



Independent Pricing and Regulatory Tribunal

Methodology for Assessment of Council Fit for the Future Proposals

Local Government — Assessment Methodology
June 2015



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1 Executive Summary

1.1 Introduction

This report explains our methodology for undertaking the role of the Expert Panel in assessing local government Fit for the Future proposals (FFTF). Our methodology incorporates feedback we received from stakeholders on our Consultation Paper.

The NSW Government's Fit for the Future reforms aim to improve the strength and effectiveness of local government in providing services and infrastructure that communities need.¹ The NSW Government has been working with local councils since 2011 on initiatives to strengthen the local government sector.

The reform process is being guided by the review of the sector undertaken by the Independent Local Government Review Panel (ILGRP) in 2012 and 2013. The Panel was tasked with creating a system of local government that would remain sustainable and fit for purpose well into the 21st Century. One of the overarching goals of the ILGRP recommendations is for local government to have added capacity to meet the needs of local and regional communities and to be a valued partner of State and Federal governments.² The Barnett Committee that examined NSW local government in the early 1970s made similar observations about the sector.³

For communities, high capacity local councils can more effectively:

- ▼ deliver quality services and infrastructure
- ▼ prepare soundly-based plans for the future
- ▼ help support local jobs and economic growth
- ▼ represent the diverse needs of different groups

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

² ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013 (ILGRP Final Report), pp 7-10.

³ *Report of the Committee of Inquiry into Local Government Area and Administration in New South Wales, 1974* (C J Barnett Committee Chairman), pp 32-33. Copy provided to the ILGRP by the State Library of NSW under section 183 of the *Copyright Act 1968* (Cth). Report sourced from ILGRP's website:
<http://www.localgovernmentreview.nsw.gov.au/Index.asp?areaindex=LGR&index=42&acode=TR&mi=2>.

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- ▼ influence State and Federal government decisions to achieve local and regional objectives, for example in transport and housing, and
- ▼ keep rates and charges at affordable levels and maximise the benefits from spending those revenues.⁴

The ILGRP's concept of 'strategic capacity' is based on a systems approach, incorporating a package of measures to improve the sector as a whole. The measures aim to build sustainability and capacity for local government in NSW, rather than achieving short-term 'budget repair' of councils.⁵

The focus of the reform process extends beyond the efficiency or effectiveness of current service levels by councils. It is an opportunity to improve the sustainability of the sector and build capacity into the system to enhance the range of services and functions councils are able to undertake. For example, the ability to manage major regional facilities and undertake or facilitate major economic and infrastructure development for the benefit of ratepayers in NSW and future generations to come.

In September 2014, the Government established four criteria it considered necessary for a council to be 'Fit for the Future' (FFTF).⁶ These criteria that characterise a FFTF council have not changed since September. They were developed by the Government based on the work of Destination 2036, the assessments of the sector by the ILGRP and the NSW Treasury Corporation (TCorp),⁷ as well as input from the local government sector and IPART⁸. These criteria are:

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

⁴ ILGRP Final Report, p 30.

⁵ ILGRP Final Report, p 17 and Graham Sansom submission to IPART Consultation Paper, May 2015, p 1.

⁶ OLG, *Fit for the Future - A roadmap for Stronger, Smarter Councils*, September 2014, pp 6-8.

⁷ OLG, *Preparing your council's Fit for the Future proposal - Templates and Self-Assessment Tool*, November 2014, p 2.

⁸ IPART, *Review of criteria for fit for the future - Final Report*, September 2014.

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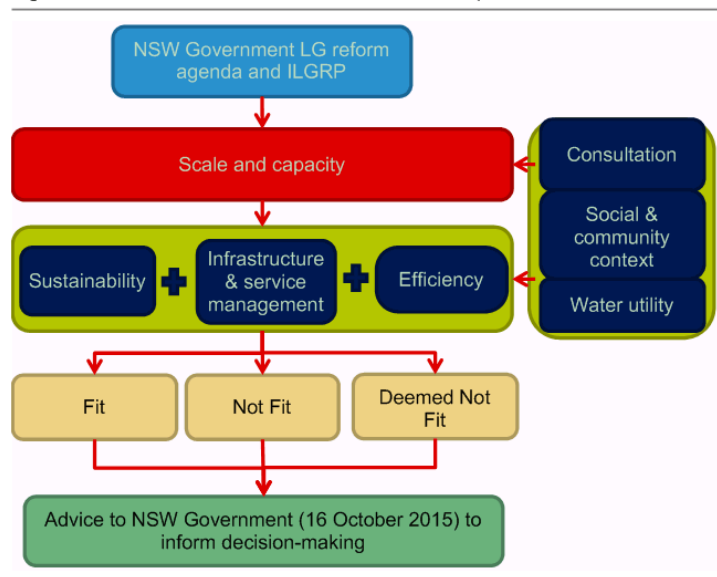
The Government also announced that councils which are assessed as FFTF will have access to a range of benefits, including entitlement to a streamlined rate variation process and a State Government borrowing facility, priority for other government funding and grants, and eligibility for additional devolved planning powers.⁹ There is also funding being provided by the Government to assist councils with the transitional costs of merging.¹⁰

1.2 Role of IPART as the Expert Panel

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

Figure 1.1 provides a summary of IPART’s role in assessing these criteria, with reference to other considerations as explained in section 1.5.

Figure 1.1 IPART’s role in the FFTF assessment process



⁹ OLG, *Fit for the Future - A roadmap for Stronger, Smarter Councils*, September 2014, p 15.

¹⁰ OLG, *Fit for the Future - A roadmap for Stronger, Smarter Councils*, September 2014, p 14.

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

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

Box 1.1 Panel tasks in Terms of Reference

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

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

1.3 Fit for the Future proposals based on scale and capacity

The Government has established the 'scale and capacity' criterion as the threshold criterion for councils.¹¹ In making a FFTF proposal, councils must first assess their scale and capacity against the ILGRP's recommendations,¹² and submit one of three types of proposals:

- ▼ **Council Merger Proposals** – for councils that need to undertake structural change by merging with one or more other councils to achieve sufficient scale and capacity.
- ▼ **Council Improvement Proposals** – for councils that currently have sufficient scale and capacity without any structural change, or are proposing changes to achieve scale and capacity without merging with another council.
- ▼ **Rural Council Proposals** – for councils with 'Rural Council Characteristics', (eg, small, declining populations spread over a large area and where mergers may not be feasible), which need to demonstrate plans and strategies for real change in order to increase their capacity and improve performance against the Fit for the Future criteria.¹³

The Office of Local Government (OLG) has developed templates for councils to use for each proposal type, in addition to other resources and guidance to assist councils in assessing their options and preparing their proposals.¹⁴

1.4 Addressing the other three criteria

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

¹¹ OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 12, and OLG, *Fit for the Future Guidance material – Completing Template 1: Council Merger Proposal*, October 2014, p 7.

¹² See Appendix B and Appendix C.

¹³ OLG, *Fit for the Future Rural Council Workshop outcomes*, December 2014, p 8.

¹⁴ OLG guidance material and templates can be found at:
<http://www.fitforthefuture.nsw.gov.au/preparing-proposal> [accessed 16 April 2015].

The Government has established certain measures with benchmarks for each of these criteria, which a council must report against. These measures and benchmarks are set out in Table 1.1. Many stakeholders suggested changes to some of these measures and benchmarks.¹⁵ The Government has established these benchmarks and measures as part of the Fit for the Future framework. They are embedded in our Terms of Reference as part of the templates councils must complete and submit for their FFTF proposals to be assessed, and we cannot change them. However, we have responded to suggested changes and feedback for assessing some of the measures and benchmarks, and have included the ability for councils to provide additional information as part of our overall assessment process.

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

¹⁵ Many stakeholders suggested various changes in their submissions including, but not limited to, the Ministerial Advisory Group (MAC), Local Government NSW (LGNSW), NSW Treasury Corporation (TCorp), the Institute of Public Works Engineering Australia (IPWEA), a number of councils and council organisations, and individuals.

Table 1.1 Fit for the Future Criteria and Measures

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

^a WDV = written down value.

^b Where specified the benchmarks are to be applied to the three year average ratio for a given year eg, for 2017-18, it is the **average ratio over 2015-16, 2016-17 and 2017-18**. **The extent to which councils are asked to meet the benchmarks and by when (eg, within 5 or 10 years) is set out in Figure 1.1, Table 3.3, Table 3.5 and Table 3.7.**

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

1.5 Our methodology for assessing the proposals

The Government requested that we develop a methodology for assessing council FFTF proposals as a first step in fulfilling the role of the Expert Panel.

Our methodology to assess council FFTF proposals is summarised below.

1. How we will rate council proposals

Councils that submit proposals will be rated as either 'fit' or 'not fit', with reasons given for the assessment. Councils that do not submit a proposal during the submission process cannot be properly assessed and will therefore be 'deemed not fit'.¹⁶

2. How we will assess the scale and capacity criterion, as the threshold criterion

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

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

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

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

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

- Scales the benchmark in the order of importance as: 'must meet'; or 'must demonstrate improvement in'. The scaling applied to each benchmark

¹⁶ Except for Far West councils that choose not to submit proposals and county councils which are not part of the Fit for the Future process, for which no rating will be given.

indicates the importance of councils achieving operational sustainability over the medium term and having plans to improve capital sustainability performance over this same period. A council's performance against each of the individual benchmarks will inform our overall assessment of whether a council meets the criteria.

- Sets timeframes for councils to meet or make improvements towards meeting the benchmarks (ie, within 5 or 10 years).
- Allows flexibility for councils in meeting the forward benchmarks where there is a Merger or Rural Council Proposal, which may require some short term adjustment to fulfil structural or longer term objectives (eg, a temporary increase in asset backlogs in a larger, merged council).

To guide the assessment process, we have set some timeframes around the benchmarks. While we still consider these timeframes are necessary, in response to stakeholder comments, we have clarified that we will use our discretion in relation to assessing ratios, particularly with respect to:

- IPART's timeframes, where a council may not satisfy meeting the benchmark in the given timeframe but has a credible plan to do so in the near future.
- OLG's benchmarks, where a council may not satisfy meeting the benchmark target but the margin is relatively small.

After assessing each benchmark we will consider our findings across all of the benchmarks before making our final decision about whether a council is fit or not fit. This will be based on an overall assessment of operational and capital sustainability, rather than a benchmark pass/fail approach based on individual benchmarks.¹⁷

4. **How we will undertake the assessment process**, including the timetable, how we will consider information provided by councils through the online portal and other relevant information, and opportunities for council consultation with IPART.
5. **How we will consider other factors that may inform our assessment of FFTF proposals.**

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

- the social and community context of the council

¹⁷ We note that OLG and TCorp have advised councils in FFTF workshops that they should be aiming for improvement in their overall sustainability rather than meeting all the benchmarks. This was identified in TCorp's submission (see TCorp submission to IPART Consultation Paper, May 2015, pp 1-2). We consider our approach to assessing how councils satisfy the other criteria overall is consistent with TCorp's advice.

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

In our consultation, some stakeholders asked how specifically these factors would influence the assessment process. To clarify, we consider that the assessment of the four criteria established by the Government should define the assessment process, but that considerations such as these are also important in informing the process. Where relevant, the council should explain how these factors influence or form part of its particular proposal.

1.5.1 Summary of the assessment process

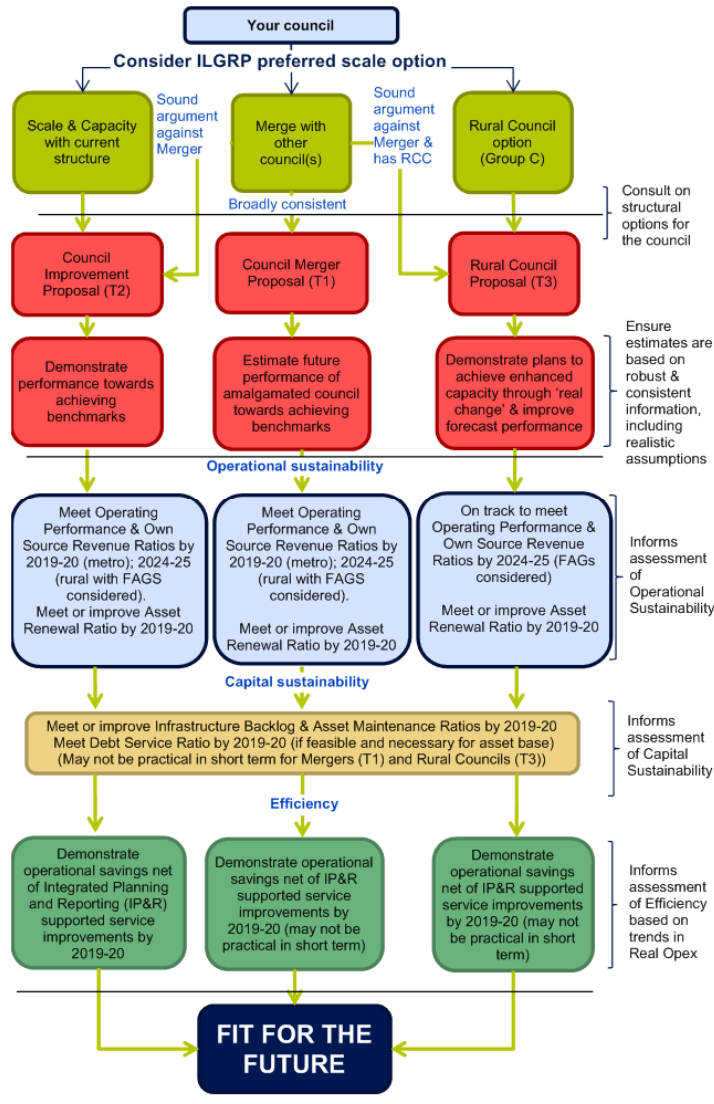
Figure 1.2 summarises the assessment process for FFTF proposals and the steps a council would need to take to be assessed as FFTF. It demonstrates that a council should consider the ILGRP's scale and capacity option as the starting point, and shows that a council should put forward a proposal broadly consistent with the objectives of the ILGRP for the region, unless there is a sound argument that demonstrates that the proposal is at least as good or a better option to achieve scale and capacity related objectives for the region.

1.5.2 Future reporting of FFTF performance

This report also outlines how a council may report on its progress to becoming FFTF over time. We consider that councils should report performance each year in their Annual Reports, and that the Auditor General should reassess FFTF performance periodically, as part of the new auditing role for the Audit Office of NSW in the sector. In this case, the implications of a council not meeting its Fit for the Future projections will be a matter for the Government going forward.

In response to our Consultation Paper, various stakeholders made a number of suggestions regarding how the auditing process should be implemented in practice eg, after other sector reforms (including legislative reform) are implemented, and with established performance guidelines, developed in consultation with the sector. We consider that any reporting requirements for FFTF should, where possible, be integrated into reporting responsibilities of the existing Integrated Planning and Reporting (IP&R) framework to minimise any additional reporting burdens placed on councils.

Figure 1.2 Assessment process for councils' FTFF proposals



1.5.3 Submission process for council FFTF proposals

Councils can lodge their FFTF proposals by using our dedicated council portal on our website:

http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Council_Portal.

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

Once we receive council proposals, we will post non-confidential information on our website as soon as practical.¹⁸ We will also accept public submissions on council FFTF proposals until 31 July and will post these submissions on our website.¹⁹

During our assessment process, we may seek further information, or may meet with a council to clarify aspects of its proposal. This may include requesting further information on issues raised in public submissions.

IPART's officers will also be available to assist councils with enquiries about the submission process before the proposal deadline of 30 June.

1.5.4 Our recommended assessments to Government

Once we complete our assessment, we will rate all councils and provide our advice to the Government by 16 October 2015. This is required by our Terms of Reference. An example of the format for our summary report, together with the various proposals and assessment options, is provided in Table 1.2 for illustrative purposes only. Our full assessment report will include more detailed commentary on the reasons for our assessments.

¹⁸ The council portal on our website will allow the council to submit both non-confidential and confidential supporting information.

¹⁹ Submissions we receive from stakeholders outside a formal submission period may be considered by the Tribunal, but will not be published on our website. We will notify stakeholders through our website about formal submission periods.

4.2 **Fit for the Future - Submission.DOC**

Table 1.2 Example format for our summary report with options for proposals and assessments

Council	ILGRP recommendation	Council proposal	IPART comment on council proposal	IPART assessment
Council name Council name Council name Council name Council name	For instance, ▽ Amalgamate or combine as a strong JO ▽ No change or combine as a strong JO ▽ Merge or stand-alone council within a JO ▽ Rural council in a JO or merge ▽ Council within a JO	▽ Council Merger Proposal ▽ Council Improvement Proposal (existing structure) ▽ Rural Council Proposal – including any of the three proposals accompanied by an alternative preferred option by the council if it wishes eg, a merger	Comments on council proposal including: ▽ scale and capacity – comment on alternative council proposal, if required ▽ other criteria – sustainability – infrastructure – efficiency ▽ and informed by other relevant factors – social and community context – community consultation – impact of water utility performance	▽ Fit ▽ Not Fit ▽ Deemed Not Fit

Note: This table excludes the ILGRP's options for 'joint administration' (in Far West), 'a council in Far West region' or 'unincorporated with community boards' and other possible boundary adjustments (where this is another alternative option).

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Any final decision related to the implications of our advice is a matter for the Government. The Government may request further supporting information or advice, including from us, in order to inform its final decisions on FFTF outcomes or reform in the sector.

Our timetable for the FFTF assessment process is in Table 1.3

Table 1.3 Timeline for FFTF assessment process

Date	Milestone
Stage 2	Council FFTF submissions
30 June 2015	FFTF proposals due from councils
31 July 2015	Close of public submissions on council FFTF proposals
Stage 3	IPART assessment Phase
Until end Aug 2015	Request additional information or meet with councils as required
16 October 2015	Provide FFTF advice to Minister

1.6 Consultation on the proposed methodology

As part of our consultation on our proposed methodology:

- ▼ we received 174 submissions to our Consultation Paper, including 86 from councils or council organisations, and
- ▼ we held four public hearings across NSW, in Sydney,²⁰ Dubbo, Coffs Harbour and Wagga Wagga, which altogether attracted 349 participants including 74 webcast participants, and provided stakeholders with an opportunity for further input.

Submissions and transcripts from our public forums and webcast are available on our website.

After our consideration of stakeholder feedback, we made a number of refinements to our assessment methodology. These changes are outlined in Table 1.4. Other feedback that we received during the consultation process which did not result in any change to our assessment methodology is summarised in Appendix D together with the reasons for not making a change.

²⁰ This Sydney forum was webcast.

Table 1.4 Changes to our methodology in response to stakeholder feedback

Issue raised	Our response
General issue about IPART's role in FFTF process	
General misunderstanding around IPART's role in determining final outcomes regarding reforms in the sector, including amalgamations.	Figure 1.1 in section 1.2 illustrates IPART's role in the FFTF reform process, and in other sections we have clarified that after IPART provides its advice, future reform decisions are a matter for Government.
Approach to assessing scale/capacity criterion	
The objectives for reform to enhance sustainability and capacity for the sector overall have been lost in the focus on achieving short term budget measures, and efficiency/effectiveness of current (rather than expanded) service delivery.	We have provided further detail about the objectives for reform aligned to the findings in the Panel's report in section 1.1, and as relevant in other sections of the report.
Scale and strategic capacity are separate considerations and are not necessarily linked; it is not clear how each aspect will be assessed separately.	In sections 1.5 and 3.2, we have described scale and capacity separately and how both aspects will be assessed.
Clarify features of strategic capacity as they are only qualitative and it is not clear how they will be assessed.	In sections 1.5 and 3.2 we have explained how we will assess the features of strategic capacity qualitatively because there are no standardised benchmarks available. We have also clarified how the onus is on councils to submit how they meet these features, particularly if they are submitting an alternative proposal to the ILGRP-preferred option.
It is unclear whether there is a minimum population size or target number of councils; no such targets should apply.	In sections 3.2.1 and 3.2.2, we have clarified further that the starting point for councils in achieving scale/capacity should be the ILGRP objectives for the region, and that, in this context, we will be guided by the different population estimates for different regions included in the ILGRP report.
Review the reference to 'demonstrating superiority' regarding the assessment of an alternative option to the ILGRP preferred option as this was not required in OLG guidance.	In sections 1.5 and 2.3 we have amended the previous reference to the need for an alternative proposal to the ILGRP preferred option from needing to demonstrate 'superiority to', to needing to be 'at least as good or better than' the merger option.
It is burdensome for councils to produce a business case to support an alternative option to what ILRP recommended.	The reference to the business case is provided as an example of the supporting information that may be provided by a council to provide a sound argument for an alternative proposal. In section 3.2.2 we have explained how regional councils can present their own assessment, without a separate business case.

Issue raised	Our response
Rural Council Proposals	
The concept of the 'Rural Council' model was not endorsed by the Government and so a new council model or a requirement that a council plan for structural change should not be required in the assessment methodology for 'Rural Councils'.	Our methodology does not require a rural council to submit a new council model, just plans to enhance its capacity and sustainability, consistent with OLG guidance and the types of options canvassed with the sector, and as further clarified in section 2.5. We have also deleted any references throughout the report to structural adjustment of rural councils.
General preference to prioritise the Rural Council Characteristic of 'small and static or declining population spread over a large area' with lower priorities given to characteristics of 'difficulty in financial sustainability and provision of adequate services and infrastructure', 'long distance to a major (or sub) regional centre' and 'limited options for mergers'.	In section 2.5 we have maintained our position that councils should meet the majority of characteristics if they submit a Rural Council template, but we adjusted the focus on which characteristics are most important, and noted the importance of those characteristics which compromise the council's potential to achieve financial sustainability over the longer term.
Approach to assessing other financial criteria	
Concern that the approach to assessment differs from what was previously presented about the benchmarks by TCorp and OLG.	The benchmarks and measures were established by the Government for each criterion, and we have not changed them. Although we have set some timeframes for councils to meet the benchmarks, in section 1.5 we have clarified how our assessment of a council's performance against all of the criteria is still an overall assessment of operational and capital sustainability, rather than a benchmark pass/fail approach.
The timeframes to meet the benchmarks should be more realistic and longer, or require council to improve towards (rather than meet) the benchmark ratios.	Refer to comment above. Additionally, in section 3.3 we have extended the category of rural councils to include all rural councils, not just those that choose to submit a Rural Council proposal. Rural councils have longer timeframes to meet the operational sustainability ratios, and will have FAGS income considered with the assessment of the own source revenue ratio. Other councils that consider it is appropriate to include grants income in this assessment may include this information in <i>addition</i> to the standard ratio. These councils must also provide justification for the inclusions.
There should be consideration of significant one-off financial events or major short term projects.	In section 3.3.1 we have clarified further how we will account for short term volatility in our assessments, but that the onus is on councils to explain any variations.
The benchmark for own source revenue is too high and the timeframe is unreasonably short. The own source ratio should include consideration of grants income (eg, FAGs) for more councils than those that submit the "Rural Council" template.	As above.

Issue raised	Our response
There should be special consideration of the operating performance where the council's ratio is adversely affected by depreciation.	In section 3.3.1 we outline how we will assess a council's operational sustainability overall. This will include consideration of the depreciation expenses and the onus will be on the council to communicate any adverse consequences of these expenses on the ratio.
The infrastructure backlog ratio should use the replacement cost, rather than write-down value, for the denominator.	The benchmarks and measures have already been set by Government. However, we have noted that councils may wish to provide additional financial or other information, including performance against alternative benchmarks (such as a backlog ratio based on asset replacement cost), to support their proposal.
The benchmark for asset maintenance is too high. Councils should pass the asset maintenance benchmark if it equals the benchmark of 100%, rather than having to exceed it.	In section 3.3.2 we have further clarified how performance of close to 100%, rather than above 100%, will be considered to meet the benchmark.
Councils should not fail the debt service benchmark if they have zero debt and that there should be recognition of a council's context, and preference not to use debt where it is otherwise reasonable.	In Figure 1.2 and Section 3.3.2, we clarified that we will consider whether the debt is necessary for the council's asset base, as well as whether or not it is feasible.
The benchmark for efficiency (real operating expenditure trend) can be distorted by increasing or decreasing population, or inaccuracies in population figures for residents in the LGA.	In section 3.3.3 we have acknowledged that the benchmark may be difficult to achieve for some rural councils with falling populations, as so we have qualified how we will consider whether savings are practical in the short term for these councils.
The real operating expenditure benchmark can be distorted by community-preferred standard levels and infrastructure and service commitments.	In section 3.3.3 we have re-emphasised that our proposed approach will consider savings net of IP&R-supported service improvements, and have added that the templates provide the opportunity for councils to present the strategies that they may implement to achieve efficiencies in their operations.
Labour productivity should be considered as a more effective measure of efficiency.	In section 3.3.3 we have noted how councils may wish to provide additional information to support their proposal and that this could include performance against other benchmarks such as a measure of labour productivity, if available.

Issue raised	Our response
Other assessment considerations (consultation/water utility performance)	
Councils need more time to consult with their community on merger proposals, given the need for a 28-day exhibition period of a merger proposal in OLG guidance.	We encourage councils to submit merger proposals even if they have not fulfilled this requirement because we will take timing constraints into account.
Need to clarify that community consultation outcomes will also be considered, not just the consultation process.	We have clarified this further with the inclusion of section 4.2.1, and state that this information may inform our assessment of the social and community context for a council, relevant to scale/capacity.
Methodology should be clarified regarding consideration of the water and sewer function, and this function should be considered as part of the assessment of the a council's scale/capacity.	In section 4.3 we have clarified how we will consider the impact of water utility performance in assessing the scale/capacity criterion, as well as the other criteria.
Monitoring and reporting future FFTF performance	
There should be no additional impost or cost for councils, and reporting should be integrated into Integrated Planning and Reporting (IP&R) requirements. A range of other suggestions were made regarding the future reporting process.	In section 5 we have outlined that where possible, any reporting requirements for FFTF should be integrated into reporting responsibilities of the existing IP&R framework to minimise any additional reporting burdens being placed on councils.
Other comments	
NSW County Councils were excluded from the FFTF assessments by OLG. Under these guidelines they will be assessed as 'Not Fit'.	We have noted that county councils are excluded from the FFTF process in footnote 16.
Councils from the Hunter, Central Coast, and Illawarra are excluded from the listing of Group G regional councils.	We have included the ILGRP options for these regions in Appendix B.
Source: This is based on the feedback we received in public forums and various submissions to IPART's Consultation Paper – <i>Methodology for Assessment of Council Fit for the Future Proposals</i> , April 2015.	

2 Fit for the Future reforms

2.1 Background

The Government's objective with the Fit for the Future (FFTF) program is to encourage each council to create its own roadmap of how it will form part of a stronger and more effective local government sector for NSW, and be a sustainable and efficient provider of services to the community.²¹

The Independent Local Government Review Panel (ILGRP) formulated the options for a revitalised system of local government that will remain sustainable and fit-for-purpose well into the middle of the 21st Century. The ILGRP did not take a 'one-size fits all approach' to the sector.²² Instead, it considered the specific characteristics of a region and where necessary it recommended options for structural or boundary change to achieve the overall objectives for an improved sector.

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

- ▼ amalgamate or merge
- ▼ no change
- ▼ combine as a strong Joint Organisation²³
- ▼ (stand-alone) council within a Joint Organisation²⁴
- ▼ rural council, and
- ▼ joint administration.

²¹ OLG, *Fit for the Future - A roadmap for Stronger, Smarter Councils*, September 2014, p 5.

²² ILGRP Final Report, p 7.

²³ The ILGRP made recommendations, including clearly marked 'preferred options' (eg, for mergers) that should be considered in the first instance. However, the ILGRP also provided alternative options, eg, to form a Joint Organisation, including for Sydney metropolitan councils. Graham Sansom's submission to the Consultation Paper (p 3) clarifies the ILGRP's task with formulating 'options'. Sansom notes that the Panel put forward a number of 'preferred options' for mergers, but in every case offered an alternative in case the examination into the preferred option showed this was not a viable option, or the best course of action.

²⁴ This option mainly relates to larger Group G councils. Group F councils have both this option, and a merger option recommended: ILGRP Final Report, pp 112 and 115-116.

In Appendix B, we reproduce the ILGRP's recommendations for the Hunter, Central Coast and Illawarra regions, with other non-metropolitan councils (divided into groups from A to G). Recommendations for Sydney metropolitan councils are in Appendix C. In addition, Appendix C includes a map of the ILGRP's preferred merger options for the Sydney metropolitan area.

2.1.1 Benefits from reforming the sector

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

The ILGRP identified the 'need for councils to shift their focus towards a more strategic view of their operations; to have the ability to respond to the diverse and changing needs of different communities; and to take on new functions or deliver improved services in order to meet those needs.' It suggested 'a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then 'plough back' efficiency gains into infrastructure, services and other benefits for their communities'.²⁵

The ILGRP also noted that a number of recent studies in NSW, and elsewhere, clearly demonstrate the potential for amalgamations, where properly managed, to generate both efficiencies and increased strategic capacity, ie, economies of scale and scope.^{26,27} In addition, it stated that there is an argument that taxpayers should not be expected to increase grant funding indefinitely to support councils that are unnecessarily small, lack capacity and build excessive costs into the system.²⁸

However, we note that the focus of the reform process extends beyond the efficiency or effectiveness of current service levels by councils. It is an opportunity to improve the sustainability of the sector and build capacity into the system to enhance the range of services and functions councils are able to undertake. For example, the ability to manage major regional facilities and undertake or facilitate major economic and infrastructure development for the benefit of ratepayers in NSW and future generations to come.

²⁵ ILGRP Final Report, p 32.

²⁶ ILGRP Final Report, p 73.

²⁷ Economies of scale refer to when average costs of production decrease as output expands. Economies of scope refer to the situation in which it is less expensive to produce goods jointly than separately: Jeffrey M. Perloff, *Microeconomics*, Pearson International Edition, Fourth Edition, 2007, pp 204, 213.

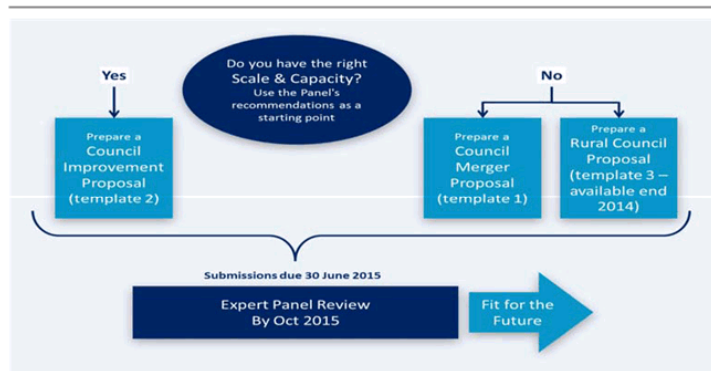
²⁸ ILGRP Final Report, p 72.

In our consultation, many stakeholders questioned the validity of the ILGRP recommendations related to mergers, and the emphasis that the Fit for the Future reform agenda placed on the ILGRP recommendations. We consider that this is a matter outside the ToR for this review. We are required to develop a methodology based on the criteria established by the Government, and assess proposals against those criteria; giving consideration to mergers is a key part of this process.

2.2 Fit for the Future framework

In response to the ILGRP recommendations, the Government adopted a FFTF framework, which was announced in September 2014. The framework requires each council to assess its current position and submit a FFTF proposal by 30 June 2015.²⁹ Figure 2.1 illustrates the FFTF application process. The framework requires councils to submit a proposal based on one of three templates. Figure 2.1 also shows that the choice of template will reflect the council's proposal as to how it addresses the scale and capacity criterion, as the threshold criterion.

Figure 2.1 Application Process for Fit for the Future proposals



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

²⁹ The eight councils in Far Western NSW are not required to submit a proposal. However, we will assess any proposal they submit if they wish to make a submission. County councils are also not required to submit a proposal as they are not part of the Fit for the Future process.

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

- ▼ A **Council Improvement Proposal** (ie, Template 2) if identified as already having scale and capacity.
 - Councils are to address the three other financial criteria to show current (2013-14) and projected (2016-17 to 2019-20) performance against the seven FFTF benchmarks.
- ▼ If identified as without scale and capacity, either:
 - A **Council Merger Proposal** (ie, Template 1) - councils are to show anticipated benefits and costs of a merger and estimate performance against the seven FFTF benchmarks between 2016-17 and 2019-20, or
 - A **Rural Council Proposal** (ie, Template 3) - demonstrating 'Rural Council Characteristics' and providing past (2010-11 to 2013-14) and estimated (2016-17 to 2019-20) performance against the seven FFTF benchmarks.
 - The Rural Council Proposal must include the options that the council plans to undertake to increase its capacity and improve performance against the other Fit for the Future criteria, eg, resource sharing and consolidating or outsourcing existing functions.³⁰

2.3 Council Improvement Proposal

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

Councils may also use this template if they consider that they can demonstrate a strong case to continue as a stand-alone council, by providing an alternative proposal that is as good as or better than the ILGRP's recommendation. In some cases, councils may also choose to submit a Council Improvement Proposal which incorporates some aspects of structural change in their forward planning (eg, sharing some services or resources with other councils).

Where councils are considered by the ILGRP to already have sufficient scale and capacity, councils may also wish to demonstrate how they have considered the costs or benefits of any alternative option flagged as a possible future consideration by the panel (eg, unbolded options in the ILGRP's list of merger and boundary changes for Sydney Metropolitan Councils³¹). However, our assessment of these councils' proposals will focus on how the proposal meets the other criteria to show they are Fit for the Future.

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

³⁰ OLG, *Fit for the Future Rural Council Workshop outcomes*, December 2014, p 8.

³¹ ILGRP Final Report, pp 104-106.

2.4 Council Merger Proposal

The ILGRP carried out research and consultation on the subject of scale and capacity and determined that there was not a 'one-size fits all approach'.³² We note that 61 of the 144 councils now required to submit a FFTF proposal were subject to 'preferred merger' options. For others (83), a merger was not recommended or a merger option was given equal weighting to another option, and the ILGRP recommended further investigation of options to determine the best course of action.³³

The Government's FFTF guidance to councils has stated that 'if the [Independent Local Government Review] Panel recommended a merger for your council, then this should be the first option you consider'.³⁴

The Government is providing a range of support and funding to councils, including to councils that have decided to merge. This funding includes:

- ▼ \$258 million in transition payments to provide the services and facilities communities need
- ▼ \$13 million to support local transition committees that ensure elected representatives are involved in the merger process.³⁵

Councils that become Fit for the Future will be able to access cheaper finance for community infrastructure through a TCorp borrowing facility that is expected to save councils up to \$600 million on the cost of borrowing. In addition, the Government is also considering a streamlined process for rate increases above the rate peg for councils considered Fit for the Future.³⁶

If the council considers that a merger is not feasible, then it should next consider the other options put forward by the ILGRP.

³² The ILGRP informed its recommendations on scale and capacity (including the merger recommendations) by looking at the unique characteristics of each area – geography, economic and transport flows, communities, interest and local identity. It also considered a list of criteria for a given council area, including sustainability and strategic capacity, efficiency and effectiveness and accommodating population growth, and whether boundary changes would better achieve the criteria. OLG, *Fit for the Future Guidance material – Completing Template 2: Council Improvement Proposal (Existing Structure)*, October 2014, p 8, and ILGRP Final Report, p 76.

³³ Graham Sansom submission to IPART Consultation Paper, May 2015, p 3, based on ILGRP Final Report, sections 13-15.

³⁴ OLG, *Fit for the Future Guidance material – Completing Template 1: Council Merger Proposal*, October 2014, p 7.

³⁵ OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 14.

³⁶ OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, pp 14-15.

Councils submitting a merger proposal are asked to estimate, as robustly as possible, future performance (2016-17 to 2019-20) for each FFTF financial benchmark as part of the other criteria assessment. However, as the merged council does not exist yet, we acknowledge these estimates will be indicative only.

In addition, due to the structural changes required for merged councils, it may not be practical for these councils to meet all of the benchmarks by 2019-20, eg, there may be less funds available for asset spending during the adjustment phase. We acknowledge that the merger option is presented to achieve scale/capacity objectives over the longer term, and that some short term budgetary adjustment will be required.

In section 3.3 we discuss how we propose to consider the overall assessment of merged councils relative to the other criteria. In some cases, we may accept forecast improvement in a benchmark based on realistic strategies instead of the requirement that council must meet the benchmark within a certain timeframe.

Consistent with OLG guidance, a Council Merger Proposal is to be submitted by one council in the merger group, but must be endorsed by all councils in the group (ie, by formal council resolution). In addition, councils should consult with their communities and staff on the proposal. We discuss further in section 4.2 how we propose to consider council consultation to inform our assessment of proposals.

2.5 Rural Council Proposal

The ILGRP recommended the option of creating a type of new lower cost, largely autonomous 'Rural Council' working within regional Joint Organisations as an alternative to an amalgamation in some rural-remote areas.³⁷ The option aims to reduce the regulatory and compliance burden on these councils with a regional Joint Organisation undertaking selected regional functions.³⁸ The ILGRP's concept of a new 'Rural Council' model is not required by the Government as part of the Fit for the Future framework. However, rural councils are still encouraged to consider options for change which will likely result in improved sustainability and/or capacity.

³⁷ ILGRP Final Report, p 71.

³⁸ Joint Organisations (JO) are currently being piloted in the Central West, Hunter, Illawarra, Namoi and Riverina. Fifteen JOs are to be rolled out in regional areas from September 2016. JOs will be enabled through legislation.

The ILGRP also identified a number of possibilities for non-metropolitan councils, with respect to structure.³⁹ The ILGRP allocated each non-metropolitan council to a group based on its projected population, size of the rate base and the ability to merge with others (see Table 2.1 for a summary, and Appendix B).⁴⁰ We note, for example, that in its assessment the ILGRP recommended that:

- ▼ non-metropolitan Group C councils would be suitable to be a rural council, but in nearly every case the possibility of a merger should be properly assessed first before being ruled out, and
- ▼ Group B councils have a second option to establish a rural council, with a merger being the first option.⁴¹

³⁹ ILGRP Final Report, see chapter 15, pp 111-122.

⁴⁰ Group A councils are the eight Far West councils that are, at this stage, not required to submit a proposal, but may wish to do so. The ILGRP recommended the creation of a Far West organisation, pending further consultation with these councils on a lasting solution.

⁴¹ According to the ILGRP, Group C councils are those with a projected population of less than 5,000 in 2031 but where a merger may not be realistic. Group B councils have current/projected populations of less than 4,000 but could be readily merged with a neighbour. See ILGRP Final Report, p 112.

Table 2.1 ILGRP options for non-metropolitan councils

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

Note: JO = Joint Organisation. The options are ordered based on the ILGRP's preferred option. However, for some groups this ordering may not apply for each council. For specific recommendations see Appendix B which reproduces the ILGRP's tables.

Source: ILGRP Final Report, Table 11, pp 114-116.

A council submitting a Rural Council Proposal is required to demonstrate that the majority of the Rural Council Characteristics listed in Box 2.1 apply to its circumstances.

During our consultation, some stakeholders submitted the importance of some characteristics over others on this list eg, 'small and static or declining population spread over a large area' and 'high importance of retaining local identity, social capital and capacity for service delivery were considered more important than 'difficulty in attracting and retaining skilled and experienced staff or a 'long distance to a major (or sub) regional centre'.⁴²

We acknowledge that councils would not need to meet all of the characteristics in order to qualify to submit a Rural Council Proposal. However, we will consider whether the council demonstrates characteristics which compromise the council's potential for financial sustainability, such as having a small and static or declining population spread over a large area. We will also consider whether there are 'limited options for mergers' because rural councils still need to have considered and ruled out the merger option if it was recommended by the ILGRP (eg, Group B councils).

⁴² See Submissions to IPART Consultation Paper, May 2015, by Urana Shire Council (p 2), Temora Shire Council (p 3), Riverina and Murray Regional Organisation of Councils (p 4), Albury City Council (p 1) and Maitland City Council (pp 2-5).

Consistent with OLG guidance, a council which does not meet the majority of these characteristics should not complete the Rural Council Proposal, but rather submit either a Merger Proposal or Council Improvement Proposal.⁴³

Box 2.1 Rural Council Characteristics (RCC)

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

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

2.5.1 Rural Council strategies for real change

Figure 2.2 shows the possible options previously canvassed by the Government with the local government sector that we propose to take into account when assessing a Rural Council Proposal. We will assess whether a council has demonstrated that it will achieve real change to improve its capacity, and ultimately, its sustainability.⁴⁴

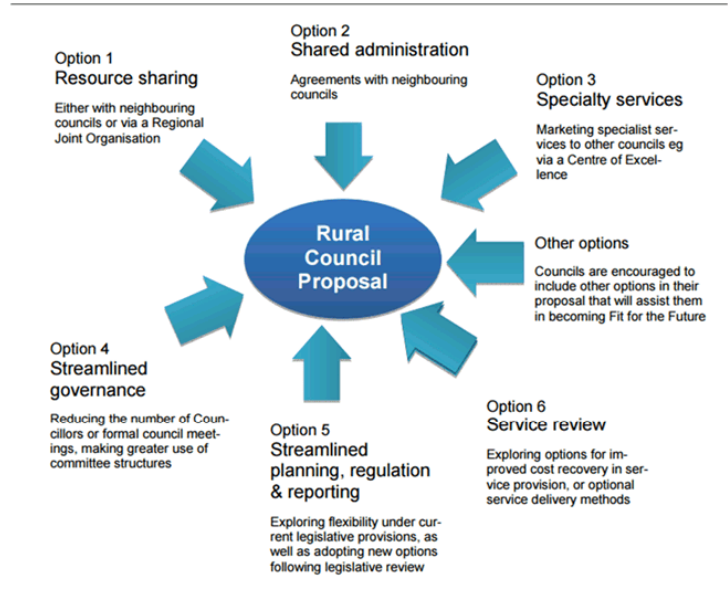
Councils would not be required to adopt all the options in their proposal, and may identify additional options. However, councils should demonstrate how combining two or more of these alternatives would help them to improve their capacity and financial sustainability, become effective infrastructure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

⁴³ Office of Local Government, *Fit for the Future Guidance Material, Completing Template 3: Rural Council Proposal*, January 2015, p 4.

⁴⁴ Some of the options would require legislative change to allow councils to utilise their full potential. Other options could be applied under current legislation.

Rural Councils will also have the option of nominating a project that may be suitable for funding under the NSW Government’s Small Councils Innovation Fund scheme, which we will refer to the Fund, as appropriate.⁴⁵

Figure 2.2 Rural Council Options



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

⁴⁵ An example could be the development of IT systems allowing shared administrative arrangements with a partner council, or the development of a ‘centre of excellence’ to provide services to other councils in areas such as engineering or contractual management: OLG, *Fit for the Future Rural Council Workshop outcomes*, December 2014, p 8.

3 Proposed assessment methodology

The aim of the FFTF assessment process is to assess councils and their proposed roadmaps on a number of fronts – scale, strategic capacity, sustainability, infrastructure service provision and efficiency. The Government has already established clear objectives and benchmarks for IPART to follow in making these assessments, and these have not changed in the methodology.

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

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

3.1 Assessment ratings

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

- ▼ **Fit** – if the proposal satisfies the four FFTF criteria overall, that is, if the proposal:
 1. First, satisfies the **scale and capacity** criterion. We expect that proposals that are broadly consistent with the ILGRP's preferred options would satisfy this threshold criterion. Our approach to assessing proposals that do not align with ILGRP-preferred options will take account of a number of factors as outlined further in section 3.2.
 2. Second, satisfies overall the other criteria of **sustainability, effective infrastructure and service management, and efficiency**. Our assessment methodology for these criteria requires councils to demonstrate how they either meet or seek to improve performance against specific benchmarks, as outlined further in section 3.3.

- ▼ **Not Fit** – if the proposal does not satisfy the scale and capacity criterion, or does not satisfy overall the other criteria based on our analysis; this rating would be accompanied by our commentary and any other findings we have made during the course of our assessment, including whether a council's preferred option was a merger that could not be progressed due to a lack of agreement by the other party or parties.
- ▼ **Deemed Not Fit** – if a council has submitted no proposal for us to assess.⁴⁶

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

3.2 Our approach to assessing the scale and capacity criterion

Scale and capacity is the threshold criterion for all proposal types. The OLG guidance material specifies that each council must use the ILGRP preferred options as a starting point to assess if it has the appropriate scale and capacity.⁴⁷ The ILGRP's scale and capacity options include specific targets for scale based on estimated population coverage in each Local Government Area (LGA), and seek to achieve the key elements of strategic capacity, shown in Box 3.1.

Box 3.1 Key elements of Strategic Capacity

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

Source: ILGRP Final Report, p 32.

⁴⁶ Even councils deemed by the ILGRP to have sufficient scale and capacity need to demonstrate that they satisfy the Other Criteria to be considered 'fit'.

⁴⁷ OLG, *Fit for the Future – A roadmap for Stronger, Smarter Councils*, September 2014, p 12.

3.2.1 Our approach to assessing scale and capacity

In the consultation process, many stakeholders provided feedback about our approach to assessing scale and capacity. Stakeholders raised concerns including that it was not clear whether there would be a minimum population target applied in the Sydney region; that scale and capacity were both distinct considerations and not interchangeable, and that it was unclear how the qualitative elements of strategic capacity would be assessed. In response, we have sought to make clearer certain aspects of our approach.

To assess whether a council's FFTF proposal satisfies the scale and capacity criterion, we will consider:

- ▼ For **Council Improvement** and **Merger Proposals**, if the scale objectives of the ILGRP are broadly met and the strategic capacity requirements outlined in Box 3.1 are satisfied.
 - In reviewing scale objectives, we will be guided by the population estimates for the particular LGA included with the ILGRP's recommended options, which supports the view that 'one size does not fit all' for LGAs.⁴⁸
 - Councils which were not recommended to merge in the short term should consider a future plan for the council to achieve scale in the medium to longer term (eg, Sydney fringe councils).⁴⁹
 - The onus is on the council to demonstrate how it meets the strategic capacity requirements in Box 3.1, particularly if it chooses an option different from the ILGRP's recommendation. We will use our judgement in assessing strategic capacity based on the information we have available, given that there are no standardised benchmarks for these requirements.
- ▼ For **Rural Council Proposals**:
 - If the majority of rural council characteristics in Box 2.1 are satisfied, a particular emphasis will be on the council demonstrating that:
 - i) it has a small, static or declining population spread over a large area, or
 - ii) there are limited options for mergers (including that the merger option was either not considered the preferred option by the ILGRP, or the council has ruled merger options out because they are not feasible in achieving longer term sustainability).
 - If the council has demonstrated plans and strategies for real change to enhance its current capacity to a more sustainable level. In assessing whether this criterion has been met, we will also consider how the new option meets the strategic capacity requirements discussed in Box 3.1 above.

⁴⁸ ILGRP Final Report, pp 104-106.

⁴⁹ ILGRP Final Report, pp 99-103.

The ILGRP also discussed the formation of Joint Organisations.⁵⁰ Joint Organisations (JOs) allow councils to come together to formulate ideas and priorities for local and state governments at a regional level, and also provide scope for shared services. JOs are not intended to create another tier of government, rather councils will remain at the core of the system, and would 'own' and resource the JOs similar to the existing regional organisation of councils, ie, ROCs.⁵¹ However, the formation of JOs is expected to occur during the next stage of the FFTF reform process, after other structural change and boundary change has been progressed.

The Government has stated that it will support councils to establish 15 JOs in regional NSW from September 2016 following a pilot in four regions to develop the model.⁵²

In the Sydney metropolitan area, the ILGRP recommended council amalgamations rather than JOs as a means of councils achieving sufficient scale and capacity. As part of the Fit for the Future reform package, the Government has confirmed that the 'starting point for all Fit for the Future proposals is therefore Independent [ILGRP] Panel's final report' and that '[i]f the Panel recommended a merger for your council, this should be the first option that is considered.'⁵³

OLG guidance also states that councils in Sydney have been given funding, support and incentives to merge, and that rather than forming new JOs, such councils can continue to collaborate through Regional Organisations of Councils.⁵⁴

3.2.2 Consistency with ILGRP preferred options

We consider that all council FFTF proposals that directly align or are *broadly consistent* with ILGRP preferred options on scale and capacity will meet this criterion.⁵⁵ In assessing whether a proposal is *broadly consistent* with the objectives of the ILGRP preferred option, we will examine if:

- ▼ The council has first considered the ILGRP's preferred option for scale and capacity.
- ▼ The council has attempted to adopt an alternative option which is broadly consistent with ILGRP objectives for scale and the features of strategic capacity in Box 3.1, where the preferred option was not considered the best option by the council.

⁵⁰ ILGRP Final Report, pp 79-91.

⁵¹ ILGRP Final Report, pp 81-83.

⁵² OLG, *Fit for the Future: A roadmap for stronger, smarter councils*, September 2014, p 10.

⁵³ OLG, *Fit for the Future Guidance material - Completing Template 1: Council Merger Proposal*, October 2014, p 7.

⁵⁴ OLG, Frequently Asked Questions, <http://www.fitforthefuture.nsw.gov.au/faq-page#t42n2206>.

⁵⁵ For clarity, we note that in its final report, the ILGRP bolded its preferred options where more than one structural option is recommended. See ILGRP Final Report, Tables 8 and 11.

In addition, we intend to examine the proposal's consistency with the broader regional and state-wide objectives of the ILGRP's preferred option, including economic, transport, regional planning and equity objectives.⁵⁶ As an example, we will consider the following ILGRP objectives:

For Metropolitan areas:

- ▼ create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and Federal agencies
- ▼ establish a more equitable pattern of local government across the metropolitan area, taking into account planned development
- ▼ underpin Sydney's status as a global city (in particular, we will consider the specific objectives for the City of Sydney LGA in meeting the State's objectives for a global city, which are quite distinct from the objectives for other suburban areas of Sydney (see Box 3.2), and
- ▼ support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.⁵⁷

⁵⁶ The ILGRP identified the need to reduce compliance costs to the community from dealing with a number of small councils and duplication of services, and for councils to become effective partners with the State: ILGRP Final Report, p 72.

⁵⁷ ILGRP Final Report, pp 98-99.

Box 3.2 Sydney as a Global City

The Panel argued strongly against a small 'CBD council', and opted for a greatly enhanced city that takes in nearly all iconic location and features that contribute to Sydney's global identity, as well as much of the supporting infrastructure. The ILGRP supported its view by considering key attributes of a Global Capital City, including that it should:

- ▼ Physical size – encompass a broad area including iconic locations of global significance
- ▼ Hierarchy – include major infrastructure and facilities at the peak of the hierarchy for that function (government, transport, health, education, culture, etc)
- ▼ Leadership – it should be the first among equals due to the importance of its decisions, geographic scale, budget and responsibilities, and relationship to political, business and civic leaders
- ▼ Strategic capacity – have the ability to manage major regional facilities and undertake or facilitate major economic and infrastructure development
- ▼ Global credibility – be able to be a leader in the Asia Pacific and to maximise opportunities to partner or compete with other global cities for capital investment and reputation
- ▼ Governability – attract the best candidates for political leadership with a broad, diverse and balanced constituency to facilitate good governance
- ▼ Partnership with the State – have the stature, maturity and skills to be a respected partner and to develop productive working relationships with State and Federal agencies.

Source: ILGRP Final Report, pp 99-100.

For Regional or rural areas:

- ▼ ensure that local government in these areas remains in place and is 'fit for purpose' and can maintain community life and identity to the maximum possible extent
- ▼ where possible, create a regional centre with the necessary scale and capacity to anchor a Joint Organisation
- ▼ where possible, ensure that there are close functional inter-relationships (eg, 'overspill' development, commuter catchments, service provision) between a regional centre and adjoining council areas, and
- ▼ address 'councils at risk' in regional areas through amalgamations with adjoining areas.⁵⁸

⁵⁸ ILGRP Final Report, pp 85 and 92-93.

We will assess scale and capacity based on the ILGRP's recommended *preferred option*, as shown in Table 11 of its report (ie, the preferred option is in **bold type**). We will begin our assessment of councils against the preferred options in the report.

However, where the ILGRP provided multiple options, but did not express a preference, we will assess scale and capacity as follows:

- ▼ All Group C councils are suitable candidates for the new 'Rural Council' option, but as the ILGRP indicated in nearly every case the possibility of a merger should be properly assessed by the relevant councils before being ruled out.⁵⁹
- ▼ The ILGRP identified Group D councils as potential merger partners with one or more Groups B and C councils. Where the ILGRP did not express a preferred option, but a merger is an option to consider, consistent with our approach to Group C councils, the merger possibility should at least be explored.
- ▼ Group E councils were identified as having other potential merger options to consolidate major regional centres, and for some councils, the ILGRP preferred option is a merger. Where this is not the case (ie, the merger option is not bolded) and the options include to stand alone in a JO or merge, the merger option should at least be explored.
- ▼ For Group F councils the ILGRP identified that in some cases, councils may be able to continue as stand-alone councils for many years to come, but that most need to consider whether a merger could improve sustainability and build strategic capacity. Therefore, we consider that where a merger option is also identified, it should also at least be explored.
- ▼ For councils identified as candidates to resource-share as part of a regional JO, but were considered to have scale and capacity without merging or adopting the Rural Council option (eg, most but not all Group G non-metropolitan councils),⁶⁰ the council to stand alone will be considered the preferred option.

Group A consists of the eight Far West councils to be reviewed separately as part of the establishment of the proposed Western Region Authority and are not required to submit a proposal.⁶¹ However, we will consider any other options presented by these councils on their merits, should a Far West council submit a proposal.

⁵⁹ This does not mean that the council has to have commissioned a business case which rules it out, just that it has undertaken some form of quantitative or qualitative assessment, and can convey the outcomes of that assessment in its proposal. This applies in each of these cases for non-metropolitan councils.

⁶⁰ ILGRP Final Report, p 116.

⁶¹ ILGRP Final Report, pp 112-116.

There may be instances where councils may not be able to reach agreement with neighbouring councils on merger options recommended by the ILGRP, even when they have proactively pursued them. This issue was raised by some stakeholders in their submissions.⁶²

In these cases, the council should submit a Council Improvement Proposal or Rural Council Proposal (if it meets the RCC in Box 2.1) to demonstrate how it meets the scale and capacity criterion under an alternative option. In some cases, this may not be possible and may form a reason for a 'not fit' assessment. However, in its proposal, a council should provide details of any work undertaken to explore its preferred option and any additional information it considers appropriate. Where 'not fit' ratings apply in these circumstances, in our accompanying narrative to the Minister, we would identify the other merits of the proposal and what efforts were made by the council to pursue the ILGRP's preferred option.

Our recommended approach to assessing scale and capacity is summarised in Table 3.1. Our overall assessment of whether the council is FFTF, based on the council structure proposed, is also informed by the council's projected performance against the three other criteria.

⁶² Local Government NSW submission to IPART Consultation Paper, May 2015, p 15, and submissions to IPART Consultation Paper, May 2015, by Young Shire Council (p 1), Hornsby Shire Council (p 1) and Warringah Council (p 3).

Table 3.1 IPART's approach to assessing the scale and capacity criterion

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

3.3 Our approach to assessing the other three criteria

Following the assessment of scale and capacity, we will assess how a council's proposal meets the three other criteria, that is:

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

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

In our assessments, we will:

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

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

We consider that the onus is on councils to provide additional information against each of the criteria as necessary to support their proposal. Such information may include:

- ▼ reasons and supporting information for volatility in their performance against benchmarks or other reasons and supporting information for not meeting the benchmarks, or
- ▼ additional financial information, or performance against other benchmarks (in addition to the criteria benchmarks), as necessary.

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

Figure 3.1 provides definitions of each of the criteria, guidance for each measure and the benchmark against which the measure will be considered. The benchmarks and measures have been adopted by the Government and are embedded in the OLG templates for council proposals, and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them. However, as indicated in the following sections, we have responded to feedback regarding how we propose to assess some of the measures and benchmarks as part of our overall assessment process.

The measures are based on General Fund data, but as discussed in section 4.3, for councils that have a water utility function, we will consider the impact of this function on the council's General Fund performance.

Figure 3.1 Fit for the Future Criteria, Measures and Benchmarks

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

^a Source: OLG, *Completing Template 3: Rural Council Proposal*, January 2015, p 15. The benchmarks are to be applied as rolling averages as noted in Table 1.1.

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

3.3.1 Sustainability

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

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

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

Table 3.2 Sustainability criterion – measures and definitions

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

Source: OLG, *Preparing your council's Fit for the Future proposal – Templates and Self-Assessment Tool*, November 2014, p 11.

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

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

In response to stakeholder feedback, we have broadened the category of rural councils to include councils in the OLG Groups 8, 9, 10 and 11,⁶³ as well as those that choose to fill in a 'Rural Council' template. This approach clarifies that rural councils, more generally, may be subject to the lesser tests that the council "plan to meet the benchmark within 10 years" for the operating performance ratio and "plan to improve within 5 years with consideration of FAGs" for the own source revenue ratio.

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

As stated in section 1.5, we consider some reasonable timeframe targets are necessary to guide the assessment process. However, we will use our discretion in relation to assessing ratios, particularly with respect to:

- ▼ IPART's timeframes, where a council may not satisfy meeting the benchmark in the given timeframe but has a credible plan to do so in the near future.
- ▼ OLG's benchmarks, where a council may not satisfy meeting the benchmark target but the margin is relatively small.

After assessing each benchmark we will consider our findings across all of the benchmarks before making our final decision about whether a council is fit or not fit. This will be based on an overall assessment of operational and capital sustainability, rather than a pass/fail approach based on individual benchmarks.

In assessing the sustainability criteria we will also have regard to the potential for volatility in individual years and will consider trends over the longer-term. In addition, councils may provide further analysis or explanation of particular years to assist in our assessment.

⁶³ The Australian Classification of Local Governments (ACLG) system classifies councils into 22 categories according to their socio-economic characteristics and their capacity to deliver a range of services to the community. OLG has reduced this to 11 groups because some of the ACLG categories contained few or no councils in NSW. Group 8 is classified as rural, small and agricultural with a population up to 2,000, Group 9 is rural, medium and agricultural with a population between 2,001 and 5,000 or remote with a population between 1,000 and 3,000, Group 10 is rural, large and agricultural with a population between 5,001 and 10,000 and Remote population 3,001 - 20,000 and Group 11 is rural, very large and agricultural with a population between 10,001 and 20,000.

Table 3.3 IPART's approach to assessing the sustainability criterion

Performance measure	Benchmark	Metropolitan/ regional councils	Rural councils ^a	Merger case ^b
Operating Performance Ratio	Greater than or equal to break-even average over 3 years	Must meet within 5 years	Plan to meet within 10 years	Must meet within 5 years for non-rural councils Plan to meet within 10 years for rural councils
Own Source Revenue	Greater than 60% average over 3 years	Must meet within 5 years	Plan to improve within 5 years and consideration of FAGs	Must meet within 5 years for non-rural councils Plan to improve within 5 years and consideration of FAGs for rural councils
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	Meet or improve within 5 years	Meet or improve within 5 years	Meet or improve within 5 years

^a Rural councils include rural councils classified in OLG Groups 8, 9, 10 and 11 and those councils which submit a Rural Council proposal using Template 3.

^b For mergers, we will also consider whether meeting each of the benchmarks is practical in the short term for the new council.

3.3.2 Infrastructure and Service Management

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

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

We will assess these performance measures for infrastructure performance and debt in a holistic manner, that is, in the context of the council's overall capital sustainability, as reflected by its Asset Management Plans (AMP). We will consider the adequacy or necessity of debt levels in the context of the council's asset base, as reported in the AMP.

In addition, we consider there may be data consistency issues that need to be taken into account when interpreting a council’s reported asset renewal, backlog and maintenance performance, as currently there is no requirement for this data to be routinely audited. During consultation, many stakeholders noted the variability in how councils report these ratios, and the drawbacks of some of the measures.⁶⁴ Should councils wish to highlight their past and projected performance against other asset ratios (eg, a backlog ratio based on the replacement value of the assets rather than the written down value of the assets), we will consider this information as part of our assessment.

If councils require further guidance about how to report on their assets, we encourage them to refer to the latest update of the Local Government Code of Accounting Practice and Financial Reporting,⁶⁵ together with the IP&R manual.⁶⁶

We consider it is reasonable to expect that a council would meet the debt service ratio benchmark where it is feasible for the council to borrow, and doing so is compatible with the council’s AMP. A council that uses debt to finance long-lived infrastructure is likely to be more efficiently allocating costs between the present generation of ratepayers and future ratepayers, regardless of when the benefits accrue. However, we acknowledge that there still must be a genuine need for the borrowing by the council.

Table 3.4 Infrastructure and service management criterion – measures and definitions

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

^a We consider that debt is used wisely when it is used reasonably in conjunction with established, sound, Asset Management Plans.

Source: OLG, *Preparing your council’s Fit for the Future proposal – Templates and Self-Assessment Tool*, November 2014, p 12.

⁶⁴ Submissions to IPART Consultation Paper, May 2015, from Jeff Roorda and Associates (JRA), (p 1), Blue Mountains City Council, (p 1), Clr Tom Sherlock (Mosman Council), (pp 2-3), Willoughby City Council (pp 3-4), and Kogarah City Council (pp 2-3).

⁶⁵ Updates to this code are published regularly by OLG.

⁶⁶ The submission from Roorda and Associates emphasised the importance of councils referring both to the code and the IP&R manual in reporting on their assets, to allow for an informed trade-off of risk, affordability and service levels: JRA, May 2015, p 1.

Table 3.5 shows how we will assess the three effective infrastructure and service management criteria measures against the benchmarks. As is evident from Table 3.5, a FFTF council **must** meet the Debt Service Ratio measure within five years. We will also consider cases where councils can justify a debt service ratio in excess of 20%, because this still may reflect prudent borrowing by the council.

The two other measures for this criterion provide more scope for councils to demonstrate **improvement** in the projected performance against the benchmark rather than being required to meet the benchmark.

We note that the benchmark for the Asset Maintenance Ratio is based on the underlying assumption that previous underspending has occurred, which has resulted in the infrastructure backlog for councils being greater than 2%. This assumption is consistent with TCorp's analysis that one of the major drivers of the infrastructure backlog is the underspending in the maintenance of assets.⁶⁷ If a council continuously exceeds the Asset Maintenance target by spending more on maintenance than is required (ie, the ratio is >100%), this may also indicate the council is not efficiently managing its assets. Therefore, performance of close to 100%, rather than above 100%, will also be considered to meet the benchmark.

Table 3.5 IPART's approach to assessing the infrastructure and service management criterion

Performance measure	Benchmark	Metropolitan/ regional councils	Rural councils ^a	Merger case ^b
Infrastructure Backlog	Less than 2%	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years
Asset Maintenance	Greater than 100% average over 3 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years
Debt Service	Greater than 0% and less than or equal to 20% average over 3 years	Meet within 5 years	Meet within 5 years	Meet within 5 years

^a Rural councils include rural councils classified in OLG Groups 8, 9, 10 and 11 and those councils which submit a "rural council" Template 3.

^b For mergers, we will also consider whether meeting each of the benchmarks is practical in the short term for the new council.

⁶⁷ TCorp, *Financial Sustainability of the New South Wales Local Government Sector: Findings, Recommendations and Analysis*, April 2013, p 15.

3.3.3 Efficiency

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

Table 3.6 shows that real operating expenditure is the benchmark we will consider when measuring the performance of councils for efficiency. We will consider changes in service levels over time (consistent with community priorities identified in the Integrated Planning and Reporting (IP&R) processes) when assessing a council’s efficiency. This will help us to determine whether any increased operating expenditure is justified in this context. In addition, we will consider the need for any structural adjustment (such as an amalgamation or merger) in assessing the scale and capacity criterion where efficiency gains are not practical in the short term.

Table 3.6 Efficiency criterion – measures and definitions

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

Source: OLG, *Preparing your council’s Fit for the Future proposal – Templates and Self-Assessment Tool*, November 2014, p 12.

Table 3.7 shows how a council must demonstrate improvement in this measure to satisfy the criterion. Some stakeholders indicated that performance against this benchmark should inform our assessment of the overall criteria, rather than remain a benchmark that must be met.⁶⁸ We have retained it as a “must meet” benchmark as proposed, because the criteria is to demonstrate operational savings, net of IP&R-supported service improvements, which should be achievable for most councils. However, we acknowledge that this may be difficult to achieve for some rural councils with falling populations, and so we have qualified that such savings may not be practical in the short term for these councils.

In summary, metropolitan and regional councils that propose to be stand-alone are required to demonstrate that operational efficiencies will be achieved by 2019-20. Some discretion will apply to Merger and Rural Proposal councils in the short term as this measure may be affected by a falling population, or the transition to new arrangements that may require additional spending to achieve future efficiencies.

⁶⁸ Ministerial Advisory Group submission to IPART Consultation Paper, May 2015, pp 2-3 and United Services Union submission to IPART Consultation Paper, May 2015, pp 3-4.

In addition, the templates provide the opportunity for councils to present the strategies they have implemented to achieve efficiencies in their operations. Councils may wish to provide further information to support their proposal, in particular if they consider that their performance against the benchmark does not sufficiently reflect their efficiency eg, by providing a measure of labour productivity, if available.⁶⁹

Table 3.7 IPART's approach to assessing the efficiency criterion

Performance measure	Benchmark	Metropolitan/ regional councils	Rural councils ^a	Merger case ^b
Real operating expenditure per capita	A decrease in Real Operating Expenditure per capita over time	Must demonstrate operational savings (net of IP&R supported service improvements) over 5 years	Must demonstrate operational savings (net of IP&R supported service improvements) over 5 years but may not be practical in short term	Demonstrate operational savings (net of IP&R supported service improvements) over 5 years but may not be practical in short term

^a Rural councils include rural councils classified in OLG Groups 8, 9, 10 and 11 and those councils which submit a "rural council" Template 3.

^b For mergers, we will also consider whether meeting each of the benchmarks is practical in the short term for the new council.

3.4 The FFTF assessment process for councils

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

3.4.1 FFTF proposal supporting information

We will base our assessment on the information provided in council proposals through the online portal using one of the templates OLG developed,⁷⁰ and any additional relevant information. This additional information may be provided by the council to support its proposal or may be otherwise gathered by, or provided to, us. Any proposal provided by the council should be supported by a sound argument with relevant documentation.

⁶⁹ This was suggested as an alternative measure of efficiency: Dr Bronwyn Kelly submission to IPART's Consultation Paper, May 2015.

⁷⁰ OLG guidance material and templates can be found at: <http://www.fitforthefuture.nsw.gov.au/preparing-proposal> [accessed 16 April 2015].

We consider the ToR allows us to assess all information we consider relevant, and to make a judgement on the robustness of the argument, analysis and information used to support any position. Where we consider the position is not sufficiently supported, we may request the council to provide further supporting information. However, this will not be an opportunity for councils to submit new proposals.

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

- ▼ NSW TCorp's Financial Sustainability assessments
- ▼ their Integrated Planning and Reporting framework - including community strategic plan (and associated delivery program and operational plan) and resourcing strategy (ie, long term financial plan, workforce management plan and asset management plans), and
- ▼ IPART decisions on s 508(2) or s 508A Special Rate Variations.⁷¹

We consider these information sources may assist councils to support their proposals with robust and consistent data, which will assist us to make a recommendation based on the best available information. However, we also request that councils target the information they attach to support the proposal by attaching specific content of plans or reports with relevant references to this information in the template.

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

In the interests of clarity, when councils complete the templates, the requested 3-year averages are based on rolling averages of the last three years, eg, the average ratio for 2016-17 is based on the average ratio of 2014-15, 2015-16 and 2016-17. We understand that the time series of data for 2014-15 and 2015-16 is now included in the latest available OLG templates for councils to use.⁷² We also understand that the templates provide for a self-assessment of whether councils meet the benchmarks. These can be completed alongside the entries for the projected ratios in each year.

We consider councils should provide as much relevant information or financial data as is required to support their proposals. In addition, as discussed in section 3.1, councils may wish to provide additional financial or other information, including performance against alternative benchmarks, to support their proposal.

⁷¹ *Local Government Act 1993* (NSW), see: s 508 - Orders under sections 506 and 507, and s 508A - Special variation over a period of years.

⁷² Previously, data for these two years was not included in the templates.

3.4.2 The robustness of supporting information used in FFTF proposals

We consider that a sound argument based on robust information is required to demonstrate the relative merits of alternative proposals.

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

Further, as a council's proposal requires time series data for each benchmark, we will factor into our assessment the impact of positive or negative one-off performance issues (or adjustments) in the context of assessing long term trends. To assist us in understanding what these adjustments are and why they occurred, councils should explain the reason for any one-off adjustments, consistent with the guidance in OLG's templates.⁷³ As we are considering council sustainability, it is ongoing performance that is important.

⁷³ For example, see: OLG, *Fit for the Future Guidance material - Completing Template 2: Council Improvement Proposal (Existing Structure)*, October 2014, p 11.

4 Other considerations in assessing FFTF proposals

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

4.1 Social and community context of the council

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

The ILGRP identified that:

- ▼ Local government boundaries should not unnecessarily divide areas with strong economic and social inter-relationships, but instead should facilitate integrated planning, coordinated service delivery, and regional development. We will consider these aspects of a council's proposed scale and capacity as part of our assessment.
- ▼ Other mechanisms can make it possible to maintain local representation and identity within larger council areas eg, other forms of local community representation.⁷⁴

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

4.2 Council consultation on FFTF proposals

The ToR ask us to include an assessment of the consultation process undertaken by the council as part of our assessment of council FFTF proposals. Councils may include examples of consultation undertaken solely for the FFTF process, or they may include examples of longer term consultation on relevant matters that has been undertaken as part of the IP&R process.

⁷⁴ ILGRP Final Report, pp 73-76.

The ILGRP considered that a policy on boundary changes based on evidence-based assessments should include full community consultation.⁷⁵

OLG's FFTF guidance material also identifies how councils may use findings from community consultation to assist in identifying benefits and costs for proposals.⁷⁶ In particular, OLG requires councils to provide evidence on community consultation regarding any proposed merger or new 'rural council' options.⁷⁷ In addition, evidence should be provided of council resolutions in support of merger proposals.⁷⁸ OLG also suggested that councils exhibit proposals for mergers for at least 28 days as part of their community consultation.⁷⁹ Public exhibition of the proposal is desirable. However, we encourage councils to submit their proposal irrespective of progress with their consultation.

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

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

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

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

⁷⁵ ILGRP Final Report, p 74.

⁷⁶ OLG, *Fit for the Future Guidance material - Template 1: Council Merger Proposal*, October 2014, p 11.

⁷⁷ OLG, *Fit for the Future Guidance material - Completing Template 1: Council Merger Proposal*, October 2014, pp 12-13, and *Fit for the Future Guidance material - Completing Template 3: Rural Council Proposal*, October 2014, p 21.

⁷⁸ OLG, *Fit for the Future Guidance material - Template 1: Council Merger Proposal*, October 2014, p 3.

⁷⁹ OLG, *Fit for the Future Guidance material - Template 1: Council Merger Proposal*, October 2014, p 2.

4.2.1 Outcomes from consultation

In addition to assessing a council's consultation process, we will also consider the outcomes from the consultation process and how these outcomes inform a case against the other criteria, as relevant. For example, these outcomes may provide more information about the social and community context for a council, which would be useful in assessing a council's scale and capacity.

4.3 The impact of water utility performance

Councils submitting either a Council Improvement or Rural Council proposal which provide water and/or sewer services, are required to separately report on their water utility performance. All other sections in the templates require councils to report only on their General Fund performance, which excludes the impact of water business funds.⁸⁰

According to Local Government NSW (LGNSW), the activities of the water business may affect the General Fund, through dividend payments and through internal borrowings between the General and Water Funds. LGNSW also explains how the services of water businesses can contribute to the strategic capacity of a council through economies of scale and scope.⁸¹

In feedback on our proposed methodology, LGNSW submitted how a council's water supply and sewerage function is relevant to scale and capacity objectives as well as other financial, service-related and efficiency objectives.⁸²

We will consider the impact of water utility performance in assessing the scale and capacity criterion as well as the impact on the other three criteria.

⁸⁰ For example see, OLG, *Fit for the Future Guidance material – Completing Template 2: Council Improvement Proposal (Existing structure)*, October 2014, p 7. OLG states that cl 206 of the *Local Government (General) Regulation 2005* (NSW) requires councils to maintain a separate Water and Sewer Fund.

⁸¹ Local Government NSW, *FFTF – LGNSW Submission: Local Water Utilities*, February 2015, pp 2-4.

⁸² Local Government NSW submission to IPART Consultation Paper, p 15.

5 Monitoring and reporting future FFTF performance

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

The Government supported the ILGRP's recommendations to improve auditing practices for the local government sector.⁸³ It recognised the potential value in giving the Auditor General oversight of councils' financial audits to improve quality, consistency, timeliness and financial management more generally. OLG expects to implement this new regime following further consultation with the local government sector and legislative change.⁸⁴

In response to our Consultation Paper, various stakeholders made a number of suggestions regarding how the auditing process should be implemented in practice eg, after other sector reforms (including IP&R and legislative reform) are implemented, and with established performance guidelines, developed in consultation with the sector.⁸⁵ Other stakeholders noted that auditing should not commence until there is a review of the most appropriate asset-related measures to report on, that there should also be reporting of council skill levels (eg, related to staff), and that any monitoring should have a positive focus, like the Promoting Better Practice Program does.

⁸³ OLG, *NSW Government Response - Independent Local Government Review Panel recommendation - Local Government Acts Taskforce recommendations*, September 2014, pp 4, 8-9. Recommendation 3: Place local government audits under the aegis of the Auditor General (5.4), and Recommendation 22: Strengthen requirements for internal and performance auditing as proposed in Box 17 (8.5).

⁸⁴ OLG, *NSW Government Response - Independent Local Government Review Panel recommendation - Local Government Acts Taskforce recommendations*, September 2014, pp 4-8.

⁸⁵ A number of submissions including metropolitan and regional councils, some ROCs and an Engineering Association.

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5 Monitoring and reporting future FFTF performance

Under this regime to monitor and report future FFTF performance of councils, we consider that:

- ▼ councils would report performance in their Annual Reports, and
- ▼ the Auditor General would reassess performance periodically as part of the Audit Office of NSW's new auditing role in the sector.⁸⁶

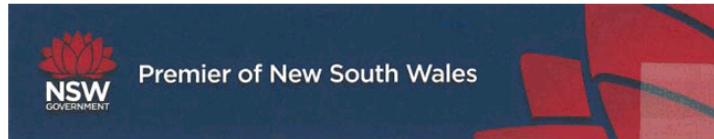
The implications of a council not meeting its Fit for the Future projections will be a matter for the Government going forward.

⁸⁶ This timeframe assumes changes from the FFTF process will occur from end 2015-16 onwards.



Appendices

A Terms of Reference



Reference: A1172026

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

Dear Dr ^{Peter}Boxall

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

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

Yours sincerely


MIKE BAIRD MP
Premier

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

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

Introduction

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

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

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

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

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

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

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

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

Task

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

Procedure

The Panel is to:

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

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B | ILGRP options for Non-Metropolitan Councils

4.2 **Fit for the Future - Submission.DOC**

Table 11: Options for Non-Metropolitan Councils

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

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

Source: ILGRP Final Report, pp 114-116.

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B ILGRP options for Non-Metropolitan Councils

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

Source: ILGRP Final Report, pp 114-116.

B ILGRP options for Non-Metropolitan Councils

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

Note: Great Lakes Council advised us that the Government has since allowed it to remain in the Hunter Council region for JO purposes, rather than the Mid North Coast.

Source: ILGRP Final Report, pp 114-116.

B ILGRP options for Non-Metropolitan Councils

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Table B.1 ILGRP recommendations for Hunter, Central Coast and Illawarra

Council/s	Options (preferred option in bold)	ILGRP Map 5: Options for Hunter Councils	
Hunter Region			
Dungog, Maitland	Merge or Council in Joint Organisation (possible boundary change)	<p>UPPER HUNTER MUSWELLBROOK SINGLETON CESSNOCK WYONG DUNGOG PORT STEPHENS MAITLAND NEWCASTLE LAKE MACQUARIE</p> <p>■ PROPOSED MERGERS ○ REVIEW BOUNDARIES</p>	
Newcastle, Lake Macquarie	Amalgamate or Council in Joint Organisation (possible boundary changes)		
Cessnock	Council in Joint Organisation		
Muswellbrook	Council in Joint Organisation		
Port Stephens	Council in Joint Organisation (possible boundary change)		
Singleton	Council in Joint Organisation		
Upper Hunter	Council in Joint Organisation		
Central Coast			
Gosford, Wyong	Amalgamate or a multi-purpose Joint Organisation (no separate water corporation until other options properly evaluated)		
Illawarra			
Kiama	Council in a Joint Organisation (if future amalgamation – with Shoalhaven, noting its inclusion in South East-Tablelands region)		
Shellharbour, Wollongong	Council in a Joint Organisation (amalgamate if future options need to be revisited)		

Source: ILGRP, *Revitalising Local Government – Final Report of the NSW Independent Local Government Review Panel*, October 2013, pp 108-110.

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C ILGRP preferred merger options for Sydney
Metropolitan Councils

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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 Connex, 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

Source: ILGRP Final Report, pp 104-106.

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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
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 	<ul style="list-style-type: none"> • Projected 2031 population 459,800 on its own, with further substantial growth planned
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

Source: ILGRP Final Report, pp 104-106.

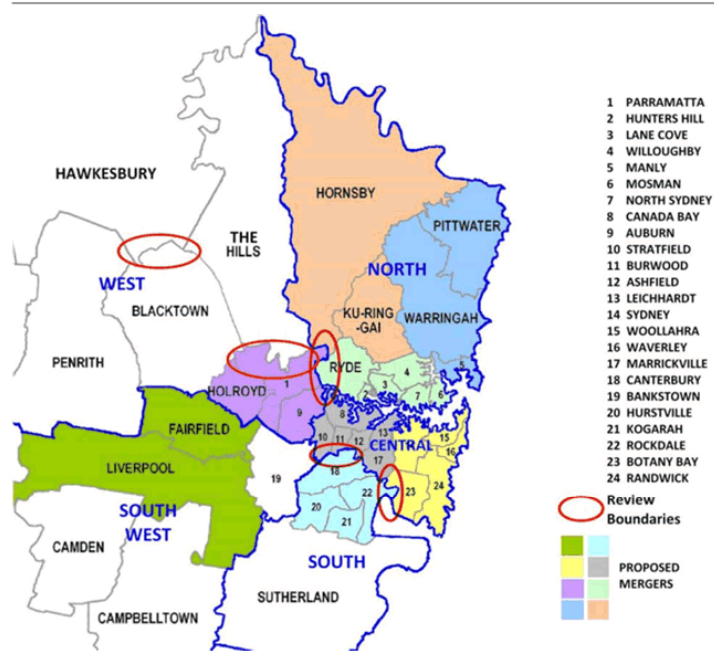
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Council/s	Options (preferred option in bold)	Rationale
	<ul style="list-style-type: none"> Possible boundary adjustments with The Hills and Blacktown to facilitate NW Growth Centre and Possible longer term merger with The Hills 	<ul style="list-style-type: none"> Functional, socio-economic and environmental links may justify merger with The Hills
The Hills	<ul style="list-style-type: none"> 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"> 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

Source: ILGRP Final Report, pp 104-106.

C ILGRP preferred merger options for Sydney Metropolitan Councils



Source: ILGRP Final Report, p 107.

D Summary of other key issues raised by stakeholders during consultation

Table D.1 Issues raised which did not result in change to methodology

Summarised issue	Reason for no change in methodology
Timeframe and process issues	
<p>Concerns with the timeframes throughout the FFTF process being too short. Extension to timeline should be considered for councils genuinely working towards a merger.</p> <p><i>Raised by: Numerous submissions including Ministerial Advisory Group (MAG), LGNSW, United Services Union and metropolitan councils.</i></p>	<p>The timelines for the FFTF process including the deadline for submitting proposals are determined by the Government and form part of our ToR. Councils have been aware of the FFTF process since September 2014 when the Government announced the need for councils to prepare proposals against the criteria.</p>
<p>Templates do not provide enough space to explain proposals (with 500 word limit) and have a lack of focus on historical performance and other financial trends.</p> <p><i>Raised by: Metropolitan and regional councils.</i></p>	<p>Templates are provided by OLG as part of the FFTF process. Councils may provide additional supporting information as they consider necessary.</p>
<p>The online portal should allow for submitting enough supporting information as councils require and include options to provide confidential submissions.</p> <p><i>Raised by: Metropolitan and regional councils.</i></p>	<p>Guidance on submitting proposals via the council portal will be made available on our website. The facility will accommodate supporting documentation, including confidential submission requirements.</p>
<p>Clarity requested on how IPART will treat submissions from the public received post June 30, and how the councils will be able to respond to concerns.</p> <p><i>Raised by: Metropolitan and regional councils.</i></p>	<p>Councils will not have a chance to respond to all submissions but we would seek to consult with councils on any matter raised of which we were not aware which might impact our assessment.</p>
<p>All submissions to IPART should be made public ASAP.</p> <p><i>Raised by: A metropolitan council and some individuals.</i></p>	<p>We will post non-confidential information on our website as soon as practical after the closing date for submissions.</p>
<p>Councils deemed provisionally unfit should have the option to present to panel, and amend their proposals.</p> <p><i>Raised by: Numerous submissions including MAG, LGNSW.</i></p>	<p>This step is currently not provided for by our ToR. It will be a Government decision regarding the appropriate steps to be taken once it receives our FFTF assessments.</p>

Summarised issue	Reason for no change in methodology
Assessment approach of 'scale/capacity'	
<p>Proposed assessment approach of "scale/capacity" ignores evidence that larger scale (or mega) councils can be less efficient than medium size councils and that ILGRP recommendations are not supported by evidence.</p> <p>Local issues, and community and social capacity (including community engagement) should instead define criterion of 'strategic capacity.'</p> <p><i>Raised by: Numerous submissions including metropolitan and regional councils, community organisations, individuals and a political group.</i></p> <p>Scale and capacity should not be a threshold criterion under the methodology; Panel should consider whole of council's proposal when considering scale and capacity, including broader social and community context.</p> <p><i>Raised by: Numerous submissions including MAG, metropolitan and regional councils; individuals, community and political groups and a councillor.</i></p> <p>There should be a minimum population target to reach for metropolitan councils (eg, 200,000 or 250,000 by 2031).</p> <p><i>Raised by: Metropolitan councils.</i></p> <p>There should be a set target number of 6-10 councils in Sydney to ensure scale/capacity sufficient for sector needs. IPART must provide clear guidance to Government where additional opportunities for mergers exist beyond those recommended by ILGRP.</p> <p><i>Raised by: A business organisation.</i></p> <p>Councils are disadvantaged when they are prepared to merge (in line with ILGRP option), but cannot reach agreement with neighbouring councils on merger option, since they will likely be rated as 'unfit' based on not meeting scale/capacity.</p> <p><i>Raised by: Metropolitan and regional councils.</i></p> <p>Measuring strategic capacity by degree of cooperation with the NSW Government's planned development prejudices consideration of residents' rights. Planning and development are secondary issues - criterion should be removed.</p> <p><i>Raised by: Some individuals and a councillor.</i></p> <p>Difference between metropolitan Sydney and regional/rural councils should be recognised in scale and capacity requirements.</p> <p><i>Raised by: A regional council, a council organisation and a Member of Parliament.</i></p>	<p>Consistent with OLG FFTF guidance and our ToR, IPART is to assess proposals with reference to the ILGRP recommendations for scale/capacity. As required by the ToR we will also consider the social context and community consultation in assessing scale/capacity.</p> <p>Scale and capacity is a threshold criterion in OLG FFTF material which determines our ToR.</p> <p>IPART has not specified minimum populations, but the ILGRP Report included population estimates for LGAs.</p> <p>IPART has not set a specific target number but the ILGRP Report proposed specific number of councils for Sydney metropolitan area.</p> <p>IPART will assess councils on information provided as required by the ToR. Additional supporting information may be provided as necessary, including if councils have a preference for merger but could not reach agreement with neighbours.</p> <p>This is not a criterion as such, but one of the objectives underpinning the concept of strategic capacity as noted by the ILGRP, particularly for Metropolitan Sydney.</p> <p>The starting point for scale and capacity is based on ILGRP research which acknowledged there is no 'one-size fits all'.</p>

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D Summary of other key issues raised by stakeholders during consultation

Summarised issue	Reason for no change in methodology
<p>Participation in a ROC or shared services approach should be sufficient to achieve scale and capacity without mergers, and the methodology should clarify acceptance of this approach as an alternative to the ILGRP preferred option. <i>Raised by: Numerous submissions including metropolitan and regional councils, ROCs, community groups and individuals.</i></p>	<p>The starting point is to explore the ILGRP preferred option and the onus is on councils to demonstrate how their proposal, which may include options for collaboration or other, shared service options, sufficiently addresses the criterion.</p>
<p>Concerns about councils using JOs as an alternative to mergers when ROCs are not effective at providing leadership at regional level on policy issues. <i>Raised by: An individual.</i></p>	<p>We will consider the merits of the council's proposal, with reference to the ILGRP scale/capacity objectives and the information provided by the council, including any aspect relevant to JOs.</p>
<p>The assessment should consider the scope for a council to absorb issues relating to a neighbouring council at risk. <i>Raised by: Regional councils and a ROC.</i></p>	<p>The assessment will consider scale/capacity issues for the region as a whole, not just the perspective of a single council.</p>
<p>A council's requirement for capacity should include appointing a Chief Engineer, having access to a depth of engineering/technical skills, and investing in engineers. <i>Raised by: Engineering professional associations.</i></p>	<p>The onus is on the council to demonstrate how it meets the scale and capacity requirements.</p>
<p>A larger council will be more responsive to developers, less to the residents. <i>Raised by: Community and political groups and some individuals.</i></p>	<p>Noted as comment.</p>
<p>The assessment should note the impact of cost shifting on councils' ability to perform against the FFTF ratios. <i>Raised by: Regional councils and a ROC.</i></p>	<p>Noted as comment.</p>
Rural Council Characteristics	
<p>The characteristic 'limited options for mergers' should not define a 'Rural Council'. <i>Raised by: Regional councils and a ROC.</i></p>	<p>The rural council characteristics were developed by OLG in consultation with rural councils. We have not weighted the characteristics, but require councils submitting a rural council proposal to satisfy the majority of these characteristics.</p>
<p>The characteristic of long distance to regional centre should be based on accessibility to reasonably priced transport. <i>Raised by: A ROC.</i></p>	<p>As above.</p>
Assessment approach for the other three criteria	
<p>An assessment of sustainability is premature when outcomes from JOs are not known. <i>Raised by: Regional councils.</i></p>	<p>Councils will need to make some assumptions based on the information currently available and use the options recommended by the ILGRP as a starting point. JOs may help improve scale and capacity but may not be the sole solution in addressing this criterion.</p>

Summarised issue	Reason for no change in methodology
<p>Operating ratio should include net gain from disposal of operational assets (excl land and buildings), equity under insurance schemes and fair value adjustments for investment properties. <i>Raised by: A metropolitan council.</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them.</p>
<p>Standard data collection and accounting treatments for assets would be useful to improve reliability of assessment using these criteria. <i>Raised by: A regional council.</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them.</p>
<p>Concern that practices to estimate asset values and planning vary between councils, which limits effectiveness of benchmarking and assessments. <i>Raised by: Numerous submissions, including MAG, Metropolitan and regional councils, ROCs, individuals, consulting organisations, and a professional association (engineering).</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them.</p>
<p>There should be consideration that growth councils may have distorted assets, revenue and ratios due to development. Also consideration of community preferences when assessing asset management and expenditures. <i>Raised by: Metropolitan and regional councils, Engineering Associations and a consulting organisation.</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them. Councils may provide additional information with supporting arguments where necessary.</p>
<p>The benchmark for building and asset renewal, and asset maintenance should be assessed using asset condition, rather than depreciation expense. <i>Raised by: A regional council.</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them.</p>
<p>The ratios for the benchmarks may conflict eg, the ROE ratio may deteriorate because the council is increasing expenditure on maintenance. <i>Raised by: MAG, metropolitan and regional councils and individuals.</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them. Councils may provide additional information with supporting arguments where necessary.</p>
<p>Councils should satisfy this benchmark if expenditure per capita is in line with the Local Government Cost Index. <i>Raised by: MAG.</i></p>	<p>The benchmarks and measures have been established by the Government and although we received suggestions to alter some of these in our consultation process, it is not our role to reconsider or change them.</p>
<p>The assessment of the benchmark ratios should take into account the impact of 'cost-shifting', long term rate pegging and limited revenue and grants opportunities. <i>Raised by: Metropolitan and regional councils, ROCs, TCorp, political groups, individuals and a consulting organisation.</i></p>	<p>Assessment will be on a 'no policy change' basis.</p>

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D Summary of other key issues raised by stakeholders during consultation

Summarised issue	Reason for no change in methodology
<p>Concern about the accuracy and relevancy of council's financial figures used for the benchmark ratios, including future impact of LIRs and special rate variations. <i>Raised by: Metropolitan and regional councils, business and community groups and a councillor.</i></p>	<p>We will consider the reasonableness and robustness of the assumptions underpinning financial projections as part of our assessment.</p>
<p>There should be separate benchmarks and timeframes for three categories - metro, regional and rural councils. <i>Raised by: TCorp.</i></p>	<p>We have established different timeframes for metropolitan/regional councils versus rural councils. We will apply discretion and make an overall assessment of a council proposal but consider that regional councils should be encouraged to meet certain benchmarks within shorter timeframes than rural councils.</p>
<p>There should be a materiality test where the benchmark requires improvement. <i>Raised by: TCorp.</i></p>	<p>Given the variability from council to council and the discretion required in our assessment, we do not consider that blanket materiality tests are necessary. However, we will be assessing rates of improvement in ratios in our assessment.</p>
<p>Methodology for assessment should reflect OLG's guidelines, as council consultation has already been undertaken on this basis. <i>Raised by: Numerous submissions including LGNSW, regional councils, a ROC and a council mayoral organisation.</i></p>	<p>We have not changed the benchmarks set by OLG.</p>
<p>Assessment of the council's consultation on proposals</p>	
<p>Community support is most important and should be the starting point of the assessment or at least considered concurrently with scale and capacity; mergers should not be the only option consulted on. <i>Raised by: Numerous submissions including LGNSW, metropolitan and regional councils and a community group.</i></p>	<p>We will assess community consultation with reference to the OLG guidance materials.</p>
<p>Various suggestions on appropriate consultation eg, consultation should be determined by councils, should not form the basis for an unfit assessment, should be similar to IP&R consultation, should use exhibition period of 28 days as required for mergers. <i>Raised by: Numerous submissions including LGNSW, metropolitan and regional councils, ROCs, individuals and professional associations.</i></p>	<p>We will assess community consultation with reference to the OLG guidance materials. OLG requires councils to provide evidence on community consultation regarding any proposed 'merger' or new 'rural council'. We will assess council proposals in line with our ToR.</p>
<p>Assessment should favour a council that consulted before reaching its position, rather than the reverse. <i>Raised by: Some regional councils.</i></p>	<p>We will assess community consultation with reference to the OLG guidance materials.</p>

Summarised issue	Reason for no change in methodology
Reporting and monitoring requirements	
Reporting should not be to the Auditor General. <i>Raised by: Some regional councils.</i>	Reporting requirements are a policy decision determined by the Government.
Financial indicators are already monitored through IP&R so monitoring of FFTF performance not needed. <i>Raised by: Metropolitan and regional councils.</i>	Reporting on FFTF can be integrated into the IP&R process.
Various reforms required first, eg, IP&R, more reporting on staff/skill levels (engineering) in council AMP, robustness of sustainability measures and auditing of Special Schedule 7. <i>Raised by: Metropolitan councils a ROC and professional association (engineering).</i>	These will be a matters for Government going forward. However, we consider any reporting requirements for FFTF should be integrated into the existing IP&R framework.
Monitoring should have a positive approach, eg, Promoting Better Practice program. <i>Raised by: A regional council.</i>	These will be a matters for Government going forward. However, we consider any reporting requirements for FFTF should be integrated into the existing IP&R framework.
Monitoring process should not be established until new LG Act, new councils, and JOs are operational. <i>Raised by: A regional council.</i>	These will be matters for Government going forward. However, we consider any reporting requirements for FFTF should be integrated into the existing IP&R framework.
IPART role as the Expert Panel	
IPART should seek advice on its legal competence under the IPART Act 1992 to accept the ToR. <i>Raised by: A metropolitan council.</i>	The Premier issued the ToR for IPART to provide services legally under s9 of IPART Act 1992.
IPART is not independent in relation to council matters. <i>Raised by: A community group.</i>	IPART maintains its independence on all the functions it undertakes, including local government.
Methodology does not address s15 of IPART Act. <i>Raised by: A regional council.</i>	IPART is undertaking the FFTF Expert panel role under s9 and considerations under s15 of the Act do not apply to s9 reviews.
ToR for methodology to be consistent with the Government's local government reform agenda contravenes IPART's role as an impartial and balanced assessor. <i>Raised by: A political organisation.</i>	The ToR determine the scope and focus of an IPART review under s9 of the IPART Act 1992. In this case, IPART's role as the Expert Panel is to develop a methodology and assess proposals against the criteria established by the Government in a balanced and impartial manner.
Seeks assurance that senior IPART staff with local government expertise will monitor and review work of newly recruited staff. <i>Raised by: LGNSW.</i>	IPART will be adequately resourced and managed.
Requests more "coalface" local government experience on Expert Panel. <i>Raised by: A ROC.</i>	Noted, and as above.

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D Summary of other key issues raised by stakeholders during consultation

Summarised issue	Reason for no change in methodology
Concerns that the reforms in the ILGRP's report have not been implemented and the FFTF process and discussion about amalgamation options should be deferred. <i>Raised by: Regional councils, a metropolitan council, council mayor organisation and an individual.</i>	Beyond the scope of our ToR. This is an issue for Government.
Assessment outcomes	
'Deemed not fit' category created by IPART should be removed. <i>Raised by: A regional council.</i>	This rating only applies if councils, excepting Far West and county councils, do not submit a proposal. Councils are to be rated whether or not they submit a proposal.
IPART recommendations should be publicly available at the same time as they are provided to the Government. <i>Raised by: Metropolitan and regional councils, a community group and an individual.</i>	The ToR ask us to provide our final assessment report to the Government.
There should be an appeals process regarding IPART assessments. <i>Raised by: A regional council and community group.</i>	The ToR require us to make recommendations on our assessment of FFTF proposals; final decision making is a matter for Government.
Request information on what will happen to councils deemed unfit when one council is deemed fit but its neighbours are not. <i>Raised by: Some regional councils.</i>	Matter for Government.
There should be a further assessment phase for those councils proposed to merge after the IPART phase. <i>Raised by: A regional council.</i>	Matter for Government.
Further clarification and transparency is required on the transitional committees deployed to implement FFTF. <i>Raised by: A regional council.</i>	Matter for Government.
Funding benefits to only Fit councils will impact on council diversity. <i>Raised by: An individual.</i>	Matter for Government.
Prudent to review closely the rate structures and land values of all participating councils prior to any merger. <i>Raised by: A metropolitan council.</i>	Matter for Government.
Other general issues	
There should be consideration of the impact on staffing levels (redundancies) particularly in regional areas with lower employment options. <i>Raised by: A regional council.</i>	Sections 218CA and 354B-354I of the LGA provide protection for the number of staff in rural councils.

D Summary of other key issues raised by stakeholders during consultation

Summarised issue	Reason for no change in methodology
<p>It is an undemocratic process; resident views are excluded from the process and should be the focus of amalgamation decisions and "fit" tests. <i>Raised by: A community group, a ROC, a metropolitan and a regional council and individuals.</i></p>	<p>Our methodology allows for public submissions from 30 June to 31 July.</p>
<p>Opposed to forced amalgamations and splitting LGAs. <i>Raised by: Numerous submissions.</i></p>	<p>Matter for Government.</p>
<p>New councillors (Sept 2016) should have an opportunity to review the commitments made by the previous council in relation to FFTF. <i>Raised by: A ROC.</i></p>	<p>Matter for Government.</p>
<p>Rate pegging should be reviewed and the Government should provide funds to cover its cost shifting. <i>Raised by: A metropolitan council and a community group.</i></p>	<p>Matter for Government.</p>
<p>Need working party with a focus on regional infrastructure assets in relation to JOs. <i>Raised by: A professional association (engineering).</i></p>	<p>Matter for Government.</p>
<p>Note: This summary of submissions may not be exhaustive in that we have focused on those issues most relevant to our Assessment Methodology and may not have included all issues outside the scope of the Review. In addition, we have summarised some more general comments and grouped them with other similar comments.</p> <p>Source: Stakeholder submissions and consultation undertaken in public forums.</p>	

