



*cutting through complexity*

BOMBALA COUNCIL  
COOMA-MONARO SHIRE COUNCIL  
SNOWY RIVER SHIRE COUNCIL

# Merger Business Case

**FINAL REPORT**

18 May 2015





## TABLE OF CONTENTS

<b>Key findings</b>	2
<b>1. Introduction</b>	4
<b>2. Background</b>	11
<b>3. Approach</b>	16
<b>4. Local context</b>	24
<b>5. Economic and financial analysis</b>	48
<b>6. Implementation</b>	61
<b>Appendices</b>	65

### **Inherent Limitations**

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

### **Third Party Reliance**

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This report has been prepared at the request of Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council in accordance with the terms of KPMG's engagement letter dated 25 February 2015. Other than our responsibility to Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.



## KEY FINDINGS

- The purpose of this Merger Business Case is to support Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council to build a robust evidence base on the potential impacts of a merger.
- The framework and scope for the Merger Business Case has drawn on the requirements and specifications established by the NSW Office of Local Government (OLG).
- The Merger Business Case found that each of the councils are currently reporting financial results that do not meet in full more than three of the Fit for the Future benchmarks.
- Each council is currently reporting a net operating loss for its general fund and, based on each council's Long Term Financial Plans (LTFPs), this operating loss is expected to increase over the forward estimates in nominal terms.
- Based on the NSW Government's TCorp assessment, financial sustainability is a concern for each council. Cooma-Monaro Shire Council was assessed by TCorp as having 'weak' financial sustainability, while Snowy River Shire Council was rated as having a 'negative' outlook. Bombala's financial sustainability and outlook were assessed as 'moderate' and 'neutral'.
- An analysis of the potential financial impacts of a merger of all three councils indicated a net benefit of \$3.71 million over the ten year period from 2014-15 in net present terms. This is equivalent to an improvement in the bottom line (net operating result) of 6.6 per cent over ten years.
- When NSW Government financial support to assist with council mergers is included in the analysis, the net financial benefit from the proposed merger increases to \$13.76 million over the ten year period from 2014-15 in net present terms. This is equivalent to an improvement in the bottom line (net operating result) of 21.6 per cent over 10 years.
- The estimated net financial benefits represent a high-level assessment of the potential impacts of a merger. It is important to consider the experiences of other jurisdictions that have undertaken local government reform and note the challenges of implementing reform. There is a notable absence of comprehensive reviews examining the success of these reforms.
- Significantly, the financial analysis indicates a merged council would not meet all the Fit for the Future financial benchmarks – three of the seven benchmarks would be met in full, with one additional benchmark partially met. In particular, a merged council is likely to materially underperform against benchmarks relating to asset renewal and infrastructure backlog, and the expected net financial benefit of the merger is unlikely to be of sufficient quantum that would enable a merged council to invest heavily in these areas.

Fit for the Future Metrics – No Merger vs Merger

Indicator	No Merger			Merger
	Bombala	Cooma-Monaro	Snowy River	
Operating Performance Ratio	-	-	-	-
Own Source Revenue	○	●	○	●
Building & Infrastructure Asset Renewal	-	-	-	-
Infrastructure Backlog	●	○	-	○
Asset Maintenance Ratio	●	●	-	-
Debt Service Ratio	-	●	●	●
Real Operating Expenditure per capita	●	○	●	●

Source: KPMG.

● = benchmark achieved; ○ = benchmark shortfall marginal (<10%)



## KEY FINDINGS *(Continued)*

- The analysis underpinning the Merger Business Case has considered the considerable differences in merger benefits that may be available to higher-density urban councils vis-à-vis the less populated regional councils with expansive boundaries.
- The assumptions adopted in the financial analysis are conservative and acknowledge the likely difficulties in generating efficiencies and economies of scale from the proposed merger. The three councils' resources are already stretched and are primarily focused on front-line service and maintenance functions.
- Further, a merged council would continue to report net operating losses over the next ten years, although the scale of the net operating losses would be reduced from the status quo.
- This indicates a proposed merger, while generating a net financial benefit to the region, is unlikely to completely resolve the financial pressures currently experienced by each of the councils. It is noted that other potential structural options – such as shared services analysis – are currently being reviewed in parallel with this Merger Business Case.
- A review of the demographic and socio-economic characteristics of the region encompassing the three councils highlighted both shared and diverse interests. This will impact how a merged council targets and delivers the services and infrastructure of future generations.
- There are wide-ranging examples that indicate Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council can demonstrate 'strategic capacity' based on the community outcomes and initiatives achieved by the councils.
- Examination of the local context indicates a potential merger offers advantages and disadvantages that will need to be considered by the community. Important considerations include:
  - a merger will lead to reduced local representation and governance, as measured by the ratio of residents to elected officials;
  - a merger will likely lead to a loss of approximately 19 FTE (or 6 per cent) council employee positions across the region. However, a merger may also provide opportunities for a merged entity to enhance the skills base of its workforce and increase organisational capabilities through specialisation;
  - a merger would lead to more harmonised regional planning and economic development initiatives (including an integrated tourism strategy). However, a merged council entity may also encounter challenges in tailoring programs and initiatives to diverse community interests and profiles across a region spanning more than 15,000 km<sup>2</sup>;
  - a merger may offer scope to better *share* existing assets and resources, although capacity to significantly *improve* frontline service delivery and invest in new infrastructure may be limited; and
  - a merger may lead to improved advocacy for community interests through the creation of 'one voice' to represent the region.
- Overall, the potential net financial benefits of a merger will need to be weighed against the risks associated with merger implementation and the broader merger impacts on the community.
- As a Merger Business Case provides a 'first pass' assessment of the potential impacts of a merger, further detailed analysis would be needed prior to any binding commitment by councils to proceed with a merger. This would entail a comprehensive due diligence exercise to review each council's accounts and assets as well as the target operating model design and implementation strategy.

# 1. Introduction





# 1. INTRODUCTION Local Government Reform in NSW

## Review of Local Government in NSW

The NSW Government convened an Independent Local Government Review Panel ('the Review Panel') in April 2012. The impetus for the Review Panel came from the Destination 2036 summit attended by all 152 NSW local councils in 2011 with the purpose of discussing how the local government sector might evolve and adapt to meet the challenges of the next 25 years. Following the summit, the Review Panel was tasked to formulate options for governance models, structure and boundary changes:

- To improve the strength and effectiveness of the local government;
- To help drive the key strategic directions set out in the Destination 2036 Action Plan; and
- To further the objectives of the NSW 2021: A Plan to Make NSW Number One.

Over the next 18 months, the Review Panel conducted extensive consultations with local councils and communities and sought feedback on a series of public discussion papers to inform its recommendations. It became clear over the course of the investigation that the long term financial sustainability of the sector was a significant concern and, on this basis, the OLG appointed NSW Treasury Corporation (TCorp) to assess the financial sustainability of every local council in the state. TCorp defined financial sustainability as:

*"A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community."*

This enabled TCorp to benchmark current and forecasted financial plans reported by all 152 councils in NSW.

Figure 1.1 Local government reform pathway in NSW

August 2011

## Destination 2036

Two-day convention of all NSW local councils examining how communities, economies and technologies might change over the next 25 years and how the local government sector might evolve to meet these challenges.

April 2012

## Review Panel

The NSW Government convened an Independent Local Government Review Panel to investigate how to strengthen the effectiveness and financial sustainability of the local government sector.

September 2014

## Fit for the Future

The NSW Government launched its response to the Review Panel's recommendations in September 2014, asking each council to prepare a submission detailing how it will achieve financial sustainability – including consideration of potential merger options.

Late 2015

## Sector Reforms

An Expert Review Panel will examine council's Fit for the Future submissions and make recommendations to government. In addition, broader reforms are being considered including a new legislative framework, review of regulatory burden and a revised rating system.



## 1. INTRODUCTION Financial Sustainability of Local Councils in NSW

The TCorp methodology for allocating each council an individual Financial Sustainability Rating (FSR) drew on a number of inputs, including an analysis of each council's historical financial results, long term financial plans, asset management plans and comparative analysis with similar councils.

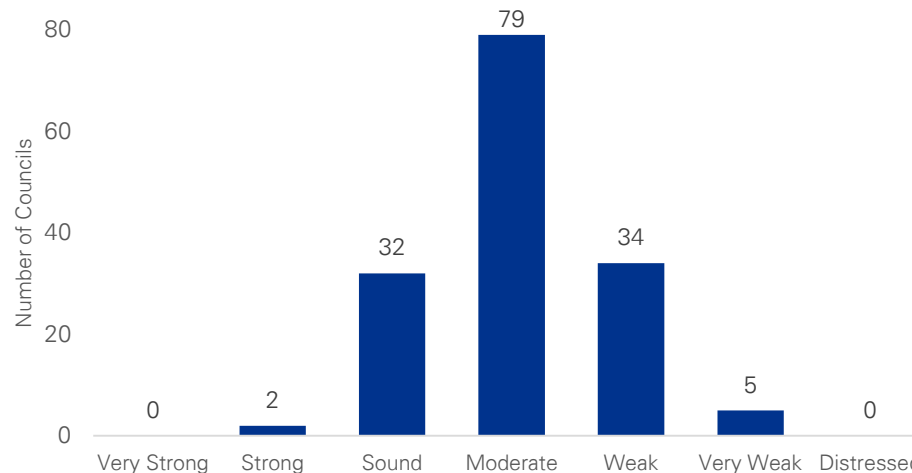
The TCorp analysis highlighted wide-ranging performances across NSW. In a rating scale ranging from 'Distressed' to 'Very Strong', more than three-quarters of NSW local councils were considered to be currently meeting the financial sustainability threshold of 'moderate' or higher (see Chart 1.2). Both Bombala Council and Snowy River Shire Council were assessed as having 'moderate' financial sustainability – indicating that both councils are likely to meet respective financial obligations in the short to medium term (e.g. over the next five years).

Of concern, 34 councils in NSW were assessed as having 'weak' financial sustainability, including Cooma-Monaro Shire Council. This rating generally reflects risks to a council's ability to address any unforeseen financial shocks with moderate revenue and/or expenditure adjustments.

The TCorp analysis also concluded that the financial sustainability of the sector was likely to deteriorate over the medium term in the absence of any reform to the sector. Chart 1.3 illustrates that 73 local councils (equivalent to 48 per cent of all councils in NSW) were rated as having a 'negative' outlook, including Snowy River Shire Council. Councils assigned a 'negative' outlook were generally expected to face a high number of operating deficits coupled with large asset maintenance and infrastructure spending gaps. Both Bombala and Cooma-Monaro Councils were rated as having a 'neutral' outlook, indicating that there would unlikely be any movement in respective FSR ratings over the short to medium term.

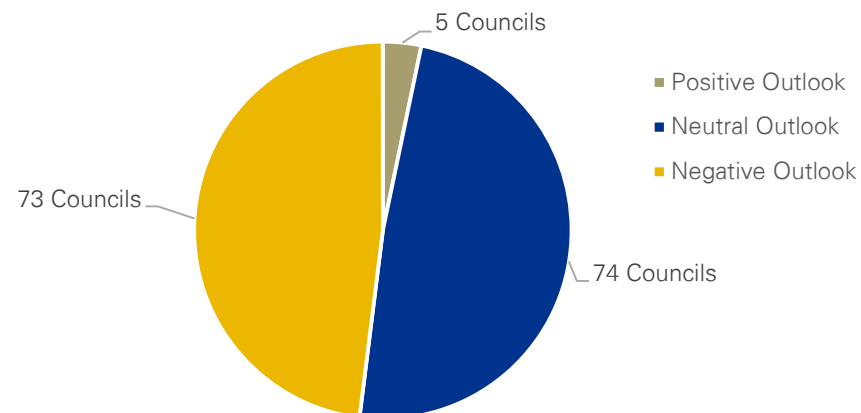
Overall, there are clear risks to the financial sustainability of the local government sector in NSW and, based on TCorp ratings, these pressures are broadly being experienced by each of the High Plains councils.

Chart 1.2: TCorp financial sustainability for NSW Councils, distribution by rating



Source: TCorp 2013

Chart 1.3: TCorp financial sustainability outlook for NSW councils, distribution by rating



Source: TCorp 2013



## 1. INTRODUCTION Revitalising Local Government in NSW

The Review Panel's final report *Revitalising Local Government* was released in January 2014 and included a total of 65 recommendations across key aspects of the structure and governance of the local government sector in NSW. These include recommendations in relation to:

- simplified statutory reporting requirements;
- reductions in regulation and duplication of functions;
- a revised rating system;
- strengthened Integrated Planning and Reporting (IP&R);
- performance benchmarking;
- longer mayoral terms and clearer roles for council executives (backed by legislative changes); and
- increased flexibility for councils with regard to procurement of goods and services and contract management.

However, the Review Panel's recommendations that garnered the most public attention related to proposed council mergers and boundary changes. The Review Panel cited a number of key financial and capacity-related factors as the basis for recommending consolidation of local councils across NSW, including:

- the presence of a large number of unnecessarily small, grant-dependent councils that are unable to effectively meet the needs of local communities;
- ability to attract skilled personnel with the right qualifications and experience to deliver the services and infrastructure expected of councils; and
- limited capacity to be a legitimate strategic partner to State and Commonwealth Governments.

For non-metropolitan regions, the Review Panel proposed the over-arching aim should be to have councils with populations close to or greater than 10,000 residents by 2036. While acknowledging the need to consider individual differences, key driving factors for the Review Panel's merger recommendations in non-metropolitan regions included:

- weakness of own-source revenue base relative to service delivery and infrastructure responsibilities;
- increased responsibilities and expectations placed on councils to fill service gaps resulting from withdrawal of State and Federal Government agencies;
- a low rating base and high-dependence on grant support to continue in current form; and
- added social and economic pressures of static or declining populations.

### Review Panel's recommendations for High Plains councils

For the three High Plains councils – Bombala Council, Cooma-Monaro Shire Council and Snowy River Council – the Review Panel recommended a number of options outlined in Table 1.2 below.

Table 1.2: Recommendations for High Plains councils

Council	Recommended Option(s) (preferred options shown in bold)
Bombala	<b>Merge with Cooma-Monaro</b> and Snowy River, or form Rural Council in South East Joint Organisation.
Cooma-Monaro	Council in South East Joint Organisation, or <b>merge with Bombala</b> and Snowy River.
Snowy River	Council in South East Joint Organisation, or merge with Bombala and Cooma-Monaro.

Source: Extract from Independent Local Government Review Panel Final Report 2014.



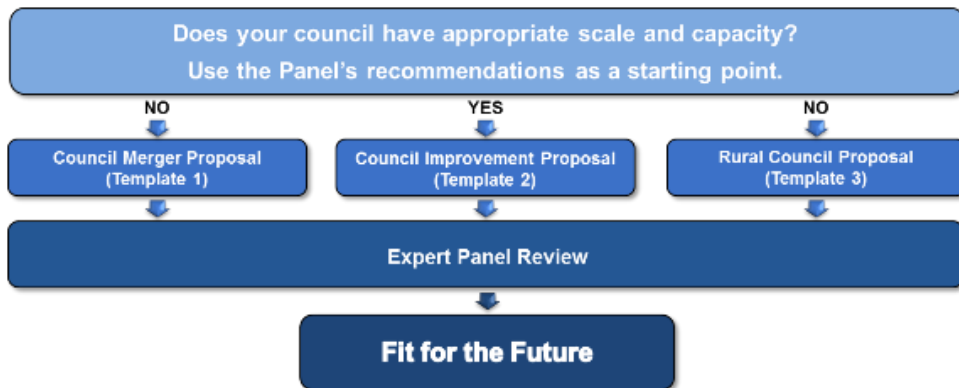


## 1. INTRODUCTION NSW Reform Agenda

In September 2014, in response to the Review Panel's final report and recommendations, the NSW Government launched the *Fit for the Future* reform initiative. The reform program requires each council in NSW to assess its current financial and strategic position and the future service and infrastructure needs of local communities. Each council is required to self-assess performance across key benchmarks, determine whether it will have an appropriate 'scale' and 'strategic capacity' and submit a plan to the NSW Government by 30 June 2015 on how the council will, individually or collectively with neighbours, become 'fit for the future'.

Each council's submission to the NSW Government must use one of three templates as illustrated in Figure 1.1 below.

Figure 1.2 NSW Government *Fit for the Future* process



Source: NSW Office of Local Government (2015)

In preparing its submission to the NSW Government each council is expected to respond directly to the recommendations made by the Review Panel. Councils are also expected to initiate consultations with respective local communities and neighbouring councils on the reform options being considered.

The NSW Government has committed more than \$1 billion to the *Fit for the Future* initiative, with direct financial support provided to those councils that agree to a voluntary merger. With regard to non-metropolitan councils, the NSW Government has offered an \$11 million grant to a merger involving three councils, with the funds expected to support the associated merger and implementation costs.

In parallel to consideration of potential merger options, the NSW Government has also indicated it will pursue other reform elements to strengthen the local government sector. This includes:

- increasing financing options for local councils;
- streamlining access to financial grants;
- reviewing options for additional planning powers; and
- simplifying reporting obligations.



## 1. INTRODUCTION Purpose and Scope

### Purpose

The purpose of this Merger Business Case is to:

- support Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council in building a robust evidence base on the potential impacts of a merger on the region;
- understand the potential advantages and disadvantages of the proposed merger; and
- enable each council to make a more informed decision on respective responses to the NSW Government's *Fit for the Future* reform initiative and complete the relevant *Fit for the Future* submission template.

### Scope

The scope of the Merger Business Case was to:

- conduct on-site consultations to leverage existing work on local government reform and understand the local context and priorities in which the proposed merger is being considered;
- conduct background research and a literature review of relevant analysis and reports, including experiences in local government reform from other jurisdictions;
- assess the 'base case' (no merger) to underpin the comparison of the impacts of a proposed merger;
- prepare an economic and financial appraisal of the proposed merger, including quantification of costs and benefits associated with the merger and identification of qualitative factors relevant to the analysis (including an understanding of the local context for reform);

- identify the net financial impacts of the proposed merger in real terms and quantification of the likely employment impact on the region;
- acknowledge the potential social impacts, including those to local representation and governance; and
- prepare a high level assessment of the issues and risks to be considered as part of any implementation of the proposed merger.

### Limitations

The Merger Business Case scope excludes some items from the analysis, including:

- any form of public consultations, including in relation to community attitudes and preferences for local government reform;
- any data collection (a pre-prepared data collation template was provided to each council to separately complete);
- detailed assessment of issues relating to the implementation of a proposed merger (this exclusion is a requirement of the OLG) including consideration of a revised target operating model for the merged entity; and
- examination of alternate structural options, including shared services analysis and boundary adjustments (this exclusion is a requirement of the OLG).



## 1. INTRODUCTION Report Structure

This report on the Merger Business Case is structured as follows;

- Chapter 2 discusses the approach to developing the Merger Business Case, evaluating the merger impacts and the underlying assumptions;
- Chapter 3 outlines the local context in which the proposed merger is being considered, including the social and community considerations of a merger as well as an assessment of 'strategic capacity' by each council;
- Chapter 4 presents the key economic and financial impacts of the merger; and
- Chapter 5 provides a high-level summary of the challenges and issues for consideration relating to the implementation of a merger.

The appendices provide detailed supporting information and analysis, including:

- Appendix A, which lists the references for the research and analysis that supports this Merger Business Case; and
- Appendix B, which provides an outline of the *Fit for the Future* indicators, including the purpose of each indicator as well as any relevant limitations.

## 2. Background





## 2. BACKGROUND Local Government in Australia

Local councils in Australia represent the third tier of government and, arguably, are the most prominent in citizens' day-to-day lives. Responsibilities include:

- collecting household and commercial waste, recycling collection services and landfill management;
- enforcing public health and safety orders, including the inspection of food businesses, planning and development approvals and associated land use zoning decisions;
- managing environmental controls, including animal control, vegetation and conservation and noxious plants and weeds;
- managing, funding and maintaining local roads;
- managing local parks and recreation facilities, including public libraries, sporting fields, and community centres;
- encouraging local economic development, including business growth, tourism and visitor centres and providing related infrastructure;
- representing regional and community interests by advocating for State and Commonwealth government investment, support for local community services (including youth and aged care services) and seeking funding for major community projects and infrastructure; and
- supporting the development of vibrant, safe and prosperous communities with appropriate access to key services and infrastructure.

Most local councils in regional Australia, including in NSW, also have additional responsibilities for managing local water and waste treatment facilities, and many provide a shop-front for delivery of broader State Government services, such as access to Roads and Maritime-Services through a Services NSW Access Centre.

Local councils therefore are highly influential in terms of a local communities' living standards and residents' quality of life. As highlighted in Table 2.1 below, local councils are also an important social and economic contributor, including:

- a significant local employer (189,000 nationally) of a diverse and skilled local workforce (this role is even more pronounced in smaller regional communities where a council is often the single largest employer);
- responsibility for managing \$333 billion in land and fixed assets nationally with total local government expenditure exceeding \$32 billion in 2014; and
- the collection of more than \$14 billion in rate revenue from individual households and businesses.

Overall, local councils in Australia, on average, generate approximately 80 per cent of 'own-source revenue' although it is acknowledged this varies markedly council-by-council given widely differing revenue raising capacity.

Table 2.1: Selected statistics of the local government sector in Australia

Key facts and figures	
Number of local councils in Australia	562
Number of local councils in NSW	152
Local council employees in Australia	188,900
Local council employees in NSW	49,000
Sector-wide expenditure (national)	\$32.2 billion
Sector-wide land & fixed asset base	\$333 billion
National rate-based local council revenue	\$14 billion

Source: Australian Local Government Association (2014)

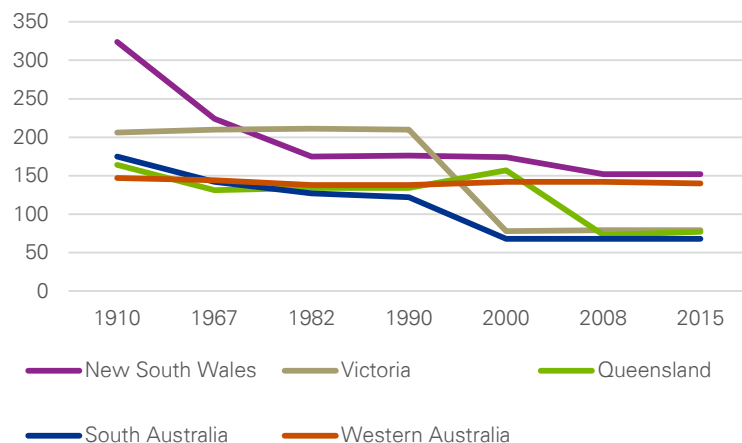


## 2. BACKGROUND Local Government Reform Experience in Australia

The local government sector in Australia has experienced significant change over the past century as advancements in technology and transport, combined with population growth and economic development, alters the role of the local government sector. Over this period, the number of local councils has declined significantly, from more than 1,060 in 1910, to 562 in 2015. Over the same period, the number of councils in NSW has more than halved from 324 to 152 in 2015.

Chart 2.1 illustrates the reduction in the number of local councils in Australia over the past century and the acceleration in this decline that has occurred since the 1990s.

Chart 2.1: Number of local councils in Australia, selected states (1910 – 2015)



Source: Aulich et al. (2011) and relevant state local government websites (2015)

A driving force behind the acceleration in the decline in the number of local councils in Australia has been merger-led reforms undertaken by a number of state governments.

### A changing landscape

These state government reforms to the local government sector have included:

- In 2008, the **Queensland Government** implemented wide-ranging local government reforms that included both forced and voluntary amalgamations and resulted in a reduction in the number of councils from 157 to 73. Restrictions were also introduced on local councillor positions, including requiring minimum qualifications in an effort to 'professionalise' the industry. In 2013, a number of local councils de-merged with the permission of the Queensland Government and led to an increase in the total number of local councils to 76 (Dollery 2010).
- In 1993, the **Victorian Government** commenced a broad reform program that led to a reduction in the number of councils from 210 to 78 through forced amalgamations. This included a halving of the number of metropolitan councils in Melbourne. Significant changes were also made to the governance structures of local councils.
- Over the 2012-15 period, the **Western Australian Government** investigated potential boundary reforms and mergers for Perth and offered financial assistance grants to encourage a reduction in the number of metropolitan councils from 30 to 16. However, in February 2015, the Government announced its local government reform program was on hold following strong voter opposition in ballots held for councils earmarked for amalgamation (WA Government 2015).

The recent experience of the Western Australian Government highlights the difficulties governments can face in justifying to local communities the rationale or potential benefits of council mergers. Further key insights from the Victorian and Queensland reform experiences are provided over page.



## 2. BACKGROUND Insights from Local Government Reform

### Insights from Victoria

The Victorian Government local government reform program brought about significant changes to the sector. A Victorian Government review of the reform post-implementation estimated the reforms helped contribute to a saving of \$323 million in 1995-96 stemming from efficiency gains (Hallem, 1996). However, more than 20 years post-reform, no comprehensive analysis of the net impact of the Victorian reform experience has been undertaken and, anecdotally at least, there are mixed views as to whether the reform was successful (Dollery 2010).

Nevertheless, there were key insights stemming from interviews and surveys with affected local councils. These include:

- the process for merging local councils was easier to plan and implement when each council was of a similar size (with respect to geography and population), and there was significant overlap in the type and level of services provided; and
- strong leadership at the local council level was required to carefully plan, design and implement successful mergers (Martin 1999).

From a financial performance perspective, recent reports from the Victorian Auditor-General indicate the local government sector is, on the whole, relatively sound and exhibits financial sustainability. For example, over the five-year period to 2014, an average of 89 per cent of local councils were determined to have a low risk rating with regard to financial sustainability (Victorian Auditor-General, 2014).

Given the Victorian Government's underlying reform objective at the time was to ensure the long-term financial sustainability of the sector, the recent Auditor-General's reports indicate that this goal is being broadly met. However, it is important to be mindful of other factors impacting the local government sector as well as the impact of the reforms on local representation, which saw the number of elected representatives reduced from a maximum of 21 to a maximum of 12.

### Insights from Queensland

The Queensland Government reforms to the local government sector in 2008 were also motivated by concerns in regard to the sector's financial sustainability. The process of relying on both forced and voluntary mergers led to wide-spread opposition to the reforms from key sector stakeholders as well as local communities across the state. In 2013, some five years after the reforms and consolidation of 157 local councils into 73, local communities in a number of districts voted to 'de-merge' to form new separate entities. This 'de-merger' was permitted by the state government on the basis of the councils being able to demonstrate financial sustainability and capacity to deliver the services and infrastructure local communities needed.

Following the implementation of the reforms, a 2009 survey by the Local Government Association of Queensland offered a number of insights:

- regional councils acknowledged that the merger had enabled them to attract better qualified and experienced staff;
- around 43 per cent of respondents cited efficiencies and/or stronger financial capability as the greatest benefit of the merger (along with improvements to planning and development outcomes);
- less than one-third of council CEOs believed there would be a net benefit from the mergers, with regional councils the least positive about the potential benefits;
- the key challenge with implementing reform was the difficulty in managing community expectations and perceived loss of cultural identity; and
- a displaced workforce and differences in organisational culture associated with merged council entities risked undermining the potential efficiency and productivity benefits of the reform (Dollery, 2010).



## 2. BACKGROUND Insights from Local Government Reform

### Insights from Queensland (continued)

A 2014 Queensland Audit Office (QAO) report into the local government sector offered some additional insights into the performance of local councils in Queensland. The QAO report found:

- 52 per cent of local councils had a low financial sustainability risk rating;
- 23 per cent of local councils that were audited were rated as being of 'high risk' of becoming financially unsustainable; and
- 25 per cent of local councils were assessed as being of 'moderate risk' of becoming financial unsustainable (QAO, 2014).

The QAO cited sustained operating losses, significant debt levels, poor asset management and inadequate expenditure on asset renewal as the key factors affecting local councils' financial sustainability in Queensland. In this context, the QAO report suggests that despite the 2008 reform initiative, the financial sustainability of local councils in Queensland remains mixed.



# 3. Approach





### 3. APPROACH Merger Business Case

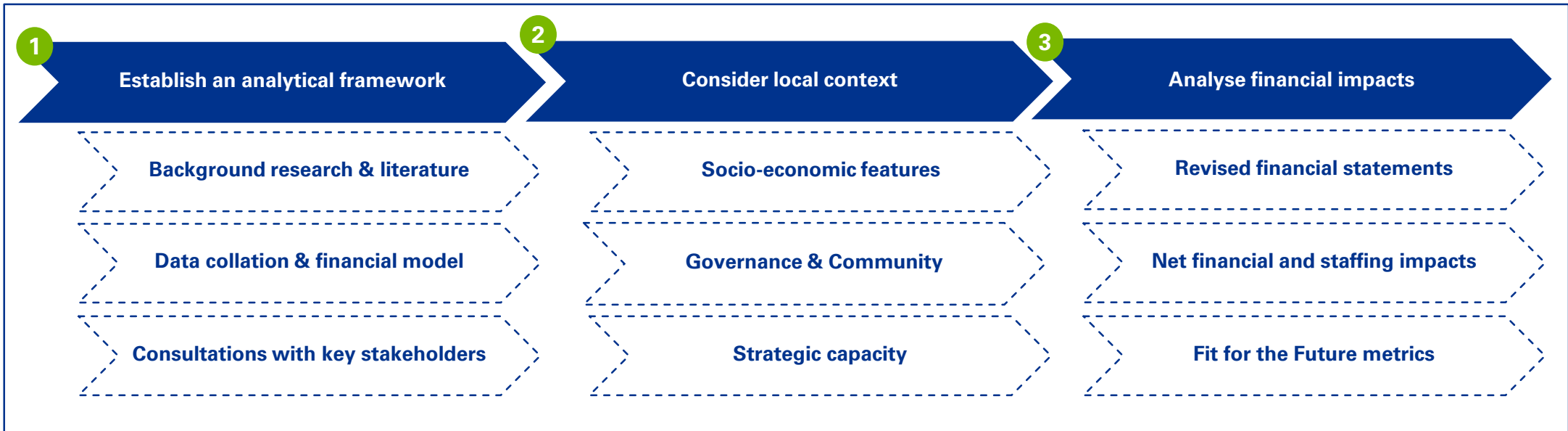
A Merger Business Case provides a high-level assessment of the potential impacts of merging Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council into a single council entity. An iterative approach to preparing the Merger Business Case has been prepared, consistent with the OLG guidelines and requirements.

Similarly, the approach to the Merger Business Case acknowledges the need to consider the local context in examining the financial, economic and community implications of a potential merger.

Figure 3.1 below outlines the iterative approach to building the Merger Business Case. Importantly, the High Plains forum – including the General Managers of the three councils – have been consulted regularly for the purposes of understanding local challenges, validating key modelling assumptions and finalising the report.

The following sections, over page, discuss the approach illustrated below in more detail.

Figure 3.1 Approach to building a merger business case



Source: KPMG



### 3. APPROACH Establish an Analytical Framework

#### Background Research & Literature Review

A brief analysis of relevant literature was undertaken to inform the approach to this Merger Business Case and consider the NSW reform context. The key insights from this literature review are outlined in Chapters 1 and 2 of this report, and focus on:

- the role and scale of local government in Australia and NSW;
- the reform experiences of other Australian jurisdictions' local government reform initiatives and lessons for the NSW context; and
- the NSW Government's *Fit for the Future* reform agenda with accompanying insights on the local government sector's financial sustainability (including how Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council were rated and assessed by TCorp).

#### Data Collation

To underpin a robust financial and economic analysis for the Merger Business Case, it was important to collate relevant data upon project commencement from published and unpublished sources. To achieve this, a data collation template was circulated to Bombala Council, Cooma-Monaro Council and Snowy River Shire Council.

This approach enabled the analysis to draw on current council data, including:

- balance sheet data;
- income statement data;
- cash flow statement data;
- staffing establishment data; and
- utility-related data (such as council's water and wastewater financial data).

Importantly, the data collation focused on separating each council's reported general funds from the utility-related financial statements. As the utility-related financial data primarily relates to fixed assets, it was agreed with councils to limit the Merger Business Case analysis to an assessment of the likely merger impacts based on the general funds only. In addition, the core assumptions underpinning each council's LTFPs were incorporated into the data analysis, including:

- factors impacting council revenues and expenditures (such as growth in land values, change in population base and access to external grants);
- depreciation methods relating to asset management;
- calculations relating to asset replacement and capital expenditure; and
- relevant debt exposures and related interests rates and repayment options.

A data cleansing exercise was also undertaken to ensure like-for-like comparisons across councils. This was required due to the slightly differing approaches councils take to reporting functions (such as estimating infrastructure depreciation) and staff categories (such as allocating FTEs across 'governance' and 'administration' categories).

#### Consultations

Regular consultations were held with the High Plains forum – representing the General Managers of the three councils – to appraise project status updates and co-ordinate feedback and input from key stakeholders. In addition, at project commencement, in-person consultations were held collectively and separately with representatives from each council. These consultations offered an opportunity to confirm project scope as well as better understand each council's operating model, local challenges and related priorities and strategies. The High Plains forum was also consulted to test and validate key modelling assumptions.



### 3. APPROACH Consider Local Context

While often a Merger Business Case focuses on the potential financial and economic impacts of council mergers, equal consideration should be given to those non-financial factors and impacts that are not able to be monetised but are often just as important from the community's perspective.

To achieve this, it was necessary to analyse and examine the profile of each of the councils and the communities they represent. This is particularly important given that, in recommending the merger, the Review Panel offered little insight or specific rationale for why Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council should merge.

As part of this Merger Business Case, it was therefore considered important to compare and contrast the profiles of the region and identify potential impacts from a merger. This analysis will consider the following inputs summarised below.



**Socio-economic features:** Statistical analysis of the socio-economic and demographic characteristics of the region was conducted with comparisons, where appropriate, to the NSW state-wide average as a point of reference. The analysis included an overview of the key industries underpinning each council's local economy and indicators of the scale and size of the local economy relevant to council operations.

Socio-economic features offer important insights into a council's capacity to raise revenue and also provide an indication of the type and level of services and infrastructure a community may need. Key sources for this analysis were largely drawn from publically available and verifiable data, including the Australian Bureau of Statistics.



**Community priorities:** Drawing on each of the council's community strategic plans, a snapshot of the challenges and priorities each council has identified was provided with a view to comparing and contrasting how these priorities may be impacted by a potential merger.



**Governance and council operations:** The impacts of a merger on local representation were assessed in light of the important role local councils have in advocating for local community interests. A brief overview of council operations – especially in relation to revenue and expenditure profiles – was also prepared to identify key similarities and differences between each of the three councils. This includes access to Commonwealth Financial Assistance Grants and a breakdown of cost of service delivery across councils.

The key sources underpinning this analysis were primarily received from councils, including long term financial plans (LTFPs) and related financial statements.



**Strategic capacity:** The concept of 'strategic capacity' is a core element of the NSW Government's *Fit for the Future* reform initiative. This Merger Business Case therefore provides an opportunity to demonstrate how each council meets the strategic capacity framework outlined by the NSW Government. Input to this analysis was drawn solely from the contributions of each of the councils – drawing on each council's intimate understanding of how respective day-to-day functions and long-term strategic planning meet these requirements.



### 3. APPROACH Analyse Financial Impacts

Drawing on the existing LTFPs of the three councils as the 'base case', the analysis underpinning the Merger Business Case provided a series of quantitative and qualitative insights into the economic and financial impacts of the merger. This analysis is outlined below.

#### Revised financial statements

Financial modelling provided an estimate of the costs and benefits of the proposed merger – including a high-level assessment of the expected savings generated by staffing and expenditure efficiencies and the associated merger costs. Analysis of previous experiences in local government reform, in conjunction with consultations with the three councils, formed the basis for supporting assumptions used within the ten year financial and economic analysis. These assumptions are outlined over page.

The financial modelling enabled the existing income statements for the three councils to be presented and compared with the revised income statement of the proposed merged entity.

#### Staff impacts

Given the significant role local councils play in regional NSW as a local employer, the economic and financial analysis considered the detailed staffing data (by council function). The proposed merger is likely to offer modest efficiency gains through the elimination of duplicated employee functions – these are expected to be focused in 'back-office' and 'management' roles as it is likely the merger will have minimal impact on frontline service roles given the geographic size of the region.

A revised staff profile of the merged entity is provided to give an insight of the assumed overall net FTE reduction stemming from a merger.

#### Net financial impacts

A series of headline indicators are provided relating to the estimated net financial impact of the proposed merger. These indicators are consistent with NSW Treasury guidelines for conducting a business case analysis as well as the Merger Business Case framework established by the OLG for the *Fit for the Future* reform initiative. These headline indicators include:

- an estimated net financial impact of the proposed merger in net present value (NPV) terms measured over a ten year period from 2014-15;
- an estimated net financial impact of the proposed merger measured as an improvement in the merged entity's net operating revenue over a ten year period from 2014-15; and
- an estimated net financial impact of the proposed merger when accounting for the NSW Government's *Fit for the Future* financial assistance to support implementation costs associated with council mergers.

#### Fit for the Future benchmarks

The economic and financial impact analysis also needs to be considered in the context of the NSW Government's *Fit for the Future* performance benchmarks. Analysis of each council's performance against the *Fit for the Future* benchmarks is conducted for the 'base case' (no merger) and compared with the performance of the merged entity against the same benchmarks.

Appendix B outlines what each *Fit for the Future* benchmark is seeking to measure and any associated limitations.



### 3. APPROACH Merger Business Case Assumptions

#### Detailed assumptions

The costs and efficiencies stemming from a possible merger of the three councils are based on a number of assumptions that have been informed by council amalgamations from domestic and international experiences. The assumptions underpinning this analysis are based on post-merger results to ensure that the report is founded on actual ‘lived’ experiences and not based on the purported benefits that are often cited by proponents of mergers.

Table 3.1: Merger business case assumptions

Assumptions	Case Study Benchmark	Assumption Adopted	Rationale
<b>Operational efficiency</b> (Materials and contracts)	Auckland Regional Council amalgamation (2009) resulted in an efficiency saving of 3 per cent on Material and Contract-related expenses.	A 1.5 per cent saving on Materials and Contracts expenses has been applied to the potential merged council.	This assumption represents a conservative estimate of potential savings that would be generated through economies of scale in council procurement. These savings are limited by the size of the region and recognise that efficiencies have already been achieved collectively by the councils, including through South East Regional Organisation of Councils (SEROC).
<b>Operational efficiency</b> (Other expenses)	Auckland Regional Council amalgamation (2009) resulted in an efficiency saving of 3 per cent on other operational expenses.	A 1.5 per cent saving on Other expenses has been applied to the potential merged council.  Other expenses include other operational expenses such as electricity, heating, telephone, communications and insurance.	This assumption represents a conservative estimate of potential savings that would be generated through economies of scale in other costs including overheads. These savings are limited by the need to maintain frontline service delivery to a large geographic region and acknowledge limited scope for facility consolidation.
<b>Staff reductions</b> (Total)	Auckland Regional Council amalgamation (2009) resulted in a 16 per cent reduction in council staff.	The total reduction in council employees has been estimated to be approximately 6 per cent on a FTE basis.  <b>Note:</b> <i>Casuals are not included in the analysis as their use is assumed to be on an ‘as needed’ basis. The base case budgeted expenditures for Councils are assumed to already incorporate these costs.</i>	The reduction in FTEs reflects the potential reductions, with guidance from each council, across the following functions: <ul style="list-style-type: none"> <li>■ Corporate services;</li> <li>■ Environmental services; and</li> <li>■ Engineering services.</li> </ul> <b>Note:</b> <i>The staffing reductions serve to illustrate potential savings from a merger and represent management decisions based on resourcing and capabilities. The location of employees in the merged entity was not part of the analysis.</i>



### 3. APPROACH Merger Business Case Assumptions

Table 3.1: Merger business case assumptions (continued)

Assumptions	Case Study Benchmark	Assumption Adopted	Rationale
<b>Staff reductions</b> (Corporate support)	The Toronto Council amalgamation (1998) resulted in the following reductions in corporate support functions: <ul style="list-style-type: none"> <li>■ 14 per cent reduction in administration and corporate support functions;</li> <li>■ 34 per cent reduction in management positions; and</li> <li>■ 60 per cent reduction in executive management positions.</li> </ul>	The following reductions in corporate support FTEs have been applied: <ul style="list-style-type: none"> <li>■ Finance – 8 per cent reduction;</li> <li>■ Administration – 15 per cent reduction;</li> <li>■ HR – 8 per cent reduction;</li> <li>■ IT – 8 per cent reduction;</li> <li>■ Governance – 38 per cent reduction;</li> <li>■ Economic development – no reduction; and</li> <li>■ Library – no reduction.</li> </ul>	The conservative reductions applied across certain functions reflect the nature of these roles in a regional council environment.  It is acknowledged that certain functions (such as administration and governance) perform duplicated roles across the three councils. Others, such as HR and IT, could be enhanced as opposed to reduced in the event of a council amalgamation.
<b>Staff reductions</b> (Environmental services)	Auckland Regional Council amalgamation (2009) resulted in a 16 per cent reduction in council staff.	The following reductions in environmental service FTEs have been applied: <ul style="list-style-type: none"> <li>■ Regulatory control – no reduction;</li> <li>■ Building – no reduction;</li> <li>■ Cemeteries – no reduction;</li> <li>■ Community services – 2 per cent reduction;</li> <li>■ Noxious weeds – 2 per cent reduction;</li> <li>■ Planning– 13 per cent reduction;</li> <li>■ Public health – 2 per cent reduction; and</li> <li>■ Waste management – 2 per cent reduction.</li> </ul>	These reductions reflect the front line services provided by the environmental service staff. Any efficiency gains are estimated to be achieved through reduction in duplicated activities. These gains are to be generated with no adverse impact to the services provided to the community.  The role of planning was considered to be similar across the three councils which could potentially provide greater efficiencies in the event of a council amalgamation.



### 3. APPROACH Merger Business Case Assumptions

Table 3.1: Merger business case assumptions (continued)

Assumptions	Case Study Benchmark	Assumption Adopted	Rationale
<b>Staff reductions</b> (Engineering services)	Auckland Regional Council amalgamation (2009) resulted in a 16 per cent reduction in council staff.	The following reductions in engineering services FTEs have been applied: <ul style="list-style-type: none"> <li>■ Recreation – 5 per cent reduction;</li> <li>■ Roads – 2 per cent reduction;</li> <li>■ Sale yards – no reduction;</li> <li>■ Plant operations – 10 per cent reduction;</li> <li>■ Wastewater services – no reduction;</li> <li>■ Water supply– no reduction;</li> <li>■ Asset management – 6 per cent reduction; and</li> <li>■ Engineering general – 14 per cent reduction.</li> </ul>	These reductions reflect the front line services provided by the engineering service staff. An amalgamation of engineering operations is conservatively estimated to reduce engineering management staff and reduce duplication between regional centres.  Roads, water and wastewater engineering services are considered critical given the importance of these assets and the responsibilities in regional centres.
<b>Upfront cost of merger</b>	The Toronto Council amalgamation (1998) experienced total upfront costs of approximately 4.7 per cent of total annual expenditure.	4.7 per cent of budgeted total annual expenditure of General Funds in 2014-15 for each council has been calculated as the upfront cost of the potential amalgamation.	This estimate is in line with the case study benchmark and captures the costs of facility and IT consolidation and retraining of staff.
<b>Redundancy costs</b>	NSW Fair Work Ombudsman (2014), <i>Redundancy pay and entitlements schedule</i> has been used as part of the calculation.  Median NSW local government staff turnover rate of 11 per cent in 2012-13.	An 8 per cent turnover rate has been used to calculate the average tenure of employees with their respective councils.  Tenure and Fair Work Commission employment terms have been used to calculate the average redundancy payment and entitlements per functional staff.	8 per cent turnover rate was selected based on guidance from councils.  This methodology allows for redundancy and entitlement payments to be consistently calculated for each council based on the average salary of FTEs by function and expertise.
<b>Redundancy timing</b>	Forced redundancy delay of three years in NSW local government.	Only 25 per cent of staff efficiencies achieved in first three years through natural attrition.	Some positions, e.g. managerial, may voluntarily resign before redundancy.

Source: KPMG in consultations with councils.



## 4. Local Context





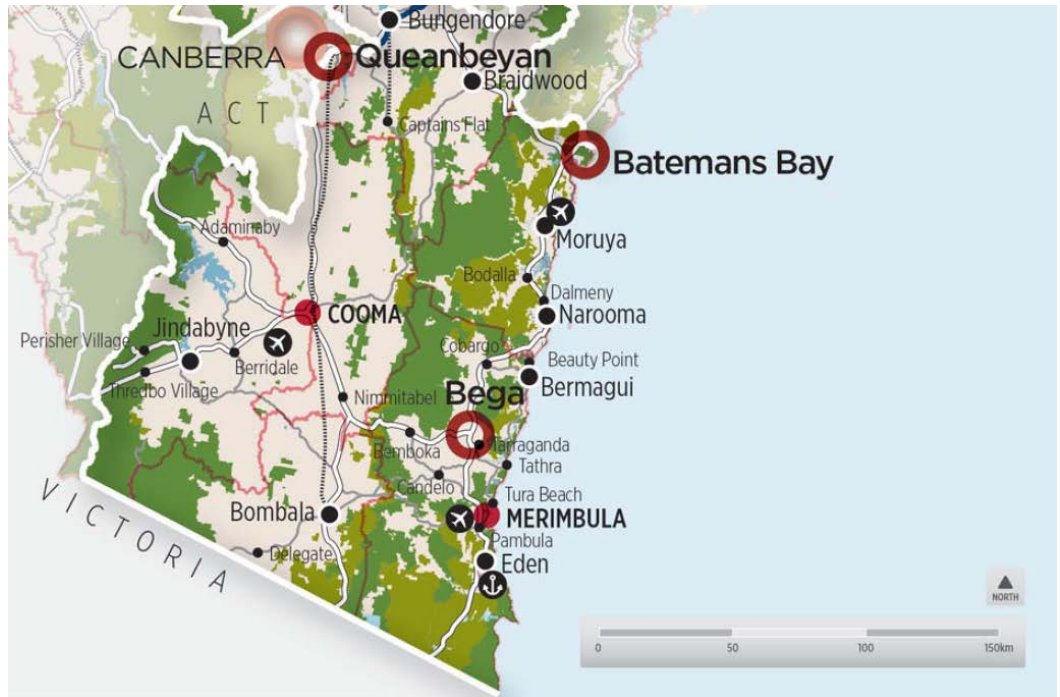
## 4. LOCAL CONTEXT Introduction

### Introduction

The Local Government Areas of Bombala, Cooma-Monaro and Snowy River are found in the diverse South East NSW Region with the Snowy Mountains of Kosciusko National Park, the state of Victoria, NSW's South Coast and the Australian Capital Territory as neighbours. This section highlights the potential impacts of a merger across four key areas, including socio-economic characteristics, community priorities, local representation and council operations.



Figure 4.1: South East NSW Region



Source: South East NSW Regional Action Plan (2014)



## 4. LOCAL CONTEXT Socio-Economic Features

### Demography

Slow growth or declining population, especially of a working age, combined with a rapidly ageing population, are among the most pressing challenges facing Bombala Council, Cooma-Monaro Shire Council and, to a lesser degree, Snowy River Shire Council. Chart 3.1 illustrates that Snowy River has a higher proportion of residents between the ages of 15 to 54 and conversely, a lower proportion of residents over the age of 55. While Cooma-Monaro Shire Council and Snowy River Shire Council have similar proportions of young people aged 0 to 14, Bombala has a significantly higher weighting towards the 55 and older age bracket.

The implications for local councils of an older population may include increased health and social expenditures and a reduction in certain types of economic activity. However, there are opportunities for local councils to accommodate this aged growth by shifting services and economic priorities and attracting new residents to the region.

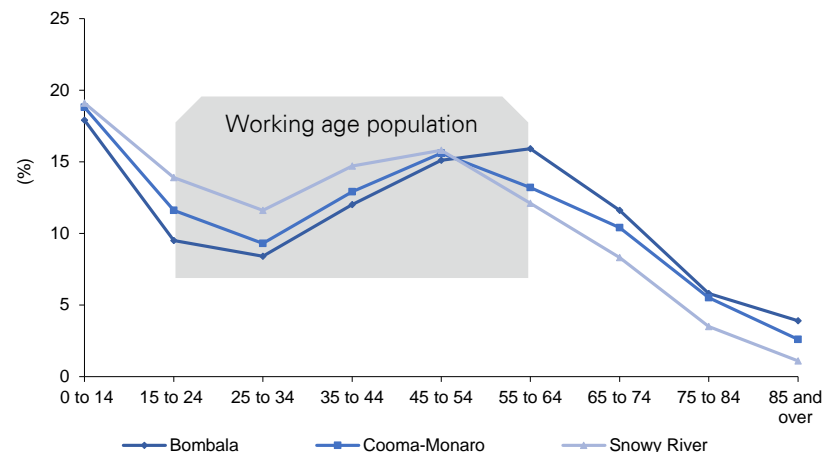
As outlined in Table 4.1, based on projections from the NSW Department of Planning and Environment, none of the councils are anticipating growth above one per cent annually to 2031. This will impact the ability of councils to raise revenue to provide new services.

### Density and distance

The High Plains region is often characterised as low density with low population numbers and large distances between regional centres. Population density for each council area is well below the NSW average of 9.1 persons per km<sup>2</sup> with Bombala being the least dense at 0.6 persons per km<sup>2</sup> and Cooma-Monaro the most dense at 2.0 persons per km<sup>2</sup>. This also means that each council must maintain between 750 to 1,000 kilometres of local, regional and state roads with limited resources.

Source: ABS (2013), National Regional Profile – Local Government Areas, OLG (2014), Comparative information on NSW Local Government 2012-13

Chart 4.1: Distribution of population by age group



Source: ABS (2013), National Regional Profile – Local Government Areas

Table 4.1: Key demographic indicators

	Bombala	Cooma-Monaro	Snowy River	NSW
Population at 30 June 2013	2,401	10,073	8,087	7,410,399
Growth to 2031 (annual %)	-0.6%	0.3%	0.5%	1.2%
Growth to 2031 (total %)	-11.0%	5.9%	11.1%	27.8%
Median age	47	43	39	38
Working age population (%)	61%	63%	68%	66%

Source: ABS (2013), Estimated Resident Population, Local Government Areas, New South Wales, Cat. No. 3218.0, Department of Planning and Environment (2014), New South Wales State and Local Government Area Population Projections



## 4. LOCAL CONTEXT Socio-Economic Features

### Economy

Developing and diversifying the local economy is a key focus for all three councils.

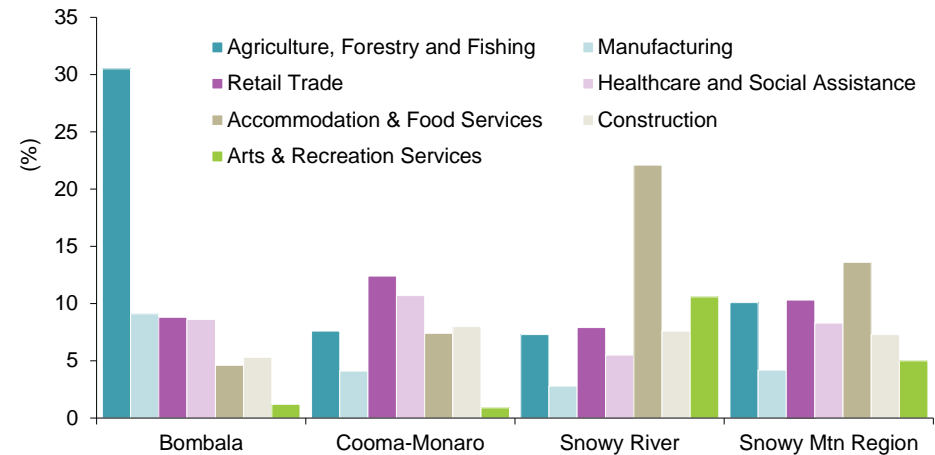
As illustrated in Chart 4.2, the economies of Bombala Council and Snowy River Shire Council are both dominated by one industry. More than one in four Bombala residents are employed in either agriculture and forestry and more than one in five Snowy River residents are employed in accommodation and food service.

Cooma-Monaro Shire Council, with a higher population centre, has a more diverse industry base with retail trade and health and social assistance related industries each accounting for more than one in ten jobs.

Table 4.2 compares key economic indicators across the three councils as well as the average rates payable for residential dwellings, commercial property and farmland. There are significant variations in the rates payable across the region which reflects a determination by each council of where it can reasonably raise revenue. The variations in average rate payments across the region also mirror the differences in the local economic and industry profiles.

Merging the three councils may have an impact on the initiatives and options available to a merged council entity to support and foster employment growth and spur development. For example, the differences in the economic profile across the sub-regions may make it difficult for a merged council entity to implement a tailored strategy or policy (such as for building approvals) that meets the needs of the broader region and accommodates regional diversity.

Chart 4.2: Employment by industry



Source: ABS (2013), National Regional Profile – Local Government Areas

Table 4.2: Key economic indicators and rates

	Bombala	Cooma-Monaro	Snowy River	NSW (average)
Employment	1,094	4,485	3,871	-
Unemployment (%)	3.8	4.7	2.1	5.9
No. of businesses	405	1,167	971	-
Residential rates (avg. pmt)	\$509	\$743	\$633	\$712
Business (avg. pmt)	\$873	\$4,090	\$1,767	\$2,693
Farmland (avg. pmt)	\$2,105	\$1,101	\$1,346	\$2,195

Source: ABS (2013), National Regional Profile – Local Government Areas, OLG (2014), Comparative information on NSW Local Government 2012-13







## 4. LOCAL CONTEXT Socio-Economic Features

### Socio-economic advantage

The Australian Bureau of Statistics (ABS) collects a wide range of social and economic indicators on the Australian population. For ease of comparison, the ABS prepares a composite index on a range of topics, including broad socio-economic profiles. This is known as the 'index of relative socio-economic advantage and disadvantage' (or IRSAD). A high index score indicates more advantage than disadvantage by measuring factors such as households with high incomes or residents with skilled occupations. A low index score may indicate the opposite or such factors as individuals with a long term health condition or disability, unemployment or low levels of educational attainment.

While the three councils perform near the state average (see Chart 4.3), the variations across the region would suggest certain disadvantages exist that are specific to each locality. Table 4.3 and Table 4.4 provide a summary of the housing profile and selected social indicators that highlight some socio-economic differences that a merged council entity would need to manage with targeted programs and services for each region.

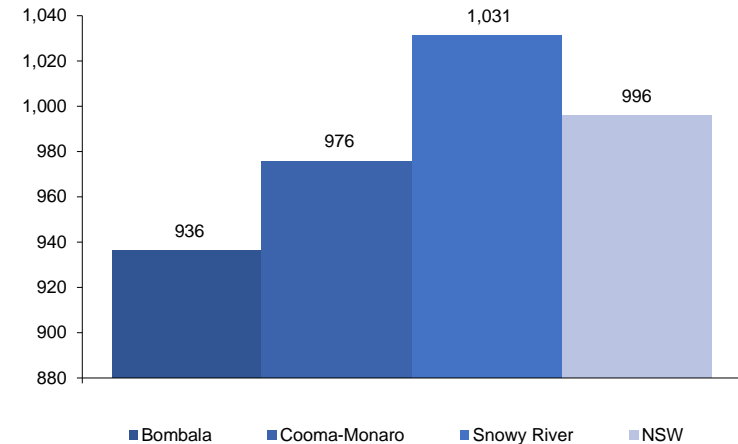
Table 4.3: Housing costs

Average monthly:	Rent	Mortgage	
Bombala	\$1,002	\$1,118	
Cooma-Monaro	\$849	\$1,449	
Snowy River	\$2,234	\$1,795	
NSW	\$1,442	\$2,185	

0% 100%  
 ■ Own outright  
 ■ Own with mortgage  
 ■ Rent

Source: ABS (2011), Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA).

Chart 4.3: Index of relative socio-economic advantage and disadvantage



Source: ABS (2011), Local Government Area Index of Relative Socio-Economic Advantage and Disadvantage, Cat. No. 2033.0

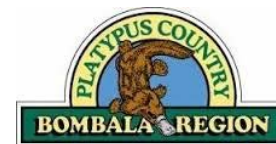
Table 4.4: Key social indicators

	Bombala	Cooma-Monaro	Snowy River	NSW (average)
Median income (personal)	\$24,024	\$27,768	\$32,968	\$29,172
Post school qualifications (%)	45.0	56.7	64.0	57.2
Families with dependent children (%)	39.7	43.2	46.9	47.6
Aged 65 and over (%)	21.3	18.5	12.9	14.9
IRSAD NSW Rank	45 / 152	95 / 152	123 / 152	n/a

Source: ABS (2013), National Regional Profile – Local Government Areas, ABS (2012), Census of Population and Housing – Usual Residents



## 4. LOCAL CONTEXT Community Priorities – Bombala Council



### Introduction

Bombala Council's last Community Strategic Plan update was completed in May 2013 and serves as a reference point for feedback from the community and specific initiatives to address concerns from Bombala's towns and localities.

### Community priorities

#### *Health and social services*

Health and access to medical professionals was a top priority for five of Bombala's eight towns and localities.

#### *Roads and infrastructure*

Seven of eight localities noted road maintenance and improvements were necessary while community infrastructure (halls and sportsgrounds) was also a common theme. Other infrastructure needs cited included upgrades to water and sewer and communications technology (mobile and emergency coverage).

#### *Economic development (particularly through tourism)*

Supporting the diversification of the economy and encouraging tourism were also high priorities for the area.

#### *Environmental management*

Many towns and localities mentioned climate change adaptation, noxious weeds control and land use planning (balancing forestry and agricultural land) as important considerations, especially due to the heavy reliance of the council area on primary industries.

### Council actions

Bombala Council has consolidated feedback and developed a strategy to help achieve the community's vision of:

- a strong, diverse and sustainable local economy that supports employment within the agricultural, forestry and tourism sectors and develops opportunities within niche markets;
- maintaining and improving local services with an emphasis on increased doctor numbers and provision of a dental service;
- providing quality well maintained infrastructure including roads, footpaths, water and sewer services, community buildings and recreational spaces;
- providing improved communication systems, particularly mobile telephone coverage and emergency communications;
- maintaining the high quality natural environment with an emphasis on control of weeds and pests; and
- sustaining current bio diversity of the area and ensuring self-determination of land use.

While it is not council's responsibility to deliver every aspect of the plan, it plays an important role in documenting and monitoring the key priorities of the region and engaging with the responsible state and federal stakeholders on behalf of the community.

Council has allocated funding towards additional road and footpath improvements, is undertaking an Integrated Water Cycle Management Plan and community engagement on local water supply and is supporting development of a new mill in Bombala. A wind farm opportunity is being explored and lobbying for additional medical professionals is still in progress.

Source: Bombala Council (2013), Integrated Community Strategic Plan (2014/2024)



## 4. LOCAL CONTEXT Community Priorities – Cooma-Monaro Shire Council



### Introduction

Cooma-Monaro's Community Strategic Plan was completed in 2012 and subsequently endorsed by the newly elected councillors in 2012 to serve as the blueprint for the 2014-2024 community strategy. Cooma-Monaro Council serves the localities of Cooma, Bredbo, Michelago, Nimmitabel, Numeralla and Smiths Road and states its vision is to "encourage healthy, vibrant communities that value and retain our unique social and natural environment while promoting growth and responding to the needs and aspirations of the community."

### Community priorities

The community engagement process identified six themes through which to view community priorities.

#### *Community Life*

The importance of health and social services, safety, diversity and accessibility are captured under this theme. While many already acknowledge the positive environment, the retention of young families through the provision of more diverse services is identified as important to maintaining the culture of the area.

#### *Environment for Living*

Maintaining the pristine landscapes for future generations is a noted priority for residents young and old in the area. Properly maintaining water and encouraging renewable energy are ways in which council can address these concerns.

#### *A Prosperous Shire*

The community identified a number of opportunities for promoting economic prosperity in the region, including agriculture, tourism and services. Partnering with education providers and offering more local traineeships may also help retain youth.

#### *Community Connections*

Improved transport infrastructure is a common need for residents who often travel long distances for work or shopping. Roads are often heavily utilised by tourist visitors to the region and therefore require more attention to traffic flow and maintenance. Other non-transport infrastructure, such as water, sewer and telecommunications, was also cited as important to the community.

#### *Functional and Attractive Places*

Well-maintained recreational and community facilities, along with aesthetic appeal, are key to attracting new residents and welcoming visitors to the area.

#### *Civic Leadership*

Red tape reduction and community engagement were key concerns with regards to civic leadership. Many felt there was scope for council to do more in partnering with local communities and state agencies to progress the local government area's development.

### Council actions

- *Community Life* – increase the number of community events and organisations.
- *Environment for Living* – improve sustainability of energy, water and waste usage.
- *A Prosperous Shire* – increase tertiary education / training and tourism development.
- *Community Connections* – improve public transport connections.
- *Functional and Attractive Places* – support town development and revitalisation.
- *Civic Leadership* – respond to community feedback regarding rates review.

Source: Cooma-Monaro Shire Council (2012), Community Strategic Plan (2014/2024)



## 4. LOCAL CONTEXT Community Priorities – Snowy River Shire Council

### Introduction

Snowy River's last Community Strategic Plan update was adopted by council in June 2013 to reflect the community vision of "a caring community in a unique environment with a prosperous future".

### Community priorities

#### *Sustaining our environment for life*

The community expressed concern about water and energy use, as well as increasing levels of greenhouse gas emissions and waste. Other environmental challenges, such as weeds and pests that threaten agricultural production and natural assets, were highlighted as well.

#### *Expanding connections within the Shire and beyond*

The community noted that transport plays a role in the connection people feel to their community but also can be leveraged as a strategy for year round tourism. Roads and footpaths for active transport, public transport infrastructure and communications infrastructure were cited as important to community connections.

#### *Strengthening our local economy*

It is widely recognised that a tourism focused economy is highly seasonal (winter) and it is difficult to retain people without a diverse job market.

#### *Creating a safer, healthier and thriving community*

Health, ageing and youth services, are highly important to the area. Snowy River has a younger population than the rest of the region but it is rapidly ageing and often difficult to retain young families without quality healthcare and youth services.

Source: Snowy River Shire Council (2013), Community Strategic Plan 2032

#### *Enhancing our active lifestyle*

The region naturally attracts residents who enjoy outdoor activities. These residents also note that there is a wide range of opportunities to develop this as a core offering of the area to residents and visitors alike.

#### *Managing development and service delivery whilst retaining what we value*

The value of the region is still untapped but the community feels the heritage and amenity of the Shire should be carefully managed. The community would like more consultation in areas of development and in relation to costs associated with water and sewer upgrades.

#### *Providing effective civic leadership and citizen participation*

The community recommended the council continue its strong performance but to also look beyond ratepayers for additional sources of income.

### Council actions

Some of the council activities to address some of the more salient concerns include:

- establishing an internal Green Team on sustainability issues and the development of an Ecological Sustainability Policy ENV-019 to guide its decision-making and action;
- increasing year-round availability of public transport between all Shire villages, to and from Canberra, Sydney, and the Coast;
- supporting tourism year round through events and investment and partnering with local business and government agencies to explore other opportunities;
- advocating for improved health services and supporting active living organisations and groups.





## 4. LOCAL CONTEXT Community Priorities – Potential Merger Impacts

### Community Strategic Plan – Similarities and differences

Many of the community concerns were common across the region and there may be opportunities stemming from a merger to consolidate resources and build stronger capacity in serving the community. However, it would not be prudent to infer that there would be consensus on the top priorities and allocation of a merged council's investment and resources.

### Environmental management

Each council stresses the natural environment as an important part of the community identity. Concerns around water and energy usage are potential areas that could benefit from a consolidated approach – both from an engineering services perspective and in promoting sustainable business practices. A larger council may also have more influence in achieving grants for noxious weeds and pest control.

### Small town voice

Each Community Strategic Plan references consultations with rural communities and villages. The attention paid to small communities is highly valued by residents and a merged council may be inclined to undertake more aggregation of areas than under the previous structure. There are also initiatives targeted at town centre revitalisation that may receive investment at the expense of smaller localities.

### Health and social services

All three councils cite ongoing advocacy for funding to improve health and social services. A larger council may have additional influence as a partner with state and federal agencies and would be entrusted to design and lead the implementation of services that are equitable in meeting the needs of residents.

### Transport infrastructure and connections for residents

Road maintenance and management of footpaths are common concerns of residents who commute daily across the region. A merger may lead to better regional planning of roads and traffic management. Another frequently cited issue was the lack of public transport opportunities to travel between communities and urban centres without a vehicle. Councils already cooperate on this where possible, but a merged entity may have a difficult decision to make with regard to any long term service delivery.

### Infrastructure

The infrastructure backlog is a challenge facing all three councils. While combining does not address the shortfall, it does provide opportunities to share assets and resources to efficiently and effectively manage water and sewer needs. Other infrastructure, such as recreation facilities and sports fields, may also benefit.

### Local economic development

All councils have commitments to encourage business growth and increase employment in their areas. A coordinated regional approach, combined with a supportive rate regime and infrastructure, may provide a more attractive environment for economic growth.

Tourism is frequently cited as an industry that would benefit from more regional collaboration, though it should be noted that Bombala is focused on bringing tourists through from the Coast while the other two councils are aligned with the Snowy Mountains.

There is concern that sectors of focus for each council will receive less attention under a merged council and that any potential loss of employment will have compounding impacts on the region's economy.



## 4. LOCAL CONTEXT Governance and Council Operations

### Local governance

NSW councils have some discretion in how they govern their areas, for example, how many councillors, electoral wards and whether the mayor is elected or appointed. Councillors are elected for a fixed four year term with the most recent election held in September 2012. A merger of councils would have to be agreed prior to the next NSW Local Government election in 2016 so that governance arrangements, including councillor numbers, could be confirmed.

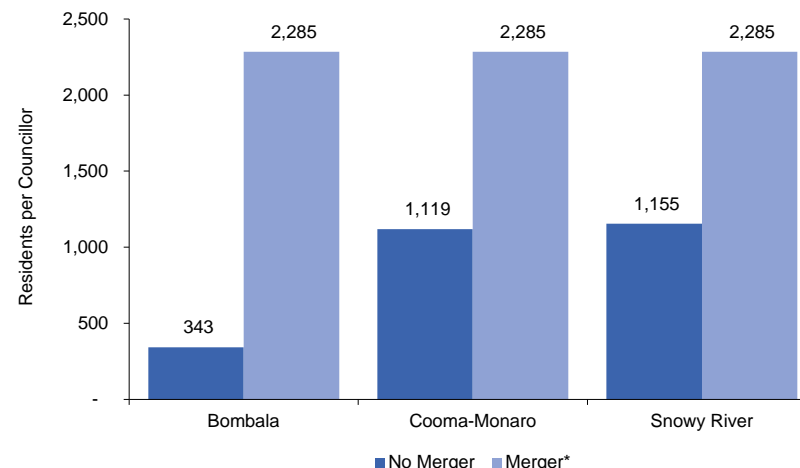
Table 4.5 provides a brief snapshot of the governance arrangements for the three councils. Cooma-Monaro Shire Council has the most number of elected councillors (at nine) while Bombala Council and Snowy River Shire Council both have seven elected councillors. Bombala Council is the smallest council on a FTE basis.

### Local representation

Local councils, as their name suggests, are often the most accessible level of government. Local councils represent a much smaller number of residents than state or federal representatives. By merging into a larger council, the number of residents (on average) a councillor may represent increases.

Chart 4.4 demonstrates this growth in the number of residents per councillor under a potential merged structure. For residents of Bombala Council, the resident to councillor ratio would increase more than six-fold. For residents of Cooma-Monaro Shire Council and Snowy River Shire Council, the resident to councillor ratio would double.

Chart 4.4: Impact of merger on resident to councillor ratio



\*Assumes that nine councillors are maintained for new merged entity.

Source: KPMG analysis using Estimated Resident Population, Local Government Areas, New South Wales, Cat. No. 3218.0

Table 4.5: Key governance indicators

	Bombala	Cooma-Monaro	Snowy River
Councillors (no.)	7	9	7
Mayor elected or appointed	Appointed	Appointed	Elected
Full-time equivalent staff	48	160	139

Source: Financial Statements 2013-14 – Bombala, Cooma-Monaro, Snowy River

Source: Local council websites – Bombala, Cooma-Monaro and Snowy River, Electoral Commission NSW (2015), Monaro, AEC (2013), Profile of the electoral division of Eden-Monaro (NSW),



## 4. LOCAL CONTEXT Governance and Council Operations

### Council finances

To meet the needs of the community, local councils raise revenue through rates, various charges, user fees, grants and contributions and other revenues (such as rental income). With the exception of Cooma-Monaro Shire Council, grants and contributions make up the single largest proportion of revenues and, in aggregate, make up over 40 per cent of the region's revenue (see Chart 4.5).

All three councils anticipate an annual net operating loss in their long term financial plans (LTFP) to 2024 and should look to improve 'own source revenue'. The Commonwealth and states continue to review the overall delivery of financial assistance grants to enhance financial sustainability. Reliance on external financial assistance remains an ongoing concern for the three councils.

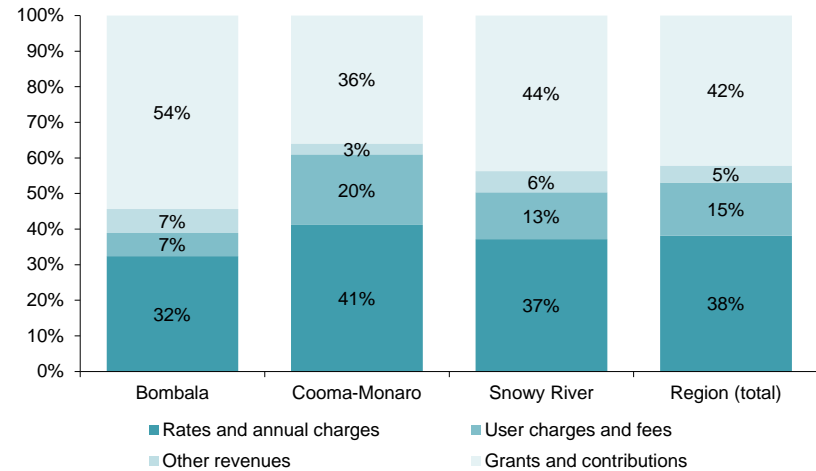
### Financial Assistance Grants

A number of NSW regional councils rely heavily on grants to maintain vital community services. The Commonwealth allocates funds to each state which then distributes grants based on need. A recent indexation freeze was introduced by the Commonwealth which means the total funding pool available will, in real terms, be worth less each year. This impact can be seen in Chart 4.6 which outlines the recent allocation of grants as it relates to Bombala, Cooma-Monaro and Snowy River in 2014-15.

The National Principles for the Allocation of Grants does state however that, should a merger occur, there would be no disadvantage as it relates to grant distributions for a period of four years. Therefore a merged entity would, at least in the short-to-medium term, continue to receive the same overall sum of grants based on allocation models used for each of the three council areas.

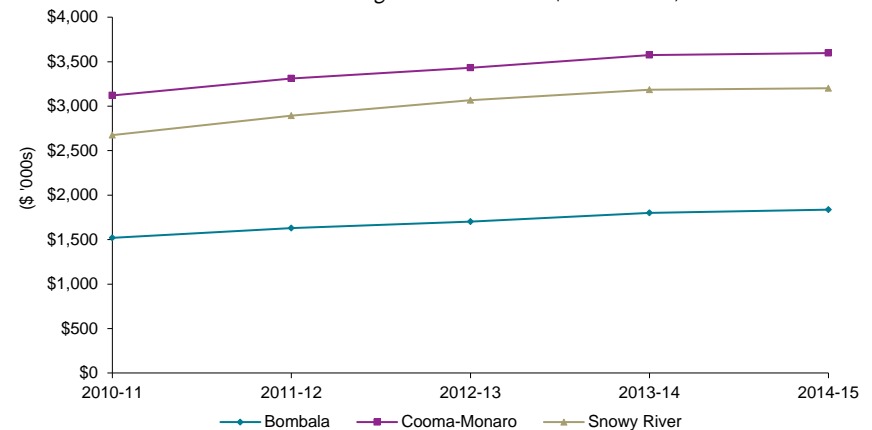
Source: Commonwealth Grants Commission (2015), Local Government Inquiry, ABC (2014), *Freeze on local government grants to dominate annual assembly*, 16 June 2014, Commonwealth DIRD (2014), National principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995.

Chart 4.5: Council sources of revenues (2014-15)



Source: LTFP (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council

Chart 4.6: NSW financial assistance grant allocations (2010-2015)



Source: OLG (2015), Table of financial assistance grants



## 4. LOCAL CONTEXT Governance and Council Operations

### Council expenditures

While each Council structures its operations slightly differently, the councils all provide a range of similar services to their communities. Council divisions include:

- **Bombala Council** – Corporate Services, Engineering Services, Regulatory Services, Economic Development and Office of the General Manager.
- **Cooma-Monaro Shire Council** – Corporate Services, Engineering Services, Environmental Services and Office of the General Manager; and

- **Snowy River Shire Council** – Corporate Services, Technical Services and Operations, Community and Environmental Services and Governance and Executive Services.

Table 4.6 below provides an outline of the distribution of each council's expenditure across service functions with the regional average provided as a reference point. Due to different classification of service functions by councils and the timing selected (2012-13), the comparison of expenditure across councils should be approached with caution. However, where a council's reported expenditure is significantly above or below that reported by others, the data is set out in bold.

Table 4.6: Service expenditures as a proportion of total expenditures and per capita (2012-13)

Service function	Bombala		Cooma-Monaro		Snowy River		Region (avg)	
	% of total	per capita (\$)	% of total	per capita (\$)	% of total	per capita (\$)	% of total	per capita (\$)
<b>Governance</b>	3 per cent	127	<b>6 per cent</b>	146	1 per cent	39	3 per cent	102
<b>Administration</b>	20 per cent	1,023	17 per cent	412	<b>36 per cent</b>	1,114	26 per cent	759
<b>Public order and safety</b>	4 per cent	180	5 per cent	130	2 per cent	59	4 per cent	108
<b>Health</b>	< 1 per cent	2	< 1 per cent	-	< 1 per cent	11	< 1 per cent	4
<b>Environment</b>	<b>4 per cent</b>	189	13 per cent	302	12 per cent	355	10 per cent	310
<b>Community services and education</b>	4 per cent	186	14 per cent	323	8 per cent	231	9 per cent	271
<b>Housing and community amenities</b>	4 per cent	202	3 per cent	78	3 per cent	99	3 per cent	100
<b>Recreation and culture</b>	5 per cent	246	<b>11 per cent</b>	263	6 per cent	176	8 per cent	227
<b>Mining, manufacturing and construction</b>	< 1 per cent	23	< 1 per cent	8	< 1 per cent	2	< 1 per cent	7
<b>Transport and communication</b>	24 per cent	1,229	26 per cent	623	27 per cent	837	26 per cent	778
<b>Economic affairs</b>	33 per cent*	1,651	3 per cent	82	4 per cent	134	10 per cent	286

Source: Council financial statements 2012-13 - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council, ABS (2013), Estimated Resident Population, Local Government Areas, New South Wales, Cat. No. 3218.0. Note: '% of total' calculations may not sum to 100 per cent due to rounding. \*Note: Economic affairs for Bombala Council is higher due to significant private works during the year.



## 4. LOCAL CONTEXT Governance and Council Operations

### Council service provision

Councils have expressed scepticism that service delivery would improve under a merged council due to the increased area of coverage for frontline staff. The tyranny of distance has an impact both on response times for staff as well as the increased costs of communication and coordination.

A merged council would need to revisit its service delivery model and locations to best serve its residents which was not in scope for this report.

### Opportunities and risks – Corporate Services

The assumptions of the Merger Business Case suggest the major areas of efficiencies in amalgamation are non-frontline services - including Corporate Services. These services are considered amenable to improvements as there is more scope for staff to specialise in specific capabilities (e.g. within the IT department) to serve the needs of a larger council.

Any improvements face significant risk in managing the integration of systems as well as the cultural and procedural methods of working in a new environment.

### Opportunities and risks – Environmental and Community Services

The assumptions of the Merger Business Case take into consideration the increased service needs for a larger and more diverse council. While strategic planning functions would have a similar profile of challenges and opportunities to Corporate Services, Community and Environmental Services may face difficulties serving the broader council area due to distance and diversity of needs. A High Plains Council would require consolidating the community and environmental strategies of the three councils and may encounter resistance to any changes to allocation of effort and priorities.

### Opportunities and risks – Engineering Services

Roads, water supply and sewerage are important assets for all three councils. The scope to improve these services remains uncertain due to the concerns already raised about costs and response times. If a merged council makes a concerted effort to invest some of the projected savings in infrastructure, then this may have a positive impact on service for residents.



## 4. LOCAL CONTEXT Strategic Capacity

### What is strategic capacity?

Each of *the Fit for the Future* templates available for councils to submit to the NSW Government require careful consideration of the concept of 'strategic capacity'. Often, this issue is discussed in the context of 'scale and capacity' – implying that achieving 'strategic capacity' requires increased 'scale' (often viewed as a proxy for population size). The conclusion being that improved 'strategic capacity' is invariably achieved through council mergers due to the increased population base of the merger entity (Dollery 2014).

However, consultations with local councils throughout this project have highlighted the need to examine 'strategic capacity' through the lens of a local context and the need to understand the challenges and priorities each council faces with regard to the type, scale and quality of services and infrastructure provided. The approach has therefore been taken to look beyond the narrow focus of 'scale' and population size as a proxy for strategic capacity.

In the absence of clearly defined 'strategic capacity' benchmarks that could be used to compare and contract council's performance state-wide, it is necessary to rely on only qualitative input. To this end, Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council were requested to provide case studies and examples demonstrating performance against each of the strategic capacity criteria outlined by the Review Panel (2014). These criteria are listed in Table 4.7.

The contributions of each council to the 'strategic capacity' benchmark are summarised in the tables on the following pages.

Table 4.7 Strategic Capacity - definition

### Strategic Capacity

- **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: Independent Local Government Review Panel (2014)



## 4. LOCAL CONTEXT Strategic Capacity – Bombala Council

Table 4.8 Strategic Capacity – Examples from Bombala Council

Criteria	Local example
<b>Robust revenue base and increased discretionary spending</b>	While the Bombala Council population base is relatively small, its revenue raising capacity is built on the region’s agricultural businesses which remain strong and continue to use services. The Dongwha Timber Mill has indicated that they are in the planning phase for Stage 2 of the mill. The mill is expected to employ about 100 people with a resulting flow-on effect to the economy. If the Local Government Act in NSW is changed to allow rating of forestry land then Council will experience significant increases in rates revenue in the future. Council continually strives to gain extra external funding – for example, it is undertaking Road Maintenance Council Contracts for RMS each year on the Monaro Highway. Over time, Council has maintained close control of budgets and built up considerable cash reserves which give the ability to match grants and take advantage of other opportunities as they arise.
<b>Scope to undertake new functions and major projects</b>	The organisation has the necessary skills to undertake major projects. The most recent major project was the development of the Dongwha Timber Precinct and ancillary infrastructure to a total value of \$10 million. This project was run through Bombala Council as the government could not directly fund the development. Council has substantial cash reserves allocated to infrastructure development and other community projects as required.
<b>Ability to employ wider range of skilled staff</b>	Over the last decade, council has improved the facilities and amenities of the area to provide a lifestyle that meets broad expectations of the community. Council currently has a full complement of skilled staff and encourages training and up skilling of all staff. There is also additional skilled capacity in the local community as a result of people moving to the district. The council area is ideally located in close proximity to Canberra, the coast and the snow and has low cost housing and land available. Council has a stable and cohesive workforce and adequate skills available in-house. Council also has the ability to access temporary skilled staff as required.
<b>Knowledge, creativity and innovation</b>	Bombala Council has consistently used the skills and knowledge of staff in successful grant applications including the Transconnect program, river walk and sporting grants and road/ bridge funding. Being small and close to the community, council has been innovative in achieving community goals including attracting doctors, providing recreational spaces, adopting a flexible LEP and being proactive in supporting community groups to achieve goals. Council has had community development plans since 2006 for small villages and localities, prior to the IP&R requirements.  As an example, council is currently negotiating with the timber sector in relation to achieving adequate sustainable funding for road infrastructure which is being used extensively for timber haulage. In addition, the Fixing Country Roads program of the NSW Government was a direct result of a council initiative in providing the Minister with a funding model. Initially, this resulted in \$450,000 over three years and, now that the program is in place, Council achieved a further \$1.2 million in funding during the 2014-15 fiscal year.



## 4. LOCAL CONTEXT Strategic Capacity – Bombala Council

Table 4.8 Strategic Capacity – Examples from Bombala Council (Continued)

<p><b>Advanced skills in strategic planning and policy development</b></p>	<p>As a result of the small size of the council and the limited resources available to serve the area, council is keenly aware of the importance of strategic planning and policy development to ensure the best value for money. Currently Council is reviewing all policy documents and is regularly reviewing and amending policies at Council meetings. Senior managers have the required strategic and policy skills, as can be seen from the role Council plays in regional committees and in developing internal policy documents including the Community Strategic Plan and IP&amp;R documents. Senior staff have been instrumental in developing the Integrated Water Cycle Management Plan, asset management plans and community development plans including writing the Bundian Way Master Plan and policies for Heavy Vehicle Transport Regulation.</p>
<p><b>Effective regional collaboration</b></p>	<p>Bombala Council recognises that there will be limitations on what can be achieved by a small Council and has therefore actively pursued relationships with all surrounding councils. We initiated regular yearly meetings with East Gippsland Shire Council to discuss cross border issues and the potential for delivering services between the states. Council undertakes a number of mutually beneficial activities and projects with Bega Valley Shire Council including sharing staff, training, tourism projects and IT resources.</p> <p>The High Plains Forum is an excellent example of regional collaboration between Bombala, Cooma Monaro and Snowy River Shire Councils and includes sharing staff, running the regional Library and noxious weeds committees, undertaking joint contracts, training programs and other activities including developing new websites for the three Councils. Bombala Council is also an active member of SEROC and is represented on numerous regional sub-committees.</p>
<p><b>Credibility for more effective advocacy</b></p>	<p>Over the last decade Bombala Council has enhanced its reputation within various state and federal departments. It has been successful in obtaining grant funding and managing projects including the Snowy River Way, the Timber Precinct and other major upgrades to facilities and a community development projects. Bombala Council has been featured in numerous government publications, notably Annual Reports of the Commonwealth Department of Infrastructure, Transport Regional Development and Local Government for a culinary tourism project and the NSW Office of Heritage and Environment Annual Report for a community development project at the platypus reserve. Council achieves a great deal for the local community with limited resources and volunteers. It delivers above expected outcomes to state and federal agencies. The recently announced Country Roads Program is a direct result of Council’s advocacy to the Minister with specific information on costs and benefits of the timber industry and the impact on Council roads and economy.</p>





## 4. LOCAL CONTEXT Strategic Capacity – Bombala Council

Table 4.8 Strategic Capacity – Examples from Bombala Council (Continued)

<p><b>Capable partner for State and Federal agencies</b></p>	<p>Council has strong partnerships with government agencies, particularly RMS, Service NSW, Office of Water, NSW Health, Trade and Investment, RDA, and Premier and Cabinet. Our front counter provides a Service NSW outlet for a number of state licences and the Visitor Information Centre acts as a contact for births, deaths and marriages, fair trading and Transport NSW ticketing, among other things. Our successful project delivery of grant funded programs and road works contracts puts Bombala Council in a strong position when partnering with other levels of government to deliver services and strategic programs in our area. Council recently undertook an environmental project for LLS in Dalgety (Snowy River Shire area) as a result of LLS approaching Council to undertake this project, following a similar successful project undertaken in Bombala.</p>
<p><b>Resources to cope with complex and unexpected change</b></p>	<p>Bombala Council has the flexibility, skills and experience within senior staff to manage complex change and react quickly and adaptively to changing circumstances. The level of multiskilling of all staff in the organisation tends to support fast and flexible responses to change. A good example of this has been that all corporate finance and records systems have been successfully changed within the last two years with minimal impact to business processes and services. Council believes strongly that a small staff team, identified with the community, can cope with challenges and support each other to achieve desired outcomes. For example SEROC’s economic development sub group recently held training to give EDOs an understanding of the development approval processes and requirements. This was already understood by Council’s EDO, because the size of our organisation means that we do not have ‘silos’ and information is shared across the organisation.</p>
<p><b>High quality political and managerial leadership</b></p>	<p>Bombala Council is fortunate to have a management team with diverse qualifications, skills and experience. The community has close contact with Councillors and management and this level of personalised interaction generally achieves and promotes fully collaborative community outcomes that meet expectations. Bombala Council is stable and councillors are held in high regard and work to achieve the best outcomes for the community. Council listens to the community and provides leadership in matters of importance such as advocating for community needs in health and education which are not directly Council responsibilities. Council also provides considerable community services where other providers are not meeting the needs of our community.</p>
<p><b>Other information relevant to strategic capacity in local community</b></p>	<p>Council has identified and is proactive in supporting vibrant and cohesive rural communities, which are generally far more resilient and self-reliant than urban communities. Due to the relatively small size of the community, senior managers and councillors have developed strong partnerships and networks with community groups and members, which facilitates the successful delivery of community strategic goals and priorities. These include the river walkway in Bombala, the establishment of art galleries in Delegate, the Chamber of Commerce, development of the Railway precinct, the Bundian Way and Coastal wilderness projects. The level of community satisfaction with Council services was evident in the last community survey undertaken in 2014. Many Council projects and facilities are managed by community groups and these groups raise in excess of \$1,500 per week on street stalls (each group is allocated up to 2 per year). Council’s support for these groups is acknowledged and this significant volunteer capacity means that Council achieves more than would be expected for the money.</p>

Source: Bombala Council



## 4. LOCAL CONTEXT Strategic Capacity – Cooma-Monaro Shire Council

Table 4.9 Strategic Capacity – Examples from Cooma-Monaro Shire Council

Criteria	Local example
<b>Robust revenue base and increased discretionary spending</b>	Cooma-Monaro Shire already meets the OLG “Own Source Revenue” metric and is forecast to continue this into the future. The Shire is about to adopt and implement a new marketing strategy for the town of Cooma with the view to increasing visitation in the short term and increasing investment and population in the medium to long term. This will broaden our rate base over time further enhancing our revenue stream.
<b>Scope to undertake new functions and major projects</b>	Council is part way through a major beautification project of the Cooma CBD. This has included works to the main street, Centennial Park and entrance signs on the approach from Canberra. Further works will be scheduled in the coming financial year. Other recent projects include an upgrade to the Library, extensions at Yallambee Lodge Residential Aged Care facility, upgrades to the swimming pool, Bolaro Bridge replacement, establishment of an RV dump point and construction of a water storage facility for the town of Nimmitabel. A new three bin system has been rolled out in Cooma increasing the service to residents to ensure collection of green waste which is utilised in our composting process. This generates a saleable material and reducing the amount of waste going into landfill. Cooma is a leader in waste and composting for smaller rural Council’s.
<b>Ability to employ wider range of skilled staff</b>	Council employs a well skilled multi-disciplinary workforce and draws on expert skills and advice locally when required. There is generally strong competition for vacant positions and positions rarely have to be re-advertised to attract better applicants. As a town Cooma is well serviced by health, education and transport and is within easy reach of Canberra. All of which make it an attractive place to live and work.
<b>Knowledge, creativity and innovation</b>	Council has been working to resolve the issue of water security for the village of Nimmitabel over the last five years. This has culminated in the decision to build a dam which is due for completion late 2015. Staff have been involved in all aspects of the feasibility studies, designs, community consultation and environmental issues since the commencement. Council was successful in obtaining a \$5.3M grant from Infrastructure NSW to complete the works. In 2012 Council assisted Snowy Hydro in the set up of a University Centre in Cooma reducing the need for local students to travel long distances to attend university. Development of the centre is ongoing and Council has two members on the Board of Directors.



## 4. LOCAL CONTEXT Strategic Capacity – Cooma-Monaro Shire Council

Table 4.9 Strategic Capacity – Examples from Cooma-Monaro Shire Council (Continued)

<p><b>Advanced skills in strategic planning and policy development</b></p>	<p>In response to tougher economic conditions for businesses and retailers, Council set up and ran an Economic Development Taskforce drawing on internal and external expertise. The resulting report sets out a number of key tasks with the view to increasing the number of businesses in town and in turn our population base. As mentioned in the first point we are about to launch our marketing strategy as a next step in this process. Council has strategic plans across many of its functions as well as the Integrated Planning and Reporting Plans (IP&amp;R) for the overall organisation and Shire. Cooma-Monaro Shire introduced ten year strategic and financial plans in the 1990's, well before the introduction of the Integrated Planning and Reporting legislation was enacted.</p>
<p><b>Effective regional collaboration</b></p>	<p>Cooma-Monaro Shire is an active member of a number of regional groups including; South East Region of Councils (SEROC), Cross Border, ACT and Region Catchment Management Coordination Group, Regional Interagency, Tourism Snowy Mountains (TSM), Regional Development Australia South East, Local Emergency Management Committee and ACT &amp; NSW Memorandum of Understanding for Regional Collaboration – Landuse Planning and Infrastructure Priority (C+1 Steering Committee).</p> <p>Cooma partnered with Bombala Council when needing to procure its new corporate software platform and jointly implemented the project which was completed in late 2014. Council is currently working with both Bombala and Snowy River Shires to implement new web sites for all three shires which will be completed later this year. A regional Library service has been in existence since the 1960's providing services across all three Shire Councils. The service is run by Cooma-Monaro Shire.</p> <p>Monaro Rural Health was run across all three shires until the funding for the service was diverted to Medicare Local in 2013. The service was successfully operated over a ten year period and won an award for its health screening project.</p>
<p><b>Credibility for more effective advocacy</b></p>	<p>As a result of advocacy Cooma Monaro Shire has been successful in gaining funding for a number of projects and services. Some examples include: Monaro Rural Health, Wirri Nina day care facility, construction of Lake Wallace dam, extensions to Yallabee Lodged Aged Care facility, installation of solar panels on the swimming pool and many others.</p> <p>Council meets regularly with its local members and ensures the concerns of Council and residents are raised with them. Local members visit the Shire regularly to discuss issues and solutions directly.</p> <p>Staff and Councillors are well represented on various committees and working parties as listed in the previous table.</p>



## 4. LOCAL CONTEXT Strategic Capacity – Cooma-Monaro Shire Council

Table 4.9 Strategic Capacity – Examples from Cooma-Monaro Shire Council (Continued)

<b>Capable partner for State and Federal agencies</b>	Council partners with many of State and Federal agencies in delivering services and projects such as Monaro Rural Health, Community Service Programs, Lake Wallace Dam construction, catchment management projects, Regional Development Australia and the Local Environmental Plan.
<b>Resources to cope with complex and unexpected change</b>	Council maintains cash reserves which give it the ability to draw on these funds if something unexpected occurs. Increasing the transfer to these reserves is a priority over the coming years, further boosting the ability to cope with the unexpected. A skilled pool of talent within the community exists that can be drawn on as needed to compliment the skills of staff. This gives Council the ability to tackle complex issues and emergencies with the skill levels needed.
<b>High quality political and managerial leadership</b>	Over the years Council has been successful in winning a number of awards including; 2012 National Local Government Award Winner – Rural and remote Health (small Council under 15,000 rateable properties) – Cooma-Monaro Shire Council Check it Out Program and Highly commended and commended Regional Council sections for the Asbestos Awareness Week campaigns 2013 & 2014 As a small rural Council we are seen as a leader and held up as an example in areas such as asbestos management, composting and landfill management and asset management.
<b>Other information relevant to strategic capacity in local community</b>	Cooma-Monaro Council is an active participant in regional and local committees and working parties which have resulted in benefits to the residents as can be seen from the examples above. Council works in partnership with organisations such as Lions and Rotary to deliver projects to the community.

Source: Cooma-Monaro Shire Council



## 4. LOCAL CONTEXT Strategic Capacity – Snowy River Shire Council

Table 4.10 Strategic Capacity – Examples from Snowy River Shire Council

Criteria	Local example
<b>Robust revenue base and increased discretionary spending</b>	<p>Snowy River Shire has been able to rely on a solid revenue base with increasing land values and rateable properties over the last five years. The additional revenue to the general fund allows for increased discretionary spending in areas where community identified priorities in our Community Strategic Plan (2012), including health and aged care services. Projects that have been funded as discretionary budget items include:</p> <ul style="list-style-type: none"> <li>• Land Value increased by \$3.013M between 2012 – 2014 (without revaluation)</li> <li>• Increase of 215 rateable properties over last 5 years</li> <li>• Special Rate Variation to address infrastructure – 2009 4% above rate peg</li> <li>• Discretionary spending: - GP Super Clinic (SR Health Centre) operational costs (average net cost to Council expected to be \$72k) and Snowy River Hostel (average net cost to Council \$150k)</li> <li>• Revenue from RMS contracts</li> <li>• Jindabyne Holiday Park business (2014 cash surplus \$146k)</li> </ul>
<b>Scope to undertake new functions and major projects</b>	<p>There are a number of major projects that have been undertaken by SRSC to increase strategic capacity and contribute to economic growth of the Shire. Many of these revolve around infrastructure that support the seven key directions as stated in our Community Strategic Plan. By having a robust and thorough community engagement strategy, SRSC is confident that these projects completed move towards a sustainable and effective organisation. Major projects recently undertaken include:</p> <ul style="list-style-type: none"> <li>• Super Clinic (SR Health Centre)</li> <li>• Berridale Master Plan</li> <li>• CopperTom Point Asbestos Works</li> <li>• CountryTell Internet provision</li> <li>• Timber Bridge replacement (Bates Bridge and Mowamba Bridge)</li> <li>• RMCC Contracts</li> <li>• Application to be listed for NPWS Contracts</li> </ul>
<b>Ability to employ wider range of skilled staff</b>	<p>Due to the Shire’s attractiveness and desirable lifestyle, SRSC has been able to attract suitably qualified and professional staff. Our documented workforce management strategy has highlighted this capacity identifies how we will utilise and develop the skills of our people in achieving our community’s priorities. Further the diversity of services that we offer enables us to be an employer of choice. High retention of our staff is achieved through best practice strategic and operational human resource management principles. Examples include: Risk Management; Management/Innovation of Casual Pool Staff; GIS; and Management and Financial Accountants.</p>



## 4. LOCAL CONTEXT Strategic Capacity – Snowy River Shire Council

Table 4.10 Strategic Capacity – Examples from Snowy River Shire Council (Continued)

<p><b>Knowledge, creativity and innovation</b></p>	<p>Over the last few years SRSC has identified a broad scope of projects that demonstrate our ability to utilise the knowledge, creativity and innovation of our staff. These projects have created value for our community and enable service delivery to be more efficient. We see that the following projects can be built upon by further exploring opportunities within the organisation but also leverage through partnerships with other stakeholders. Examples include:</p> <ul style="list-style-type: none"> <li>• Solar Panel installations – Berridale Office, Berridale Depot, Jindabyne Pool, Jindabyne Landfill (includes Wind Turbine) and Berridale Treatment Plants, Hostel, RFS Building</li> <li>• Significant Landfill Improvement Projects</li> <li>• LG Professionals Management Excellence Awards - finalist's two years in a row</li> <li>• Commitment to Training and development of staff</li> <li>• Investment knowledge, project management, creativity and innovation in our business</li> <li>• Banjo Paterson Park Upgrade</li> <li>• Landfill improvement strategy</li> <li>• Legislative Tourism Inquiry – Recognition of “Little Black Book” as a template for other councils.</li> </ul>
<p><b>Advanced skills in strategic planning and policy development</b></p>	<p>A number of initiatives that have been implemented by SRSC over the last five to seven years demonstrate that Council has the capacity to continue to deliver our Community Strategic Plan. Strategies are in place to identify and continue to utilise professional development, memberships, networking and forums for our staff and ensure knowledge is maintained and expanded as the needs of our community change and grow. SRSC has delivered all of the following strategic planning instruments by utilising existing staff:</p> <ul style="list-style-type: none"> <li>• Communications Strategy</li> <li>• DLG recognition and response to CSP/IPR process</li> <li>• UTS Community Engagement – to gain skills in house and utilise.</li> <li>• Strategic Plans – Water, Waste, Leadership Development (Blackadder and Associates).</li> <li>• Preparation of the CSP &amp; related IPR documents including Community Consultation.</li> </ul>



## 4. LOCAL CONTEXT Strategic Capacity – Snowy River Shire Council

Table 4.10 Strategic Capacity – Examples from Snowy River Shire Council (Continued)

<p><b>Credibility for more effective advocacy</b></p>	<p>SRSC maximises its capacity for advocacy by ensuring all opportunities to represent our shire are filled. Many of our strategies documented in the Community Strategic Plan acknowledge that Council’s role is to advocate on behalf of our community. To this end we currently participate in the following:</p> <ul style="list-style-type: none"> <li>• General Manager on Board with LG Professionals NSW</li> <li>• GP Super Clinic (HealthCentre) funding and HealthOne Collaboration</li> <li>• Bus Services – Transconnect</li> <li>• Submissions to regional Air Services inquiry and</li> <li>• Tourism Inquiry recommended Little Black Book be a template as rest of tourism industry</li> <li>• Mobile Phone Networks Inquiry submission</li> <li>• Recent successful grant funding applications including: Berridale Toilets Funding; Dalgety Caravan Park; Snowy Mountains Neighbourhood centre</li> </ul>
<p><b>Capable partner for State and Federal agencies</b></p>	<p>By continuing to participate in forums offered by Federal and State Governments, as well as investing in professional development, Council ensures that at all opportunities to partner with government are seized effectively. Our recent success with a diverse range of grant funding demonstrates that other levels of government want to invest in our region and see us being a capable partner in delivering services appropriate for our community. Examples include:</p> <ul style="list-style-type: none"> <li>• HealthCentre and HealthOne Collaboration</li> <li>• RMS acknowledgement for quality for services provided</li> <li>• Successful Hostel Accreditation – successfully passed all 44 standards</li> <li>• Joint Canberra Region relationship</li> <li>• NPWS Collaboration</li> <li>• Snowy Hydro Collaboration</li> <li>• Merger of LEMC</li> </ul>
<p><b>Effective regional collaboration</b></p>	<p>SRSC prides itself on its commitment to all opportunities to participate and deliver services on a regional basis ensure efficiency, consistency and value for money. We are active participants in all regional forums that are available, such as SEROC. When the opportunity arises, SRSC takes the lead on projects to collaboration with others in our industry. The following is an example of the many forums of which we are a member: Waste Management – Ctrace; General Manager – Chair of the Organisational Development Working Group for SEROC; Application for funding for Regional LEP and CSP; Proposed application for an improvement grant for Warringah Council project; Monaro Regional Libraries; Website collaboration with CMSC and BSC Application; Jindabyne Foreshore/Playground – Touched by Olivia Foundation.</p>



## 4. LOCAL CONTEXT Strategic Capacity – Snowy River Shire Council

Table 4.10 Strategic Capacity – Examples from Snowy River Shire Council (continued)

<p><b>Resources to cope with complex and unexpected change</b></p>	<p>SRSC understands that change is a key attribute of our environment. Our understanding of community expectations and acknowledgement of the political environment drives many of our business decisions. We have been able to demonstrate our ability to cope with complex and unexpected change by strategically allocating resources such as modernised finance and IT systems. For example, our budget development and monitoring processes, as well as the management of reserves, has been improved to support our operations and adapt to changing environments. Over the last five years SRSC has been faced with many complex situations and changes which have been addressed successfully: Council has Technical Expertise in the following; -</p> <ul style="list-style-type: none"> <li>• IP&amp;R</li> <li>• Natural Disasters such as rain events and flooding</li> <li>• CopperTom Point - Asbestos Management</li> <li>• Foreshore Management</li> <li>• Communications Strategy</li> <li>• Budget Monitoring and Financial Strategy (Debt and managing reserves etc.)</li> </ul>
<p><b>High quality political and managerial leadership</b></p>	<p>The information provided in each category above acknowledges that Snowy River Shire Council is committed to upholding the highest quality of professional standards, leadership, strategic management. SRSC recognises its ability to maintain political relationships and partnerships is necessary for future sustainability. Council is also a leader in terms of the Local Government Management Excellence Awards and note that we are currently waiting on further results from the Local Government Management Excellence Awards with five finalists in 2015.</p>
<p><b>Other information relevant to strategic capacity in local community</b></p>	<p>Council enjoys a strong strategic partnership and connection with our local community whom actively participate and are committed to the future of the Shire. This is clearly evident in a recent survey response as well as our past and current Community Strategic Planning projects.</p> <p>Council continues to maintain successful partnerships with current Section 355 Committees and aids in the provision of the Section 355 manuals. This professional relationship and acknowledgement of leadership provides a vital link between council and community in the management of community assets.</p>

Source: Snowy River Shire Council



# 5. Economic and Financial Analysis





## 5. STATUS QUO Summary of Current Financial Forecasts

### Current forecast financial performance

As illustrated in Chart 5.1, Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council are all projected to produce negative operating results for respective general funds over the ten year period 2014-15 to 2023-24.

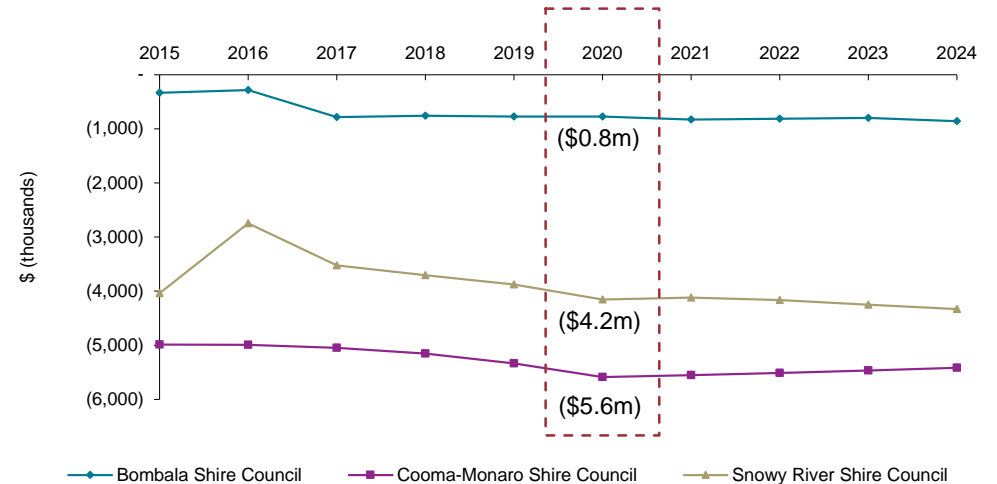
Over the period:

- Cooma-Monaro Shire Council is forecast to make an operating loss from general funds in the range of \$5.0m to \$5.6m per annum. For the *Fit for the Future* target date of 2020, the council's net operating loss will be \$5.6m.
- Snowy River Shire Council is forecast to make an operating loss from general funds in the range of \$2.7m to \$4.3m per annum. For the *Fit for the Future* target date of 2020, the council's net operating loss will be \$4.2m.
- Bombala Council is forecast to make an operating loss from general funds in the range of \$0.3m to \$0.9m. For the *Fit for the Future* target date of 2020, the council's net operating loss will be \$0.8m.

Council-reported forward estimates reflect the financial pressures of the region, including limited revenue raising capacity and high cost of service delivery.

Net operating results are provided in tabular format in Table 5.1 over page.

Chart 5.1: Net operating results from 2015-2024



Source: LTFP (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council



## 5. STATUS QUO Long Term Financial Plans (2014 – 2024)

Each council is forecasting a consistent annual operating loss in their General Fund LTFP. The financial results presented below exclude the financial reports of each council's water or wastewater assets. The operating losses of each council may require additional funding or capital in order to remain financially stable. The aggregated net operating results for the three councils are calculated in the bottom line of Table 5.1 below. This is the base case against which a potential merger can be assessed.

Table 5.1 Net operating results for each council (long term financial plans)

STATUS QUO – LONG TERM FINANCIAL PLANS [\$'000]											
	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	CAGR
<b>Bombala Council</b>											
Operating Revenue	7,766	7,935	7,579	7,749	7,916	8,083	8,254	8,447	8,626	8,827	1.4%
Operating Expenses	8,102	8,221	8,365	8,508	8,688	8,857	9,085	9,260	9,423	9,686	2.0%
Net Result	(336)	(286)	(786)	(759)	(772)	(774)	(831)	(813)	(797)	(859)	10.0%
<b>Cooma-Monaro Shire Council</b>											
Operating Revenue	19,396	19,998	20,623	21,270	21,937	22,627	23,342	24,081	24,847	25,640	3.1%
Operating Expenses	24,385	24,990	25,668	26,426	27,271	28,214	28,892	29,592	30,313	31,058	2.7%
Net Result	(4,989)	(4,993)	(5,046)	(5,156)	(5,334)	(5,587)	(5,551)	(5,510)	(5,466)	(5,418)	0.9%
<b>Snowy River Shire Council</b>											
Operating Revenue	15,298	16,130	15,948	15,021	15,229	15,481	15,941	16,416	16,905	17,409	1.4%
Operating Expenses	19,338	18,878	19,473	18,725	19,105	19,636	20,063	20,578	21,157	21,740	1.3%
Net Result	(4,040)	(2,748)	(3,525)	(3,704)	(3,876)	(4,155)	(4,122)	(4,162)	(4,252)	(4,331)	0.8%
<b>Total aggregated net operating results for the three councils</b>	<b>(9,365)</b>	<b>(8,027)</b>	<b>(9,357)</b>	<b>(9,619)</b>	<b>(9,982)</b>	<b>(10,516)</b>	<b>(10,503)</b>	<b>(10,486)</b>	<b>(10,515)</b>	<b>(10,608)</b>	

Source: KPMG analysis based on LTFP (2014-15) - Bombala Council, Cooma-Monaro Shire Council, Snowy River Shire Council



## 5. BOMBALA COUNCIL Forecast Financial Performance

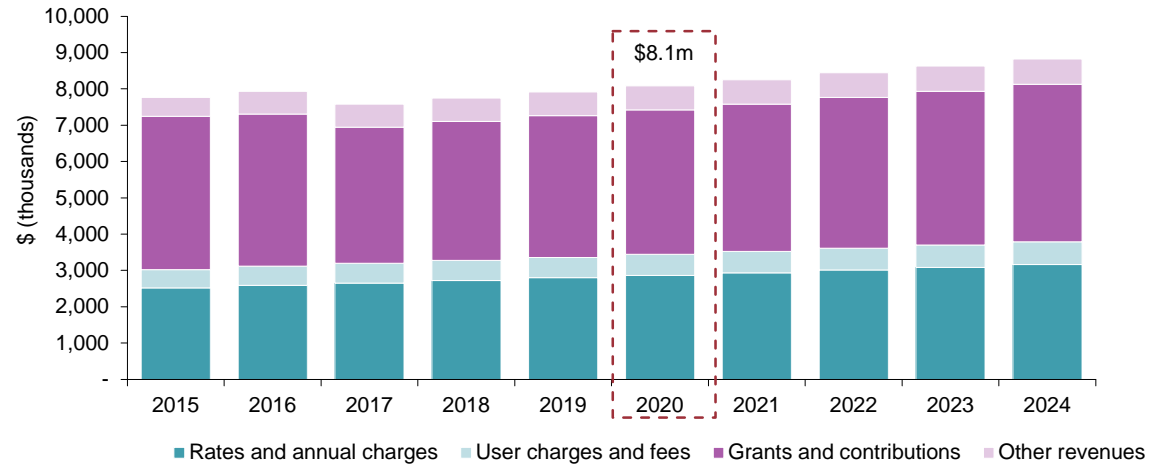
### Financial forecast

Bombala Council is forecast to report net operating losses for its general fund over the ten year period from 2014-15. These losses range between \$0.3m in 2015-16 increasing to \$0.9m in 2023-24.

Chart 5.2 provides a snapshot of the changes and growth in operating revenue over this same period. Key highlights include:

- Bombala Council revenue is forecast to grow by 1.4 per cent per annum. This revenue growth stems largely from increases in rates and annual charges – which are forecast to increase by 2.6 per cent per annum.
- Grants and contributions are projected to grow at a lower growth rate 0.3 per cent per annum. This forecast growth rate of Bombala Council’s grants and contributions is lower than the forecast grant and contribution growth rates stated by the other councils.
- Over the *Fit for the Future* reporting period to 2020, Bombala Council’s operating revenue is forecast to reach \$8.1m.

Chart 5.2: Bombala Council revenue and its components (2015-2024)



Source: LTFP (2014-15) - Bombala Council



## 5. BOMBALA COUNCIL Fit for the Future Metrics

### Benchmarking financial performance

Bombala Council was assessed by TCorp as having a 'moderate' rating with regard to financial sustainability with a 'neutral' outlook. Drawing on the OLG *Fit for the Future* indicators, Bombala Council is expected to meet (in full) three out of the seven benchmarks. A further benchmark ('own source revenue') is expected to be partially met, where the shortfall may be able to be overcome with appropriate financial strategies. It is important to note that Bombala Council did not meet the debt service benchmark due to the absence of any debt on the General Funds balance sheet.

Bombala Council is forecast to invest in asset maintenance over the forecast period and has recently undertaken a new asset management plan that aims to address its infrastructure backlog going forward.

Looking ahead, a key concern is the downward trend in the operating performance ratio over the forward estimates.

Table 5.2 Bombala Council – Fit for the Future metrics

Ratio	Benchmark	2014 -15	2015 -16	2016 - 17	2017 - 18	2018 - 19	2019 - 20	2020- 21	2021 - 22	2022 - 23	2023 - 24
Operating Performance	0%	-7%	-6%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%
Own Source Revenue	60%	46%	47%	48%	49%	51%	51%	51%	51%	51%	51%
Building & Infrastructure Asset Renewal	100%	112%	80%	78%	77%	91%	74%	76%	76%	73%	71%
Infrastructure Backlog	2%	18%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Asset Maintenance	100%	138%	139%	138%	138%	137%	136%	135%	135%	134%	133%
Debt Service	0%-20%	na <sup>1</sup>	na	na	na	na	na	na	na	na	na
Real Operating Expenditure per capita	Decline	\$3,298	\$3,284	\$3,279	\$3,273	\$3,279	\$3,281	\$3,302	\$3,303	\$3,298	\$3,327

1 – Note: Bombala Council has forecast to not have any debt obligations relating to General Funds from 2012 onwards

Benchmark

Marginal Underperformance (<10%)

Material Underperformance (10% or more)



## 5. COOMA-MONARO SHIRE COUNCIL Forecast Financial Performance

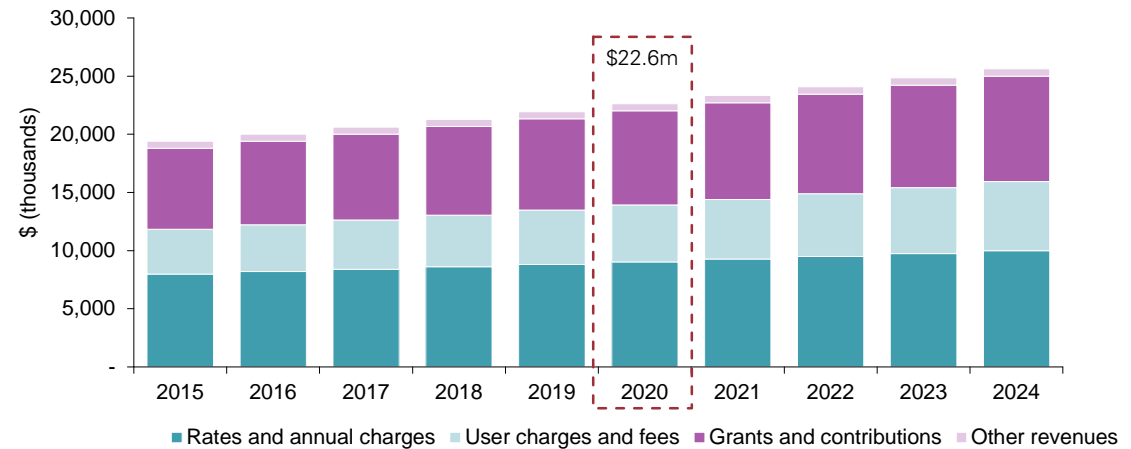
### Financial forecast

The Cooma-Monaro Shire Council is forecast to report net operating losses for its general fund over the ten year period from 2014-15. These losses range between \$5.0m in 2014-15 increasing to \$5.6m in 2019-20.

Chart 5.3 provides a snapshot of the changes and growth in operating revenue over this same period. Key highlights include:

- Cooma-Monaro Shire Council revenue is forecast to grow by 3.1 per cent per annum. This revenue growth is largely due to increases in user charges and fees and increases in rates and annual charges – these revenue sources are forecast to increase by 5.0 per cent per annum and 2.5 per cent per annum respectively.
- Grants and contributions are forecast to increase by approximately 3.0 per cent per annum over the forward estimates.
- Over the *Fit for the Future* reporting period to 2020, Cooma-Monaro Shire Council's operating revenue is forecast to reach \$22.6m.

Chart 5.3 Cooma-Monaro Shire Council revenue and its components (2015-2024)



Source: LTFFP (2014-15) - Cooma-Monaro Shire Council



## 5. COOMA-MONARO SHIRE COUNCIL Fit for the Future Metrics

### Benchmarking financial performance

Cooma-Monaro Shire Council was assessed by TCorp as having a ‘weak’ rating with regard to financial sustainability with a ‘neutral’ outlook. Drawing on the OLG *Fit for the Future* indicators, Cooma-Monaro Shire Council is expected to meet (in full) three out of the seven benchmarks – these are Own Source Revenue, Asset Maintenance and Debt Service Ratio. A further two benchmarks – Infrastructure Backlog, and Real Operating Expenditure per capita – are expected to be partially met by 2020.

Significantly, Cooma-Monaro Shire Council is likely to face a deterioration in its Building and Infrastructure Asset Renewal ratio over the medium term and only a marginal improvement in the council’s Operating Performance is forecast over the forward estimates.

Table 5.3 Cooma-Monaro Shire Council – Fit for the Future metrics

Ratio	Benchmark	2014 -15	2015 -16	2016 - 17	2017 - 18	2018 - 19	2019 - 20	2020- 21	2021 - 22	2022 - 23	2023 - 24
Operating Performance	0%	-27%	-27%	-26%	-26%	-26%	-26%	-25%	-24%	-23%	-23%
Own Source Revenue	60%	64%	64%	64%	64%	64%	64%	64%	64%	64%	64%
Building & Infrastructure Asset Renewal	100%	57%	42%	40%	44%	32%	44%	38%	50%	58%	53%
Infrastructure Backlog	2%	11%	11%	11%	11%	11%	10%	10%	10%	10%	10%
Asset Maintenance	100%	92%	95%	98%	100%	100%	100%	100%	100%	100%	100%
Debt Service	0%-20%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%
Real Operating Expenditure per capita	Decline	\$2,382	\$2,375	\$2,373	\$2,376	\$2,386	\$2,401	\$2,392	\$2,383	\$2,375	\$2,367

Benchmark	Marginal Underperformance (<10%)	Material Underperformance (10% or more)
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## 5. SNOWY RIVER SHIRE COUNCIL Forecast Financial Performance

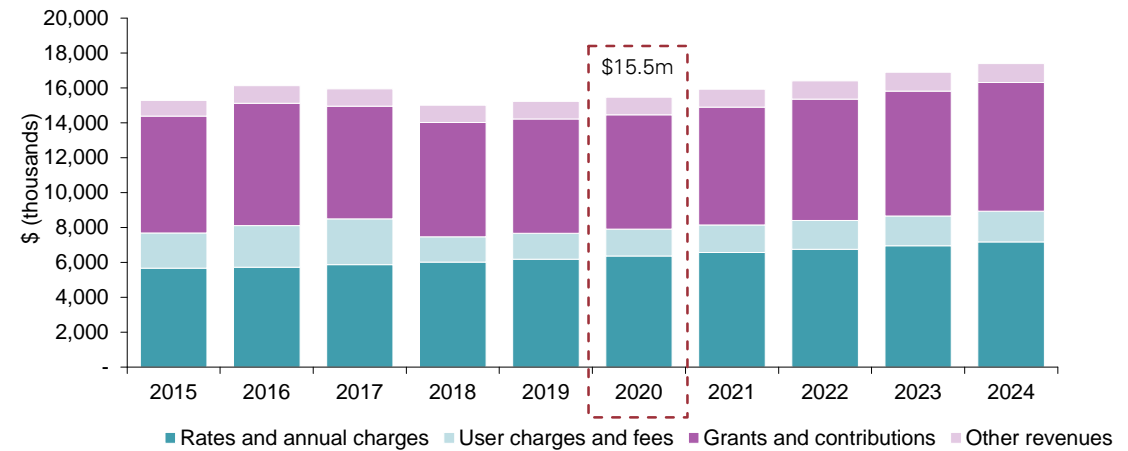
### Financial forecast

Snowy River Shire Council is forecast to report a net operating loss for its general fund over the ten year period from 2014-15. These losses range between \$2.7m in 2015-16 increasing to \$4.3m in 2023-24.

Chart 5.4 provides a snapshot of the changes and growth in operating revenue over this same period. Key highlights include:

- Snowy River Shire Council revenue is forecast to grow by 1.4 per cent per annum. This revenue growth is the result of forecast growth in rates and annual charges revenue of 2.6 per cent per annum.
- Grants and contributions are forecast to increase by approximately 1.1 per cent per annum over the forward estimates.
- The forecast decrease in council revenue from user charges and fees (approximately 1.4 per cent less per annum over the ten year period) has limited the overall potential revenue growth in the forward estimates.
- Over the *Fit for the Future* reporting period to 2020, Snowy River Shire Council's operating revenue for its general fund is forecast to reach \$15.5m.

Chart 5.4 Snowy River Shire Council revenue and its components (2015-2024)



Source: LTFP (2014-15) – Snowy-River Shire Council





## 5. SNOWY RIVER SHIRE COUNCIL Fit for the Future Metrics

### Benchmarking financial performance

Snowy River Shire Council was assessed by TCorp as having a ‘moderate’ rating with regard to financial sustainability with a ‘negative’ outlook – indicating the council’s financial sustainability is likely to deteriorate over the medium term. Drawing on the OLG *Fit for the Future* indicators, Snowy River Shire Council is forecast to meet (in full) two out of the seven benchmarks. A further benchmark, ‘own source revenue’, is expected to be partially met (where the shortfall in the meeting the benchmark is relatively marginal) and may be achieved with appropriate financial strategies.

Looking ahead, a key concern is the deterioration in the council’s building and infrastructure asset renewal ratio and the forecast increase in the infrastructure backlog.

Table 5.4 Snowy River Shire Council – Fit for the Future metrics

Ratio	Benchmark	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 - 19	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24
Operating Performance	0%	-28%	-17%	-23%	-22%	-24%	-26%	-27%	-26%	-26%	-25%
Own Source Revenue	60%	56%	57%	57%	57%	58%	57%	58%	58%	58%	58%
Building & Infrastructure Asset Renewal	100%	55%	105%	36%	26%	14%	21%	21%	21%	21%	21%
Infrastructure Backlog	2%	14%	13%	13%	15%	16%	18%	20%	21%	23%	25%
Asset Maintenance	100%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%
Debt Service	0%-20%	1%	1%	1%	1%	1%	1%	1%	0%	1%	1%
Real Operating Expenditure per capita	Decline	\$2,456	\$2,327	\$2,330	\$2,174	\$2,153	\$2,148	\$2,130	\$2,120	\$2,115	\$2,110

Benchmark	Marginal Underperformance (<10%)	Material Underperformance (10% or more)
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## 5. MERGER FINANCIAL IMPACT Net Financial Impact

### Net present value

The net present value (NPV) is the present value of all capital and operational cash flows associated with the proposed merger. The incremental savings and costs have been evaluated over a ten year period from fiscal year 2014-15 to 2023-24.

A nominal discount rate of 9.5 per cent has been adopted. This is consistent with NSW Treasury Guidelines which suggest a real discount rate of 7 per cent (or 9.5 per cent with inflation). The NSW State Government recommends all Business Cases submitted to Cabinet use this discount rate. A lower discount rate would inflate the NPV presented in the table below.

### Incremental impacts of a merger

Overall, the financial analysis outlined in Table 5.5 indicates there are potential 'net benefits' from a merger over the baseline financial projections provided by councils. The net savings result in NPV terms approximately 3.7 million over ten years in 2014 dollars.

It is important to note the risks associated with merger implementation are high, with the prospect of high resistance to change within a merged council eroding potential benefits.

The NSW OLG has committed to offer regional councils \$11.0 million in funding if three councils agree to merge. The inclusion of this funding increases the NPV of the merger option to \$13.8 million over ten years.

The timing of costs and benefits has a material impact on the business case results and currently reflects NSW Government timelines whereby costs of planning are initiated over fiscal year 2015-16 and benefits begin to be realised in 2016-17.

Table 5.5: Net present value excluding and including government assistance

'000s	Merger (without financial assistance)	Merger (with financial assistance)
Present Value Savings (\$)	8,067	8,067
Present Value Costs (\$)	(4,358)	5,688
Net Present Value (\$)	<b>3,709</b>	<b>13,755</b>

Source: KPMG analysis

### Additional potential costs

Council feedback indicated that there may be an underestimation of costs if:

- additional administrative buildings are required for operation of a merged council;
- integration of IT led to cost overruns (noting recent experiences in Auckland<sup>1</sup>);
- additional signage and administration related to name and boundary changes is required; and
- increased contracting is used by the merged council.

These impacts were not included in the analysis as the scale of expenditure or degree of change required would need to be confirmed following a detailed planning and due diligence exercise should the merger go ahead.



## 5. MERGER FINANCIAL IMPACT Revised Long Term Financial Plan

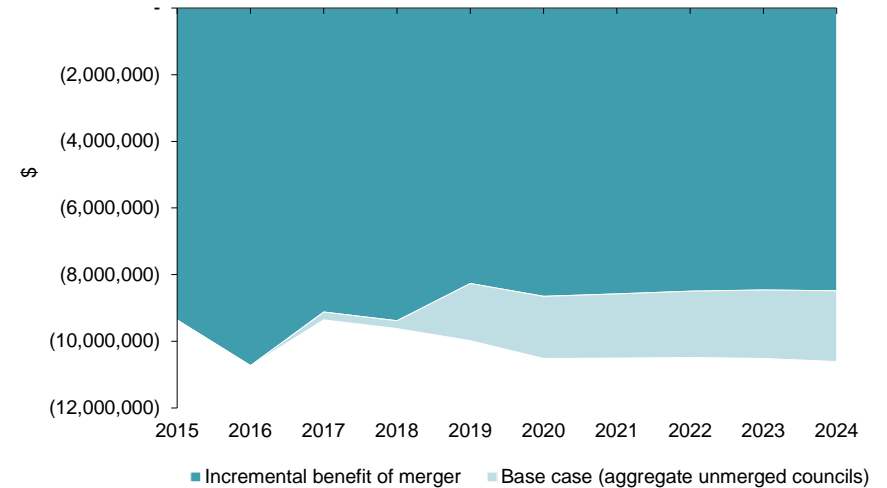
### Long term financial plan

The merged council demonstrates an improved net operating result performance relative to a no merger option. The improvements are forecast to be realised between 2016-17 and 2023-24 and are illustrated in Chart 5.5 and documented in Table 5.6.

The 2015-16 net operating result is -34 per cent, reflecting the burden of the merger is heaviest in the 2015-16 financial year before improving in the subsequent two financial years. The full financial benefits of the merger do not materialise in the reported net operating results until the 2018-19 financial year. Over the forward estimates, the financial impact of the merger boosts operating results between 17 per cent and 20 per cent (relative to the baseline results).

Table 5.6 Results of merged council compared to base case (no financial assistance)

Chart 5.5 Incremental net operating benefit from merger



Merged council										
(\$ '000s)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Operating Revenue	42,460	44,062	44,150	44,040	45,082	46,191	47,537	48,944	50,378	51,876
Operating Expenses	51,825	54,796	53,272	53,423	53,348	54,843	56,115	57,441	58,839	60,362
<b>Net Result of Merged Council</b>	<b>(9,365)</b>	<b>(10,733)</b>	<b>(9,122)</b>	<b>(9,384)</b>	<b>(8,266)</b>	<b>(8,652)</b>	<b>(8,578)</b>	<b>(8,497)</b>	<b>(8,461)</b>	<b>(8,486)</b>
<b>Net result of Unmerged Councils (aggregated)</b>	<b>(9,365)</b>	<b>(8,027)</b>	<b>(9,357)</b>	<b>(9,619)</b>	<b>(9,982)</b>	<b>(10,516)</b>	<b>(10,503)</b>	<b>(10,486)</b>	<b>(10,515)</b>	<b>(10,608)</b>
Improvement in net operating result due to the proposed merger	-	-34%	+3%	+2%	+17%	+18%	+18%	+19%	+20%	+20%

Source: KPMG. Long term financial projections - Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council



## 5. MERGER FINANCIAL IMPACT Fit for the Future Metrics

### Fit for the Future metrics

The following summary table provides an outline of where *Fit for the Future* benchmarks have been achieved by the target 2020 date set by the OLG. Performance varies across the councils with a potential merger having a mixed impact on achieving the *Fit for the Future* metrics.

A merger will result in the combined entity meeting three of seven indicators, including Own Source Revenue, Debt Service and Real Operating Expenditure (refer to Table 5.7). The performance of the merged council is materially impacted by the Cooma-Monaro Shire Council forecast benchmarks due to its larger size relative to the other councils. Those benchmark indicators relating to infrastructure tend to be areas where the merged entity will materially underperform. On the whole, the merged entity does not provide a comprehensive improvement in performance against the *Fit for the Future* metrics.

Table 5.7: Merged council Fit for the Future performance (2014-2024)

Ratio	Benchmark	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 - 19	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24
Operating Performance	0%	n/a	-23%	-22%	-20%	-18%	-17%	-16%	-15%	-15%	-14%
Own Source Revenue	60%	n/a	58%	59%	59%	60%	59%	60%	60%	60%	60%
Building & Infrastructure Asset Renewal	100%	n/a	71%	46%	43%	37%	41%	39%	44%	47%	44%
Infrastructure Backlog	2%	n/a	10%	10%	10%	11%	11%	11%	11%	11%	11%
Asset Maintenance	100%	n/a	78%	79%	80%	80%	81%	81%	81%	81%	81%
Debt Service	20%	n/a	2%	1%	2%	2%	2%	2%	1%	1%	1%
Real Operating Expenditure per capita	Decline	n/a	\$2,520	\$2,592	\$2,452	\$2,392	\$2,324	\$2,325	\$2,314	\$2,304	\$2,297

Source: KPMG.

Legend: Benchmark met Marginal Underperformance (<10%) Material Underperformance (10% or more)

Table 5.8: Summary of Fit for the Future metrics

Indicator	No Merger			Merger
	Bombala	Cooma-Monaro	Snowy River	
Operating Performance Ratio	-	-	-	-
Own Source Revenue	○	●	○	●
Building & Infrastructure Asset Renewal	-	-	-	-
Infrastructure Backlog	●	○	-	○
Asset Maintenance Ratio	●	●	-	-
Debt Service Ratio	-	●	●	●
Real Operating Expenditure per capita	●	○	●	●

Source: KPMG.

● = benchmark achieved; ○ = benchmark shortfall marginal (<10%)



## 5. MERGER FINANCIAL IMPACT Employment

### Current levels of staffing

The three councils currently employ a combined total of 316 staff on an FTE basis and are an important employer in all three communities.

In many cases, each of the councils indicated a level of under-resourcing was present in certain functions and, therefore, a merger may offer an opportunity to enhance the overall skills base and organisational capabilities through greater specialisation (e.g. in areas such as information technology services).

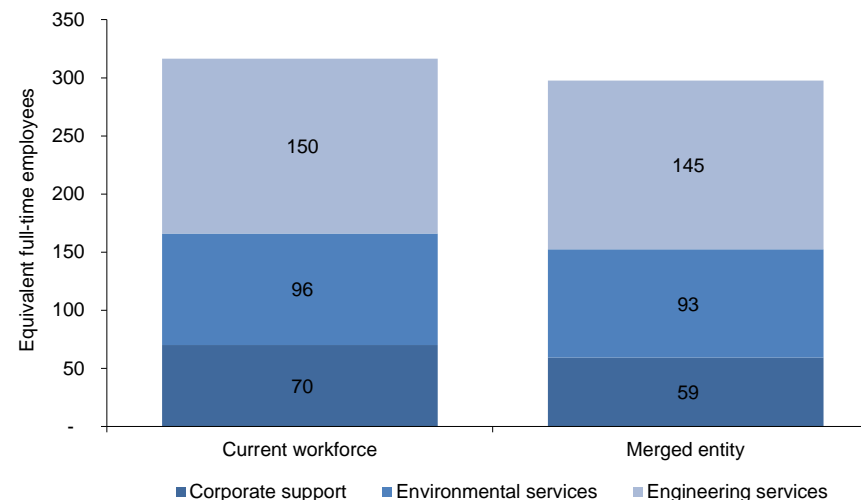
Distance and location of staff were also commonly cited as an area where the potential benefits of a merger could be limited. These assumptions and concerns are reflected in the overall estimates, however this report does not seek to quantify the incremental benefits or costs of specialisation or commuting. The net employment impact on council FTEs is illustrated in Chart 5.6 with a breakdown by functions provided in Table 5.8.

### Employment impacts of a merger

A merger presents an opportunity to reduce duplicated roles and activities that are common across the three councils. Through applying case study benchmarks across functions and through consultation with the respective councils, an estimated reduction of 19 equivalent FTEs was used as the basis for the business case and is assumed to be achieved through a mixture of natural attrition and redundancy over the first four years of the merger.

These reductions are consistent with what has been achieved through other council mergers in Australia and internationally. A host of local factors have been taken into consideration, including legislative restrictions on forced redundancies and the desire of councils to scale up capacity to increase service levels as opposed to reducing employee-related costs.

Chart 5.6: Change in staffing profile under merged entity



Source: KPMG.

Table 5.8: Staff reductions by function (regional total)

Staff by council function (FTE)	Current workforce	Merged entity	Net change	Percentage reduction
Corporate support	70	59	(11)	15%
Environmental services	96	93	(3)	3%
Engineering services	150	145	(5)	3%
<b>Total staff</b>	<b>316</b>	<b>297</b>	<b>(19)</b>	<b>6%</b>

Source: KPMG.

# 6. Implementation





## 6. IMPLEMENTATION Key Considerations and Risks

The analysis presented in this Merger Business Case provides a high level assessment of the potential financial impacts of the proposed council merger and related community impacts (advantages and disadvantages). As such, it is important to acknowledge that the ability to achieve any potential financial benefit from a merger is dependent on the success and effectiveness of the implementation of the merger.

Any organisational merger is highly complex with significant risks to the potential merger benefits being eroded or lost due to:

- inadequate leadership or oversight of the implementation plan;
- breakdown of IT and record-keeping systems during the transition period (including from potential incompatibility of systems);
- unforeseen increase in costs to undertake the merger;
- delays to the timeframes for implementing the merger; and
- lost productivity due to variances in work cultures and conflict arising from merging entities with different work practices.

The experiences of other jurisdictions in implementing local government reform also offer some insights into the risks associated with council mergers. For example, a survey of council CEOs from South East Queensland highlighted the following issues that arose during the 2008 reform program:

- the loss of local identity associated with the council mergers;
- difficulty in managing community expectations of the impact of the council mergers; and
- managing employees through the merger and transition period led to unforeseen work place issues and challenges associated with organisational culture and work practices (LGAQ 2009).

In light of the likely challenges associated with implementing council mergers, a number of key considerations have been documented below to give an indication of the extensive planning and consultations required.

### Develop a target operating model

An important first step will be to define a detailed target operating model for the merged council. This will necessitate:

- an agreed organisational design mapped out at a high-level for the merged council. The design would need to indicate how key functions and divisions would be structured (on a FTE basis) and give due regard to governance and accountability in the organisation;
- an agreed organisational chart detailing the allocation of all resources to a designated function and role with corresponding performance benchmarks aligned with broader organisational objectives and outcomes; and
- a stocktake of all existing contractual obligations and commitments (both for services and infrastructure) currently held by Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council that will be transferred to the merged council.

### Key transition strategies

A series of carefully considered transition strategies will be required to underpin a successful implementation of a council merger. This includes:

- A change management strategy that gives due regard to the potential impact of a merger on council employees including managing variations in work practices and managing employee expectations during the merger; and



## 6. IMPLEMENTATION Key Considerations and Risks

### Key transition strategies (continued)

- An effective communications strategy will be required with a supporting budget to target key internal and external stakeholder groups during the merger process. The communications strategy needs to identify key messages for each stakeholder group with a view to identifying the likely impact on stakeholders, timeframes and solutions to potential risks and challenges.

### Comprehensive due diligence exercise

While a Merger Business Case provides a high-level (or 'first pass') analysis of the potential impacts of a merger, a comprehensive due diligence exercise will be required involving all three councils. The purpose of such an exercise would be to consider:

- Financial due diligence – including an audit of each council's financial information to check for integrity and confirm assumptions and veracity of data underpinning respective balance sheets.
- IT due diligence – including consideration of IT integration issues and potential risks. This would include an assessment of each council's existing information management systems and IT systems and identification of options for integration.
- Human resourcing due diligence – including how to harmonise the remuneration structures for employees of the three councils for the single merged entity.
- Technical due diligence – including an assessment of the physical condition of the assets and infrastructure across the three councils with an estimate of the remediation costs and likely infrastructure 'liability' of the merged entity. This analysis would also consider environmental exposures relating to these assets.

### Rates harmonisation

The Review Panel indicated an extended transition period spanning two electoral terms would be needed prior to the harmonisation of rates across councils that have merged. Consequently, differentials in residential and non-residential rates would likely remain until 2024. The NSW Government has also agreed to reform the rating system in NSW as part of the broader local government reform agenda. In this context, there are large number of – as yet undefined – factors that will influence the future rates obligations of communities post-merger.

In the intervening period, a future merged council would need to manage the complications of differential rates being applied across the council and how any future applications for Special Rate Variations would be implemented.

### Local representation and wards

The Review Panel indicated an extended transition period spanning two electoral terms would be needed prior to finalising local representation and (if applicable) ward boundaries for the new merged council entity. As yet, it is not clear whether the NSW Government will introduce a 'cap' on the number of elected councillors

In the transition period, it is expected that the total number of elected councillors for the merged council entity will increase significantly in the short term vis-à-vis the status quo.





## 6. IMPLEMENTATION Key Considerations and Risks

### Broader reform agenda

It is necessary to acknowledge the NSW Government's Fit for the Future reform initiative encompasses significantly more than council mergers. There are a wide range of changes planned for the local government sector, and it will be important that Bombala Council, Cooma-Monaro Shire Council and Snowy River Shire Council are well positioned to influence the outcome of these changes to the benefit of their respective communities.

These changes are underpinned by an agreement by the NSW Government to introduce a new Local Government Act by September 2016 (OLG, 2015). This is an attempt to modernise the legislation underpinning the sector and will also address:

- a revised rating system for NSW;
- efforts to reduce red tape and the regulatory burden on local councils;
- simplified statutory reporting requirements and a strengthened IP&R system;
- consideration of council performance benchmarking indicators;
- longer mayoral terms and more clearly defined roles for council executives; and
- increased flexibility for councils to achieve efficiency savings and cost reductions through state-wide procurement and contract management initiatives.

# Appendices





## APPENDIX A References

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## APPENDIX B Fit for the Future Benchmarks

Indicator	Measurement and benchmark	Potential limitation
<b>Operating performance ratio</b>	<p>This indicator measures a council's ability to generate sufficient revenue to meet the expenditure requirements of service and infrastructure delivery. This benchmark is included on the basis that while an operating deficit may be appropriate in the short-term, it is not sustainable in the long-term. Capital grants and contributions are excluded from this ratio.</p> <p><i>Benchmark: <math>\geq 0</math></i></p>	Nil.
<b>Own-source ratio</b>	<p>This indicator measures the degree of a council's reliance on external funding sources such as grants and contributions.</p> <p><i>Benchmark: <math>\geq 60</math> per cent</i></p>	This indicator does not account for the 'lumpy' nature of grants and contributions, nor the policy position of the NSW Government to direct financial assistance grants to rural and regional councils to support financial sustainability.
<b>Building &amp; infrastructure asset ratio</b>	<p>This indicator measures the extent to which annual asset renewal expenditure meets the cost associated with the asset depreciation for the year.</p> <p><i>Benchmark: <math>&gt; 100</math> per cent (over a three-year rolling average)</i></p>	This indicator is highly sensitive to how councils estimate depreciation expenses – these assumptions vary markedly across councils and over time, making it difficult to compare performance between councils.
<b>Infrastructure backlog ratio</b>	<p>This indicator measures the estimated cost of bringing assets to satisfactory condition as a proportion of the total value of infrastructure.</p> <p><i>Benchmark: <math>&lt; 2</math> per cent (over a three-year rolling average)</i></p>	A limitation of this indicator is that the data source relies on non-audited council accounts (Special Schedule 7) and is unlikely to be measured consistently across councils.
<b>Debt service ratio</b>	<p>This indicator measures 'appropriate and affordable' debt level servicing by councils. The indicator seeks to acknowledge the need by councils to reduce infrastructure backlogs through a combination of council finances and borrowings.</p> <p><i>Benchmark: <math>&gt; 0</math> per cent; <math>&lt; 20</math> per cent (over a three-year rolling average)</i></p>	This indicator does not consider the 'quality' of the debt – specifically as to whether it is being used to finance 'long-life' assets.

Source: KPMG, OLG (2014), IPART (2014)



## APPENDIX B Fit for the Future Benchmarks

Indicator	Measurement and benchmark	Potential limitation
<b>Asset maintenance ratio</b>	<p>This indicator measures actual asset maintenance expenditure relative to the required asset maintenance expenditure. This indicator illustrates whether a council is meeting all maintenance requirements, or allowing some assets to degrade over time.</p> <p><i>Benchmark: &gt; 100 per cent (over a three-year rolling average).</i></p>	<p>This indicator assumes the desired ratio underpinning each council's current LTFP will be maintained in a merged entity.</p>
<b>Real operating expenditure per capita</b>	<p>This indicator is intended to measure 'efficiency' over time and is not intended to be used as a benchmark for comparing performance across councils.</p> <p><i>Benchmark: Downward trend over time.</i></p>	<p>This indicator does not take into account varying community expectations of service levels provided by a local council. Increase in operational expenditure may reflect a community's expectations of increased service and infrastructure provision.</p>

Source: KPMG, OLG (2014), IPART (2014)



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