered to reflect growth, and would result in frustration with voters being shifted around wards.
- The ward system could adversely affect the communality of interest which has been achieved since the merger of Armidale and Dumaresq.
- It is unrealistic and artificial to form wards in the city area, which has always a unit.
- Smaller communities can actually achieve greater representation in an undivided area than in wards if they champion quality candidates.
- Should adequate representation not be gained in an election, then representation and access to Council decision-making can be accommodated with good engagement and communication strategies.

Election of a Mayor

Council unanimously supports the election of a Mayor by Elected Members over a popularly elected Mayor. It is thought important that the Mayor of the day enjoys the support or majority support of elected members. Council also believes that this system would give a much greater chance for Councillors coming from the smaller areas of being considered for the position of Mayor.

Number of Councillors

Armidale Dumaresq Council believes that in the event of a voluntary or forced amalgamation, the number of elected members should be 12. This would allow greater opportunity for representation of the former smaller Council areas. It would also allow a greater sharing of workload in what would be a Council with a substantial population and a very large area (some 18,000 square kilometres).

Formation of Precinct, Area or Advisory Committees

Armidale Dumaresq Council has a very successful system of consultation, which was set up at the time of the former amalgamation of Armidale City and Dumaresq Shire Councils. This involved the setting up of 10 Local Area Committees (LAC's) which acted and continue to act as a very effective channel for two way communication.

Council believes that a similar arrangement should be implemented in the event of a voluntary or forced amalgamation. Discussion suggested that there be Local Area Committees for the smaller villages and more remote areas, while the larger townships (Guyra, Uralla and Walcha) should have consultative/advisory committees with greater responsibilities. At least one Councillor, and possibly up to two or three, could be on these committees. The reason for having different names (and terms of

reference) is to reflect the different service needs and communication and engagement levels required.

It is submitted that if a merger eventuated then the new Council would look to rotating meetings around the townships within the new areas. At least one meeting a year could be held in the former areas of Guyra, Uralla and Wacha, ie a total of three meetings per annum, with appropriate special meetings, especially if a particular meeting discusses important "local" issues, also being desirable.

Structural Changes

The Need for Local Access to Administrative Services and Public Access to an Appropriate Standard of Local Facility is Recognised.

Council is of the view that if an amalgamation were to eventuate, then the smaller townships should retain their offices and base services. It is thought that outdoor staff would remain on the ground to deliver services. Most change it is thought would be experienced in the back office service areas and specialist services areas.

Council did not want to spend too much time at this stage in the submission on the detail of any structural and operational changes other than stated above, as it did not want to be pre-emptive of the recommendations of the review. However, Council remains committed to working cooperatively to achieve the goals of efficiency, equity and good governance.

Concluding Comments

Over the last five years Armidale Dumaresq Council has put its best efforts into the shared and cooperative service model of the Alliance, often to its own detriment and has shown a preparedness to look at other reforms proposed by willing partners since the demise of the Alliance. Armidale Dumaresq Council is of the view that former partners of the Alliance no longer seem willing to commit to the necessary reform that would bring about the most efficient and effective service delivery to our communities. This unwillingness to reform brought about the demise of the Alliance and it would appear that a return to an Alliance and the achievement of its original objectives would be highly problematic.

Whatever recommendation comes out of this Review and is adopted by the State Government, our Council will continue to support the direction selected, and work towards achieving these goals. Council continues to hope, however, that it will be given the opportunity to enact this support through the continuance of its elected representatives for the balance of the term and not be penalised for our past efforts by denying our community their elected representation.

Yours sincerely

Peter Ducat
Mayor

Shane Burns
General Manager

top of the range

31 July 2015

IPART
Online Portal

Dear Sir/ Madam,

**RE: SUBMISSION TO IPART
ARMIDALE DUMARESQ COUNCIL FIT FOR THE FUTURE SUBMISSION**

The Fit For the Future submission provided by Armidale Dumaresq Council to IPART includes a resolution of the Armidale Dumaresq Council from 27 April 2015 (page 34 of the submission):
"That Council submits an attachment to Option A which includes merging with Guyra and Uralla Shire Councils, subject to agreement of the boundary adjustments proposed by Glen Innes and Inverell Councils..."

The said attachment has not been made publically available through the submission process to afford the community, affected Councils, or other stakeholders an opportunity to review this 'supplementary proposal'. As such this additional information should not be considered as part of the Fit For the Future submission of Armidale Dumaresq Council as no community consultation has occurred, nor any agreement between the affected Councils been made.

Additionally, Guyra Shire Council objects to the declarations made in the resolution of Armidale Dumaresq Council on 27 April 2015 (page 34 of the submission); naming the new Council, and stipulating that "Council work with Glen Innes Severn, Inverell, and other adjoining Councils to establish future Council boundaries...". These matters, should they arise under a forced amalgamation situation, would be for determination of the newly elected Council, and not predetermined by the Armidale Dumaresq Council. These decisions should be made openly and in full consultation with the community.

Guyra Shire Council has prepared a Fit For the Future submission in accordance with the NSW Government's guidelines to remain a Rural Council and has worked strategically to develop the most effective, efficient, and collaborative proposal to ensure the future sustainability of our Council and our community.

Yours Sincerely,



**PETER STEWART
GENERAL MANAGER**