

GOSFORD CITY COUNCIL – CIP

NOT FIT			
Area (km ²)	1,029	Population 2011	168,300
OLG Group	7	(2031)	(189,050)
ILGRP Group	Central Coast	Merger 2011	322,650
		(2031)	(386,900)
Operating revenue (2013-14)	\$168.3m	TCorp assessment	Moderate FSR Neutral Outlook
ILGRP option (no preference)	Gosford (blue) to merge with Wyong (yellow) or form a multi-purpose JO (no separate water corporation until other options properly evaluated).		
Assessment summary	Scale and capacity	Does not satisfy	
	Financial criteria:	Satisfies overall	
	• Sustainability	Satisfies	
	• Infrastructure and service management	Satisfies	
	• Efficiency	Satisfies	



Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The ILGRP noted that the Central Coast would benefit from strong governance. It stated that 'an amalgamation warrants further investigation, but if that option is rejected or deferred indefinitely, then a JO *should* be established and should assume responsibility for water along with other strategic functions' [emphasis added].
- Gosford's proposal is not consistent with the objectives for the Central Coast. The council ruled out both a merger and a multi-purpose Central Coast JO with Wyong. In particular, its proposal not to join a JO does not promote the objectives of strong governance for the Central Coast.
- The council's population is forecast to be 189,050 by 2031 compared to the forecast merger population of 386,900. Our analysis indicates the council does not have sufficient scale and capacity to effectively partner with governments compared to the 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.
- Wyong submitted a business case from Third Horizon. Based on this model, our analysis suggests the merger produces net benefits of \$101m over 20 years (including the full Government grant).
- In addition our independent economic consultants Ernst and Young have estimated gains from the merger of \$196m over 20 years using public data (not including the Government grant).
- All analyses showed large gains to the local community from a merger. Variances in calculations result from different inputs and underlying methodologies.
- The council noted its SGS business case showed net benefits from a Gosford/Wyong merger. IPART requested a copy of this business case, but the council did not provide it.

Sustainability – satisfies

- The council satisfies the sustainability criterion based on its forecast to meet the benchmarks for the operating performance ratio and own source revenue ratio by 2019-20.
- The council's strategies for improvement rely on a number of assumptions including the potential application for and adoption of a single year special variation in 2017-18 of 12.0% cumulative (9.5% above the rate peg). The council has not yet resolved to proceed with this special variation. The council states rate increases under the proposed special variation are half that expected under a merger with Wyong (around 21.5% including the rate peg).
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 reserves would reduce this ratio by approximately two percentage points in 2019-20, however the council would still meet the benchmark.

- The council's building and infrastructure asset renewal ratio improves from 69.5% in 2014-15 to 88.2% in 2019-20, which does not meet the benchmark. However, the council has forecast it will meet the benchmark by 2022-23.

Infrastructure and service management - satisfies

- The council meets the infrastructure and service management criterion based on its forecast to meet the benchmarks for the asset maintenance ratio and the debt service ratio by 2019-20.
- The council's infrastructure backlog ratio is forecast to reduce to 3.5% by 2019-20, but does not meet the benchmark. The council notes a review of its Special Schedule 7 by Jeff Roorda & Associates identified its asset backlog was overstated as a higher 'Condition 2' standard was used for most of its asset base.

Efficiency - satisfies

- The council meets the efficiency criterion based on a decrease in real operating expenditure per capita from 2014-15 to 2019-20. It has assumed an operational efficiency dividend of 0.5% per annum. It notes a targeted 10% operational efficiency dividend could not be met in 2014-15 due to the recent storm clean up in April 2015.

Other relevant factors

Social and community context	The council's proposal stated there are very different socio-economic backgrounds between the far north and far south coast of the Central Coast area.
Community consultation	The council undertook online and face to face surveys. The survey outcome was that 38% of respondents ranked the shared services model as the preferred option and another 47% ranked it as the next preferred option. (The other options were 'no change' and 'amalgamation with Wyong Shire Council').
Water and/or sewer	The council indicated its water and sewerage operation fully complies with the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework. Its water and sewerage rates are set by an IPART Determination on a full cost recovery basis until 30 June 2017. No dividends were paid in the last two financial years.
Submissions	We received four submissions in relation to Gosford's proposal. Three supported a merger. One (from the Federal MP) opposed the merger. In a meeting the council discussed a number of issues from implementing a merger with Wyong along the lines of the ILGRP's preferred options. For example, it considered there would be a financial impact on ratepayers from rate harmonisation in a merger with Wyong. Additionally, it considered the councils had a different focus given Wyong was undergoing greenfield growth with Gosford undergoing brownfield growth.
