

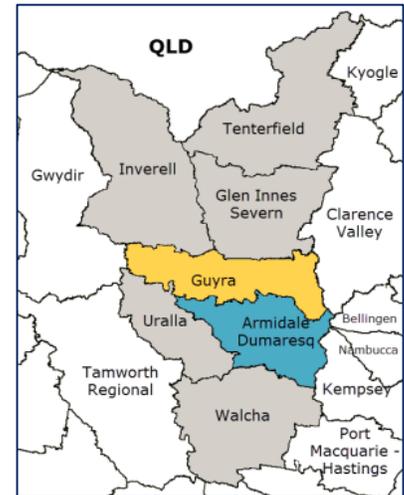
## ARMIDALE DUMARESQ COUNCIL – CIP

### NOT FIT

|                             |         |                  |                                 |
|-----------------------------|---------|------------------|---------------------------------|
| Area (km <sup>2</sup> )     | 4,212   | Population 2011  | 25,150                          |
| OLG Group                   | 4       | (2031)           | 31,650                          |
| ILGRP Group                 | E       | Merger 2011      | 29,650                          |
|                             |         | (2031)           | 36,500                          |
| Operating revenue (2013-14) | \$31.4m | TCorp assessment | Moderate FSR<br>Neutral outlook |

ILGRP options (preference in bold) **Merge with Guyra** (yellow) or council in New England JO (all shaded).

|                    |   |                                 |
|--------------------|---|---------------------------------|
| Assessment summary | Scale and capacity                      | <b>Does not satisfy</b>         |
|                    | Financial criteria:                     | <b>Does not satisfy overall</b> |
|                    | • Sustainability                        | Does not satisfy                |
|                    | • Infrastructure and service management | Satisfies                       |
|                    | • Efficiency                            | Satisfies                       |



### Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils must meet, therefore the council is not fit.

### Scale and capacity – does not satisfy

- The council's proposal to stand alone does not meet or only partially meets the elements of scale and capacity.
- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Armidale to merge.

### Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast for an operating performance ratio of -0.8% by 2019-20, which is below the benchmark.
- The council's forecast is based on depreciation declining and then remaining constant in nominal terms. We do not consider this is a reasonable assumption as it implies the asset base declines over time. Without this, the council's operating performance ratio would be worse.
- The council forecast it will meet the benchmark for the own source revenue ratio by 2019-20.
- The council has forecast the building and infrastructure asset renewal ratio will be 58.2% by 2019-20 which is below the benchmark.
- The council indicates it will apply for a permanent special variation from 2022-23 of 12.5% cumulative (10% above the rate peg). However, this is outside of the outlook period.

### Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmark for the debt service ratio by 2019-20.
- The council has forecast the asset maintenance ratio will be 97.1% by 2019-20, which is close to the benchmark. Similarly, the council has forecast the infrastructure backlog will be 3.1% in 2019-20, which is close to the benchmark. We consider the council's forecast performance on these ratios to be reasonable in the context of the council's performance against the other ratios.

### Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita by 2019-20.

## Other relevant factors

|                              |   |
|------------------------------|---|
| Social and community context | The LGA's community of interest would centre on Armidale. The presence of the University of New England makes the LGA somewhat distinct from other LGAs.  |
| Community consultation       | The council did not provide evidence of consultation about its proposal.  |
| Water and/or sewer           | The council has not provided evidence that its water and sewer businesses pay, or would be able to pay dividends. Consequently, the existence of these businesses only affect the council's scale and capacity insofar as they enable the council to hire staff with a wider range of skills.   |
| Submissions                  | Two submissions were received in relation to the council's proposal. One supports the council standing alone. The other is from Guyra Shire Council's General Manager. It refers to a resolution by Armidale Dumaresq council that the council submit an attachment to its proposal about merging with Uralla and Guyra councils. We note that Guyra Shire Council's General Manager requested that IPART should not consider the submission because stakeholders have not been given the opportunity to respond. |

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