



Attachment 1

Palerang Queanbeyan Merger Business Case

25 June 2015

LKSQUAERO

Queanbeyan and Palerang Fit for the Future Business Case

27 April 2015

1. Executive Summary

There are commonalities in the way the Councils of Palerang and Queanbeyan express their community aspirations. Both Councils state that they value their rural lifestyles, although, given their communities, there may be divergence in how those rural lifestyles are perceived. They aspire to maintain those lifestyles for the residents as well as to provide the facilities and amenities that support those of all ages and backgrounds to prosper and thrive. Geographically, they are adjacent and their residents look to Canberra for a number of services: health, further education, leisure, and retail. A significant number also are employed in the Australian Capital Territory (ACT).

Beyond those expressed strategic similarities, there are the two Councils, their communities, and their organisations.

Most of Palerang's population live outside of the main towns within the local authority area. Queanbeyan's population is more urbanised.

Palerang Council was formed in 2004 and has become a tight organisation reliant on key experienced staff, an organisation that focusses its resources on delivering the core, traditional services to its community. Its history has meant that it has had to overcome significant financial challenges. To a large extent, those challenges remain.

Queanbeyan is a larger Council that, with its urban areas and spill-over growth from the ACT, has more resources at its disposal. A larger range of services is provided by the Council, including services for youth and a performing arts venue. Significant resources are invested in increasing the capabilities of its people as well as in the organisation's internal capacity to improve and potentially compete in the provision of services to the sector.

The focus and the way in which the two Councils consider their strategic directions are best implemented are very different. A vital issue in achieving a successful merger is the integration of the different organisational cultures. Whatever the shared vision or strategic direction of the new Council, realising them will be dependent upon a cohesive organisation working together. Furthermore, that a strategic direction will need to be agreed and investment in its realisation prioritised since the communities within each current Council will have different expectations.

A merger of Palerang and Queanbeyan Council cannot be simply a 'bolting together' of the existing two Councils. Irrespective of the judgement of whether they meet the scale and capacity threshold, neither Council on its own meets the financial outcome criteria completely.

While the assumptions around revenue growth and efficiency savings are relatively conservative, after 10 years, on a no change basis, Palerang will turn out deficits to \$6.9m per annum, slightly rising over that 10 year period. Its asset renewal backlog will stand at \$82m, for which there is no identifiable and sufficient means of funding. It will not meet the Fit for the Future financial outcome criteria and objectively could be described as a high financial risk.¹

Likewise, the assumptions around growth and efficiency prospects for Queanbeyan are conservative. It too will record deficits after 10 years, rising over this period. However, unlike Palerang, it has greater amounts of unrestricted cash, which, if applied to the asset renewal backlog of \$92.3m, would see that backlog reduced by 80% over the 10 years. The availability of cash places the financial position of Queanbeyan in the low-medium risk category.

The current positions of the individual Councils would have an impact upon a newly merged Council.

The rationalisation of the resources that would be possible following a merger does enable the realisation of savings of \$5.495m per annum after investing one-off transition costs of \$5.597m. However, a conservative approach to savings will still see the new Council operating in deficit of \$9.525m in 10 years' time.

Financially, a merged Council will not meet the Fit for the Future outcome criteria, but it will be able to apply the significant cash reserves to largely eliminate the infrastructure renewal backlogs inherited by both Councils.

Representation of local communities was a critical issue to both Councils. Using the 2004 Tamworth Council ratios of Councillors to electors as a guide (a merger of 5 Councils), the new Council would have 11 elected representatives, one of whom would be a popularly elected Mayor. Given the urban/rural dichotomy, elections across an undivided area could potentially better mitigate the disproportionate voting power of the more intensely populated areas, especially in Queanbeyan.

The geographic disparity and dispersed communities raises the issue of how to enable local people to participate and contribute to shaping the place in which they live. Consideration could be given to the Council establishing Local Area Committees, for which there are national and international models. These committees would be chaired by an elected representative with membership by nomination from the local community. Broadly, they would advocate on local issues, provide input into neighbourhood planning, and monitor the provision of services to that area. They could also be delegated authority to expend local budgets.

¹ By applying the criteria developed by the Victorian Auditor General to assess the financial sustainability risk of Councils. See Appendix 5 for more details.

2. Introduction

In February 2015, Queanbeyan City Council and Palerang Council issued a brief to broadly identify alternative options for governance and service delivery, in both merged and standalone forms.

The review was sought in the context of the local government reforms championed by the State Government, announced as the Fit for the Future program in October 2014. This program, amongst other matters, requires Councils to either demonstrate their fitness for the future against several criteria or present their pathway for structural change. For those Councils presenting the latter, the Government announced the availability of significant packages of support. They also do not need to demonstrate either the 'scale and capacity' threshold or meet the financial outcome criteria.

Neither Council has expressed a disposition towards a merger between them. However, both Councils are keen to ensure that, in giving consideration themselves and in consulting the communities, they have at their disposal a business case that models the impact of merging the Councils, whether entirely or in terms of shared back office functions. This will enable informed consideration, based on transparent assumptions and evidence gathered with the help of both Councils.

The Brief

The brief issued by Palerang and Queanbeyan Councils is attached as Appendix 1.

In fulfilling the brief, LKS Quaero was mindful of the underpinning principles that were to partly form the criteria against which options could be addressed.

Firstly, it was important to gain a picture of the region and provide a representation of it that encompassed more than the geographic boundaries of the Councils. However, this was not a full review for the purposes of any boundary adjustment.

LKS Quaero undertook analysis of the services, finances, and structures of the existing Councils in conjunction, with financial modelling projected out over ten years. This analysis served as the baseline against which the results of the modelling of different scenarios could be viewed and assessed.

Aside from an examination of the existing situation, the brief also required the examination of the following possibilities:

- A full merger of the Councils, including having a single elected Council
- Assuming the retention of the elected bodies, separate administrations that share their back office functions

The review involved both onsite and offsite research and analysis. In addition to specialist financial input, consultants reviewed the business systems and organisational structures. Individual interviews with each General Manager, members of the executive staff, and other specialist staff as required were also undertaken. Workshops were also held at elected member and senior staff level.

3. Definition of the Area

Demography

In 2011, Queanbeyan's population was 40,000. It is projected to increase to 58,500 by 2031. Palerang's population was 14,850 in 2011 and is projected to increase to 20,550 by 2031. These are among the highest annual growth rates in regional NSW.

Economy

Palerang's labour force numbered at 7,620 in 2011, and Queanbeyan's at 21,087. Public administration and safety was the biggest sector for both, employing 23.3% of Palerang workers and 27.5% of Queanbeyan workers. The unemployment rates were low at respectively 2.7% and 2.9%. For both local government areas (LGAs), most residents worked in the ACT and 25% in their own LGA, with little crossover between LGAs.

Health, Education, Sport, and Leisure

Most residents received their in-patient and tertiary health care from services in Canberra. There are several medical centres and aged care facilities in both LGAs as well as Queanbeyan and Braidwood District Hospitals. Primary students are educated locally, as are Queanbeyan secondary students. Palerang students largely attend Braidwood or ACT high schools. Tertiary options include ACT and Queanbeyan TAFEs and also various NSW and ACT universities. While Queanbeyan has strong sporting communities, junior sport in the eastern section of Palerang is organised locally. However, sport generally in both areas is orientated towards the ACT. Shoppers largely use ACT retailers or Queanbeyan's Riverside Plaza, although it was indicated that some residents of eastern Palerang tend towards shopping in Nowra, Batemans Bay, and Goulburn. Commuting residents, particularly in Palerang, tend to shop in the ACT.

Transport

Cars are the main means of transport. Bungendore and Queanbeyan both have railway stations and taxi services. Limited bus services are available in Palerang and more in Queanbeyan, which is a short drive from Canberra's airport. High school students in Bungendore and surrounds use dedicated public transport for schooling in Braidwood, Queanbeyan, and the ACT.

4. Recent Council History

Both the Queanbeyan and Palerang local government areas were incorporated in early 2004 by the NSW State Government in what were seen by some as controversial circumstances. In all, ten local government areas in the region around the ACT were constituted into seven. Cooma-Monaro, Crookwell, the City of Goulburn, Gunning, Mulwaree, the City of Queanbeyan, Tallaganda, Tumut, Yarrowlumla, and Yass were amalgamated so as to constitute new areas by the names of Cooma-Monaro, Eastern Capital City Regional, Greater Argyle, Greater Queanbeyan City, Tumut, Upper Lachlan, and Yass Valley.

The names of the local government areas that are the subject of this report were subsequently changed by the Government, at the request of the individual Councils. Eastern Capital City Regional became Palerang and Greater Queanbeyan City became Queanbeyan City. Palerang was named after Mount Palerang, which is close to the area's geographic centre, one of its highest points, and within the Tallaganda State Forest.

The Queanbeyan local government area was expanded with the inclusion of the Googong area of the former Shire of Yarrowlumla. This was a boundary extension that had been fought by the Shire since 1989. Queanbeyan prevailed with its argument to the State Government that the City needed sufficient land 'for adequate and sensitive long range planning to allow the region to meet the obvious demands which the growing population will inflict'. In its submission to the Local Government Boundaries Commission in May 2003, the City also argued that 'Yarrowlumla residents will benefit from a stronger city with services supported by a larger city revenue base and increased development and activity'.

The successful argument of over a decade ago leaves a funding shortfall legacy to Palerang that was compounded by a rating levy underestimate. The Council auditor noted it as being in the order of \$1m. This does not take into account the lost opportunity of a larger and growing rate revenue base in Yarrowlumla.

While the incorporation of the Googong area into the boundaries of Queanbeyan has allowed it to address its population growth demands, media reports of views of the time contended that it has added to the problems of Palerang..

The administrative headquarters of the former Yarrowlumla Shire Council were in the Queanbeyan area, with the Tallaganda administration and depot situated in Braidwood. The maintenance of staff numbers of the former Tallaganda Shire at Braidwood, as demanded by the Local Government Act, has a further impact on Palerang's position. It is worthwhile to note that the then Division of Local Government, in its May 2012 *Promoting Better Practice Review*, stated that 'there remains an underlying vulnerability to its position'.

5. The Councils' Status Quo and Baseline Position

The Councils

In total, there are nineteen elected members between the two Councils. Palerang has nine elected Councillors, while Queanbeyan has ten. Palerang's Mayor is elected annually and Queanbeyan's is popularly elected.

The Administrations

Both of the elected bodies are supported by an Administration, headed by a General Manager who is appointed by the Council.

The structures follow a conventional local government model, structured largely on professional and technical lines and divided into back office support services and external technical services. Palerang has a large body of long term staff, as does Queanbeyan, but with higher turnover rates occurring among new staff. Palerang's workforce plan is dated. Some retirements at director/management level are anticipated, which would facilitate a realignment of the structure. Palerang's General Manager and directors have all occupied their positions for some time. This experience and competence, and the organisational reliance upon them, represents a succession risk.

Recently, the senior levels of the Queanbeyan organisation have experienced a series of changes with the departure of their General Manager and two other senior members of staff. Concurrent with the recruitment of replacement staff, a restructure of the administrative organisation has been announced and implementation has commenced.

As in many organisations, particularly smaller ones, the Councils match their structures and responsibilities to the capabilities and strengths of individuals.

Aspirations for the Future

Many commonalities and some divergences are evident in the principles and strategic priorities put forward by both Palerang and Queanbeyan. The following analysis draws on the Councils' respective community strategic planning; community vision; and vision, mission, and values documents.

- *Environment:* Palerang's emphasis is on prudential service delivery with minimal environmental impact in order to protect 'the good health of our natural environment'. Queanbeyan stresses planning for long term future growth, including sustainable water management and transport options. The end goal of environmental protection is entirely shared.

- *Community:* The Councils' principles as stated in their strategic plans are closely aligned here, with a strong emphasis on a 'country atmosphere'. Safe, concordant, diverse, and involved communities are prized. While Queanbeyan prides itself on providing a 'country town with city benefits' lifestyle in terms of housing, services, community groups, and transport links, Palerang seeks to be characterised 'by its rural landscape which encompasses diverse agricultural activities, small towns and villages and rural residential communities'.
- *Economy:* As part of its strategic priorities, Queanbeyan prioritises the delivery of local economic initiatives, including the revitalisation of the CBD. Palerang values the principle of economic prosperity, and the local economy focus area seeks to provide diverse 'employment opportunities and ease of access to goods and services'. While local economic development is a strategic priority for both Councils, Palerang prioritises general prosperity, while Queanbeyan seeks to evolve as a hub of economic development.
- *Customer relationship:* Palerang's focus is on equity in access to resources, services, and the provision of opportunities for participation and consultation in decision-making processes. Queanbeyan likewise values community engagement as a means of achieving its community strategic priority. Taking a business-oriented approach, Queanbeyan also considers efficient and excellent customer service as a key organisational value.
- *Integrity in governance:* Palerang's governance principle promotes that Council 'business and activities are managed and undertaken in a manner that is transparent and accountable and achieve the long-term goals of the organisation'. Similarly, for Queanbeyan, integrity and professionalism are key organisational values, with the aim of promoting 'an open, honest, and ethical manner to create an environment of mutual respect, trust and professionalism' that resonates internally and externally.
- *Place-shaping:* Queanbeyan focusses on brand-building and raising the local profile as a destination. Palerang seeks a future in which it can support its residents with 'safe, functional, accessible and well maintained infrastructure and comprehensive local and regional transport networks' while maintaining its small communities. These visions are consistent as they both require well-maintained infrastructure and networks throughout the region.

The Services

Both Councils provide the core services of waste disposal, infrastructure maintenance, and renewal and regulatory services. Palerang operates traditional or core services only, with library services conducted in association with Queanbeyan.

Queanbeyan provides community and cultural services, encompassing a performing arts venue, library services, services for youth, and community development. Of late, the Council has ceased to provide aged services with grants from the Commonwealth Government.

Service standards at Palerang are based on custom and practice. The focus is on working hard and getting good results in the absence of specified service standards. Palerang's emphasis has been on compliance with statutory obligations. Follow up is limited due to resource restrictions. Queanbeyan's service statements are a work in progress while the Council moves to a place-shaping agenda.

Business Systems

Both Councils have recently invested in their Information Technology infrastructure. Both use Dell servers and hardware. Both Councils have purchased their servers and computers outright and lease their photocopiers. Queanbeyan leases its printers and Palerang has purchased theirs. While both use Technology One as their finance systems, the majority of their other applications are not shared.

Palerang has taken a lean approach, linking their applications to a few core suppliers. The Information Services Business Unit is comprised of 4 staff members, serving 90 staff members using the Council computer network. The 2014-15 cost per Council employee is \$8,143, with a capital expenditure budget of \$332,800. The main computer is located in Bungendore, with 9 locations connected to the central site through ADSL links, Telstra fibre-optic cable to the Braidwood office, and a wireless link to the Bungendore depot. Palerang currently has no Strategic ICT/Technology Plan reflecting current and near-future business requirements, although a 2-year ICT infrastructure plan is available. Regular mains power outages have proved to be an issue. Power generator options are being investigated. There is much scope for more online real-time business transactions to be integrated with the Technology One core applications. Currently, customers can pay their rates, water, and debtor accounts and receive their rate notices in electronic form.

Queanbeyan has adopted an investment in a best of breed systems approach. The Manager of IT and Business Solutions is responsible for the ICT operations as well as system business analysis, physical security, records management, and other roles as required, overseeing 23 staff. Queanbeyan uses 325 PCs and 6 laptops as well as iPads and iPhones. The 2014-15 cost per Council employee is \$6,042, with a capital expenditure budget of \$222,500. There is a fibre-optic connection to Palerang

on a private link to support the Palerang library services. Remote sites are connected through wireless solutions or private links. The Strategic Information Technology Plan 2014-2017 places greater emphasis and resource on increasing their electronic business and customer integration processes, with several Pathway-integrated real-time business transactions available to customers. The ITBS department is currently moving to a new computer room, removing the flooding risk in the existing one.

The Financial Position

Background

In order to assess the financial impact of the different options considered in this project, we developed a model of the long term financial position and performance of the two Councils.

This model used the published financial reports of the two Councils as its basis, augmented by more contemporary data where necessary. It projected forward the data using consistent assumptions and replicating any significant adjustments identified in the long term financial plans of the respective Councils. The long term financial plan was cast in real terms (i.e. money retains a constant value) and extended over a 20 year timeframe. However, the figures shown in this report are for either 10 years or less as specified.

As far as could be observed, the long term financial plan of each Council showed a continuation of the current level of activity without any significant change in operation of financial direction. This was reflected in the plan developed for this assignment.

The key assumptions made in the baseline long term financial plan were:

- Municipal rates to grow at the same rate of growth as their predicted population growth, for Palerang 1.7% and for Queanbeyan 1.8%. These are based upon the rates predicted by Planning NSW and was agreed with the Councils.
- Grants as anticipated by respective Councils.
- Employee benefits to rise at 1% above the rate of population rate of growth.
- Materials and contractors and other expenses to rise at 1% above the rate of population rate of growth.
- Borrowings based upon borrowings in the long term financial plans of each Council.
- Capital expenditure based upon data in the long term financial plan of each Council. For Queanbeyan, a further assumption is made that unrestricted general fund cash is applied to asset renewals in sufficient quantities to enable it to meet the Fit for the Future benchmarks data as it relates to asset renewal. Due to Palerang's low level of unrestricted cash it was not possible to adjust their capital renewal expenditure.

- 2% efficiency in staffing, materials and contracts and other expense achieved over 2 years.
- For Palerang:
 - Changes in senior staff structure and commensurate pay rates and a new Corporate Planning Coordinator – an additional \$464,000 per annum in total
- For Queanbeyan:
 - Reduction in three tier two (senior) positions – a saving of \$663,000 per annum

These assumptions were discussed at the Councillor and staff workshops.

The outputs of the baseline long term financial plan are:

- The statutory financial statements of
 - each Council
 - the General, Water and Sewer funds
- Fit for the Future financial criteria

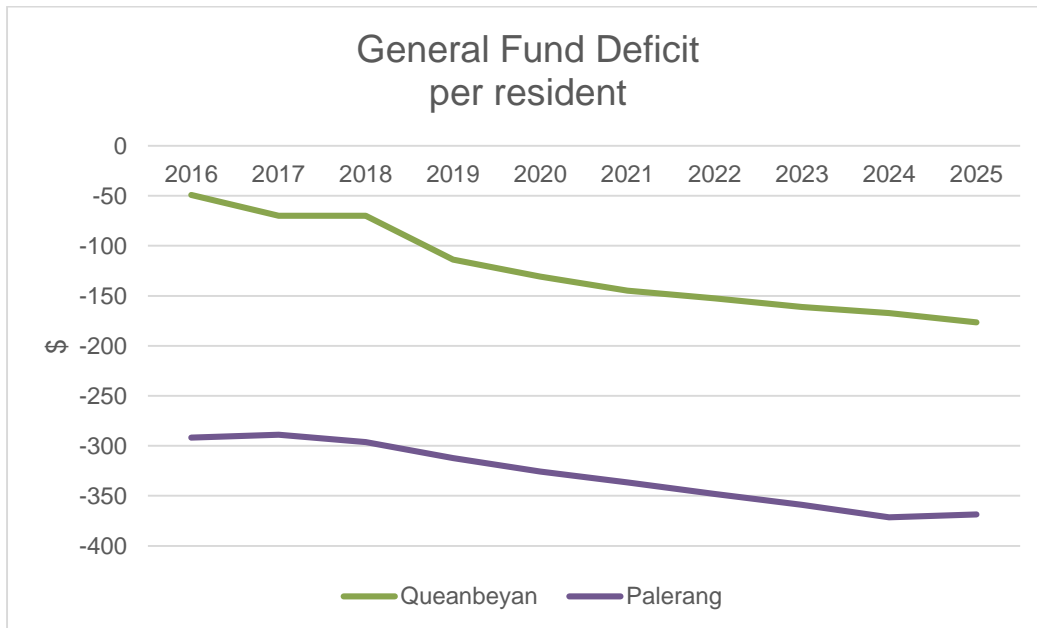
The focus of the financial analysis has been on the general fund. The water and sewer funds are subject to less controls over the level of fees they charge and it is the general fund which is responsible for the funding of most of the core municipal services.

The 10 Year View

	Palerang	Queanbeyan
Underlying result	Slow increase in General Fund deficits	Rising General Fund deficits
Total cash	Reducing	Constant
Financial sustainability risk²	High	Medium to low to high
Fit for the Future criteria achieved³	No	No
Predicted asset renewal backlog in 2025	\$82.6m	Nil if unrestricted cash applied to addressing backlog

² As calculated using the methodology of the Victorian Auditor-General's Office.

³ Only six of the seven criteria are reported on. The seventh, Asset Maintenance Ratio, cannot be determined from the data available.



Conclusion

The increasing operating deficits of the Councils will make it increasingly difficult for them to sustain the current level of services.

Queanbeyan has a stronger financial position and will have the financial ability in the medium term to sufficiently fund the renewal of its existing assets. However, in the longer term, the continuing operating deficit will result in pressure on its cash position and difficulty in directing sufficient cash towards the renewal of its existing infrastructure or continue with its current level of services.

Other Considerations - Queanbeyan

A planned significant increase in water and sewer fees has not been built into this model. If implemented, this will result in both funds operating with an operating surplus. When this occurs, and the necessary plans are completed, Queanbeyan's general fund will be able to start receiving distributions from its water and sewer businesses, of up to \$1m per annum.

This distribution would not completely alleviate the predicted operating deficit in their general fund. However, this additional general fund income, along with rigorous internal cost limitation, could within 5 years achieve the Fit for the Future criteria. This would require a persistent and robust focus on cost reduction within the organisation.

Whilst the best publicly available data for the change in population has been used, there is a general consensus that annual population growth of 1.8% is conservative. It has been put to us that a more realistic figure would be closer to 3% pa. With growth figures such as this, and if operating expenses could be contained, Queanbeyan's general fund operating deficit would slowly fall over the next 10 years. How quickly would depend on the exact growth in property assessments and in the level of operating expenditure.

Other Considerations - Palerang

Palerang has fewer options in the future and would need to rely on a successful special rate variation to be financially sustainable. Due to its size and already tight investment in human resources, it has more limited opportunities to reduce its administrative overheads. In the past, it has been successful in undertaking road maintenance and construction for the State Government. Council has prudently underestimated the amount it will receive from this activity in the future, given the foreshadowed financial constraints upon both the State and Commonwealth Governments. Consistent with their own strategic plans, a conservative level of income has been included in the modelling. Should the conservatively estimated figures not be achieved, there would be a significant deleterious impact on the finances of the Council.

Similarly to Queanbeyan Council, Palerang Council is nearing the completion of the plans necessary for it to be able to commence the distribution of profits from its water and sewer operations. This would assist in reducing the general deficit.

The amount of additional rates required to bring Council back into an operating surplus would be in the order of 6-7% per annum rate increase for 5 years. Even then, Palerang would not meet the Fit for the Future criteria as it would continue to have a significant and growing asset renewal backlog.

6. Merger of Palerang and Queanbeyan

The Merged Council

To merge the two Councils and be true to the principles of local place shaping, while also gaining the advantages of a regional voice and financial benefits, it is important to redesign both the governance and organisational structures. A simple combination approach will not achieve these. Indeed, with such an approach, it is possible that all of the current challenges and disadvantages will be imported into the larger entity.

Governance

The Local Government Act states that a Council must have at least 5 and not more than 15 Councillors, one of whom is the Mayor.

The current ratio of Councillors to population/elector is as follows:

	Population (30/06/13)	Electors (8/9/12)
Palerang	1,701	1,142
Queanbeyan	4,057	2,640

When considering any matter referred to it that is related to boundaries of areas, the Local Government Boundaries Commission must have regard to:

- The requirements of the area in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents, and other matters it considers relevant to the past and future patterns of elected representation for that area
- In the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into two wards
- In the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented

It is the stated view of the Commission that the number of Councillors in a new Council area should be based on the levels of representation and on the effectiveness of the Council as a policy and decision making body. In relation to its Tamworth Regional Council report in 2003, the Commission stated 'generally the larger the number of people on a board or committee, the less effective is the body in making decisions'.

It may be useful for the purposes of considering governance structures for the new Council to consider the Tamworth Regional Council experience. The following has been provided for the purposes of highlighting the governance issues.

In line with modern practice and the stated views of Government in relation to strengthening Council political leadership, it is likely and therefore assumed that any merged entity would have a popularly elected Mayor.

There are three options for the election of Councillors in local government areas:

- An area can be divided into wards with an equal number of councillors elected from each ward
- All councillors are elected from the area as a whole
- Some councillors elected from equal wards and some elected from the whole area

The Local Government Act requires that, where an area is divided into wards, there must not be a variation of more than 10% between the electors in each ward. There is a requirement to consult with the Electoral Commission and the Australian Statistician to generally ensure the above compliance with census collection districts.

Given the population of the Queanbeyan area in relation to the more rurally dispersed population of Palerang, the option most likely to deliver a representative result for the election of Councillors is on an undivided area basis. To do otherwise may have the effect of defaulting democratic representation to the urban area.

The role of a Councillor under the Act is clear in its intentions that elected representatives are on the Council to exercise community leadership for the whole Local Government Area, not just for particular parts or special interests.

Based on the latest estimated information, the merged area would have a population of 55,874 increasing to 77,100 in 2031. The latest published Local Government Office comparative information (2012/13) notes that average number of persons per Councillors in regional areas is 4,950: 1. Using the above guide, the merged Council would have 11 Councillors (including a popularly elected Mayor), with a ratio of one Councillor to 5080 residents.

Based on average reported 2012 electoral information in relation to Palerang and Queanbeyan, with 10 elected Councillors, a quota would be in the order of 2204.

For comparison purposes, Tamworth Regional Council was proclaimed in 2004 and was an amalgamation of Tamworth City, Parry, Manilla, Barraba, and Nundle Shires. When originally proclaimed, it had 12 Councillors, with the Mayor elected from among the Councillors, with 4,667 residents per Councillor.

Below is the present position of Tamworth compared with a merged Palerang and Queanbeyan LGA. This comparison is for the purposes of representation only and is not intended to draw an analogy between the nature of the respective communities or their aspirations.

	Tamworth	Palerang & Queanbeyan
Population	58,922	55,874
Councillors	9	11
Persons per Cr	6,547	5,079
Area	9,895km ²	5,315km ²

According to Local Government Office comparative information, the average number of Councillors in regional areas is 10. Given the Government's projected population growth for the Palerang and Queanbeyan region, 11 elected officials could be justified. For comparison purposes, 9 elected officials (including a popularly elected Mayor) would result in 6308 persons per Councillor. Based on the 2012 election, the quota would increase to 2694.

Loss of identity and local representation was a significant concern raised in members' workshops with Palerang Councillors.

In order to maintain and enhance the ability of the residents to participate in shaping the place in which they live, play, and work, Area Committees could be established. This is discussed further below.

At the 2012 elections, Palerang had 7 polling places and Queanbeyan had 9. Reported views of independent candidates indicate that their more limited resources are disadvantaged by having to manage polling places. A merged and undivided Local Government Area could also have the unintended consequence of disadvantaging genuine independent candidates who have few resources.

In late 2013, the *Local Government Acts Taskforce* reported to Government and, among other recommendations, recommended the Councils have the option of using universal postal voting at elections. This could be of assistance to independent candidates. Based on evidence from both Victoria and Western Australia, voter participation could increase and costs could be reduced by 15-20%. In relation to participation, it is reported that in the other states there was a voter take up rate of 90%. By way of comparison, in 2012, these rates were 81.5% in Palerang and 75.9% in Queanbeyan.

The Taskforce also recommended that, where universal postal voting is used, a candidate information booklet be included in ballot packs as a way of increasing voter knowledge of the candidates.

In its response to the Taskforce recommendations, the Government has indicated its broad support.

Should the merger occur and universal postal voting be adopted on an undivided area basis, there is also potentially an argument for public funding of the distribution of all election material.

Governance and Administrative Structures

The overview depiction of the redesigned governance and administrative structure is below. It is important to note that the structures were designed for modelling purposes only as ultimately these decisions will be made under the Transition arrangements (such as a Board or the new Council). They are structures that have been implemented elsewhere and can be demonstrated (as structures) to be capable of delivering on local government services and representation.

A conservative approach has been taken in the design of the potential administrative structure. Economies available by removing duplicated roles and functions at management levels comprise the bulk of identified savings. There is confidence that a full review of the services, delivery mechanisms and processes against desired volumetrics and service standards required by the new Council will result in significantly greater savings being able to be achieved.

Palerang/Queanbeyan Merged Council

The new Council would comprise representatives elected in accordance with the **Local Government Act 1993**. The Council will be the peak decision making body for the region. The Mayor will be popularly elected.

In line with the legislation, the new Council will, among other roles:

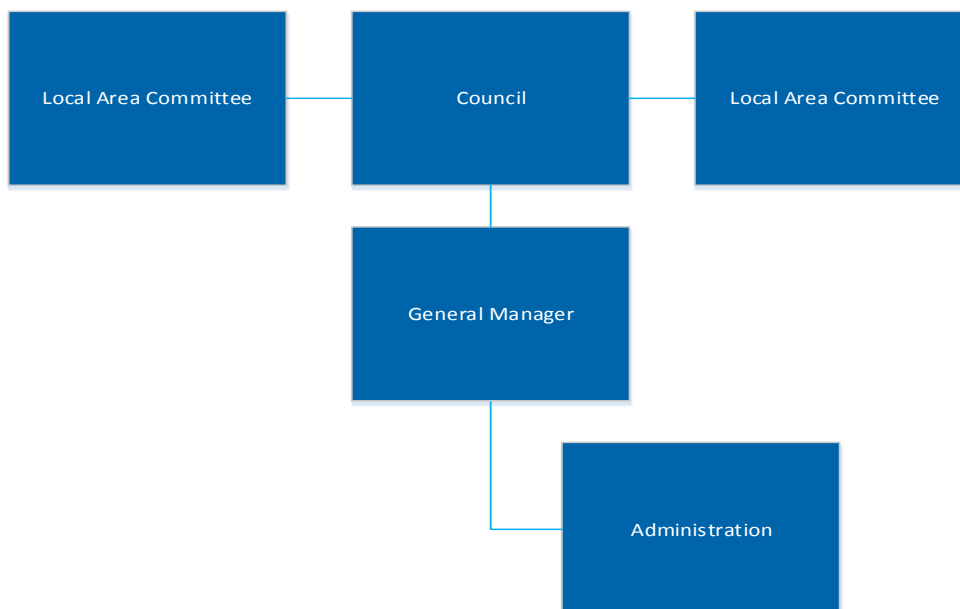
- Appoint the General Manager
- Approve strategic plans and policies for the new Council area, such as the Community Strategy, Development Plan, Delivery Plans and Asset Management Plans
- Ensure the services required by the region and in the local communities are properly commissioned to meet community needs
- Establish and appoint to such Committees as it requires to oversight and conduct the business of Council, including the Development Assessment and Control Committee
- Approve the Delivery and Operational Plans and annual budgets
- Advocate for the area when negotiating and dealing with State and Commonwealth governments
- Elect and appoint from the Council chairs of the Area Committees
- Receive and consider submissions and input on local issues from the Area Committees

- Monitor and hold to account the organisation's performance in the delivery of the Delivery Plans and annual business plans and budgets

Local Level – Area Committees

In well-established examples, the Area Committee would be chaired by an Elected Member of the Council. Membership of the Area Committee would be by nomination (including self-nomination). Members might comprise people from Residents Associations, Neighbourhood Watch groups, **S355 Committees**, or simply people in the community interested in making a contribution to general and specific local issues.

While the Committees would have their own standing orders, they would not make decisions binding on the Council. Their role would be advisory and recommendatory in nature unless otherwise determined or delegated by the elected Council. However, the chairmanship of the Committees by an Elected Councillor provides the Committees with a direct voice with decision-making authority in the Council for the region. In this manner, they could be more than a local resident or interest group and will have a formal role in providing input into the plans and priorities of the Council.



The key roles of the Area Committees could be:

- Monitoring the performance of the local services contracts and service level agreements
- Providing the Council with advice on local needs and issues for consideration when developing the regional plans, including financial plans and budgets
- Commenting and making recommendations on development applications
- Providing advice and input with respect to the local area for local projects commissioned by the Council, such as playground development
- Dealing with local resident requests with respect to local service delivery or monitoring them through the Council regional office

The number and composition of area committees would be at the new Council's discretion.

The Supporting Organisational Structure

A schematic organisational structure is appended.

It has been designed to enable financial modelling of a merged Council scenario and further detailed design will be necessary to enable the structure to be implemented. A 'top down' approach has been taken and volumetric data that is currently not available from the individual Councils will need to be collected to inform the final size of the full organisation. Further, assumptions had necessarily to be made about the operating model of the new Council, based on greater use of technology, devolved working practices, economies of scale and redesigned service delivery models.

This model does not assume a radical end to end re-engineering of the organisation, which could include removal of rework, transforming service delivery, and testing internal service against the market. The model assumes a modest improvement in efficiency and reflects the size and configuration of a Council delivering the current range of services. It does not assume any changes to outdoor direct service delivery employee numbers.

Legislative Requirements

Opportunities to reduce staffing levels when consolidating administrations of both Councils have been identified, principally in the office bound workforce.

The reduction in staffing levels releases a number of employees from their existing roles, presenting a number of considerations that include:

- Reducing overall staffing levels and re-allocating the cost savings into increased asset maintenance/replacement and/or improvement to other service levels

- Securing staffing levels that increase current levels of service and or increase the number of services provided

In addition to the obligations existing Councils have towards their employees under the Award, there is a significant obligation placed upon Councils in rural centres under the **NSW Local Government Act 1993**.

The Act places certain obligations on the transferee Council (a Council that is constituted as a result of the amalgamation of two or more areas). This obligation is required under **Ss218 and 354 of the Act** and covers the maintenance of staff numbers in rural centres. Rural centres are defined under **S354 of the Act** as 'a centre of population of 5,000 people or fewer'. It requires the transferee to

'ensure that the number of regular staff of the Council employed at the rural centre is, as far as is reasonably practicable, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately before the amalgamation'.

There is a continuing financial impact on Palerang with the statutory requirement from the 2004 amalgamation to maintain staffing numbers in Braidwood, the location of the headquarters of the former Tallaganda Shire. This requirement would also have an impact on any merger between Palerang and Queanbeyan as Bungendore staffing numbers must be maintained.

The definition for "regular staff" includes permanent and part-time staff employed immediately prior to any amalgamation and casual staff engaged on a regular and systematic basis. Senior staff and temporary staff positions would be exempt.

The provisions within the Act, while seeking to ensure the maintenance of staff numbers in rural areas, are not absolute and recognise that this should be achieved '*as far as is reasonably practicable*'. It is therefore possible that, if it is impractical to maintain a particular position in a rural centre, then the transferee may properly decide to not maintain that position. If the overall number of regular staff employed in a rural centre falls below the number applying at the time immediately prior to an amalgamation, the transferee would need to investigate what other regular staff positions could reasonably and practically be transferred to the rural centre workplace.

The staffing establishment of the merged Palerang and Queanbeyan acknowledges the statutory obligation of the new entity.

ICT Transition Issues and Costs

The current systems common to Queanbeyan and Palerang are the finance system, library system (which is, as mentioned above, already managed for Palerang by Queanbeyan), the Windows 7 desktop operating system, and Microsoft Office 2007. Although the finance software is the same, this does not mean the same coded system is used. This is due to different account structures and business processes. As the majority of application software is different, it is expected the transition process will be more complex and costly as a result. As both Councils place their Name and Address Registers within the IT department, this should better ensure the accuracy of the data, but data accuracy will have an impact upon the transition.

The issues to be considered in reducing transition costs are:

- As the majority of application software is different, strong leadership is required to adopt a common application platform and best available business processes
- The existing data needs to be in a good state, including property and name/address data, so that it can easily be extracted, converted, and uploaded to the common application
- For the merger, it is important to ensure customer contact systems have been tested properly and are available from the beginning, including the website, property and rating, customer request, and phone systems as well as some back office systems such as payroll, procurement, accounts payable, the debtors systems (including property and water rates), and one finance account structure
- For the merged ICT operations to be successful, it is important to have the same technical infrastructure in place, such as a standard operating environment for desktops, with switches having been installed and tested
- A vital consideration is the installation of one VOIP system, relying on a stable communication network, connecting as much as possible all remote sites to the central site
- A realistic training programme needs to be established, with staff time and costs resources allocated
- Room availability within Council is needed to support the project team activities, training activities in particular

It is expected the transition for the merger of the two Councils will be done over a period of 18 months. The estimated ICT transition cost, based on the internal and external project staff resources, is:

External staff	\$320,500
Internal staff	\$386,800
Additional licenses, bandwidth, and hardware	\$240,000
Contingency	\$142,095
Estimated ICT merged costs	\$1,089,395

Scale and Capacity

In October 2013, in its final report, *Revitalising Local Government*, the NSW Independent Local Government Review Panel outlined its criteria for determining future Local Government boundaries across the state. The State Government is placing reliance on the scale and capacity criteria as the threshold for any Council looking to determine their fitness for the future. These are included in full in Appendix 2 of this report.

However, scale and capacity is the underpinning assumption of any merger recommended by the Panel. As such, they do not have to be addressed in any supportive proposal.

The Government acknowledges that the Independent Panel did not take a 'one size fits all' approach to scale and capacity and did not set a minimum geographic or population size. It is said to have looked at the unique characteristics of each area: geography, economic and transport flows, communities of interest, and local identity.

While the scale and capacity thresholds do not need to be specifically addressed as part of any merger proposal, it may be useful to consider the impact of the merger against the general principles provided by the State Government.

Criteria	Comments
Sustainability and Strategic Capacity	The new Council, serving a population of 66,000 in 2021, is of a size to be able to compete for staff and resources.
Efficiency and Effectiveness	Whilst the largest population centre is on the edge of the boundary of the new Council, Council facilities will be retained in existing locations. The size of the proposed Council would enhance the ability of the organisation to achieve economies of scale and rationalisation of duplicated functions and resources.
Integrated Planning	Broader spatial and infrastructure planning will be possible, particularly in the light of commuter flows and access to Canberra as the major city centre.
Local Identity and Sense of Place	The proposed area through the two existing Councils, have expressed a similar community vision but it will be a challenge to establish a sense of identity and place in the diverse and possibly divergent communities which comprise the current LGAs. This would be compounded the close proximity Canberra and the facilities available in the capital city
Population Growth	The area is expected to grow significantly in the next 10 to 15 years. The combined population will increase from 60,550 in 2016 to 79,500 in 2031. This growth will expand the proposed Council's financial base.
Accessibility	A significant administrative presence may need to be retained at the centres of activity and population. These are within 90 minutes' drive of all residents. However, in a merged Council, accessibility and the ability to do business with the Council may need to be reliant on technology
Strong Centre	Queanbeyan is a large and prosperous regional centre. Palerang has a largely rural dispersed population.
Key Infrastructure	Except for residents in the east of the proposed Council area, residents would access common health facilities, shops, and sporting facilities as well as using the same transportation corridors. Again, Canberra will continue to play a substantial role in these matters.
Combining Existing Municipalities	No boundary adjustments are envisaged in this report.

Financial Sustainability over Ten Years

The key assumptions made in the baseline long term financial plan are:

- Municipal rates to grow at the same rate of growth as their predicted population growth, for Palerang 1.7% and for Queanbeyan 1.8%. These are based upon the rates predicted by Planning NSW.
- Grants as anticipated by respective Councils.
- Employee benefits to rise at 1% above the rate of population rate of growth.
- Materials and contractors and other expenses to rise at 1% above the rate of population rate of growth.
- Borrowings based upon borrowings in the long term financial plans of each Council.
- Capital expenditure based upon data in the long term financial plan of each Council.
- Asset maintenance ratio based upon the combined rates for the Councils in 2013/14.
- 2% efficiency in materials and contracts and other expense achieved over two years.

In addition the following adjustments were made to the financial model to represent the merger of the two Councils:

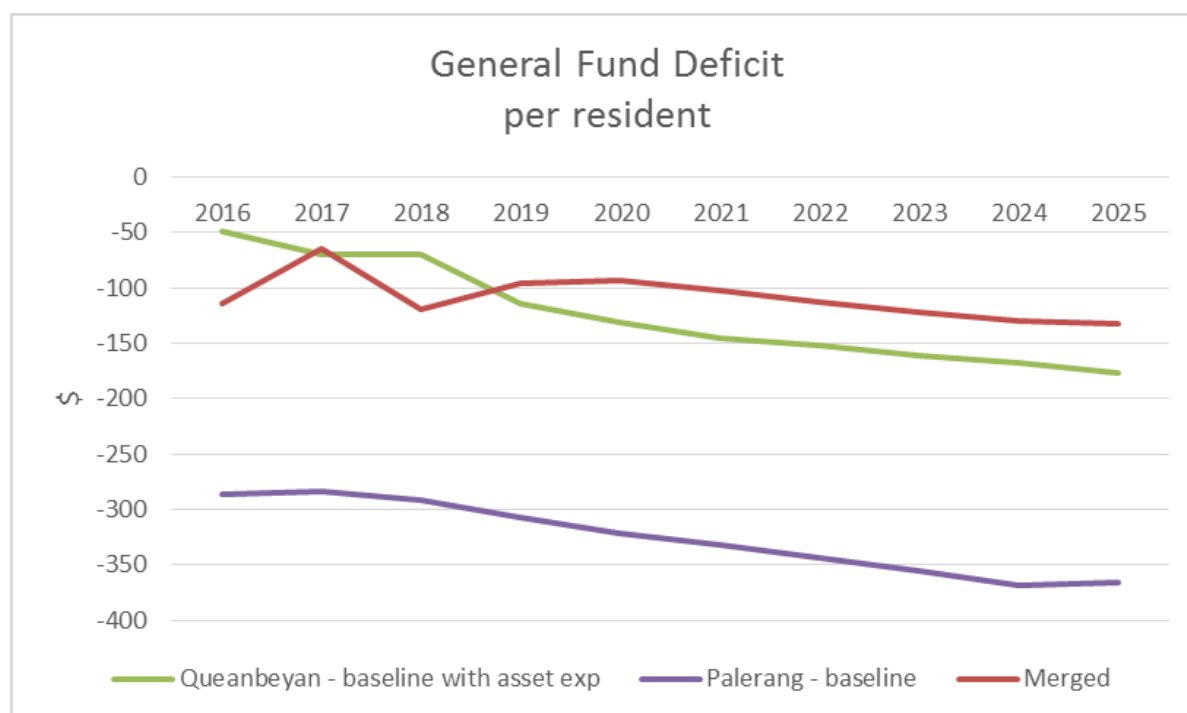
Ongoing Savings	
Corporate and governance costs	\$511k
Information technology (excluding staff savings)	\$150k
Employee costs	\$4,834k
Once Off Income	
State Government grant	\$5,000k
Once Off Costs	
Transition board	\$460k
Council rebranding	\$750k
Policy alignment	\$200k
Information technology	\$1,089k
Employee costs	\$3,098k
Ongoing Costs	
Local Area Committees	\$50k

No additional State government grants have been included in the analysis. Each of the costs above have their own unique timing and this has been reflected in the financial model.

The financial outcome is summarised in the table below:

Full council merger	
Underlying result	Slightly increasing general fund deficits
Total cash	Significant cash surpluses achieved, particularly from 2021 onwards
Financial sustainability risk⁴	Medium
Fit for the Future criteria achieved⁵	No
Predicted asset renewal backlog	Potential to use unrestricted cash and investments to significantly reduce the backlog

The table below shows the expected deficit per resident after the merger compared to a similar figure before the merger.



⁴ As calculated using the methodology of the Victorian Auditor-General's Office.

⁵ Only six of the seven criteria are reported on. The seventh, Asset Maintenance Ratio, cannot be determined from the data available.

The merged Council will have limited opportunity to add to their predicted asset renewal expenditure in the near term as their level of unrestricted cash balances would preclude significant additional expenditure.

The State Government does not require a merged Council to meet the Fit for the Future financial criteria. For reference, the table below shows how the merged Council would fare based on the assumptions outlined.

	2016/17	2017/18	2018/19	2019/20
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	X	X	X	X
Own Source Revenue Ratio (Greater than 60% average over 3 years)	✓	✓	✓	✓
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	X	X	X	X
Infrastructure Backlog Ratio (Less than 2%)	X	X	X	X
Asset Maintenance Ratio (Greater than 100% average over 3 years)	X	X	X	X
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	✓	✓	✓	✓
Real Operating Expenditure per capita (A decrease in real operating expenditure per capita over time)	X	✓	✓	✓

The predicted figures for the Fit for Future criteria are shown in Appendix 4.

The financial assumptions made in this model are deliberately conservative. There would be opportunity for a merged body to achieve a higher level of savings should it take a more transformative approach when creating the new organisation. Additionally, once the necessary plans have been completed, the merged Council could receive dividends from their water and sewer operations. This being the case, there is reasonable confidence that the merged Council would be able to meet the financial outcome criteria in the medium term.

Alternatively, the merged Council would be able to achieve an operating surplus (before capital income) by increasing its rates by approximately 3% per annum for 5 years. The Government has indicated that, in the future, merged Councils will have more autonomy over their rates.

Conclusion

The merged Council would be able to operate with a reasonable degree of financial soundness, especially since the financial modelling assumptions have been conservative. These savings are achieved through a combination of sources but the most substantial would be through a reduction in staff numbers necessary to provide the current levels of services. The draft organisation structure, if implemented, would result in a reduction of approximately 63.4 fte resulting in annual savings of \$4.8m. Whilst surpluses will not be able to be achieved, the merged Council would generate sufficient cash to, at the very least, maintain the current level of services and quality of its assets.

From the communities' perspective, once the savings from the merger are realised, a merged Council is likely to be able to provide the same level of service with a lesser and more manageable deficit. In 2021, the combined deficit of the separate Councils is predicted to be \$12.4m. For a merged Council, the deficit in 2021 would be \$6.858m.

The merged Council would be able to advocate for and provide the civic leadership for a wider geographic area. Greater coherence when planning for growth, infrastructure and development will be possible.

A merger is not without risks, and the key risks are summarised below.

Other Merger considerations

A merger of two organisations is a complex undertaking and has been discussed earlier in the report subject to a range of risks. The following lists summarise the benefits, costs, and potential risks associated with a merger. However, for the purposes of completing Fit for the Future templates, a full risk assessment will need to be undertaken.

Potential Benefits of a Merger

- Best practices from each Council could be used in the new organisation, overseen by a Transition Committee of equal representation
- \$5m one off grant from State Government
- Despite the large cost of the amalgamation, a net financial benefit is expected to be achieved
- Outdoor staffing structure and numbers are maintained under the merged option to acknowledge the desire of both Councils to maintain existing levels of service. In preparing this report, it was not possible to clearly identify standards of service in this regard
- Merging allows for better planning and regional coordination with the State Government and ACT administration
- Improved long term financial sustainability
- Access to loan funds at favourable interest rates

Costs Associated with Merger

- Loss of degree of representation in smaller Council area, which may be able to be mediated in part by the establishment of local area bodies or committees
- Significant disruption to administrative focus for a number of years
- Potential loss of local jobs

Risks Associated with Merger

- Weak support for amalgamation amongst legacy Councils
- Unable to achieve identified savings
- Unable to successfully merge different organisational cultures
- Unable to come to agreed understanding of strategic priorities

Appendices

Appendix 1: Consultancy Briefing – Terms of Reference

Appendix 2: Fit for the Future Scale and Capacity

Appendix 3: Potential Organisational Structure

Appendix 4: Expected Improvement in Performance

Appendix 5: Victorian Auditor General Financial Sustainability Risk Assessment

Appendix 6: Financial Reports for Merger

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Appendix 1: Consultancy Briefing - Terms of Reference

Understanding Your Requirements

Palerang and Queanbeyan City Councils seek to develop a business case in relation to the potential merger of the Councils.

We have facilitated a number of discussions at elected member and senior staff level. We understand that neither Palerang nor Queanbeyan Councils have expressed a disposition towards a merger between them. However, both Councils are keen to ensure that when giving consideration themselves and when consulting with the community they have at their disposal a business case that models the impact of merging the Councils together. This will enable informed consideration, based on transparent assumptions and evidence.

The business case will be developed from the agreed assumptions of the current Councils' long term plans (Community, Asset Management and Financial), how services may be delivered in the future, and how the merged area may be represented and governed.

Meeting Your Requirements

We will assist you to prepare a business case that will:

- Assist Palerang and Queanbeyan Councils to assess how a particular merger option may help them to address the issue of scale and capacity, and the benefits and costs of the option
- Inform your communities about the costs and benefits of the merger option.
- Form the basis of each Council's Fit for the Future proposal should they agree to pursue the merger option

Our Methodology

1. Assessing Your Current and Forecast Performance

This will be done with a view to developing the base position for the two Councils.

We will meet with key personnel from both Councils to assess the availability and collection of relevant information. We will provide you with a detailed list of information requirements covering the following areas:

- General background and contextual information about Councils, the communities you serve, and the needs and expectations of the Councils
- The current organisations, locations, and services provided by the Councils
- Key strategies and plans for future reduction/growth, change, and improvement in services
- Current and anticipated financial positions for each Council, and the cost of service provision (including procured goods and services)
- Councils' assets and infrastructure, and the management and renewal of these
- Information and technology systems, and documented work processes

- Service performance and community outcomes
- The Councils' workforces

We will undertake an assessment of the information that is provided, identifying any critical gaps or deficiencies. We will try to assist in overcoming these where practicable in the timescales for this project. With the data that is provided by the Councils, we will:

- Review Community Plans, delivery plans, asset management, and business plans (if any) against the Councils' Long Term Financial Plans
- Assess the viability of those long term plans against FFF benchmark ratios
- Review current service delivery against current financial performance and FFF benchmark ratios for Sustainability, Infrastructure and Service Management and Efficiency
- We will share the above analysis with key Council personnel for validation

2. Developing the Merged Council Business Model

We will quickly establish a base case, which will essentially be a 'bolt together' of the two Councils' services, organisational structure and financial plans.

We will then develop the assumptions for how the new merged Council might operate in governance, service delivery and financial operating terms. From this we will develop:

- A rationale and high level Operating Model for the new merged organisation
- A comparison to the Independent Local Government Review Panel recommendation (if relevant)
- A financial benefit profile for the new merged organisation, including a Long Term Financial Profile
- A performance benefit profile, including the improvements to the Fit for the Future Benchmark ratios
- Other non-financial benefits for the community and Council
- An assessment of the risk and issues in undertaking and not undertaking the merger

In preparing the above, options will be considered for:

- Different organisational operating arrangements
- Governance and representation arrangements (but **not** covering the issues to be addressed by the Local Transition Committee)
- Transition arrangements and timeframes

The existing long term asset management and community plans will be used as being representative of the merged Councils' future plans unless superseded by subsequent plans and work.

We will workshop the various option(s) with representatives of the Councils to:

- Gain confirmation of the current financial positions
- Clarify and gain confirmation of the financial model based on a 'no change' service catalogue and standards against known revenue and funding forecasts for the two Councils

- Discuss and agree the merged Council assumptions and options as the basis of future financial modelling

Project Deliverables

The key deliverable from this project will be a Business Case document that addresses the issue of scale and capacity for Palerang and Queanbeyan City Councils and sets out how the proposed new entity would be or become Fit for the Future. It will specifically include:

- A 'no change' base case that is an unreconstructed merger of the two Councils as they currently exist
- The financial and performance forecast over 10 years of the options for a merged Council
- The expected performance improvements against the Fit for the Future benchmark ratios
- A high level transition plan to transition to a new merged entity
- High level of assessment of the transition costs over a 3 and 5 year transition for the organisation
- A high level due diligence assessment of the risks and concerns of the merger option identified by each Council

We confirm that the business case will include sufficient information to complete the Fit for the Future Council Merger Proposal template.

Appendix 2: Fit for the Future Scale and Capacity

In October 2013, in its final report, *Revitalising Local Government*, the NSW Independent Local Government Review Panel outlined its criteria for determining future Local Government boundaries across the state. In view of the reliance of the State Government on the criterion relating to scale and capacity, they are outlined in full below:

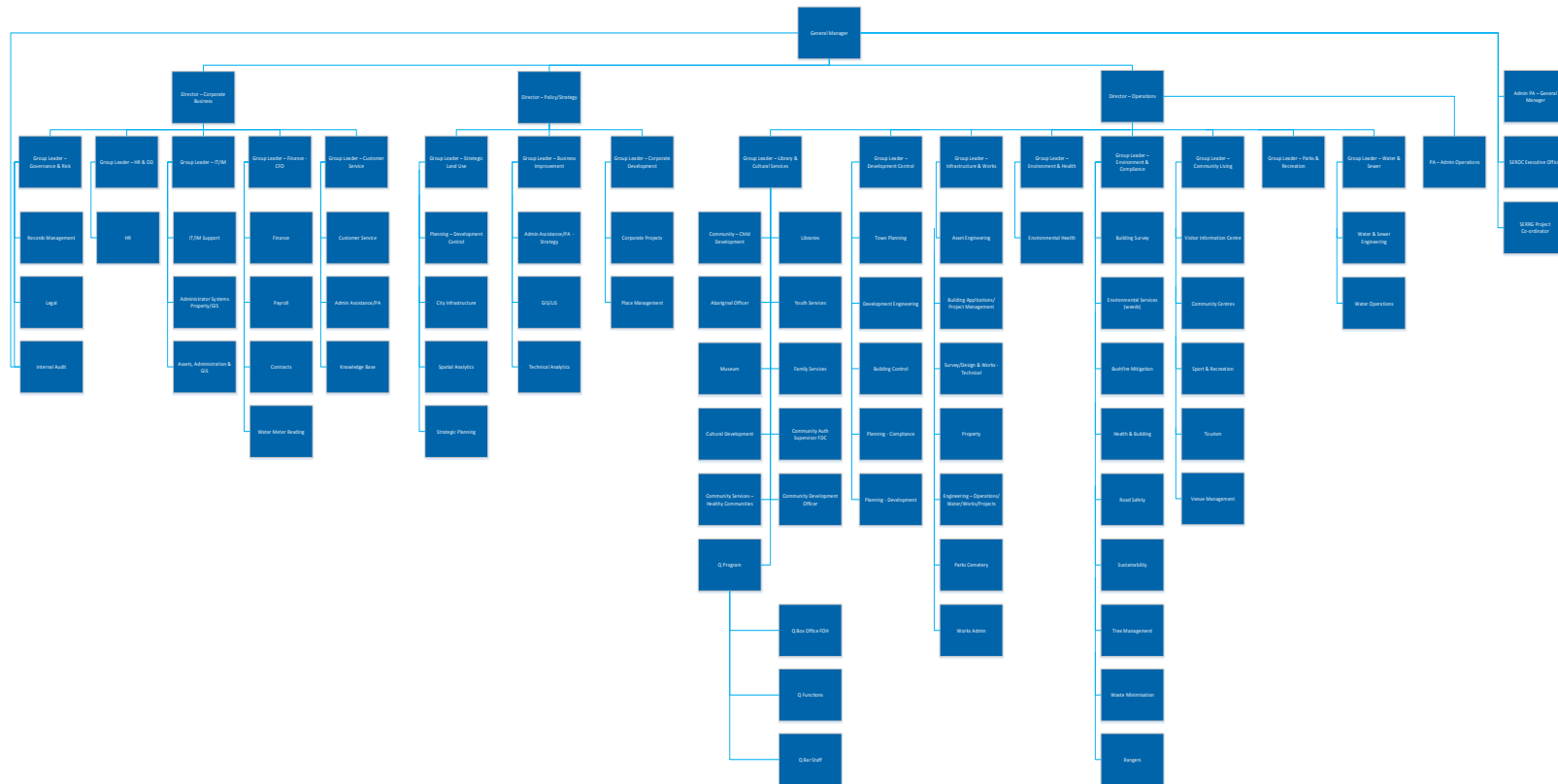
- **Sustainability and Strategic Capacity Criteria**
Councils need a strong base to ensure their long term sustainability; to achieve economies of scale and scope; to deliver quality services; to provide a pool of talented Councillor candidates; to attract skilled staff; and to develop strategic capacity in governance, advocacy, planning, and management.
- **Efficiency and Effectiveness**
Councils should be able to operate efficiently and effectively within the limits imposed by their location, geography, and the characteristics of the communities they serve. They should be able to provide value for money to their ratepayers and external funding agencies.
- **Integrated Planning**
LGA boundaries should not unnecessarily divide areas with strong economic and social inter-relationships; they should facilitate integrated planning, coordinated service delivery, and regional development.
- **Local Identity and Sense of Place**
Consistent with the need for integrated planning, boundaries should reflect a sense of identity and place, including important historical and traditional values. However, other mechanisms available to maintain local identity should be taken into account.
- **Population Growth**
The boundaries of a local government area should be able to accommodate projected population growth generated by the area over at least the next 25 years.
- **Accessibility**
As a general rule, it should be possible to drive to the boundaries of a LGA from a main administration centre within 60-90 minutes in country areas, and within 30 to 45 minutes in metropolitan areas.
- **Strong Centre**
Each LGA should have a substantial population centre that can provide higher order commercial, administrative, education, health and other services.
- **Key Infrastructure**

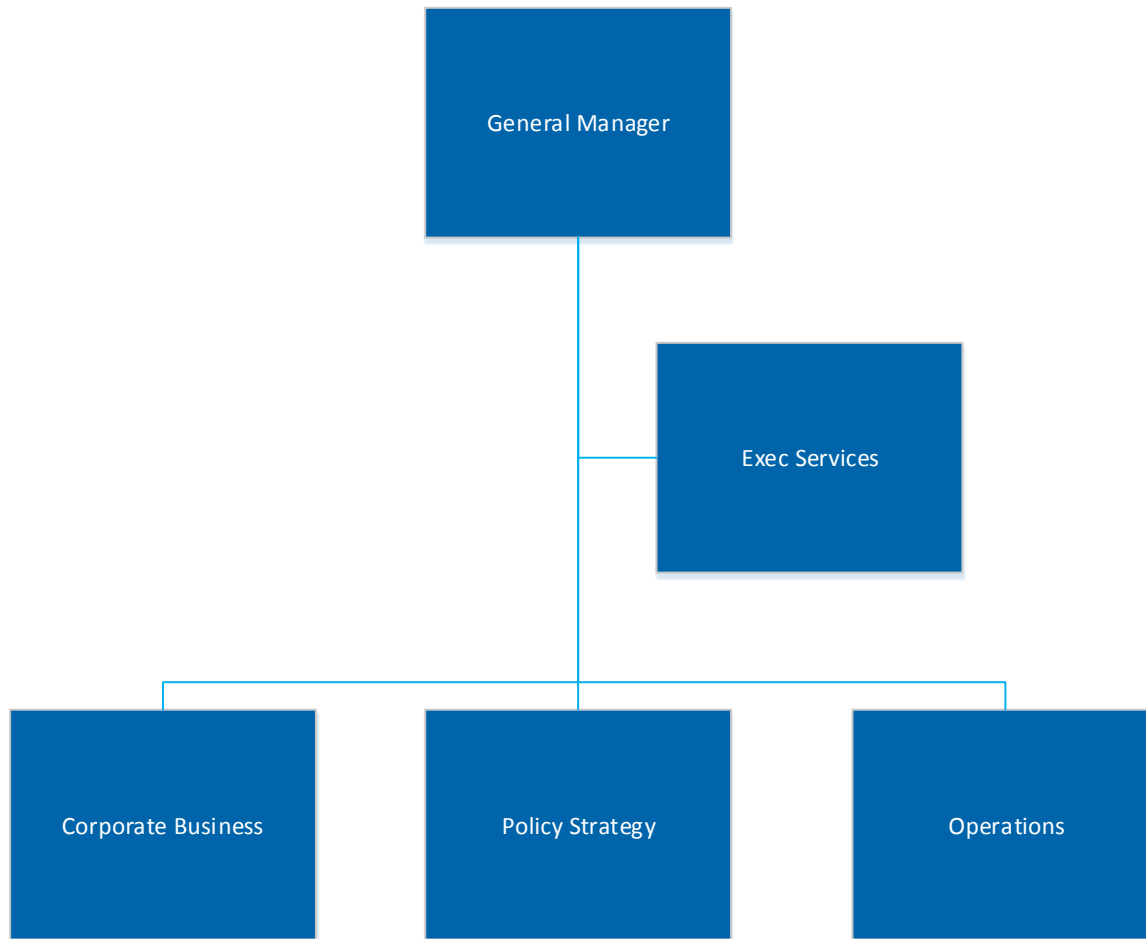
As far as possible, key transport infrastructure such as airports and ports, and those nearby urban and regional centres that are principal destination points, should be within the same LGA.

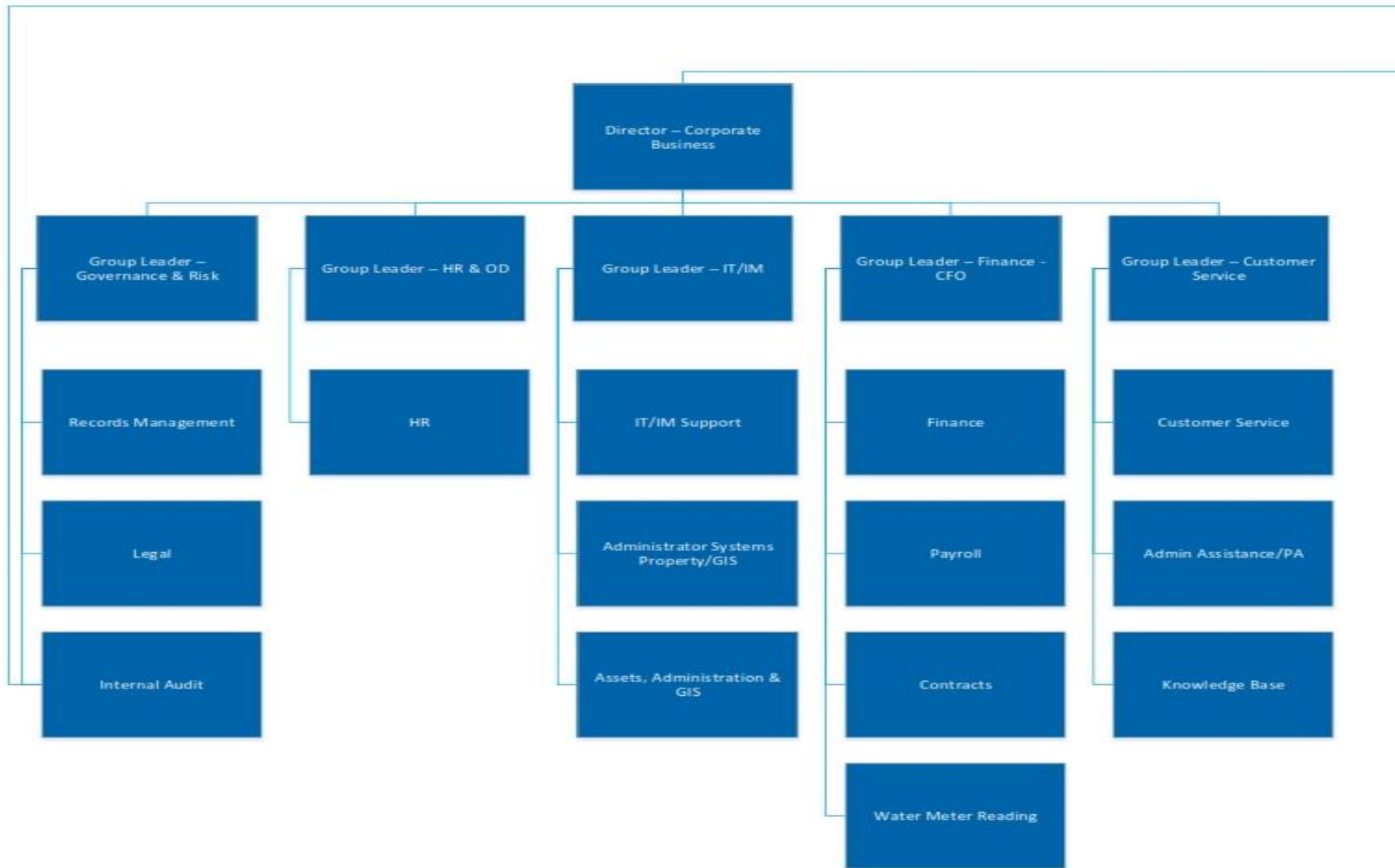
- Combining Existing Municipalities

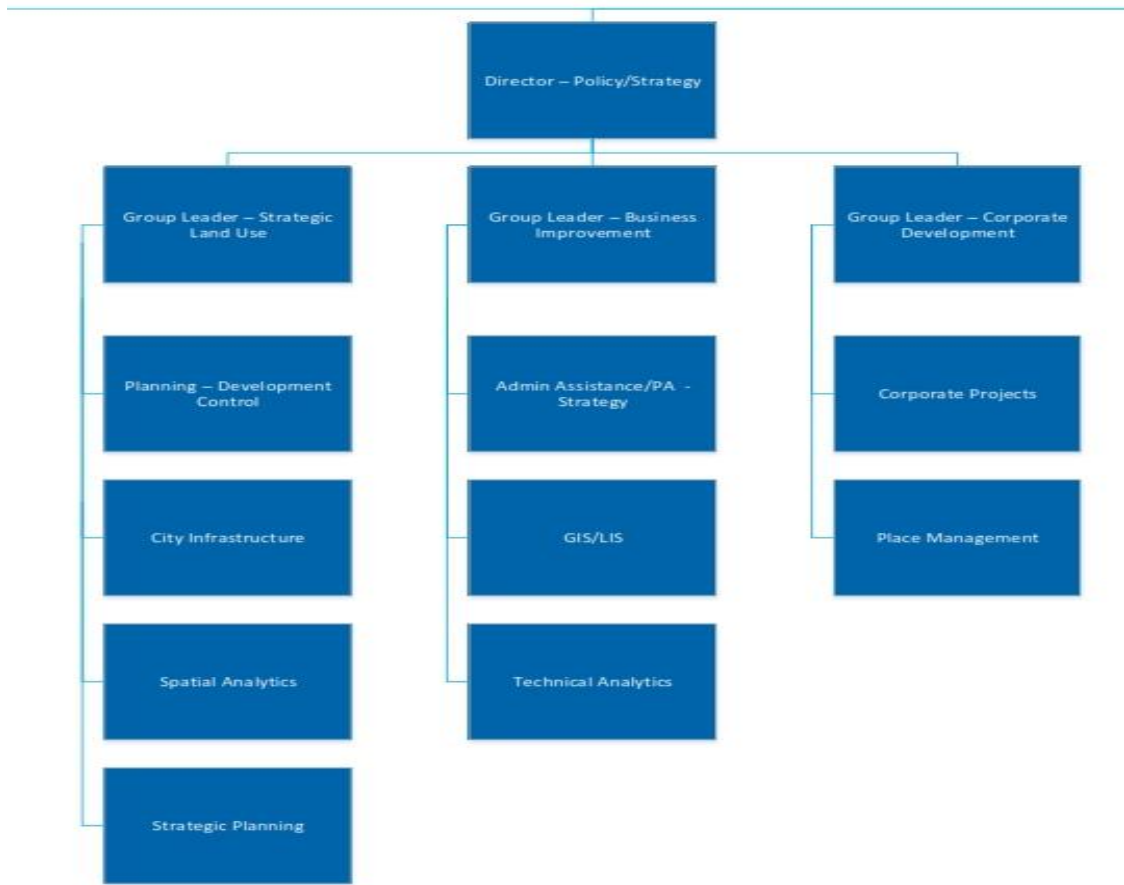
Wherever practicable, amalgamations should combine the whole of two or more existing LGAs without the additional cost and disruption of associated boundary adjustments.

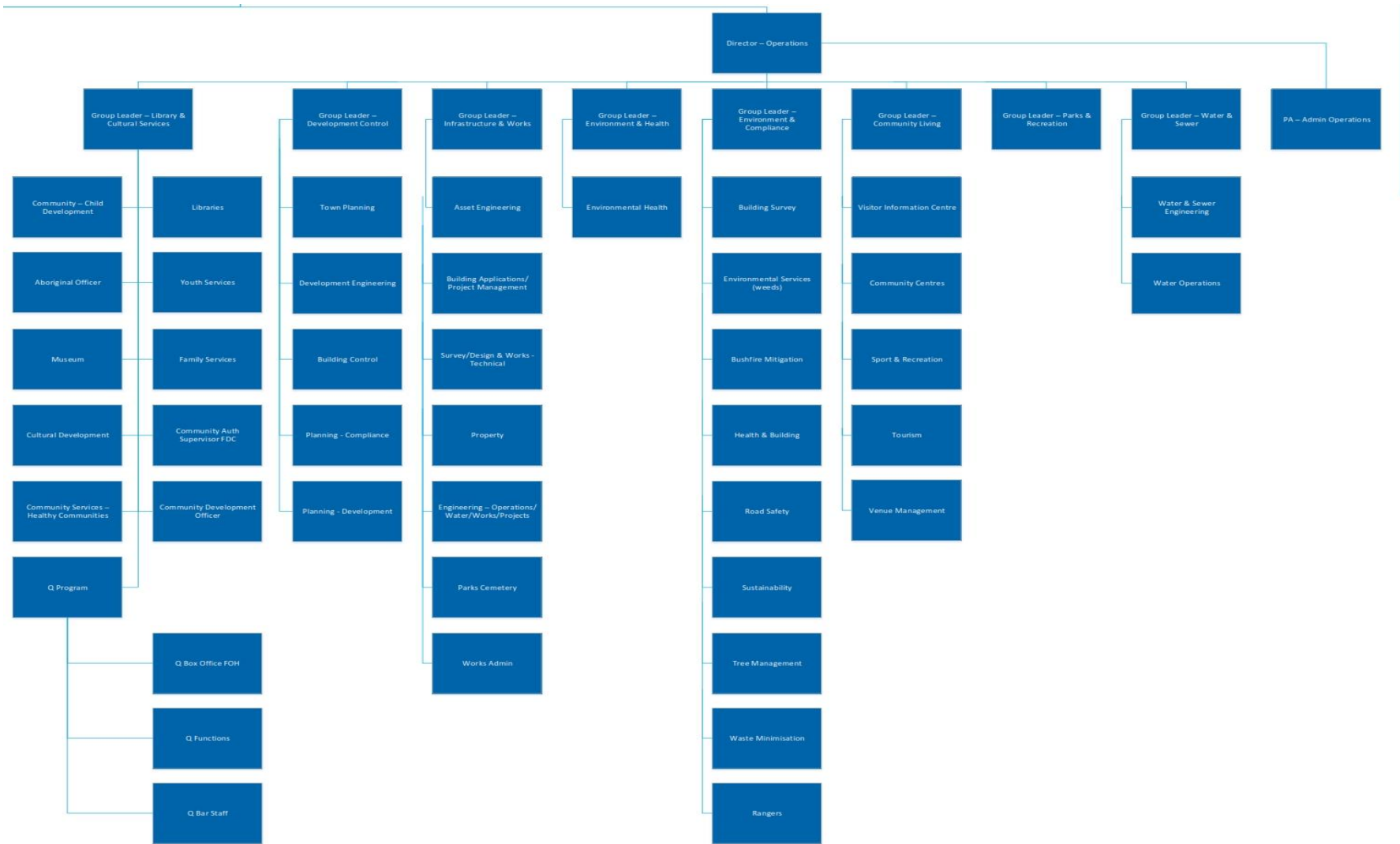
Appendix 3: Potential Organisational Structure













Appendix 4: Expected Improvement in Performance

4.1 Expected improvement in performance				
Measure/benchmark	2016/17	2017/18	2018/19	2019/20
Operating Performance Ratio <i>(Greater than or equal to break-even average over 3 years)</i>	-21.7%	-10.3%	-8.1%	-7.7%
Own Source Revenue Ratio <i>(Greater than 60% average over 3 years)</i>	83%	77%	49%	78%
Building and Infrastructure Asset Renewal Ratio <i>(Greater than 100% average over 3 years)</i>	61%	86%	80%	42%
Infrastructure Backlog Ratio <i>(Less than 2%)</i>	5%	5%	5%	7%
Asset Maintenance Ratio <i>(Greater than 100% average over 3 years)</i>	73%	73%	73%	73%
Debt Service Ratio <i>(Greater than 0% and less than or equal to 20% average over 3 years)</i>	15.7%	14.7%	14.5%	14.9%
Real Operating Expenditure per capita <i>(A decrease in real operating expenditure per capita over time)</i>	\$1.67	\$1.62	\$1.59	\$1.58

Appendix 5: Victorian Auditor General Financial Sustainability Risk Assessment

The Victorian Auditor General has developed a financial sustainability assessment model which scores a number of financial criteria to establish whether a council could be judged to have low, medium or high financial sustainability risk.

The model uses the following financial sustainability indicators

- Underlying result
- Liquidity
- Indebtedness
- Self-financing
- Capital replacement
- Renewal gap

Each indicators has range within which it is assessed to have either a high, medium or low risk.

Overall financial sustainability risk is determined as follows:

High risk if either underlying result indicator or liquidity indicator have a high risk

Medium risk if self- financing indicator, indebtedness indicator, capital replacement indicator or renewal gap indicator have a high risk

Low risk if not medium or high risk

Full details of the model can be found in the Victorian Auditor General's report, Local Government: Results of the 2012-2013 Audits.

Appendix 6: Financial Reports for Merger

ltfp consolidated financial statements

	General Fund									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income Statement										
Income from continuing operations										
Rates and annual charges	38,536	39,218	39,912	40,618	41,337	42,068	42,812	43,570	44,341	45,125
User charges and fees	11,608	11,811	12,018	12,228	12,443	12,660	12,882	13,108	13,337	13,571
Interest and investment revenue	1,279	1,231	745	1,012	976	1,394	1,427	1,367	1,263	1,161
Other revenues	2,287	2,328	2,369	2,412	2,455	2,498	2,543	2,588	2,634	2,681
Grants and contributions provided for operating purposes	12,722	17,708	12,823	13,219	13,079	13,213	13,351	13,492	13,640	13,640
Grants and contributions provided for capital purposes	7,656	3,696	3,689	46,688	3,487	24,742	7,394	2,096	2,041	2,041
Net gain from the disposal of assets	85	85	85	85	85	85	85	85	85	85
Total Income from continuing operations	74,173	76,076	71,641	#####	73,860	96,661	80,494	76,306	77,342	78,304
Expenses from continuing operations										
Employee benefits and on-costs	31,744	31,872	30,900	29,639	29,342	30,024	31,030	32,079	33,157	34,266
Borrowing costs	9,018	9,055	9,173	9,292	9,541	9,657	9,774	9,891	10,008	10,123
Materials and contracts	19,559	21,075	20,586	20,116	20,490	20,914	21,333	21,682	22,036	22,198
Depreciation and amortisation	14,518	15,827	16,090	17,857	18,074	19,025	19,293	19,520	19,609	19,433
Impairment	-	-	-	-	-	-	-	-	-	-
Other expenses	(1,400)	(1,461)	(1,306)	(1,151)	(997)	(844)	(690)	(537)	(384)	(232)
Net loss from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Total Expenses from continuing operations	73,439	76,368	75,443	75,752	76,449	78,777	80,739	82,634	84,425	85,788
Net Operating Result from continuing operations	734	(292)	(3,803)	40,508	(2,589)	17,884	(245)	(6,328)	(7,084)	(7,484)
Net operating result before grants and contributions provided for capital purposes	(6,922)	(3,988)	(7,492)	(6,179)	(6,075)	(6,858)	(7,639)	(8,425)	(9,125)	(9,525)
Statement of Comprehensive Income										
Net Operating Result for the Year	(6,922)	(3,988)	(7,492)	(6,179)	(6,075)	(6,858)	(7,639)	(8,425)	(9,125)	(9,525)
Other Comprehensive Income:										
Amounts which will not be reclassified subsequently to the Opera										
Gain (loss) on revaluation on I,PP&E	-	-	-	-	-	-	-	-	-	-
Impairment (loss) reversal relating to I,PP&E	-	-	-	-	-	-	-	-	-	-
Total Items which will not be reclassified subsequently to the Operating Re	-	-	-	-	-	-	-	-	-	-
Amounts which will be reclassified to the Operating Result										
Total Other Comprehensive Income for the year	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income for the year	(6,922)	(3,988)	(7,492)	(6,179)	(6,075)	(6,858)	(7,639)	(8,425)	(9,125)	(9,525)

	General Fund									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Statement of Financial Position										
Assets										
Current Assets										
Cash and cash equivalents	10,308	10,096	(13,864)	8,858	12,583	39,140	47,271	49,660	49,673	50,218
Investments	21,490	21,490	21,490	21,490	21,490	21,490	21,490	21,490	21,490	21,490
Receivables	2,994	2,994	2,994	2,994	2,994	2,994	2,994	2,994	2,994	2,994
Inventories	32	32	32	32	32	32	32	32	32	32
Other	231	231	231	231	231	231	231	231	231	231
Total Current Assets	35,055	34,843	10,883	33,605	37,330	63,887	72,018	74,407	74,420	74,965
Non-Current Assets										
Investments	14,908	14,908	14,908	14,908	14,908	14,908	14,908	14,908	14,908	14,908
Receivables	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)
Infrastructure, property, plant and equipment	876,737	875,893	897,257	914,214	906,951	897,267	887,812	877,947	869,627	860,293
Total Non-Current Assets	891,492	890,648	912,012	#####	921,706	912,022	902,567	892,702	884,382	875,048
Total Assets	926,546	925,491	922,894	#####	959,036	975,909	974,585	967,109	958,802	950,013
Liabilities										
Current Liabilities										
Payables	6,013	6,013	6,013	6,013	6,013	6,013	6,013	6,013	6,013	6,013
Borrowings	763	794	829	949	1,012	1,078	1,148	1,223	1,306	1,393
Provisions	7,320	7,320	7,320	7,320	7,320	7,320	7,320	7,320	7,320	7,320
Total Current Liabilities	14,096	14,127	14,162	14,282	14,345	14,411	14,481	14,556	14,639	14,726
Non-Current Liabilities										
Borrowings	24,992	24,198	25,369	24,420	23,408	22,330	21,182	19,959	18,653	17,260
Provisions	5,455	5,455	5,455	5,455	5,455	5,455	5,455	5,455	5,455	5,455
Total Non-Current Liabilities	30,447	29,653	30,824	29,875	28,863	27,785	26,637	25,414	24,108	22,715
Total Liabilities	44,543	43,780	44,986	44,157	43,208	42,196	41,118	39,970	38,747	37,441
Net Assets	882,003	881,711	877,908	#####	915,828	933,713	933,467	927,139	920,055	912,571
Equity										
Retained earnings	364,058	363,766	359,963	400,472	397,883	415,768	415,522	409,194	402,110	394,626
Reserves	517,945	517,945	517,945	517,945	517,945	517,945	517,945	517,945	517,945	517,945
Council equity interest	-	-	-	-	-	-	-	-	-	-
Total Equity	882,003	881,711	877,908	#####	915,828	933,713	933,467	927,139	920,055	912,571

Statement of Changes in Equity

Retained Earnings

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at end of previous period	349,299	364,058	363,766	359,963	400,472	397,883	415,768	415,522	409,194	402,110
Net Result for the year	734	(292)	(3,803)	40,508	(2,589)	17,884	(245)	(6,328)	(7,084)	(7,484)
Transfer to and (from) retained earnings	14,025	-	-	-	-	-	-	-	-	-
Balance at end of period	364,058	363,766	359,963	#####	397,883	415,768	415,522	409,194	402,110	394,626

Reserves

Balance at end of previous period	517,945	517,945	517,945	517,945	517,945	517,945	517,945	517,945	517,945	517,945
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Transfer to and (from) retained earnings	-	-	-	-	-	-	-	-	-	-
Balance at end of period	517,945	517,945	517,945	#####	517,945	517,945	517,945	517,945	517,945	517,945

Council Equity Interest

Balance at end of previous period	-	-	-	-	-	-	-	-	-	-
Net Result for the year	-	-	-	-	-	-	-	-	-	-
Transfer to and (from) retained earnings	-	-	-	-	-	-	-	-	-	-
Balance at end of period	-	-	-	-	-	-	-	-	-	-

Total Equity at end of reporting period

	882,003	881,711	877,908	#####	915,828	933,713	933,467	927,139	920,055	912,571
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	General Fund									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Statement of Cash Flows										
Cash flows from operating activities										
Receipts:										
Rates & annual charges	38,536	39,218	39,912	40,618	41,337	42,068	42,812	43,570	44,341	45,125
User charges & fees	11,608	11,811	12,018	12,228	12,443	12,660	12,882	13,108	13,337	13,571
Investment & interest revenue received	1,279	1,231	745	1,012	976	1,394	1,427	1,367	1,263	1,161
Grants & contributions	20,379	21,404	16,512	59,906	16,566	37,955	20,745	15,589	15,681	15,681
Other receipts	2,287	2,328	2,369	2,412	2,455	2,498	2,543	2,588	2,634	2,681
Payments:										
Employee benefits & on-costs	(31,744)	(31,872)	(30,900)	(29,639)	(29,342)	(30,024)	(31,030)	(32,079)	(33,157)	(34,266)
Materials & contracts	(26,843)	(28,437)	(28,147)	(27,841)	(28,349)	(28,951)	(29,553)	(30,089)	(30,634)	(30,995)
Borrowing cost payments	(1,734)	(1,694)	(1,612)	(1,567)	(1,682)	(1,620)	(1,554)	(1,484)	(1,409)	(1,326)
Other payments	1,400	1,461	1,306	1,151	997	844	690	537	384	232
Net cash provided (or used in) operating activities	15,167	15,450	12,202	58,280	15,400	36,824	18,963	13,107	12,440	11,864
Cash flows from investing activities										
Receipts:										
Sale of investments	-	-	-	-	-	-	-	-	-	-
Sale of infrastructure, property, plant and equipment	500	500	500	500	500	500	500	500	500	500
Deferred debtors receipts	-	-	-	-	-	-	-	-	-	-
Payments:										
Purchase of investments	-	-	-	-	-	-	-	-	-	-
Purchase of property, plant and equipment - renewal	(8,681)	(9,725)	(13,857)	(14,291)	(7,571)	(7,558)	(7,943)	(7,909)	(8,182)	(7,737)
Purchase of property, plant and equipment - new	(4,908)	(5,674)	(24,012)	(20,939)	(3,655)	(2,197)	(2,310)	(2,160)	(3,523)	(2,777)
Impairment reversal	-	-	-	-	-	-	-	-	-	-
Net cash provided (or used in) investing activities	(13,089)	(14,898)	(37,369)	(34,729)	(10,726)	(9,256)	(9,753)	(9,570)	(11,204)	(10,014)
Cash flows from financing activities										
Receipts:										
New loans	300	-	2,000	-	-	-	-	-	-	-
Payments:										
Repayment of borrowings and advances	(735)	(763)	(794)	(829)	(949)	(1,012)	(1,078)	(1,148)	(1,223)	(1,306)
Net cash provided (or used in) investing activities	(435)	(763)	1,206	(829)	(949)	(1,012)	(1,078)	(1,148)	(1,223)	(1,306)
Net increase / (decrease) in cash	1,644	(211)	(23,961)	22,722	3,725	26,557	8,132	2,389	13	545
Cash at the beginning of the year	8,664	10,308	10,096	(13,864)	8,858	12,583	39,140	47,271	49,660	49,673
Cash at the end of the year	10,308	10,096	(13,864)	8,858	12,583	39,140	47,271	49,660	49,673	50,218

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