

**Westonia-Yilgarn
Regional Business Plan**

Summary



August 2011

achieving
results
in the public sector

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1 INTRODUCTION

Morrison Low has undertaken a comprehensive assessment of the option of a merger between the Shires of Yilgarn and Westonia. We conclude that while the new entity would still be small, the proposed merger would create a stronger Local Government with greater capacity to deliver services more effectively for both communities, even given the new challenges that will be taken on. It will also contribute to a stronger region, with more sustainable and resilient communities. This benefit is most apparent when looking at the strategic challenges of maintaining population and industry at a healthy level.

The full report outlines the case for a merger and presents the information and analysis that underpins it including an analysis of the current services, funding and structural arrangements as well as an overview of the financial capacity of the two Councils as compared to a merged entity. The analysis has generally followed the Department of Local Government's Regional Business Plan template. Feedback from community meetings held in Southern Cross on 6 July 2011, and Westonia on 7 July 2011 has been incorporated. The report will be submitted to the Local Government Advisory Board prior to the Board's consideration of the merger submission.

2 BACKGROUND

The Shires of Westonia and Yilgarn have represented their communities and provided infrastructure and services to meet the communities' needs for around a hundred years. In 1891, the Yilgarn Road Board was gazetted. In 1918, it merged with the Municipality of Southern Cross, and in 1961 became the Shire of Yilgarn following changes to the Local Government Act 1960. The history of Westonia follows a similar path; in 1916, the Westonia Road District was gazetted on land previously within the Merredin Road District. In 1961, it became the Shire of Westonia.

The Shires provide roads, recreational facilities, funding for medical services, parks and gardens, street lighting, and waste collection amongst other examples. They advocate for the interests of the community (with government agencies and local industry for example) and make decisions about where and how development can occur. The Councils are integral to the rich histories that have shaped the two districts as we see them today.

While the Councils have ably served their communities over this time, the expectations of local government have gradually expanded. It has become increasingly recognised that the substantial assets and services that local government is responsible for are vital ingredients in economic performance, social wellbeing and environmental sustainability.

The maintenance and renewal of assets needs to be provided for over long time periods. Historically, small Shires have not had the funds to undertake extensive planning, or programming for scheduled maintenance or renewal of infrastructure needed to deliver the services that communities demand.

Furthermore, communities are changing. For example, populations may be declining, increasing or changing in composition. The advent of fly-in fly-out and/or drive-in drive-out populations is a good example of the latter. Demographic change, such as we see in the age profiles of communities, is another. Tastes and preferences are also evolving. Communities now have greater expectations – recreation facilities are a case in point.

Existing local government boundaries may no longer reflect the best scale of investment in some assets or the most efficient and effective scale for delivering some services. Long term strategic and financial planning for service delivery and effective asset management are part of new requirements for integrated planning and reporting to meet acceptable standards of local government practice. The purpose of integrated planning is to ensure that:

- The organisation's activities are focused on the elected Council's/community's strategic priorities;
- Investment in, and maintenance of infrastructure is affordable and will support the development of the district and the selected service levels;
- The annual budget fits within the longer term financial plan;
- Plans can be adapted with an understanding of the implications and options for maintaining sustainability, including the whole of life implications of asset investment decisions;
- Community engagement on significant choices is enhanced; and
- Opportunities are identified to engage with other agencies on how to achieve better outcomes with and for the community.

The two Shires have a strong foundation of unity to work from. Westonia and Yilgarn have much in common. They have a similar population and industry base, have strong community pride, and are deeply interconnected with each other. The Shires have a history of working together for the mutual benefit of their communities. A notable example is the joint construction of Koorda-Bullfinch Road. Over a period of time, the working relationship continues to evolve where, in 2008, the Shires developed a 'Plan for the Future of the Districts', and signed a Memorandum of Understanding (MoU). The MoU committed both Councils to work collaboratively to share resources and develop joint initiatives that would add to the sustainability of both Local Governments.

Accordingly, the Shires of Westonia and Yilgarn submitted a merger proposal to the Local Government Advisory Board in April 2010. This was on the basis that as a combined entity the two Shires will be in a stronger position to plan for and provide the assets and services that will meet the communities' needs into the future.

The proposal is consistent with the strong push for voluntary structural reform in Western Australia. The Councils see this merger as an opportunity to choose an appropriate scale to retain effective local representation, strong local identities, common interest and responsiveness of service delivery – all of which are current strengths they feel would be lost in the event of a merger with a larger entity.

3 THE CASE FOR A MERGER

The Shires of Westonia and Yilgarn have much in common. The Shires have a similar industry and population base. They also share a strong history of working together. Westonia and Yilgarn are closely aligned in their strategic direction. The issues that impact on the Shires' strategic management, governance and administration are similar.

The services provided by the two Shires are broadly consistent with the differences being largely related to population size. Two exceptions to this are; firstly, the financial support provided by the two Shires to their respective community organisations and activities; and secondly, the fees policy for the respective swimming pools. In our opinion, these differences are not "show stoppers". If a merger proceeds, these differences would need to be resolved at some point, but are unlikely to be of immediate concern.

An analysis of the Community Survey Results suggests that the two communities show similar preferences and views about the relative importance and performance level of particular Shire services. For instance, medical services, main roads and rural roads were ranked as the three most important services to both communities. Furthermore, there is a strong desire by both communities to invest ratepayer's dollars into the retention of medical services. Investing as a single entity in service delivery will support greater specialisation and more efficient and effective operations.

The systems of the Shires reflect their small size. There would arguably be a benefit in a single financial management system from the proposed merger, meeting the appropriate standard.

In terms of operating matters, the analysis reveals that both Shires need to invest in the areas of strategic community planning, asset management and long term financial planning to meet the new requirements. It would clearly be more economical to invest as one in the required improvements.

The Shires are also facing significant workforce issues, in terms of:

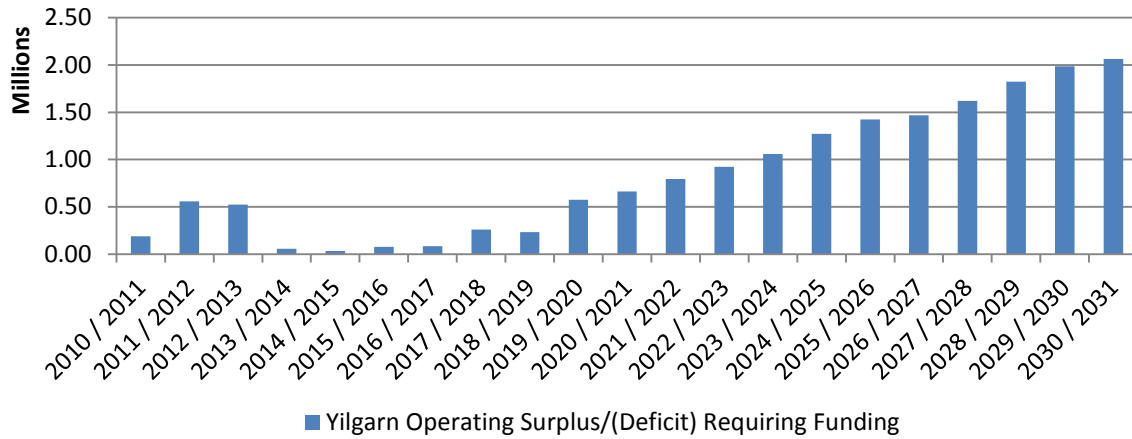
- The impact of imminent retirements, particularly in the outdoor workforce;
- The gap in wages and salaries between Yilgarn and Westonia;
- Competition from the wider resources sector; and
- Lack of capacity to meet future needs.

A merger of the two Shires would not eliminate the difficulties faced in the recruitment and attraction of suitably qualified and skilled staff, however it would be likely to reduce them.

The financial sustainability of each Shire has been modelled in a Long Term Financial Model. A financially sustainable Council is one that has the ability to fund ongoing service delivery, and the renewal and replacement of assets without imposing excessive debt or rate increases on future generations. This analysis looks at the Shires' funded operating position, funded capital program, reserves cash backed, and asset base maintenance.

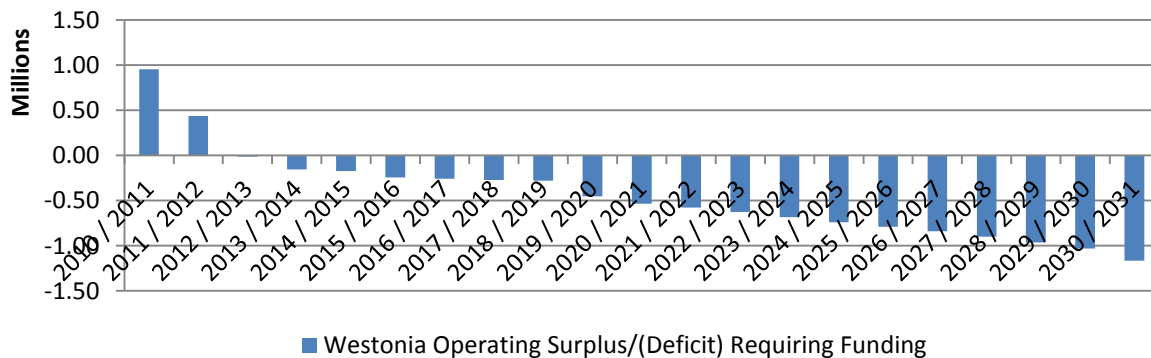
The report finds that the Shire of Yilgarn will be able to maintain the current operating surplus over the term of the plan as shown in the following diagram. This position includes capital revenue but does not include depreciation.

Yilgarn Operating Surplus/(Deficit) Requiring Funding



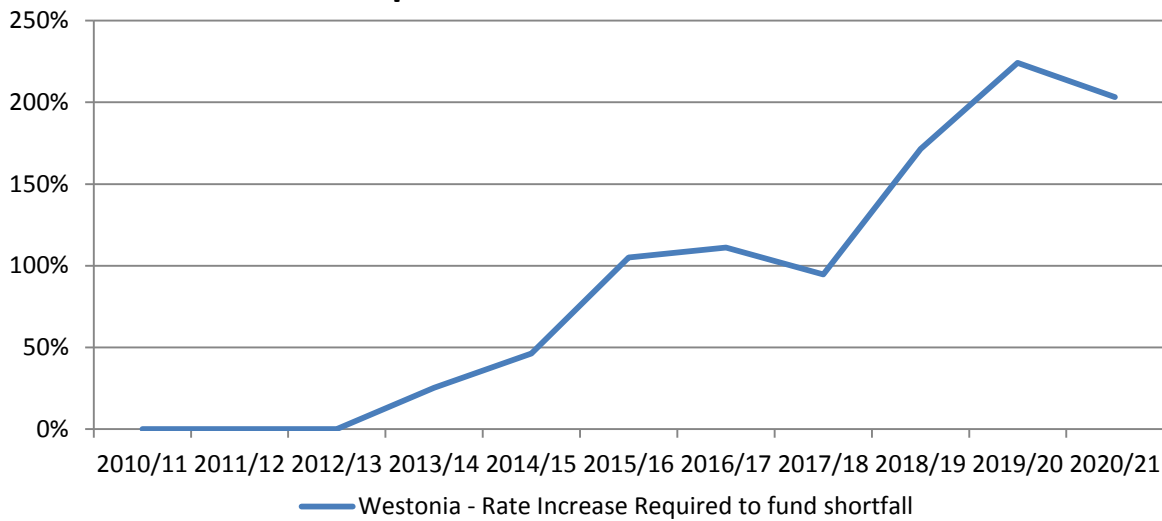
In contrast, the Shire of Westonia’s current limited operating surplus is projected to be maintained until 2012/13. After this time, it is expected that the Shire’s growing expenditure costs will not be matched by rate and other revenue growth.

Westonia Operating Surplus/(Deficit) Requiring Funding



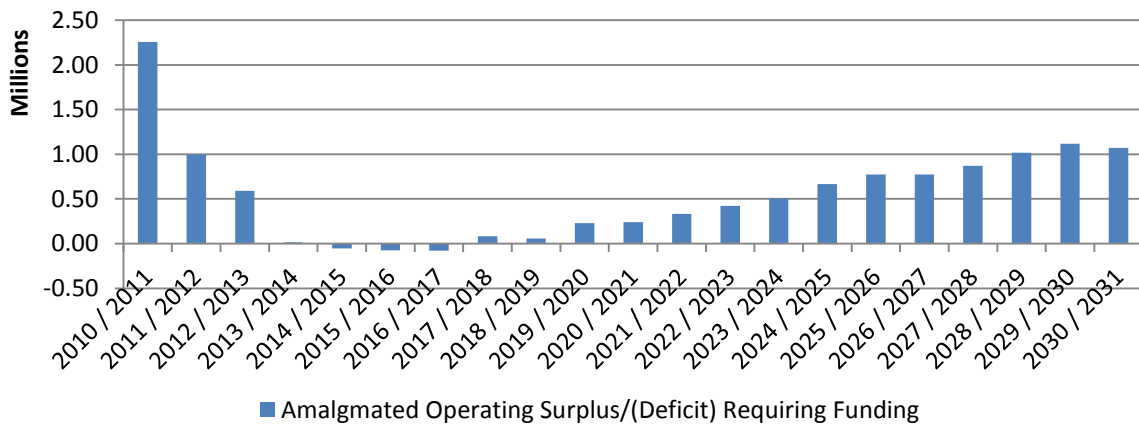
In order for the Shire of Westonia to remain economically sustainable into the future, the Shire would need to significantly raise rates or cut key services for the community. The following diagram shows the impact if rates are used to fund the shortfall.

Westonia - Impact on Rates if used to fund shortfall



The amalgamated picture below shows a challenging but manageable situation in the short to medium term but reasonable financial health in the long term.

Amalgamated Operating Surplus/(Deficit) Requiring Funding



Capital programs for the Shire of Westonia are funded through external grants and reserves, whereas the Shire of Yilgarn has additional general revenue to complement any external grants and reserves. In the model, it is assumed that if no funding is identified, Council will not proceed with planned projects.

The Long Term Financial Plan indicates that Yilgarn continues to maintain positive cash reserves over the term of the plan but that Westonia will have a cash and reserves shortfall from 2014/15, and this shortfall will continue until the end of the plan (2030/31). Note that

this partly reflects the rates impact of the closure of the Edna May goldmine at the end of its life. The financial picture would be improved if an equivalent mine operation were to open up by that time.

An analysis of a merged entity indicates that cash reserves can be managed and maintained over the duration of the plan with only moderate rate increases consistent with CPI or similar cost indices. For both Shires, the level of asset renewal is in excess of depreciation, indicating that the asset base is being maintained. However, asset value and resulting depreciation calculation is based on historical cost basis. The long term asset management plan to be prepared will inform asset investment decisions on an ongoing basis.

Improving Local Government capacity and financial sustainability are at the heart of the case for a merger. Noone could argue with the impressive achievements of both Shires under the current arrangements – the question is, could they be better off under a merger scenario, particularly given the increasing challenges they are facing? The analysis suggests this is indeed the case.

There are some difficult issues to consider on an individual community basis. Two issues that were canvassed in the earlier draft report were raised at the community meeting in Westonia. One of these was the impact on rates, particularly for its rural properties. We conclude that Westonia will need to address its low rating base whether it amalgamates or not. This is more clearly shown in the financial section in response to feedback at that meeting.

To assist in the transition, Councils have agreed that any rate increases should be phased in over five years. Moreover, the Councils have agreed that the additional rate revenue raised from Westonia, over normal annual rate increases, be quarantined for additional services, staffing costs or capital expenditure specifically for the area of the Shire of Westonia. Utilisation of this fund will be determined by the community of Westonia.

Another issue for Westonia is the level of representation. Westonia is the smaller of the two communities and is currently represented at an unusually high level. The level of representation will be reduced under the proposed merger. Furthermore, it is proposed to have three elected members from that Ward, while the Eastern Ward would have four, reflecting the difference in population size. However, the Western Ward's level of representation will still be relatively high and will be higher than for the Eastern Ward. In addition, while the Ward structure is designed to ensure the fairest possible spread of Elected Members, they will all be charged with representing the interests of the Shire as a whole once elected.

Overall, we conclude that while the new entity would still be small, the proposed merger would create a stronger unit of Local Government to deliver more effectively for both communities, even given the new challenges that will be taken on. It will also contribute to a stronger region, with more sustainable and resilient communities. This benefit is most apparent when looking at the strategic challenges of maintaining population and industry at a healthy level.

In such circumstances and in accordance with the voluntary nature of structural reform at the present time, we believe that the optimal outcome is the merger of the Shires of Westonia and Yilgarn to create the strongest and most effective Local Government possible within the resources available.

4 TRANSITIONAL CONSIDERATIONS

There are a number of transitional considerations that need to be addressed if a merger is to proceed. A detailed implementation plan will need to be prepared and appropriate reporting put in place to monitor progress on implementing the merger.

4.1 Overall governance and project management

In terms of overall governance and project management, the merger will be governed by Commissioners who will oversee arrangements until the new Council is elected. There will need to be an interim Chief Executive Officer who will work with the Commissioners to manage the process.

It will be important to follow appropriate change management protocols to ensure the welfare of staff over this time. The Department of Local Government has prepared a set of guidelines to assist with this. The guidelines can be accessed at:

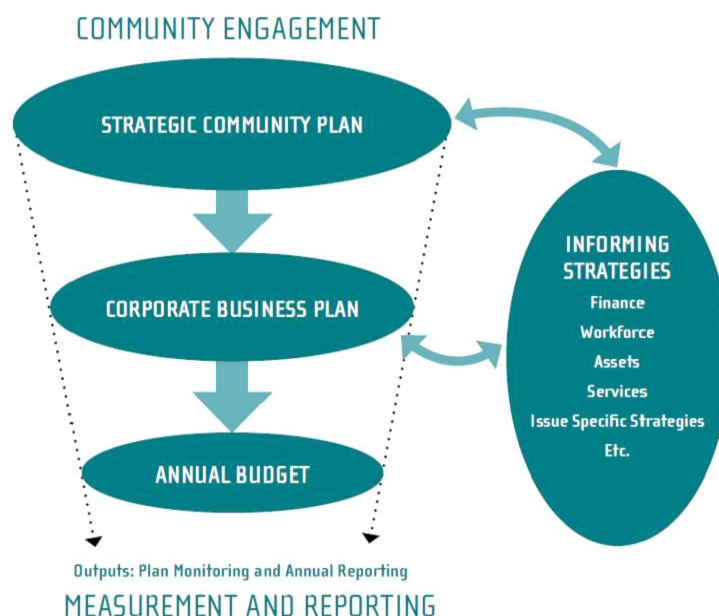
<http://dlg.wa.gov.au/Content/LG/LGReform/GuidesToolsFunding/HRandChangeManagement.aspx>

It will also be important to maintain effective public communication over this period.

4.2 Integrated planning and reporting

The new Shire will need to implement the required integrated planning and reporting framework as depicted below. Councils have undertaken a review of the services being offered and have prepared an overview as a base line to facilitate future Council operations. More work will be needed on community strategic planning for the new Shire, asset management and long term financial planning. This will need to include explicit definition of service levels, which will enable any disparities (such as those identified in the report) to be addressed. As the Shires have embarked on a structural reform process, the Department of Local Government has provided funding for this.

4.3 Integrated Planning and Reporting Framework



The draft compliance requirements below give an indication of what is involved:

Element	Draft Compliance Requirements
Strategic Community Plan (SCP)	<ul style="list-style-type: none"> ■ Minimum 10 year timeframe ■ States community aspirations, vision and objectives ■ Developed with community input ■ Minor review by Council every 2 years ■ Major review by Council with renewed visioning every 4 years ■ Adopted or modified through an absolute majority of Council
Corporate Business Plan	<ul style="list-style-type: none"> ■ 4 year plan ■ Plan identifies and prioritises the principal strategies and activities Council will undertake in response to the aspirations and objectives stated in the SCP ■ States the services, operations and projects that a local government will deliver over the period, the method for delivering these and the associated cost. ■ References resourcing considerations such as assets and workforce ■ Reviewed annually by Council ■ Adopted or modified by an absolute majority of Council
Reporting	<ul style="list-style-type: none"> ■ Notice given to the public when a SCP has been adopted or modified ■ Local Government reports in its Annual Report any changes to its SCP and any significant changes to its Corporate Business Plan.

4.4 Proposed Organisational Structure

The new Council will maintain offices and depots in both the towns of Southern Cross and Westonia, with the headquarters in Southern Cross. It will make sense to centralise some corporate functions.

Whilst the new Council is required to undertake a recruitment process to employ a Chief Executive Officer, all other staff employed prior to the merger will transition their employment responsibilities to the new Council.

An organisational chart has been included with the Regional Business Plan as a proposed interim. This organisational chart will need to be reviewed by the new Council and CEO following the merger. The interim proposal encompasses four Directors with staff located in both Southern Cross and Westonia with the key responsibilities of the new Council allocated to four directorates under direction of the Council and the CEO.

The Director Westonia Operations (DWO) will have direct responsibility for the day to day administration of the Westonia Office and Depot, and along with other Directors, will have a reporting responsibility to the CEO. Staff located in Westonia will report to the DWO for day to day activities and to the respective functional Director for high level direction and programming of activities.



The Director Corporate Services and Deputy CEO will have overall responsibility for finance administration, insurance, bushfire, community and governance functions.

The Director Works will have overall responsibility for external services of municipal works, transport and related functions.

The Director Environmental Services will be responsible for Health, Natural Resource Management, Building and Environmental services.

In terms of new positions or additional staffing, one area identified in the forward financial plan is to employ a Finance Manager/Accountant to eliminate the current reliance on external consultancies to assist with statutory accounting, budget monthly reporting etc. This person will also undertake the day to day administration of grants, statutory financial reporting etc so that the Director can concentrate on higher level reporting, budget review, and corporate and community strategic planning.

Proposed Structure

