MorrisonLow

Gloucester Shire Council

Great Lakes COUNCIL

Gloucester Shire and Great Lakes Councils

Fit for the Future - Shared Modelling

March 2015

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1. INTRODUCTION

1.1 Fit for the Future

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However, there were various views as to how this could be achieved and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Gloucester Shire Council and Great Lakes Council have commissioned Morrison Low through the Office of Local Government Merger Business Case Panel to undertake a merger business case using a broad range of factors (financial, social, environmental) in order for each council to understand the implications of the merger of the two councils proposed by the Independent Local Government Review Panel.

1.2 Shared modelling

The modelling is prepared on the basis of the information publicly available and augmented by the councils. The modelling is provided identically to all of the councils in the project.

Where the data is inconsistent or unclear it has not been included and will be recorded as either ‘no data’ or ‘no result’.

1.2.1 Providing information to enable councils to individually make their decisions

The modelling is intended to allow the councils to individually and collectively understand what the benefits and dis-benefits of the merger of the councils. It has involved analysing historic, current and forecast performance as well as drawing in information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The project is not intended to advise each council of the best option for them (although it may naturally fall out of the modelling. The project simply provides the information that will enable each council to determine its individual course of action, undertake informed consultation with its community, and ultimately form the basis of the council’s submission.

1.3 Tight timeframes

The timeframes for this project have been challenging but we appreciate that the work has been required to allow plenty of time for each council to work through issues with the community or potential merger partners and prepare submissions for 30 June 2015.

Notwithstanding that we fully understand the need for those tight timeframes, that understanding is tempered with a recognition that the data available for modelling has some limitations as a result. The standardisation of the data across the two councils has been conducted on a best efforts basis under those particular timing constraints.

The data provided within the model is drawn from a variety of sources (including the councils directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail. For consistency across the councils, publicly available information has formed the basis of the analysis. This has been refined and modified through discussions and workshops with the councils.

Notwithstanding these constraints, we have had great support from the staff of each council, providing quick responses to our requests for information and active and knowledgeable participation in the workshops. We thank the executives and staff of the councils for their input and cooperation.

2. SCOPE

2.1 Multiple scenarios

The shared modelling project was undertaken on the basis of evaluating the following options.

1. **Status Quo**

   The baseline is measured against what each council has reported the current and future financial position to be. The analysis is based on the published Financial Statements and Long Term Financial Plans of the councils. Gloucester Shire Council has a Special Rate Variation and an alternative scenario has been modelled which recognises the impacts of that.

2. **Meeting the Benchmarks**

   This scenario answers the question as to what each council would need to do to meet the Fit for the Future benchmarks. It does not address the question of scale and capacity and concentrates on the seven government benchmarks.

   The scenario is built up by separately considering the operating result, asset renewal, asset maintenance, and the infrastructure backlog. It identifies what, if any, funding gap exists but it does not identify how the gap is to be resolved as that is a question for each individual council. In some cases this has required a standardised approach to be used to provide comparability.

   We acknowledge the work each council has done to understand its assets and community priorities and our analysis and assessment should be understood as applying to the context.

3. **Merged Council**

   This scenario models a merger of the two councils and assesses the advantages and disadvantages of this against a series of criteria. The agreed criteria include financial and non-financial indicators and go beyond the government's Fit for the Future benchmarks to incorporate communities of interest and the alignment between the council organisations.

The scenarios assess the advantages and disadvantages of this approach including the financial costs and benefits.

2.2 Reporting

This report is intended to provide a collective body of information that each council will then use to determine what is in the best interests of the council and community. As such it does not seek to recommend any one option over another option for a particular council.

The report compares options and highlights advantages and disadvantages. The relative weighting that each council then applies will be a matter for each individual council.

3. EXECUTIVE SUMMARY

This executive summary provides the key outcomes from our analysis. However the full report needs to be read to provide the context to the analysis and assumptions that underpin the modelling.

3.1 Scale and capacity

The Government has made it clear that the starting point for every council is scale and capacity.

In the case of Gloucester Shire Council and Great Lakes Council, and based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other.

While either council could make an argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that. In the case of Gloucester Shire Council it may be difficult, given the size of the council and the population it serves to meet the government's test around scale and capacity on its own but that is something for the Council to assess. Great Lakes arguably can make a stronger case as the merger (which meets scale and capacity) makes much less of an impact for Great Lakes than for Gloucester when considered against the key aspects of scale and capacity

3.2 Fit for the Future benchmarks comparison

The government has established a set of Fit for the Future Benchmarks which all councils are being assessed against. We have undertaken a detailed analysis of the financials and asset management approaches on the following basis:

- Gloucester Shire Council: A base case and then with their SRV
- Great Lakes Council: A base case and then with their asset update
- A Merged Council: Analysed on the base case basis

The table below summarises the results of that analysis.

Table 1 Overall comparison of options against Fit for the Future benchmarks

	Gloucester Shire Council		Great Lakes Council	Merged Council	
Council	**Base case**	**SRV**	**Base case**	**Day one**	**Modelling period**
Operating Performance	No	No	From 2021	No	No
Own Source Revenue	From 2018	From 2018	Yes	Yes	Yes
Debt Service Cover	Yes	Yes	Yes	Yes	Yes
Asset Maintenance	No	No	No	No	No
Asset Renewal	No	No	From 2022	No	No
Infrastructure Backlog	No	Partial 2016-2019	No	No	No
Real Operating Expenditure	Yes	Yes	Yes	Yes	Yes

3.3 What is required to meet the benchmarks

In order for the individual councils to meet the Fit for the Future benchmarks throughout the period from now until 2023 each council would need to address both an operating performance funding gap and an asset funding gap.

The table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset maintenance ratio[1], renewal ratio and bringing the infrastructure backlog[2] to the benchmark of 2% within five years.

Table 2 Summary of infrastructure funding gap

Council[3]	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Gloucester Shire Council	-5,458	-3,212
Great Lakes Council	-1,020	- 607

The table below identifies the average annual gap between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each council's LTFP. Each council will also need to address this in order to meet the benchmark.

Table 3 Operating performance funding gap

Council	Average gap ($000)
Gloucester Shire Council	-3,321
Great Lakes Council	- 245

While addressing the additional expenditure requirements set out above should assist each council to achieve the Fit for the Future benchmarks, each council must still address the government's starting point of scale and capacity first.

3.4 Merged council

3.4.1 Scale and capacity

On the basis that the independent panel recommendation proposed that either the two councils merge or that there be a Mid-North Coast JO, it can be assumed that a merged council would achieve the scale and capacity requirements.

3.4.2 Funding shortfall

The merged council is the sum of its parts. This means that the asset and financial positon of each council directly contributes to the overall asset and financial position of the merged council.

1 Based on Morrison Low's assessment of required maintenance

2 Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology

3 Infrastructure funding gap does not take into account any potential SRV applications

As with the individual councils, the merged council does not meet the asset related benchmarks. Therefore a funding gap in order to address the asset maintenance, asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 4 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	- 8,200	- 4,880

It is also important to consider that the average operating result of the merged council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) over the same period is a deficit of $10.4 million.

3.4.3 Fit for the Future benchmarks

A merged council would meet the benchmarks for the debt service, own source revenue and real operating expenditure ratios from day one and remain above the benchmarks throughout the period being modelled. Of the other indicators:

- the Operating Performance ratio remains static at an average of around 11.1% of the benchmark for the duration of the period modelled, well below the break-even requirement for the benchmark
- the Asset Maintenance ratio remains static at around 90% of the benchmark for the duration of the period modelled, below the required benchmark of 100%
- the Asset Renewals ratio falls from above 90% in 2016 substantially by 2019 to remain at around the 75% mark, well below the required benchmark of 100%
- the Infrastructure Backlog rises consistently from 3.6% to over 7% by the end of the modelling period, remaining above the 2% benchmark.

3.4.4 Debt

Both councils carry debt which would be taken over by a merged council. However, both councils meet the Fit for the Future benchmarks debt servicing ratios and so does the merged council, It is recognised that debt is an issue of general concern to communities and the Gloucester community may have a view about an increase in debt on a per capita basis with a merger, although this is may be offset by the greater capacity to meet the debt servicing requirements overall.

Table 5 Comparison of debt[4]

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
Gloucester Shire Council	$3,696	4.4%	$734

[4] Based on 2014 Actual

Great Lakes Council	$50,174[5]	13.0%	$1,365
Combined	$53,870	11.8%	$1,289

3.4.5 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy as there are a number of significant differences in the rating systems of the two councils which impact on the rates charged to an individual property. Assuming a single rating system would be put in place across the two councils, modelling of the impact on rates was carried out. Changes to the average business, residential and farmland rates have been modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category shown in the table below.

Table 6 Merged council modelled rating impacts

	Gloucester (ad valorem)	Gloucester (base rate)	Great Lakes (ad valorem)	Great Lakes (base rate)
Residential	- 8%	+ 19%	+ 1%	- 1%
Business	+ 3%	+ 55%	0%	- 6%
Farmland	+ 31%	- 16%	- 13%	+ 7%

3.4.6 Environment and community aspirations

Both councils have strongly stated desires to protect their environments with Gloucester looking to value and protect their environment and Great Lakes having more of an emphasis on the sustainable management of their environment. One area of difference is in the references each council makes to infrastructure. The Gloucester Community Strategic Plan includes a key direction around maintaining core infrastructure which like many areas facing static or declining population, is a key issue to be addressed. Whereas Great Lakes refers in their vision to balancing their unique and sustainably managed environment with quality lifestyle opportunities created through appropriate development, infrastructure and services, which reflects the growth and development pressures they, like many coastal councils, are facing.

3.4.7 Representation

A merged council with 11 councillors has been assumed, which would be a reduction in overall councillor numbers from the present seven for Gloucester and nine for Great Lakes, with a subsequent impact on representation as shown in the table below. It may be possible to put in place measures to address the loss of representation for the Gloucester Shire Council residents through local or community boards, but at present the government has not set out in detail any proposal that the community could consider. Any changes in representation would be most significantly felt in Gloucester where there are currently very high levels of representation.

[5] Great Lakes Coucnil has recently taken advantage of the Office of Local Government Local Infrastrcutrue Renewal Scheme (subsidised loan program) to borrow $18M

Table 7 Comparison of representation

Council	Representation (population / Councillor)
Gloucester Shire Council	717
Great Lakes Council	4,055
Combined	3,773[6]

3.4.8 Community profile and communities of interest

Differences between Gloucester and Great Lakes reflect the different natures of the areas. Gloucester being a smaller rural shire whereas Great Lakes is a larger and more urbanised area. Both areas have similar age profiles, similar household types and both areas have low multicultural diversity, and a lower education profile. While both areas are below the NSW median for socioeconomic disadvantage, Gloucester has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, as well as higher home purchasing and labour force participation and lower unemployment.

The population of Gloucester is predicted to decrease by 3.35 in the period to 2013 while the population of Great Lakes is predicted to increase by 7.7%.

Studies of cross-border movements do not reveal high levels of interdependency between Gloucester and Great Lakes, with Great Lakes linked more closely with Greater Taree. Gloucester has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

3.4.9 Costs and savings of the merger

The costs and savings of the merger arising throughout the period have been modelled and should be considered in conjunction with the infrastructure funding gap identified above and the overall financial performance of the merged council when making a decision.

Transition costs are in the context of the two councils a significant cost in the early and mid-periods of the newly merged council and arise from costs associated with creating the single entity (structure, process, policies, systems and branding), redundancy costs and the implementation of a single IT system. Longer term costs continue to rise as staff numbers increase, which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors. In this case these are minor as only the General Managers are considered senior staff. Natural attrition is used to reduce staff numbers in the short term with a focus on removing the duplication of roles across the two councils and creating greater efficiency in operation, however the overall decrease in staff numbers is small leading to a small saving. Procurement and operational expenditure savings are also expected due to the size and increased capacity of the larger council but again these are small given the increase in size is modest. In the medium and longer term savings continue to arise.

[6] Assumes 11 councillors

Overall the modelling projects a net cost to the two councils arising from the merger as set out in the table below.

Table 8 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
- $1.1 million	- $1 million	- $.96 million

3.4.10 Risks arising from merger

There are a number of significant potential financial and non-financial risks arising from any merger that will need to be considered, including the following which have been outlined in this report:

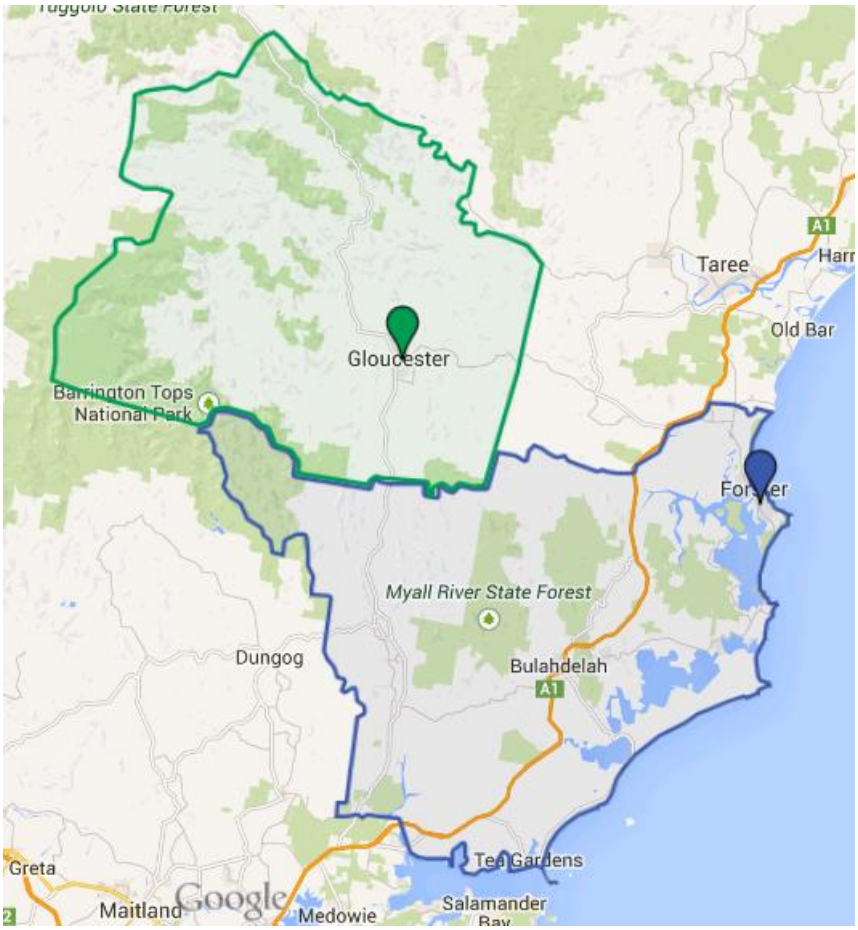
- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs maybe higher and the anticipated savings may not be achieved
- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the two council organisations may not go well resulting in low morale, increased staff turnover rate etc, reducing business performance and prolonging the time it takes for the predicted efficiencies to be achieved
- Where two unequal sized councils merge there is a danger it is seen not as a merger but as a takeover by, in the case Great Lakes, the larger council
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated
- New services are introduced that are not currently delivered in one or more of the former council areas
- The financial performance of the merged council is less than that modelled, resulting in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit

4. DETAILED ANALYSIS

4.1 Status quo

Gloucester Shire Council and Great Lakes Council occupy a large geographic area north of Newcastle and south of the NSW Mid-Coast. Great Lakes Council borders the sea and Gloucester being inland of it. A map of the area is set out below and shows each council area and the current location of the main council offices.

Figure 1 Map of Gloucester Shire and Great Lakes Councils



As a starting point, the Councils' current performance against the Fit for the Future benchmarks[7] has been considered and set out in the table below. We believe it is important to understand the respective position of each council as it is today and the results are those reported in the 2014 Financial Statements of each council. Figures in red are those where the Council does not meet the benchmark. We note that previously councils have not been required to report on the real operating expenditure ratio so these results were not published in the 2014 Financial Statements.

An explanation of each indicator and the basis of the calculation are set out in Appendix A. Each has been calculated in accordance with the requirements set down by the Office of Local Government. The ratios are a reduced set of benchmarks drawn from those used by TCorp in its 2013 analysis of the Financial Sustainability of the New South Wales Local Government Sector.

[7] Reported in the 2013/14 Financial Statements for the respective councils

Table 9 Fit for the Future benchmarks 2014

Council	Operating Performance (%)	Own Source Revenue (%)	Debt Service (%)	Asset Maintenance (%)	Infrastructure Backlog (%)	Asset Renewal (%)
Gloucester Shire Council	-83	53.3	123*	31	43	43.99
Great Lakes Council	-3.52	71.84	1.98	100	6	127.2

* *The Gloucester Shire Council 2013-14 Financial statement recorded a -101.38% figure with an explanation that as the Council had made a loss before capital gains in the FY2014 year, they felt that this ratio had become redundant. The report noted that the council did not receive the FAG prepayment which it was relying on to sustain its operating profit for the year. If Council had received the budgeted FAG payment this ratio would have been around 123% which is below the benchmark, however to better Councils operating position, lessening the debt will free up vital operating funds.*

Based on each council's reporting in their 2014 Financial Statements, Gloucester meets only one of the Fit for the Future benchmarks while Great Lakes meets all but two at present.

4.1.1 Fit for the Future indicators

While looking at the 2014 Financial Statements provides a historic view of performance Fit for the Future concentrates of forecast performance. We have undertaken an analysis of both Council's current financial statements, projected financial performance and applied a standardised approach to the calculation of all infrastructure ratios to provide consistency and comparability for the purposes of this assessment.[8]

Based on that modelling, Gloucester Shire Council will meet three of the benchmarks over the period until 2023, two now (Debt Service and Real Operating Expenditure) and with one further benchmark attained in 2018 (Own Source Revenue). The addition of the SRV satisfies the infrastructure backlog ratio between 2016 and 2019.

Great Lakes is projected to meet five benchmarks, three now (Own Source, Debt Service and Real Operating Expenditure) with two more attained during the modelling period (Operating Performance in 2021 and Asset Maintenance which is met between 2016 and 2020).

The tables below provide a summary of each council's performance against the benchmarks. The figures that follow show the trends of the benchmarks over time for each council. The government has made it clear that the trend of Councils should be improving against the benchmarks. Where the results for each council's two scenarios are the same, it is shown as one line only.

[8] The explanation for each is set out in section 4.2

Table 10 Gloucester Shire Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome	Modelling Outcome (SRV)
Operating Performance	*Does not meet the benchmark*	*Does not meet the benchmark*
Own Source Revenue	*Meets the benchmark from 2018*	*Meets the benchmark from 2018*
Debt Service Cover	*Meets the benchmark*	*Meets the benchmark*
Asset Maintenance	*Does not meet the benchmark*	*Does not meet the benchmark*
Asset Renewal	*Does not meet the benchmark*	*Meets the benchmark until 2018*
Infrastructure Backlog[9]	*Does not meet the benchmark*	*Meets the benchmark 2016-2019*
Real Operating Expenditure	*Meets the benchmark*	*Meets the benchmark*

Table 11 Great Lakes Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	*Meets the benchmark from 2021*
Own Source Revenue	*Meets the benchmark*
Debt Service Cover	*Meets the benchmark*
Asset Maintenance	*Does not meet the benchmark*
Asset Renewal	*Meets the benchmark from 2022*
Infrastructure Backlog[10]	*Does not meet the benchmark*
Real Operating Expenditure	*Meets the benchmark*

[9] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

[10] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Figure 2 Operating performance ratio[11]

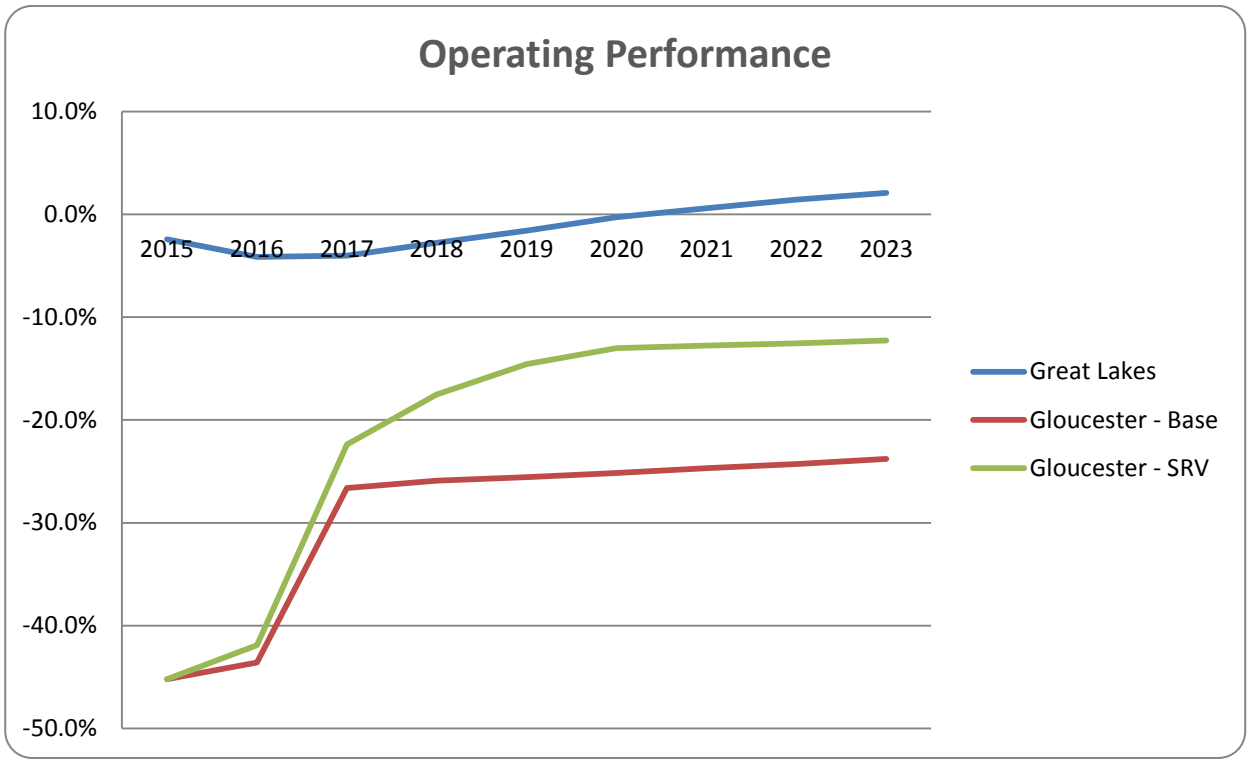
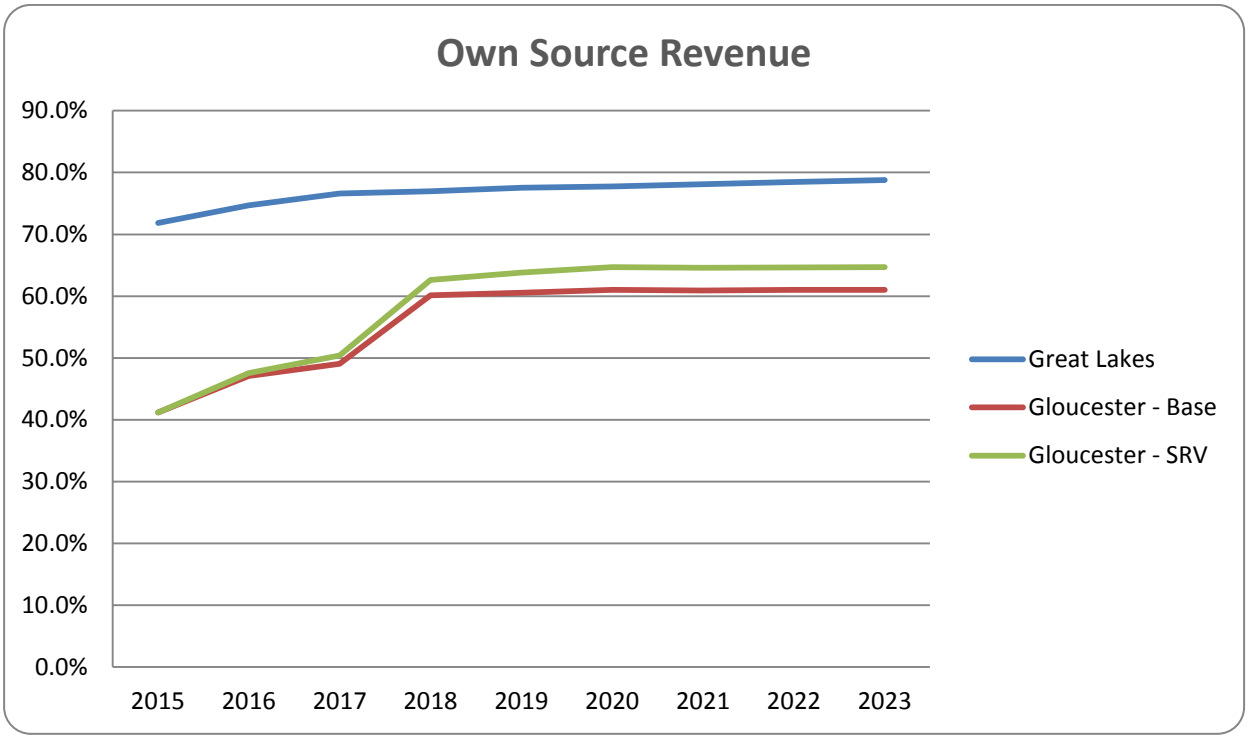


Figure 3 Own source revenue[12]



[11] Benchmark is greater than or equal to break-even
[12] Benchmark is greater than 60%

Figure 4 Debt service ratio[13]

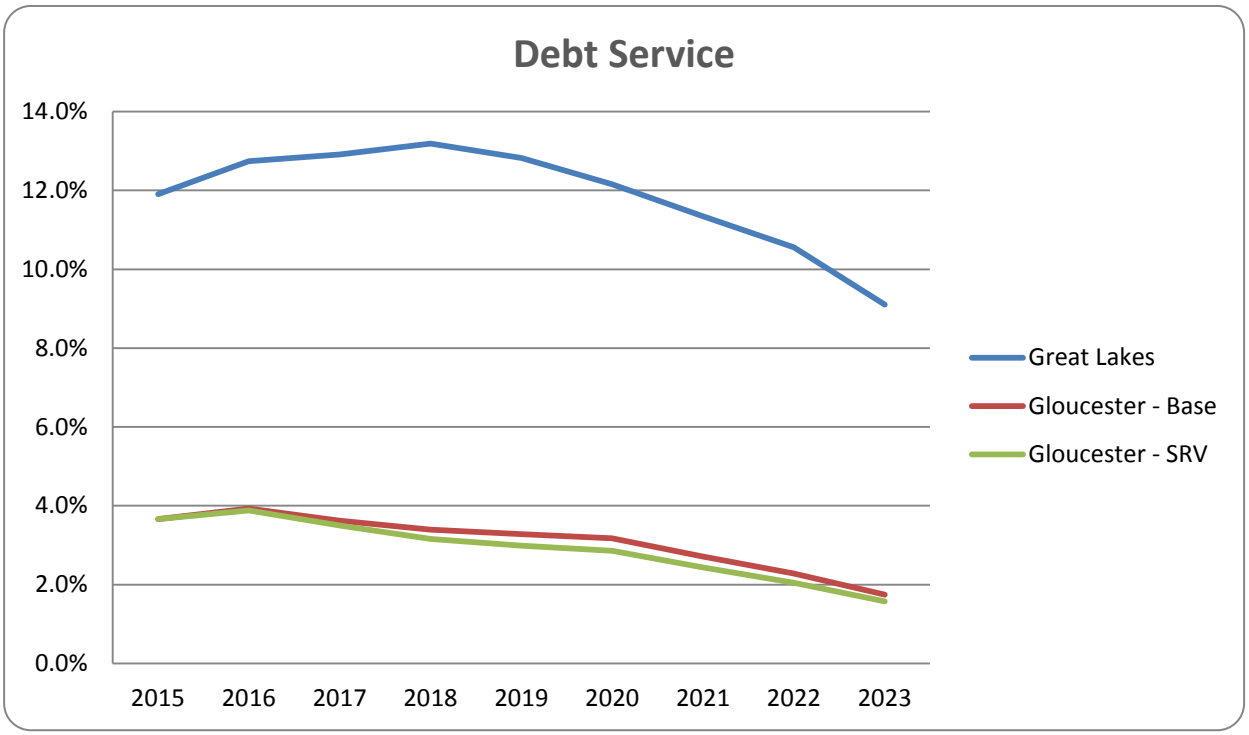
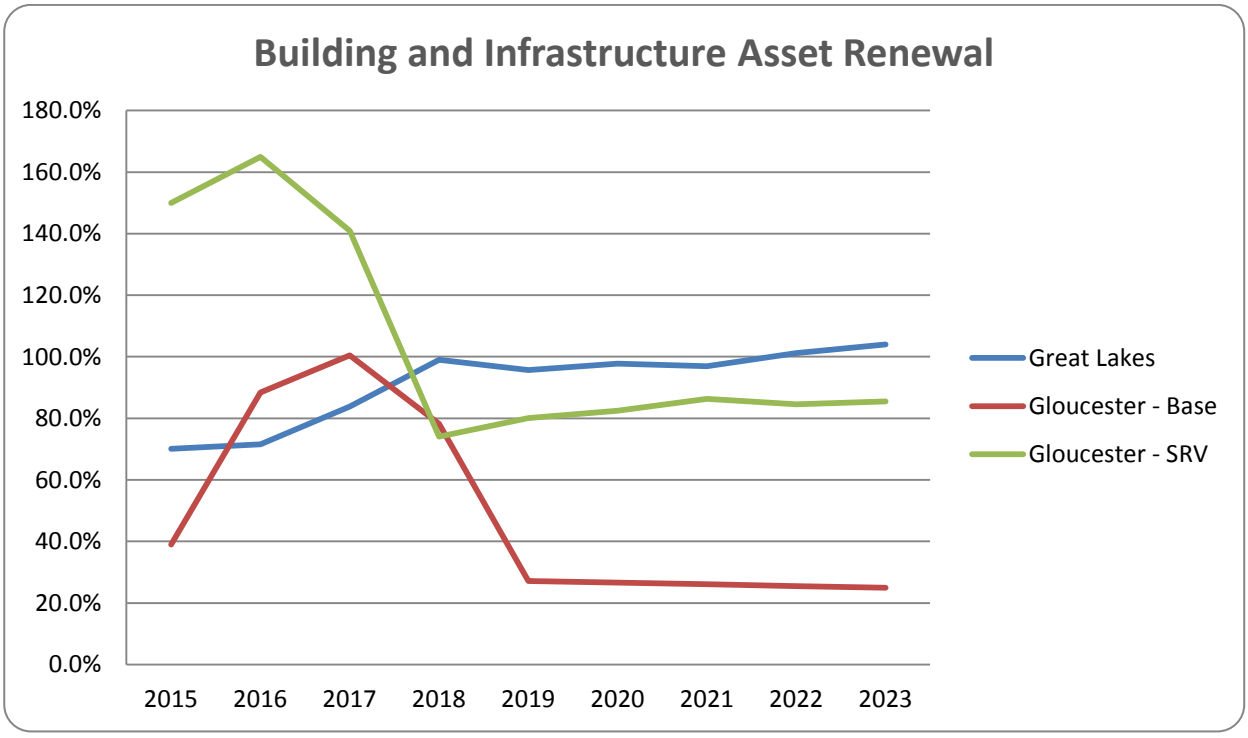


Figure 5 Asset renewal ratio[14]



[13] Benchmark is greater than 0 or less than 20%
[14] Benchmark is equal to or greater than 100%

Figure 6 Infrastructure backlog ratio[15]

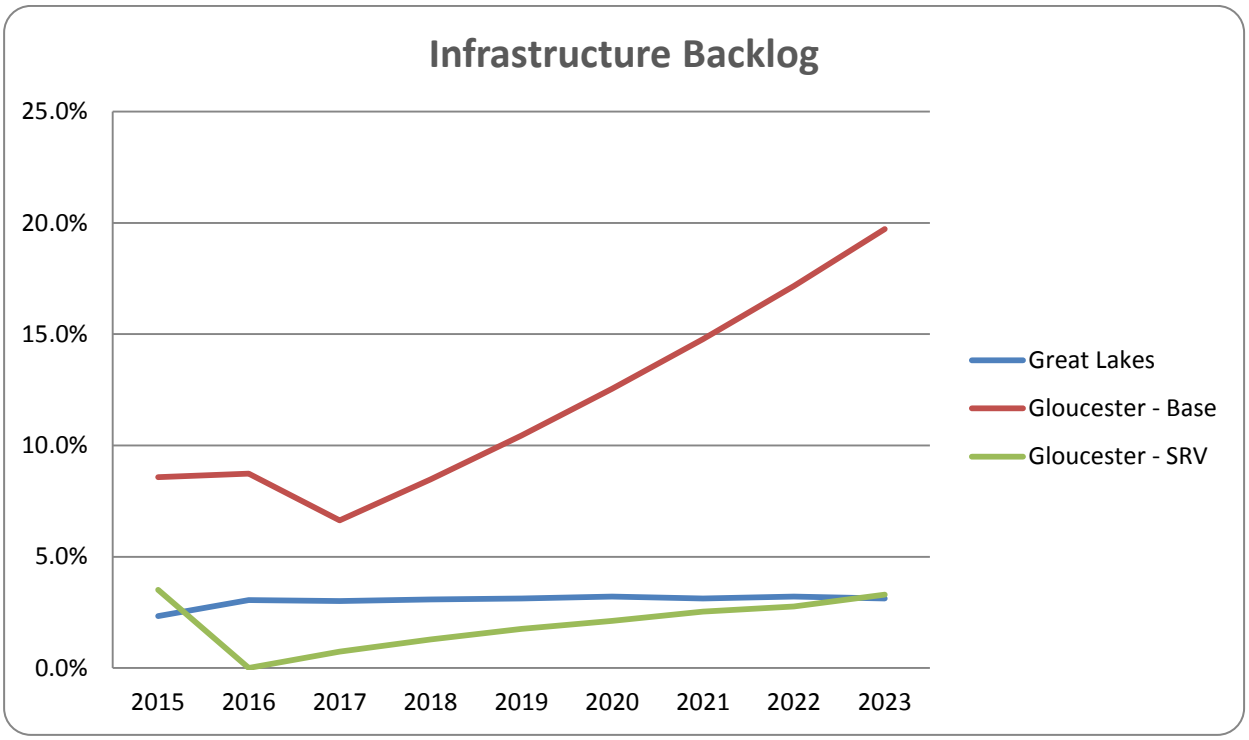
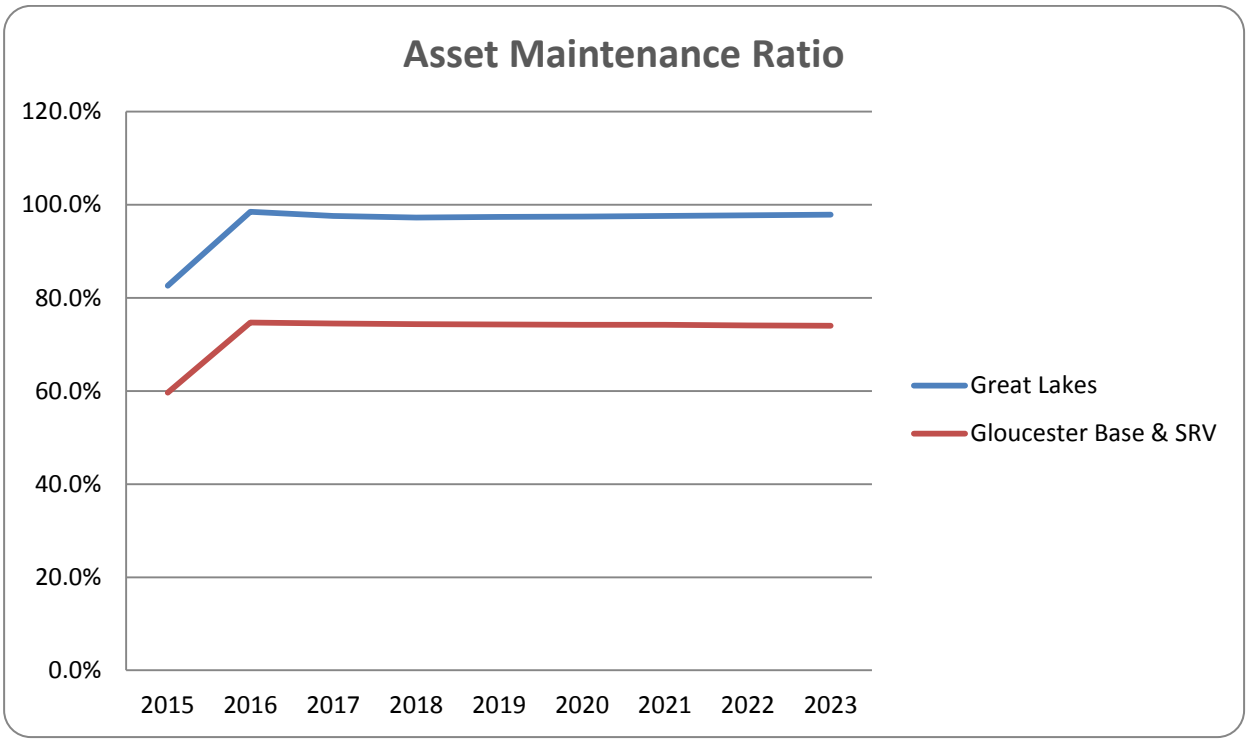
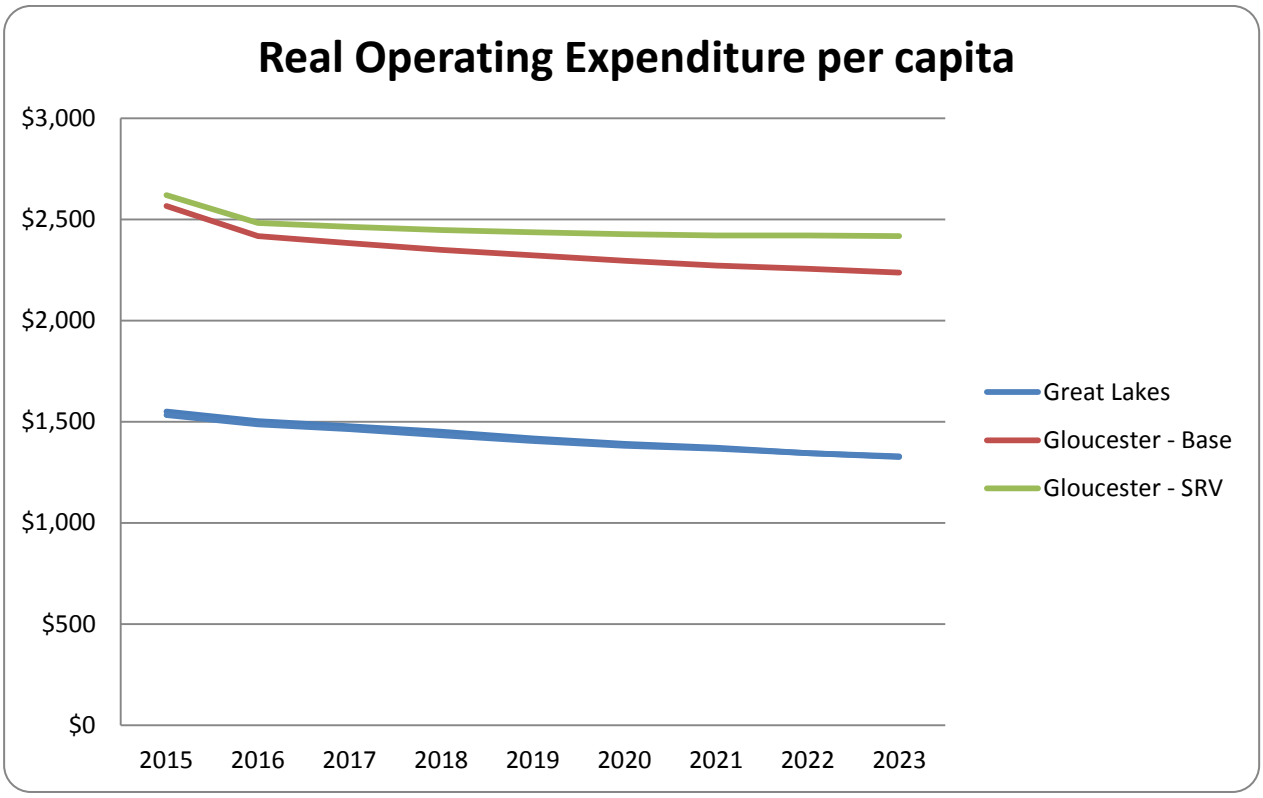


Figure 7 Asset maintenance ratio[16]



[15] Benchmark is less than 2%
[16] Benchmark is equal to or greater than 100%

Figure 8 Real operating expenditure[17]



4.2 Meeting the benchmarks

An analysis of what would need to be done in order for each council to satisfy the Fit for the Future benchmarks has been undertaken. The analysis is against each council's base case scenario. The asset based ratios (asset maintenance, asset renewal and infrastructure backlog) have been considered as has the operating performance ratio. Each aspect has been separated out in the following sections before being combined into an overall figure which identifies what, if any, funding gap exists that if satisfied would enable the council to meet the Fit for the Future benchmarks.

Where such a gap has been identified and should a council choose to pursue a standalone response to Fit for the Future, then the council will then need to determine how they best address that gap. We would expect that this would be either through additional revenue, a reduction in operating expenses or a combination of both.

4.2.1 Operating performance

The operating result of each council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP.

[17] Benchmark is decreasing over time

Table 12 Operating performance funding gap

Council	Gap ($000)
Gloucester Shire Council	-3,321
Great Lakes Council	- 245

4.2.2 Asset maintenance

The maintenance ratio is based in part on the number each council reports as 'required maintenance'. However there are no guidelines on how required maintenance is to be calculated and when the required maintenance figures from across the councils were considered some significant variations were identified.

A standardised approach was adopted for the purposes of this project in order to provide a relative comparison of the two councils and for use when estimating the required annual maintenance for the merged council.

The approach uses a percentage of the current replacement cost as the basis for required maintenance. The rates for the different asset classes are based on our knowledge and expertise as well as consideration of ratios of similar councils as benchmark comparisons.

The table below sets out the gap between the required annual maintenance and projected maintenance. For simplicity, this is presented as an average of the years projected in each council's LTFP. Negative figures are highlighted in red and show the annual additional amount a council, based on our standardised approach, would need to spend on maintenance to satisfy the asset maintenance ratio.

Table 13 Asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Gloucester Shire Council	2,922	3,934	-1,012
Great Lakes Council	8,648	8,856	- 208

4.2.3 Asset renewal

The asset renewal ratio is based on each council's assessment of annual depreciation on buildings and infrastructure and their actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

While the calculation of depreciation varies quite significantly across the two councils it is not possible to simply standardise depreciation in the same way that the required maintenance number can be. The assessment of depreciation is integral to the financial management of each council and their LTFP. Any change requires a proper assessment of the assets, condition, lives

and values. The assessment of required asset renewals is therefore based on each council's own assessment of depreciation and required renewals.

The table below sets out the gap between the required annual renewals and projected renewals expenditure. Negative figures are highlighted in red and show the annual additional amount a council (based on our standardised approach) would need to spend on renewal to satisfy the asset renewal ratio.

We note that Gloucester Shire Council has made an application for an SRV which will help address renewal expenditure however in order to be cautious the comparison is against Councils base case.

Table 14 Asset renewal gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
Gloucester Shire Council	2,144	4,344	-2,200
Great Lakes Council	11,665	12,063	-399

4.2.4 Calculating the estimated cost to satisfactory

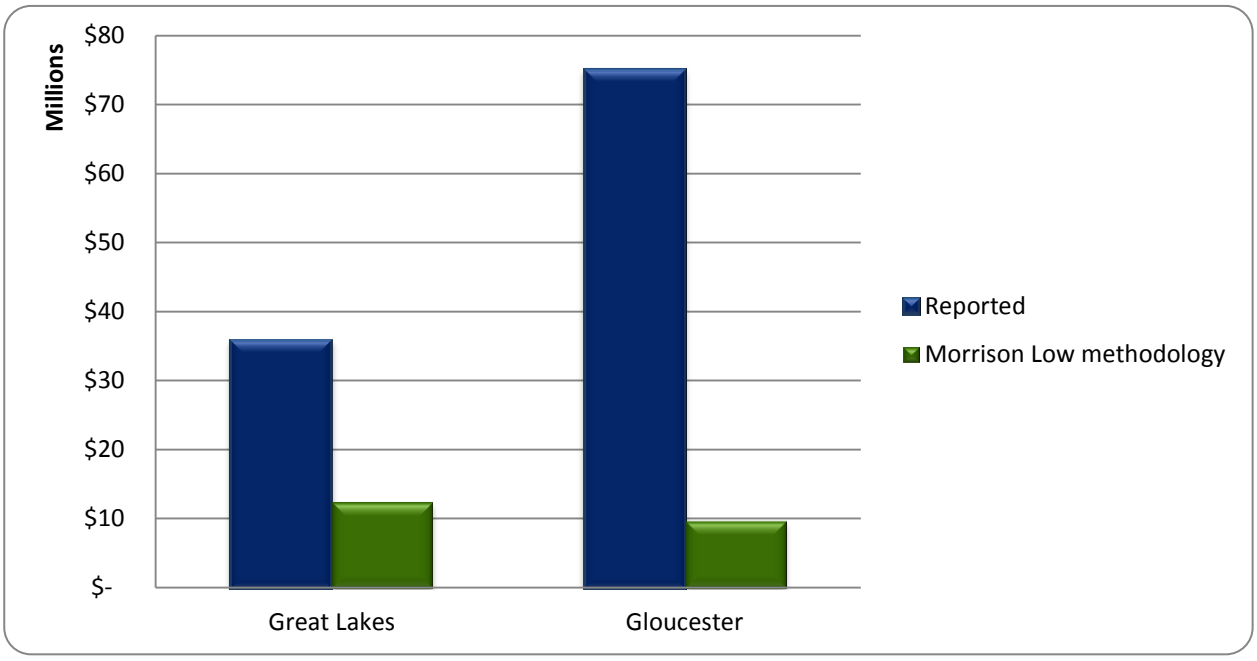
The estimated cost to satisfactory is the key driver of the infrastructure backlog ratio. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and as such the approach varies significantly across NSW. Across the two councils there are different methodologies for determining the cost to satisfactory.

Given the variation in methodologies it was considered appropriate that for comparative purposes and for the assessment of the infrastructure backlog of a merged council a standardised approach should be adopted. The approach is one that has been adopted by a growing number of NSW councils as it provides a consistent, repeatable methodology based on asset condition.

Both councils have adopted a similar condition rating system based on a 1 – 5 condition rating where condition 1 is considered to be excellent and condition 5 being poor or very poor condition. The standardised approach adopts condition 3 as satisfactory. We do acknowledge that some councils have considered adopting a lower standard as satisfactory and have engaged with their communities on this. Our approach looks at the value of asset (Current Replacement Cost) in condition 4 and 5, and what could be done to ensure these assets are brought up to condition 3 (satisfactory). It should be noted the cost to satisfactory is an indicator of asset condition, and as such the reality of asset renewals is that those assets in condition 4 and 5 when renewed would be brought up to condition 1 or 2.

The figure below compares the reported backlogs with those calculated using the Morrison Low methodology. In both cases the infrastructure backlog reduces considerably.

Figure 9 Infrastructure backlog recalculated using the standard Morrison Low methodology (2014)



The table below sets out what each council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years.

Table 15 Cost to bring assets to satisfactory

Council	Total value of assets[18] ($000)	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Gloucester Shire Council	253,210	14,638	3,411	-11,227	-2,245
Great Lakes Council	909,402	14,596	12,527	-2,068	-414

4.2.5 Annual funding gap

The table below summarises the expenditure required by each council, based on our standardised approach, in order to meet all three asset based ratios within five years. Once the infrastructure backlog is brought to the benchmark then the required expenditure in both councils falls.

We have not included the funding gap related to the operating performance ratio in this table as that would not present a realistic picture of the required expenditure. Any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of the council and therefore the Operating Performance Ratio. Additionally, a council may choose to address the funding gaps identified in Tables 12 – 16 by increasing revenue, shifting funding from another service or activity, reducing overall costs or a combination of all the above. This will all affect the other ratio. It is not therefore considered possible to simply add the Operational

[18] Current replacement costs (2014)

Funding Gap identified in Table 12 and Asset Funding Gap identified in Table 16 below together into a single figure.

Table 16 Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)	Average funding required per annum (5 years+)
Gloucester Shire Council	-1,012	-2,200	-2,245	-5,458	-3,212
Great Lakes Council	- 208	- 399	- 414	-1,020	- 607

4.3 Merged council

4.3.1 Description

The merging of the two councils into one council would create a council of roughly twice the geographic area serving a reasonably distributed population.

To give some sense of scale to the proposed council organisation, set out below are some broad indicators of the attributes of a new merged council and a comparison to Lismore Council.

Table 17 Comparison of proposed merged council and Lismore Council[19]

	Great Lakes	Gloucester	Council	Lismore Council
Full time equivalent staff	282	88	363	400
Geographic area	3,376km^2	2,952km^2	6,328 km^2	2,952 km^2
Population	35,932	5,016	40,948	44,485
Annual expenditure	$67.2 million	$16.7 million	$83.9 million	$102 million

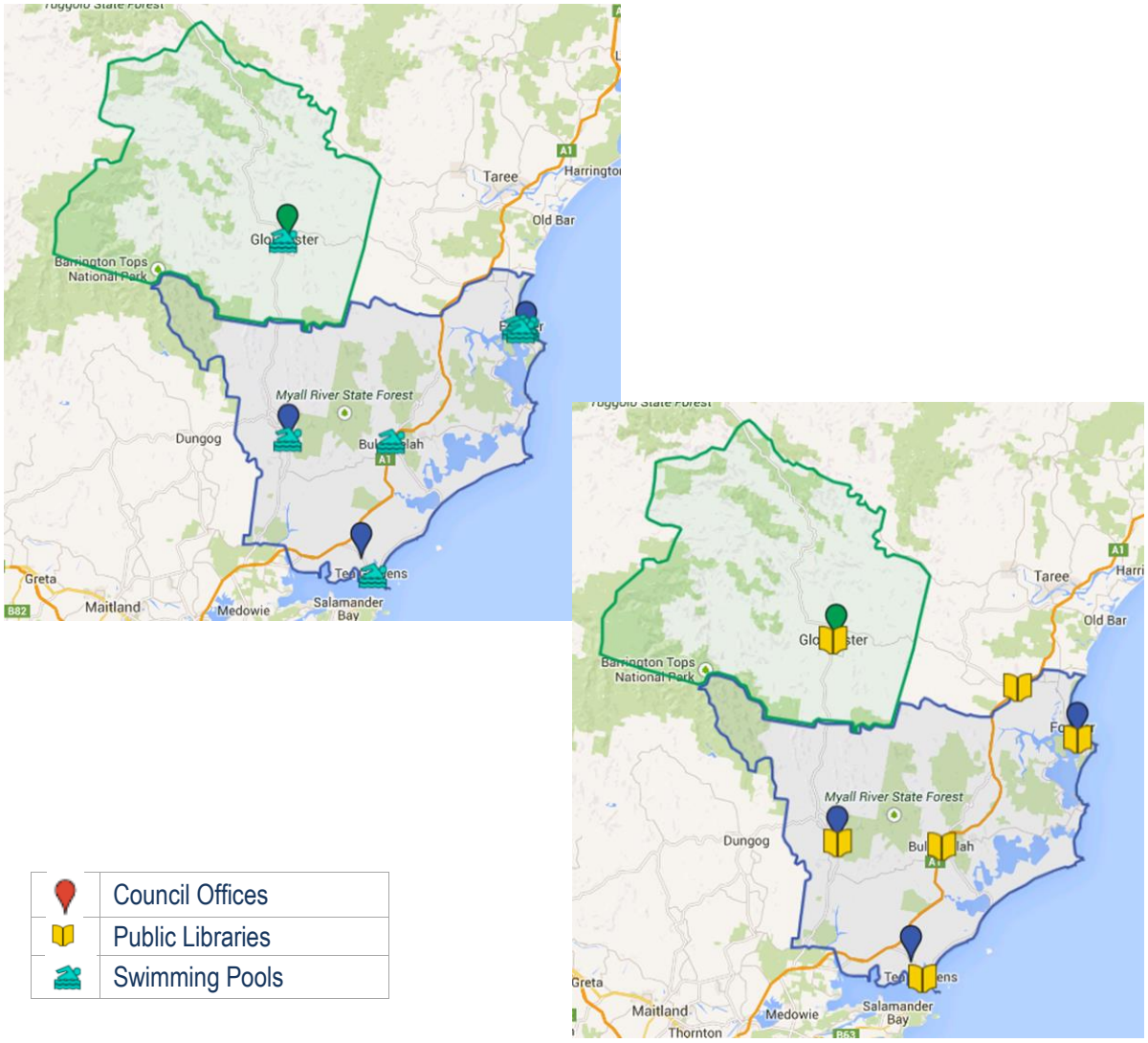
4.3.2 Services

The range of services and facilities provided by any council to its community varies significantly from place to place. Not only do the types of services vary, but the levels of service will often be quite different from council to council.

The reasons for these variations are numerous. For many councils the suite of services that they offer in the present day is a reflection of decisions made by councils past. Those decisions are generally based on community desires and needs, funding availability or strategic business choices. Figure 10 highlights the locations of some key council services including council offices, libraries and swimming pools.

[19] OLG Comparative Performance Data 2012-13

Figure 10 Key services and facilities of the councils



Regardless of the original rationale for service types, levels and delivery decisions, councils need to continue to make regular and structured revisions to their service portfolios in order to meet emerging or changing community needs, capacity to pay issues or regulatory change.

The two councils are reflective of the broader local government industry and exhibit many variations on the types and levels of service that they offer to their communities despite their relative proximity. There are obviously cost implications for the councils providing different services and levels of service.

There are a range of examples where services vary across council borders and those variations can be in the form of:

- providing a particular service or not doing so
- differing methods of delivering services (in house, outsourced, collaborative)

- variety in the levels of service delivered (frequency, standard)
- pricing.

The purpose of the figures above is to highlight the different challenge that a merged council will be faced with in regards to the provision and the location of services and facilities. Having responsibility for a larger area without the existing internal boundaries will require a different approach and likely lead to changes in services and service delivery.

Establishing a uniform, or at least consistent, service offering through the mechanisms of service standard setting, pricing and delivery will be a challenging exercise for any merged council however it does provide opportunities for service review and re-evaluation. Often in a merged council the desire to ensure an equitable and fair service across the entire local government area can result in an immediate and sometimes dramatic increase in services, services levels and therefore costs.

In assessing the advantages and disadvantages of a merger of the two councils the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise.

4.3.3 Social, environmental and economic

The following is a summary of a detailed communities profile and communities of interest study that is set out in Appendix E.

This desktop review of the communities of the two councils has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The two key reference points for this review is ABS Census Data taken from the Councils' Profile ID websites, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report[20].

The Local Government Areas of Gloucester and Great Lakes have some similar features, and some differences, many of which reflect the different natures of the areas, Gloucester being a smaller rural shire, with Great Lakes a larger and more urbanised area.

Gloucester has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, as well as higher home purchasing and labour force participation and lower unemployment. The population of Gloucester is predicted to decrease by 3.35 in the period to 2013 while the Great Lakes population is predicted to increase by 7.7%

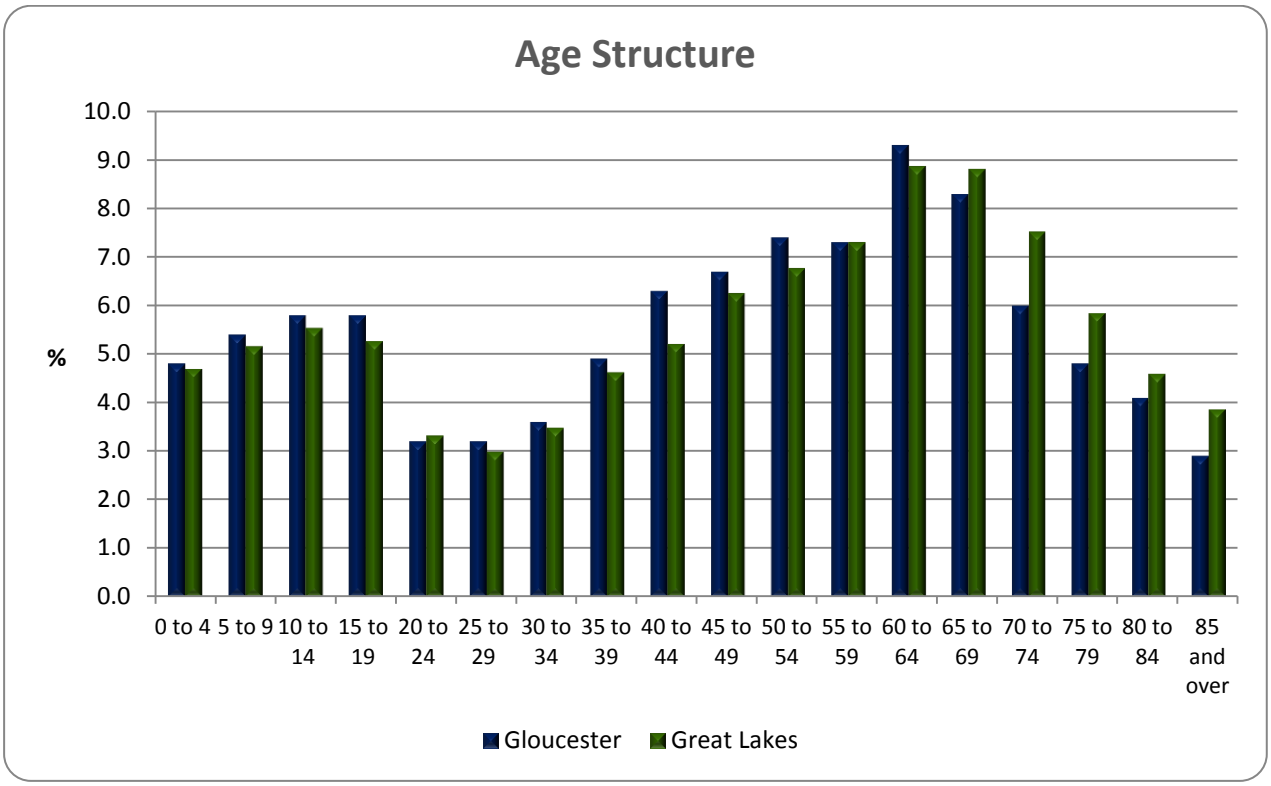
Studies of cross-border movements do not reveal high levels of interdependency between Gloucester and Great Lakes, with Great Lakes linked more closely with Greater Taree. Gloucester has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

Both areas have similar age profiles, with low adult retention, high proportion of elderly people and a high ratio of children to adults. There is similarity in household types, with similar

[20] National Institute of Economic and Industry Research, March 2013

proportions of couple families with no children and lone person households, likely reflective of the age of the population. The areas have low multicultural diversity, and a lower education profile. Both areas are below the NSW median for socioeconomic disadvantage.

The age structure of two communities also provides an insight into the level of demand for age based services and facilities, as well as the key issues on which the two councils will need to engage with other levels of government in representation of their community. The *Similarities and Differences* analysis groups both Great Lakes and Gloucester in the same cluster for age structure, with low young-adult retention rate coupled with a high ratio of children to adults of parenting age. There is also a high proportion of elderly people and a slightly higher retention rate for very old people than other similar clusters



Compared to each other, Gloucester displays a high proportion of people in all of the age groups from 0 to 64, with the exception of the 20-24 age group, which is slightly lower, and the 55-59 years group, which is the same. Great Lakes then has larger proportions in the older age groups, at much higher rates of difference.

4.3.4 Environment

4.3.4.1 Natural and built

A summary assessment of the councils' LEPs has been considered with the emphasis on:

- protection of the natural environment
- protection of the built environment/heritage and character of the existing urban area
- the overall (policy) approach to growth and development.

In terms of the natural environment both councils have well-developed aims around the protection of the natural environment. Great Lakes Council aims reflect the significant natural assets of the

Great Lakes including its waterways and land based environmental characteristics. Gloucester's aims recognise the major significance of the natural environment and the importance of active management of these resources to ensure their long-term viability.

While Gloucester Shire Council includes an aim to protect assets of heritage significance Great Lakes Council does not appear to have any specific aims in respect of the built environment.

In respect to growth, whereas the Gloucester Shire Council concentrates on protection of the existing rural base, responsible management of the area's resources and development and provision of a range of housing to meet community needs, Great Lakes Council concentrates on the orderly planning and development, minimising conflict between land uses and making efficient use of services and infrastructure.

Great Lakes Council has a particular aim to ensure that development does not create unreasonable or uneconomic demands for the provision or extension of public amenities or services, while Gloucester Shire Council seeks to manage the resources of Gloucester.

Gloucester has more of a focus on protecting the rural agricultural areas, looking to provide a secure future for agriculture, reflecting the nature of the surrounding area and community. Great Lakes Council's approach to growth reflects the diversity of land use in the LGA and what they see as being the importance of minimising potential conflict between significant economic sectors such as agriculture, residential and tourist uses.

Both councils aim to look after their residents, with Great Lakes Council being more specific about looking after the general wellbeing of the community, through promoting the health and wellbeing of the population, facilitating cultural activities to benefit the community and through promoting public transport patronage and encourage walking and cycling. Gloucester makes no mention of any transport related aims in its LEP.

A summary of the comparisons of the approach to growth and protection of the natural and built environment is set out in Appendix C.

4.3.5 Representation

Assuming a merged council had eleven councillors compared to the present seven for Gloucester Shire Council and nine for Great Lakes Council, the number of people represented by each councillor will decrease slightly for Great Lakes residents and increase significantly for Gloucester Shire Council residents.

Table 18 Comparison of representation

Council	Representation (population / Councillor)
Gloucester Shire Council	717
Great Lakes Council	4,055
Combined	**3,773**[21]

It may be possible to put in place measures to address the loss of representation for the Gloucester Shire Council residents through local or community boards, but at present the government has not set out in detail any proposal that the community could consider.

[21] Assumes eleven councillors

4.3.6 Organisation alignment

4.3.6.1 Policy alignment

A comparison of each council's community strategic plan was undertaken to identify at a high level whether there was consistency or inconsistency between the organisations in a policy sense.

Each of the two communities has, through their future plans identified strong visions for their community. While expressed differently, each council's vision and high level themes for delivery are in many ways aligned with a focus on the environment, the people and the appropriate management of resources.

Although worded slightly differently in their plans, both councils want to protect their environments, create and build strong local economies, ensure they have engaged, vibrant and supportive communities and to provide strong local leadership based on strong governance and partnering and representing the communities they serve.

Both councils have strongly stated desires to protect their environments, although worded differently. While Gloucester Shire Council looks to value and protect their environment Great Lakes Council has more of an emphasis on the sustainable management of their environment.

One area of difference is in the references each council makes to infrastructure. Gloucester includes a key direction around maintaining core infrastructure which, like many areas facing static or declining population, is a key issue to be addressed. Great Lakes refers in their vision to balancing their unique and sustainably managed environment with quality lifestyle opportunities created through appropriate development, infrastructure and services, which reflects the growth and development pressures they, like many coastal councils, are facing.

The comparison is presented visually below through Word Clouds in the figures below.

Figure 11 Summary of Gloucester Shire Community Strategic Plan

Figure 12 Summary of Great Lakes Community Strategic Plan

4.3.6.2 Cultural Alignment

While it is difficult to compare the internal cultures of the council organisations in this exercise, there are both subjective and objective indicators that give and insight into how aligned or misaligned the organisations cultures are.

Communities

Often an organisations culture develops as a direct influence of the community it serves. There are a number of indicators of cultural alignment of local government areas including the social and cultural diversity of the community (discussed in this report under communities of interest), the community aspirations and values and how the community views its relationship with Council.

While there can be quite specific local needs and community aspirations, there are common themes that emerge from a comparison of the visions for their communities that are expressed by the councils in their Community Strategic Plans.

Both Gloucester and Great Lakes have very common themes that emerge among the community values, including:

- Strong local villages/communities and identities
- A sense of place
- Supportive of each other
- Healthy sustainable environments
- Thriving local economies and employment opportunities
- Appropriate infrastructure

Both community visions while expressed differently have a high degree of commonality particularly around recognising and supporting/strengthening local communities.

Great Lakes have recently surveyed community perceptions of Council. Residents rated overall community satisfaction with Council at 86% and communication from Council at 88% indicating the Council's relationship with its community is healthy.

Corporate Organisations

Both organisations are structured differently and naturally of different size and demographic reflecting their local communities. The Great Lakes workforce serves twice the resident population per FTE than Gloucester.

Organisational size can impact on culture in a range of ways, such as diversity of skills and workforce characteristics, level of specialisation vs multifunctional roles, capacity to undertake a greater range of functions and services, and partnership and advocacy capacity with other levels of government.

The following table shows some key differences and similarities between the workforces.

Table 19 Key differences and similarities between the workforces

	Gloucester	Great Lakes
FTE	86	302
Percentage of employee costs allocated to training	1.1%	0.6%
Total annual employee cost ($000) per FTE	$93	$168
Total annual expense ($000) per FTE	$216	$218

By measuring training and development expenditure against both total expenditure and full time equivalent staff numbers we can assess each of the councils approach to staff development. Both Councils spend less than the recommended industry average on training and development although Gloucester invests considerable more per in training and development than Great Lakes.

The annual employee costs, per employee are considerably higher in Great Lakes. This may be due in part to salaries and wages but is also likely to be as a result of the organisational structure and type of roles the Council has.

A crude indicator of staff productivity can be the portion of the operating costs spend per staff member and both councils are almost identical. These figures should not be taken at face value as they can be influenced by factors such as the maturity of the workforce and the fluctuating nature of total expenditure year on year and capital projects. Ideally they should be compared over time.

The Councils' Workforce Plans identify common strategic issues; ageing workforces and recruitment and retention as major challenges for which they are developing strategies. This is reinforced by the workforce profiles with both councils having two thirds of their workforce over 45 and in the case of Gloucester 10% are over 65. Gloucester's workforce is also more male dominated than Great Lakes.

There are enough workforce differences that these are likely to have an impact on corporate culture when building a single organisation.

Corporate values

Councils will naturally take a different approach to developing their own corporate culture but generally each is underpinned by a set of organisational values. Neither council publishes its corporate values however in most cases councils have a relatively common set of corporate values that are heavily influence the public nature of their role and its service focus.

Corporate Policies

A review of the policy registers can identify some interesting philosophical differences and issues that have been given priorities (at some point in time) by the different councils.

Gloucester does not publish the contents of their policy register.

Great Lakes have an extensive range of policies that not only cover traditional government functions and responsibilities but also operational processes and social policy. This suggests that the organisational focus goes well beyond what is traditional core business of councils.

While we recognise policies change and reflect a positon at a particular time they also reflect the organisational culture which is tasked with implementing them.

4.3.7 Financials

The estimated costs and savings of a merger of the two councils have been modelled with the results set out below.

Tables 20 and 21 provide a summary, narrative and financials of the costs and savings of the merger with the detailed assumptions set out in Appendix C. The NPV of the costs and savings is set out in Table 22. The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged council is modelled on the basis of a combined base year where both council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs (2016). Overlaid are the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

Table 23 then summarises the overall financial performance of the merged council with the Fit for the Future Indicators set out later in section 4.3.9.

Table 20 High level description of financial costs and savings arising from merger

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with Senior Staff Harmonisation	Reduction in total costs of Senior Staff	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts	Savings from Procurement and network level decisions over asset expenditure		Savings from Procurement and network level decisions over asset expenditure Savings from moving to large regional waste contract		Savings from Procurement and network level decisions over asset expenditure	Savings from Procurement and network level decisions over asset expenditure
IT	Significant costs to move to single IT system across entire council					Benefits arise from single IT system and decrease in staff
Assets		Rationalisation of plant and fleet		Rationalisation of plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 21 Summary of financial costs and savings [22,23]

	2016	2017	2018	2019	2020	2021	2022	2023
Governance	- 177	- 182	- 188	- 194	- 201	- 207	- 214	- 220
Staff								
-Redundancies	326			319				
-Staff cost changes[24]	57	- 232	- 525	- 989	- 348	343	1,086	1,885
IT								
-Transition costs	3,000	1,000	500					
-Long term benefits						- 623	- 643	- 664
Materials and Contracts	- 24	- 25	- 26	- 27	- 28	- 29	- 30	- 31
Assets								
-Plant and fleet				256				
-Buildings								
Grants and Government Contributions	- 5,000							
Transitional Costs								
-Transitional body	2,250							
- Rebranding	1,000							
Total	1,431	560	- 240	- 635	- 576	- 516	199	970

[22] The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationary adjustments
[23] Costs are shown as negative figures, benefits as positive
[24] Includes savings from reduction in staff numbers, costs from harmonisation and from increasing staff numbers

The NPV of the costs and benefits over the period being modelled (2023[25]) has been calculated and set out below and indicate that there would be a net cost to the two councils and their communities from the merger.

Table 22 Summary of financial costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
- $1 million	- $1 million	- $.96 million

While the merged council has a number efficiencies modelled in over the short, medium and longer term the short term costs arising from the merger and the redundancy costs that arise in the medium term are not overcome by benefits in the medium and longer term and as a result the financial performance remains poor throughout the period being modelled.

The merged council does not produce a positive operating result (excluding grants and contributions for capital purposes) over the entire period being modelled.

[25] 2023 is the period being modelled to match the time covered by both council LTFPs

Table 23 Summary of financial impacts of merger

Merged Council LTFP	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Source: Council Financial Statements and Long Term Financial Plan	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**
Rates & Annual Charges	40,290	43,101	45,012	46,362	47,753	49,186	50,661	52,181	53,747	55,359	57,020
User Fees & Charges	9,750	8,387	7,353	7,590	7,834	8,086	8,346	8,615	8,892	9,179	9,474
Grants & Contributions - Operations	24,474	17,295	18,521	23,221	18,640	19,069	19,507	19,956	20,415	20,884	21,365
Grants & Contributions for Capital	8,640	7,935	10,698	10,525	10,767	11,014	11,268	11,527	11,792	12,063	12,341
Interest and Investment Income	2,945	2,505	2,154	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900
Gains from disposal assets	1,945	2,318	343	337	345	353	105	370	378	387	396
Other Income	3,188	2,380	2,513	2,472	2,529	2,587	2,647	2,708	2,770	2,834	2,899
Total Income	**91,232**	**83,921**	**86,594**	**92,407**	**89,768**	**92,195**	**94,434**	**97,256**	**99,893**	**102,605**	**105,393**
Income excl Gains\losses	89,287	81,603	86,251	92,069	89,422	91,842	94,329	96,886	99,515	102,218	104,998
Income excl Gains\losses & Capital Grants	80,647	73,668	75,553	81,545	78,656	80,827	83,061	85,359	87,723	90,155	92,657
Expenses											
Borrowing Costs	3,258	3,218	3,046	3,019	3,090	3,152	3,206	3,260	3,322	3,385	3,451
Employee Benefits	27,374	27,463	28,513	29,908	30,324	31,084	32,007	33,447	35,303	37,262	39,330
Gains & losses on disposal	12	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	19,762	23,362	19,604	20,192	20,798	21,422	22,064	22,726	23,408	24,110	24,834
All other Expenses	33,466	30,298	31,030	37,510	33,712	34,193	34,703	35,744	37,439	38,563	39,721
Total Expenses	**83,872**	**84,341**	**82,193**	**90,628**	**87,923**	**89,851**	**91,980**	**95,177**	**99,473**	**103,321**	**107,335**
Operating Result	**7,360**	**- 420**	**4,401**	**1,778**	**1,844**	**2,344**	**2,454**	**2,079**	**421**	**- 716**	**- 1,942**
Operating Result before grants & contributions for capital purposes	**- 1,280**	**- 8,355**	**- 6,297**	**- 8,746**	**- 8,922**	**- 8,670**	**- 8,813**	**- 9,448**	**- 11,371**	**- 12,779**	**- 14,282**

4.3.7.1 Rates

Given the differing rating structures among the councils it is difficult to model the impact of a merger on rate revenue and in particular the impacts on individual land owners. As a starting point the current rates for the two councils are set out below highlighting the existing differences as well as the different approaches.

The total rates take for each council illustrates the differing sizes of the communities and economies, as well as the scale of operations undertaken by each council, with the total rates for the Great Lakes Council being around eight times that of Gloucester Shire Council.

Table 24 Comparison of total and average rating revenue

Rating Revenue	Gloucester Shire Council	Great Lakes Council
Total	$3.94m	$31.28m
Average rates	$1,253	$1,187

While the average rates paid per property across each council area is similar, there are some bigger differences when each category of types of rates is considered.

Figure 13 Average residential rate (2014 - 15)

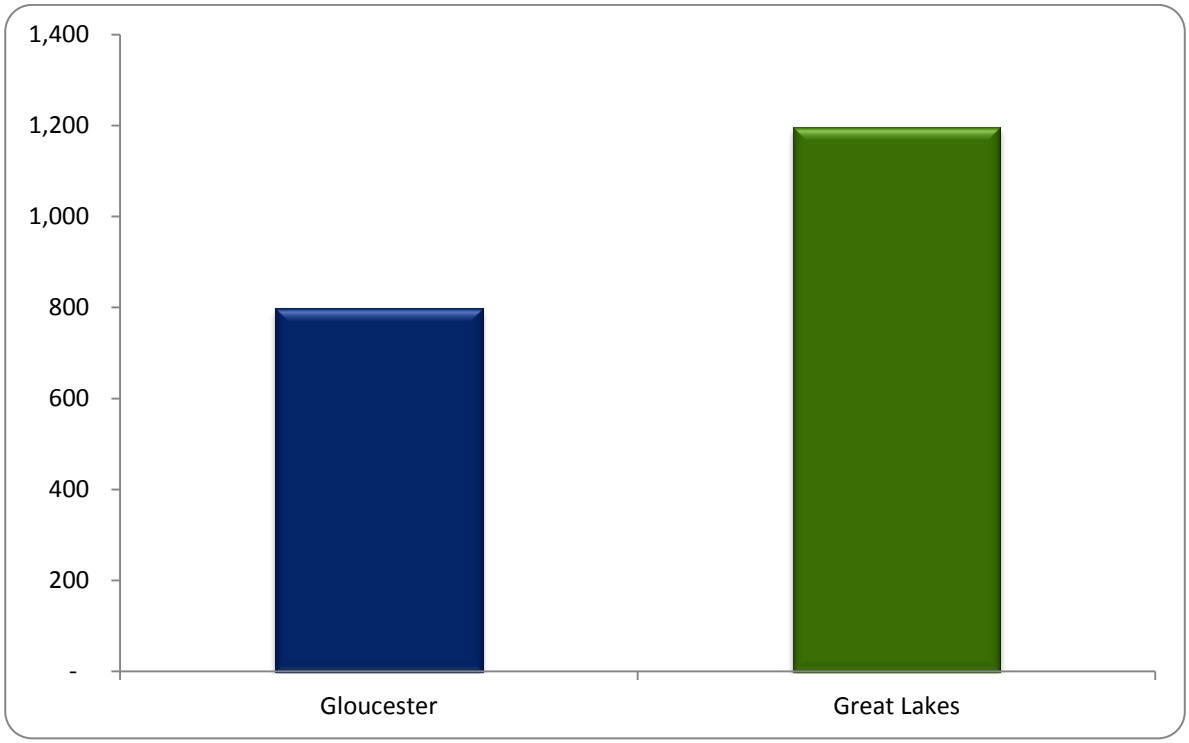


Figure 14 Average business rate (2014 - 15)

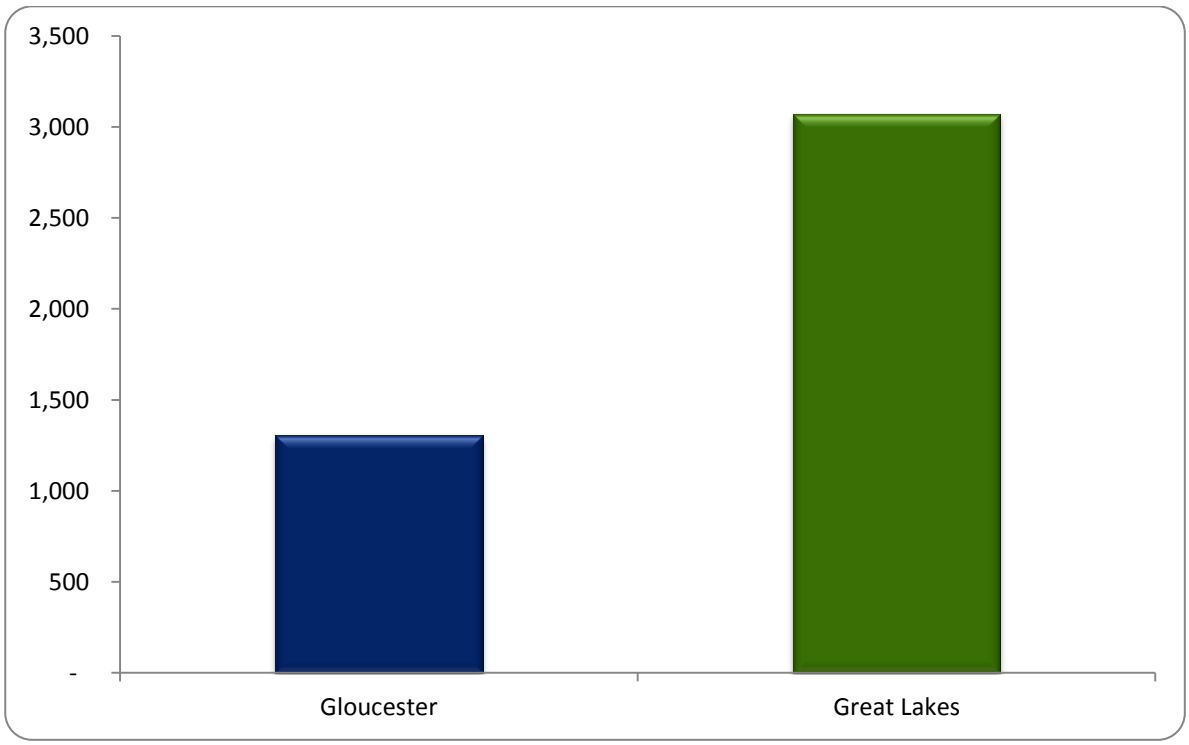


Figure 15 Average farmland rate (2014 -15)

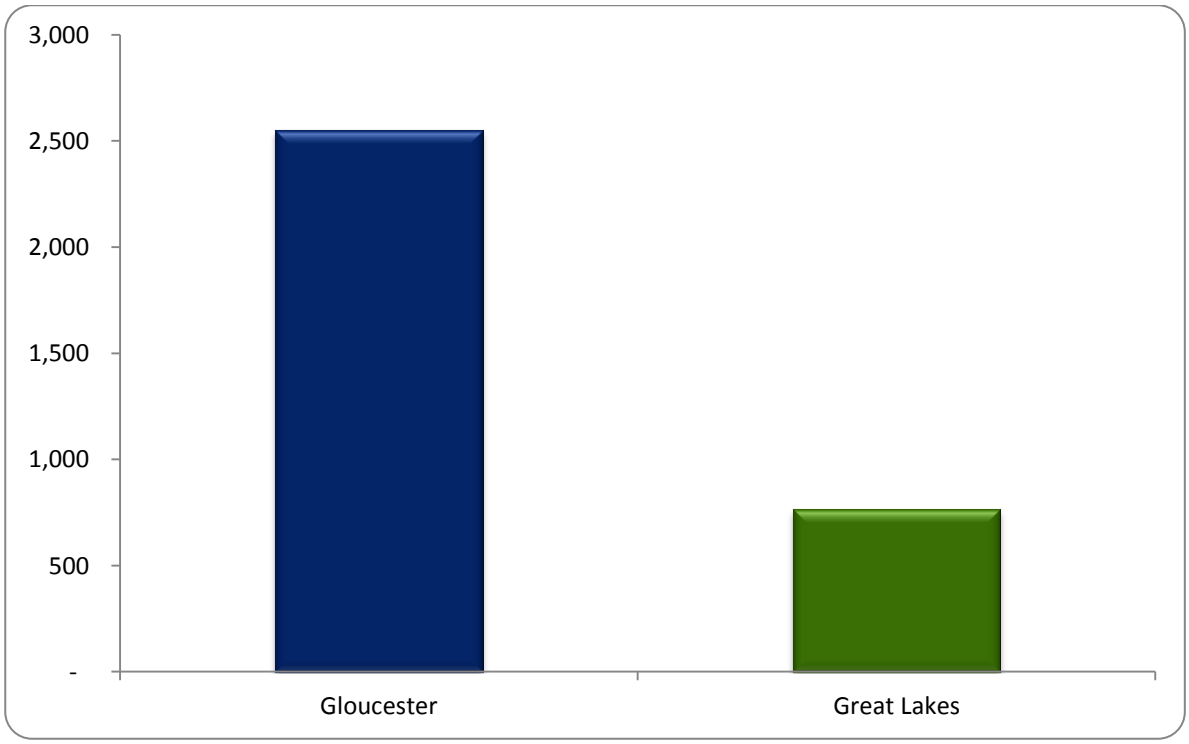


Table 25 Comparison of proportion of rates

Proportion of rates	Gloucester Shire Council	Great Lakes Council
Residential	45%	77%
Business	9%	10%
Farmland	42%	13%
Mining	4%	0%

The two councils draw the majority of their rates on a percentage basis from different residential, business and farmland, which is reflective of the differing natures of their communities and economies.

In order to provide information on what the potential impact of a merger on rates would be, representative examples have been modelled by redistributing the 2014/15 rates without adjusting the rating structures. Two scenarios have been used based on the total rate revenue (residential and business) of the two councils. In each scenario the total rates (residential or business) are apportioned across the two councils consistently. Scenario 1 is entirely ad valorem and Scenario 2 provides for a base charge to be set at the maximum level with the remainder ad valorem.

The key drivers are therefore land values and the differences in the way in which councils currently allocate rates between categories. The actual impact on any property or properties will be the result of the actual rating structure chosen by any new council and how quickly a merged council decided to adopt and then implement a single rating structure. Within each council area there will be individual properties that are affected in different ways by the changes due to categorisation and land valuation issues.

Analysis of potential changes in average rates indicate that in comparison the standard rate peg change in rate (2.3% for 2014) there would be significant changes in rates across the two councils arising from a merger. The changes are described in the figures below by reference to a change from the 2014-15 rate and expressed as a percentage change.

Figure 16 Change in residential rate (ad valorem)

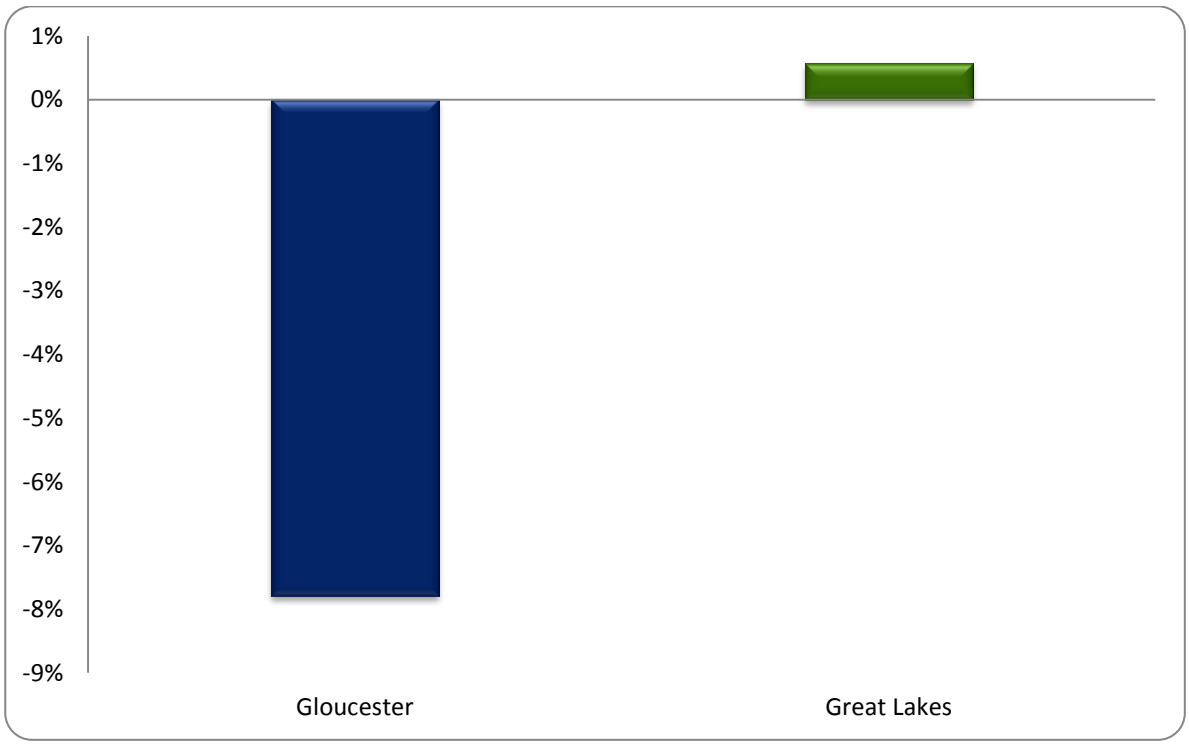


Figure 17 Change in residential rate (base rate)

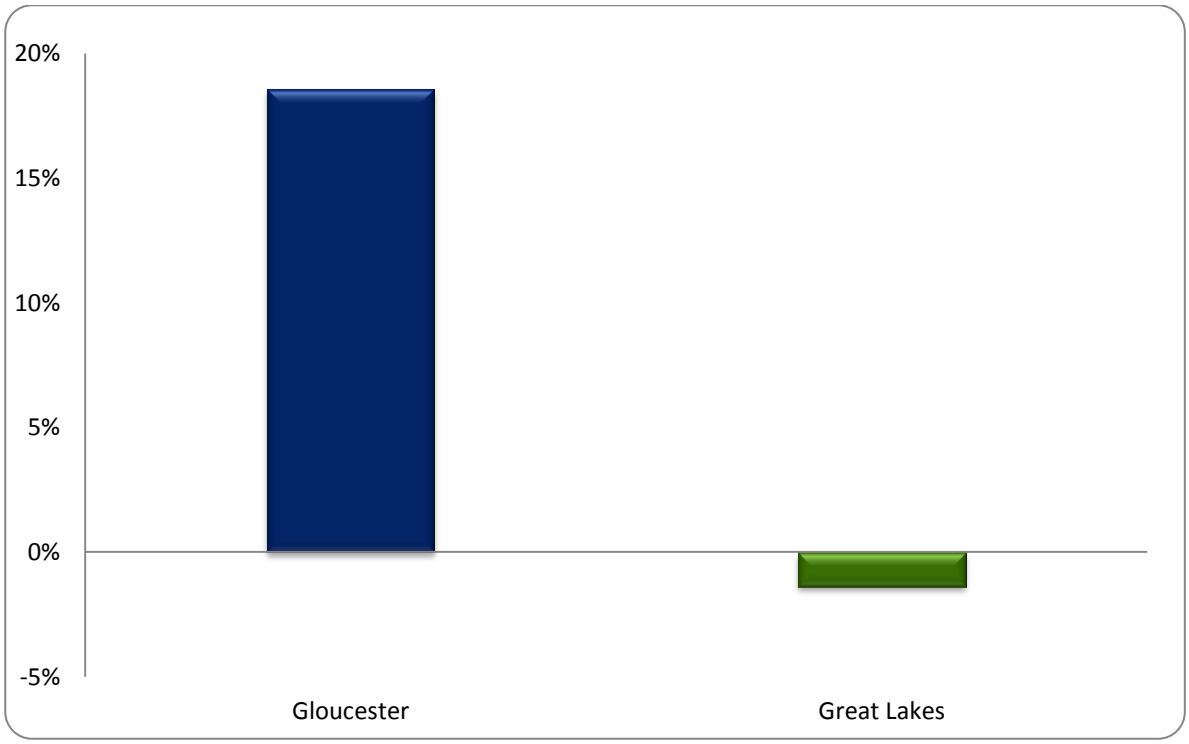


Figure 18 Change in business rate (ad valorem)

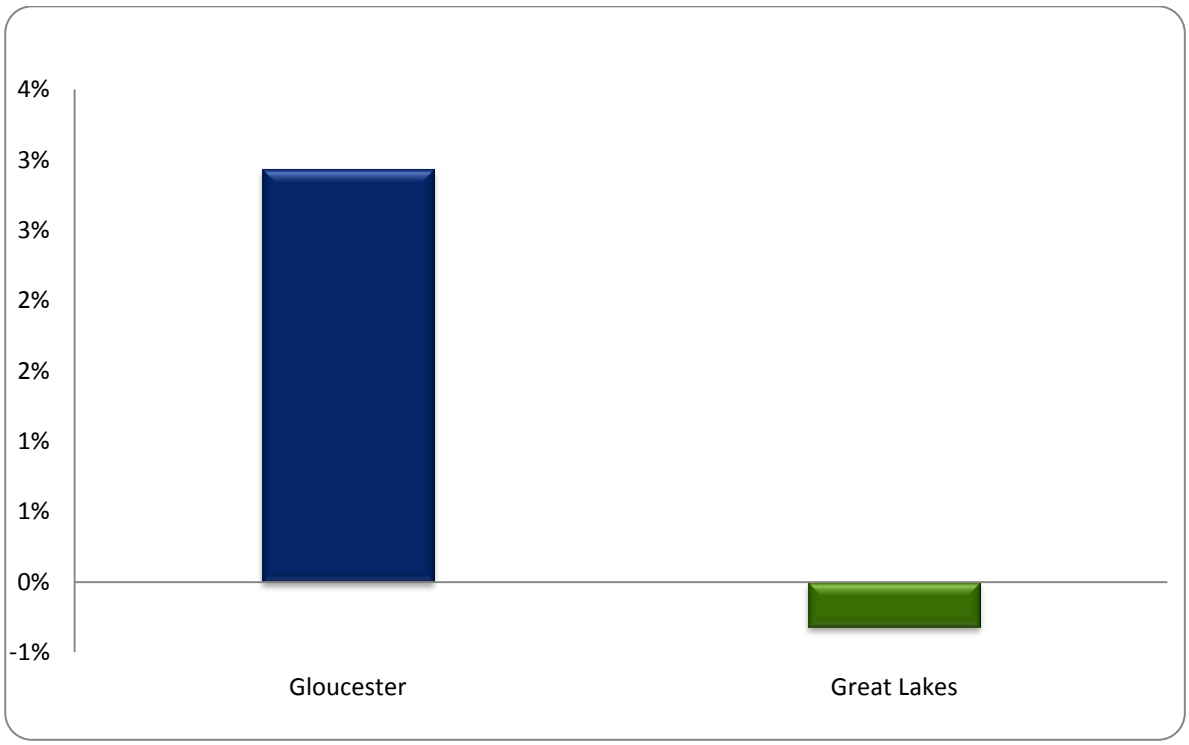


Figure 19 Change in business rate (base rate)

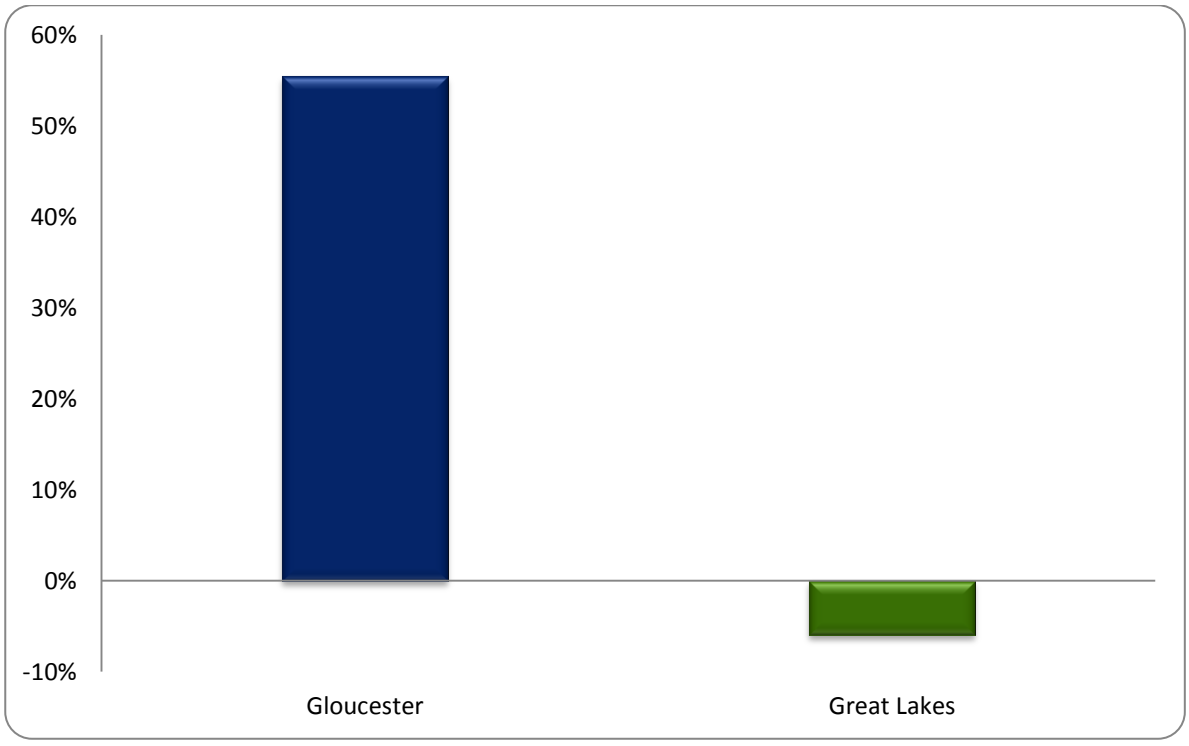


Figure 20 Change in farmland rate (ad valorem)

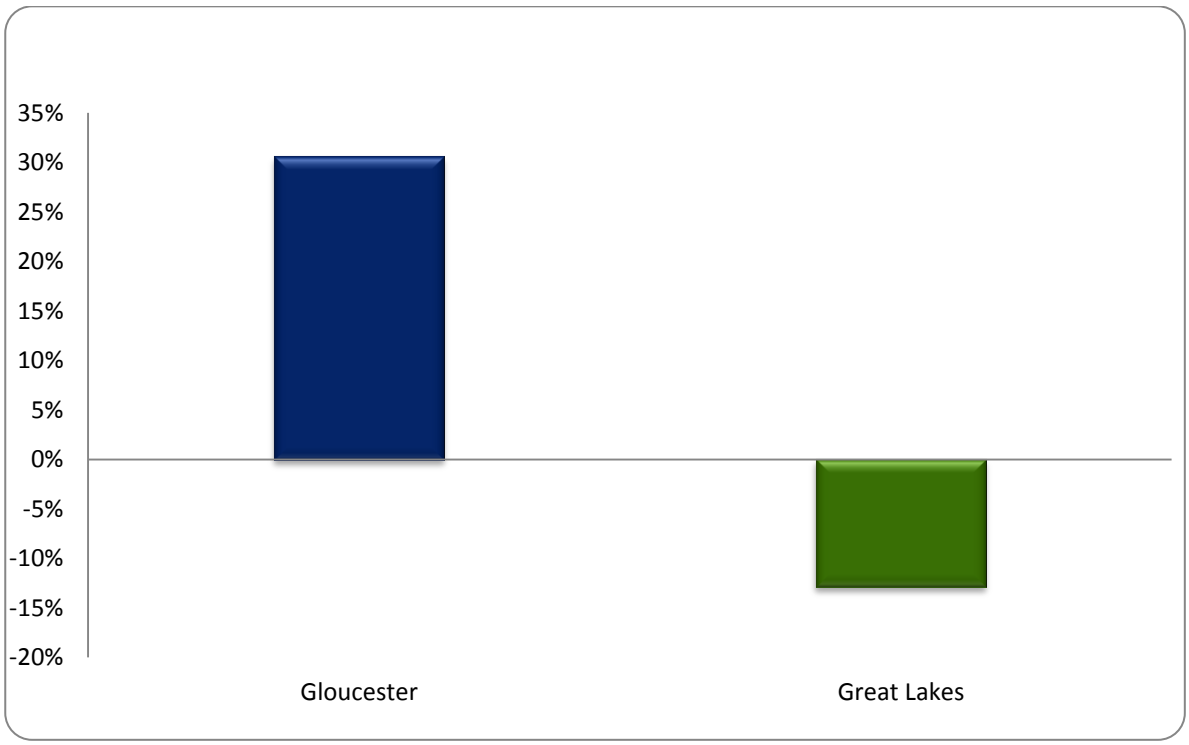
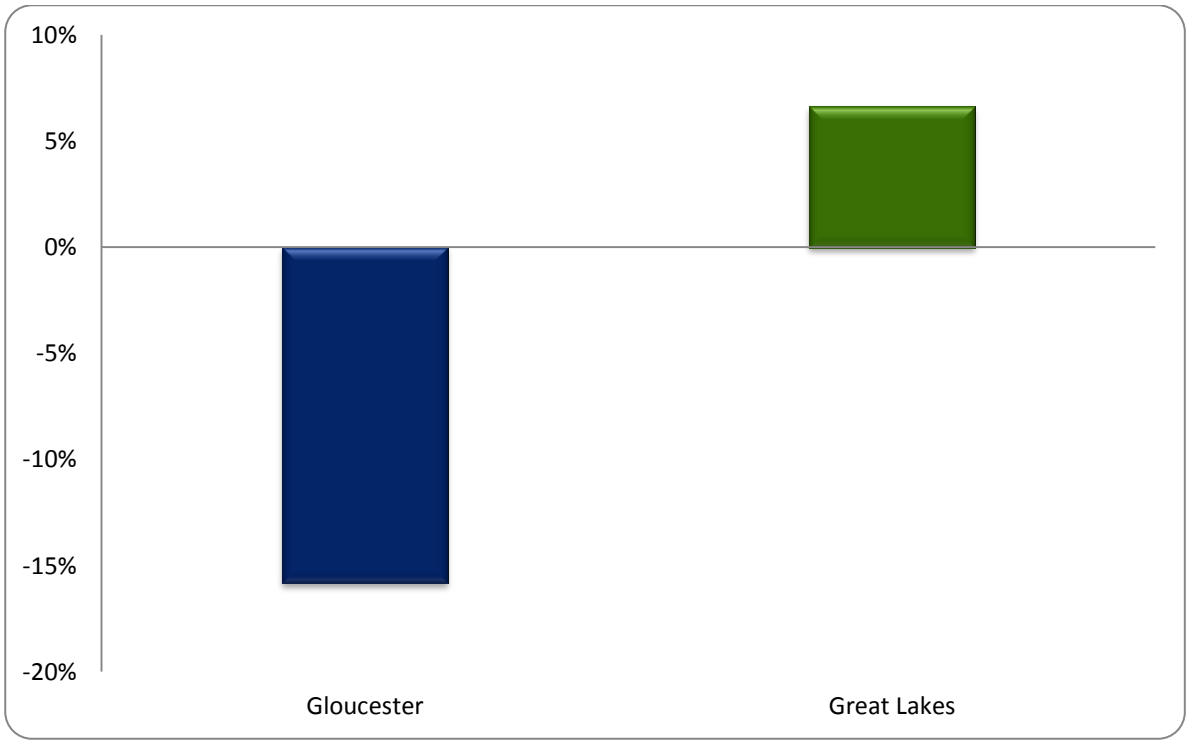


Figure 21 Change in farmland rate (base rate)



4.3.7.2 Debt

Both councils carry debt with Great Lakes Council carrying more on a per capita basis. Looking at the debt servicing ratios, both councils are within the Fit for the Future benchmarks as would a merged council. On a per capita basis, Great Lakes has a higher debt ratio than Gloucester. It is recognised that debt is an issue of general concern to communities and the Gloucester community may have a view about an increase in debt on a per capita basis with a merger, although this is likely to be offset by the greater capacity to meet the debt servicing requirements overall.

Table 26 Comparison of debt

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
Gloucester Shire Council	$3,696	4.4%	$733.87
Great Lakes Council	$50,174	13.0%	$1,365
Combined	$53,870	11.8%	$1,289

* *The Gloucester Shire Council 2013-14 Financial statement recorded a -101.38% figure with an explanation that as the Council had made a loss before capital gains in the FY2014 year, they felt that this ratio had become redundant. The report noted that the council did not receive the FAG prepayment which it was relying on to sustain its operating profit for the year. If Council had received the budgeted FAG payment this ratio would have been around 123% which is below the benchmark, however to better Councils operating position, lessening the debt will free up vital operating funds*

4.3.8 Scale and capacity

Scale

Scale has not been defined by the either the Independent Review Panel or the Office of Local Government. The government has asked each council to begin with the recommendation proposed by the Independent Review Panel as that is considered to be the appropriate scale and capacity for the council.

On the basis that the independent panel recommendation proposed that either the two councils merge it can be assumed that a merged council would achieve the scale and capacity requirements.

While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the subjective capacity tests, particularly Great Lakes, it may be more difficult for Gloucester given the size of the council and the population it serves to meet the government's test around capacity on its own.

Capacity

The panel report articulated the Key Elements of Strategic Capacity as follows.[26]

[26] Box 8, Page 32 of Revitalising Local Government

Figure 22 Scale and capacity

The performance of the merger options against each of the key elements is set out in the following table. The assumption is that in a strict application of capacity each council on its own does not meet the capacity elements because each council was put into a potential merger by the Independent Review Panel.

We have also noted the extent to which there is any real change from the status quo when the criteria are compared to a single council. The nature of the merger between Great Lakes and Gloucester and the current size differences means that the merger provides a much greater benefit, when considered against the scale and capacity criteria, to Gloucester than it does to Great Lakes where arguably the impact is minimal.

Table 27 Scale and capacity in the merged councils

Criteria	Merged Council	Degree of change from status quo	Commentary
More robust revenue base and increased discretionary spending	Yes	Limited change	Far greater impact for Gloucester, little change for Great Lakes
Scope to undertake new functions and major projects	Yes	Limited change	Far greater impact for Gloucester, little change for Great Lakes
Ability to employ wider range of skilled staff	Yes	Limited change	Far greater impact for Gloucester, little change for Great Lakes
Knowledge, creativity and innovation	Yes	Limited change	Both councils have a history of working well with the Hunter Councils
Effective regional collaboration	Yes	Limited change	Two Councils are now spread across different JO areas – Mid Coast and Hunter Both already have a long, successfully history of working well with the Hunter Councils
Credibility for more effective advocacy	Yes	Limited change	Two Councils are now spread across different JO areas – Mid Coast and Hunter Far greater impact for Gloucester, little change for Great Lakes
Capable partner for state and federal agencies	Yes	Limited change	Far greater impact for Gloucester, little change for Great Lakes
Resources to cope with complex and unexpected change	Yes	Limited change	Far greater impact for Gloucester, little change for Great Lakes
High quality political and managerial leadership	Yes	No change	No evidence to suggest that either council lacks this or that a merged council would have this

4.3.9 Indicators

A merged council would meet three of the indicators from day one; Own Source Revenue, Debt Service Cover and Real Operating Expenditure.

Of the other indicators:

- The Operating Performance ratio remains static at an average of around -11% for the duration of the period modelled, well below the break-even requirement for the benchmark
- The Asset Maintenance ratio remains static at around 90% of the benchmark for the duration of the period modelled, below the required benchmark of 100%
- The Asset Renewals ratio falls from above 90% in 2016 substantially by year 5 to remain at around the 45% mark, well below the required benchmark of 100%
- The Infrastructure Backlog rises consistently from 5.5% towards 17% by the end of the modelling period, remaining well above the 2% benchmark

Table 28 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

Figure 23 Merged council operating performance ratio

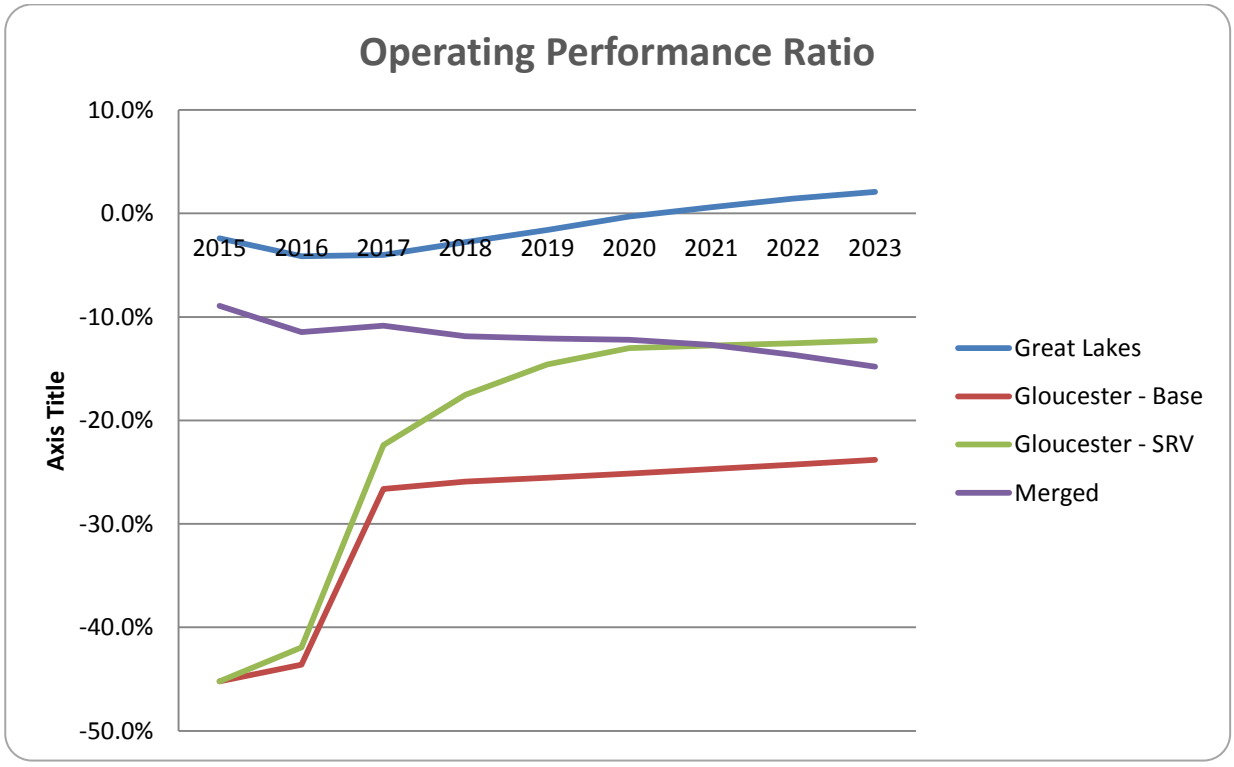


Figure 24 Merged council own source revenue

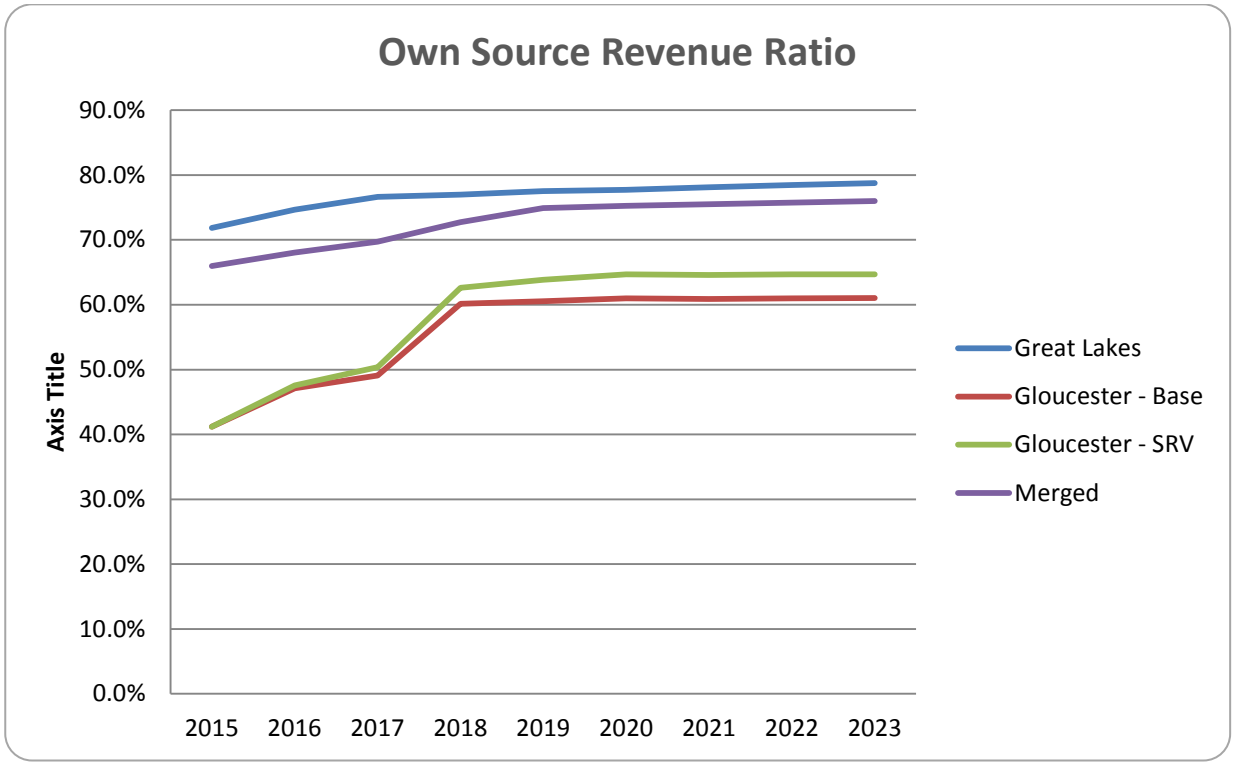


Figure 25 Merged council debt service ratio

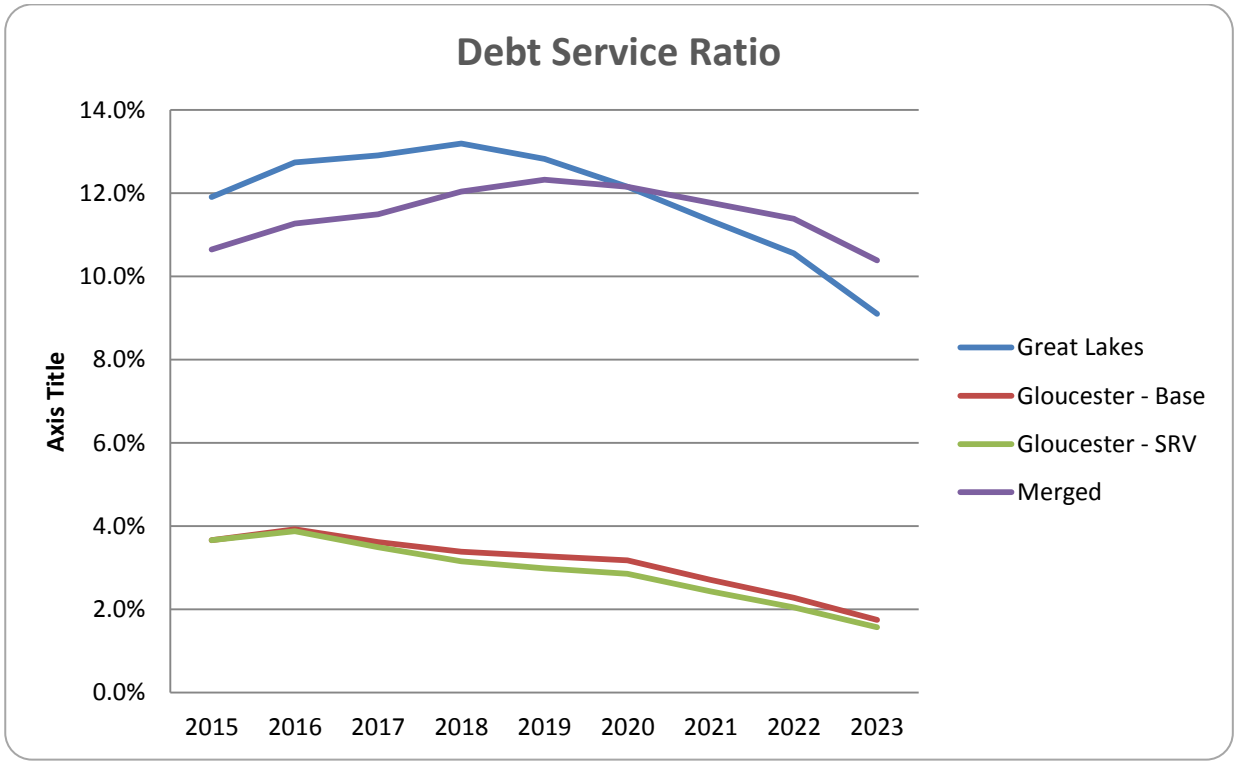


Figure 26 Merged council asset renewal ratio

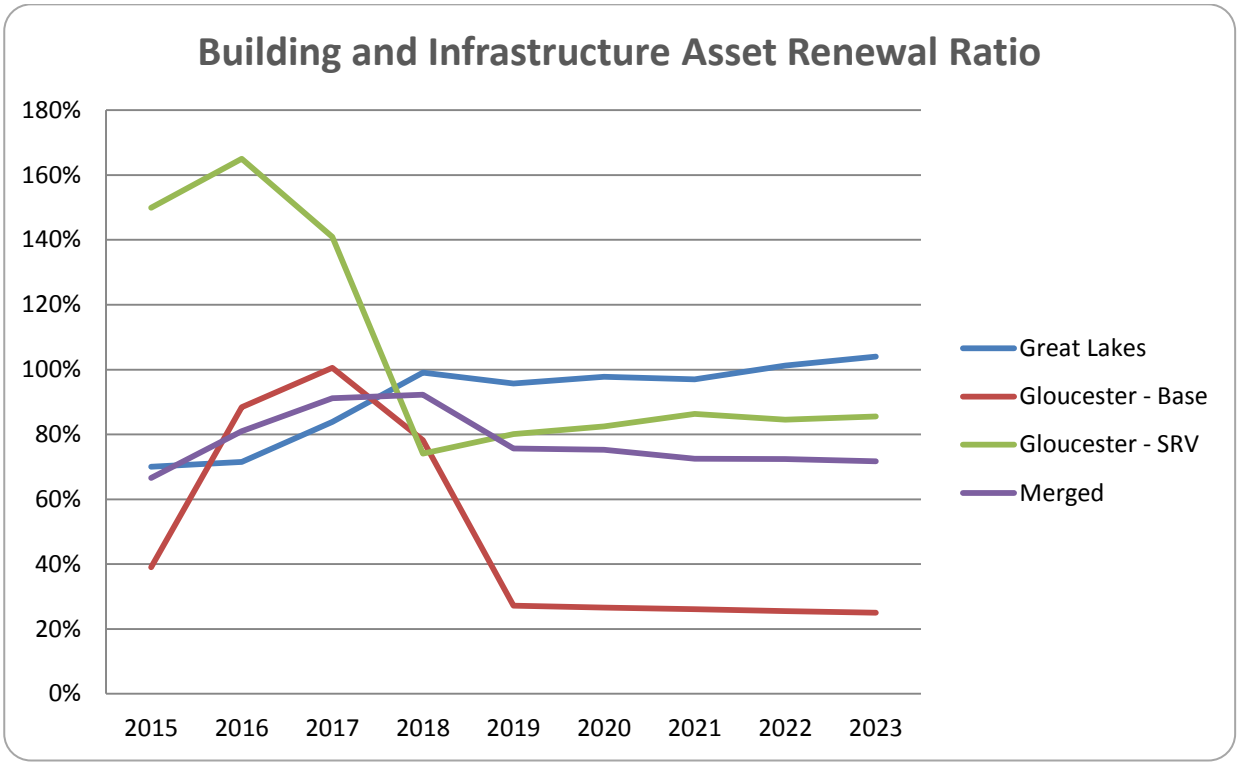


Figure 27 Merged council infrastructure backlog ratio

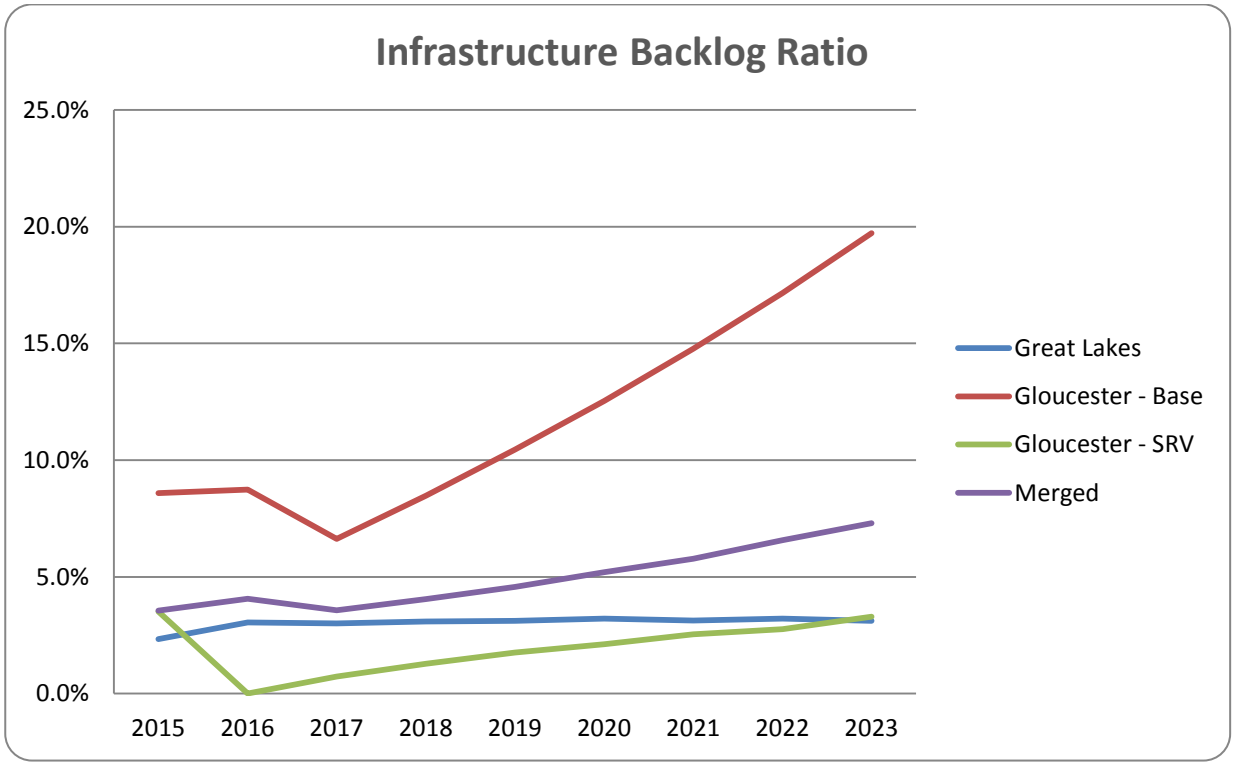


Figure 28 Merged council asset maintenance ratio

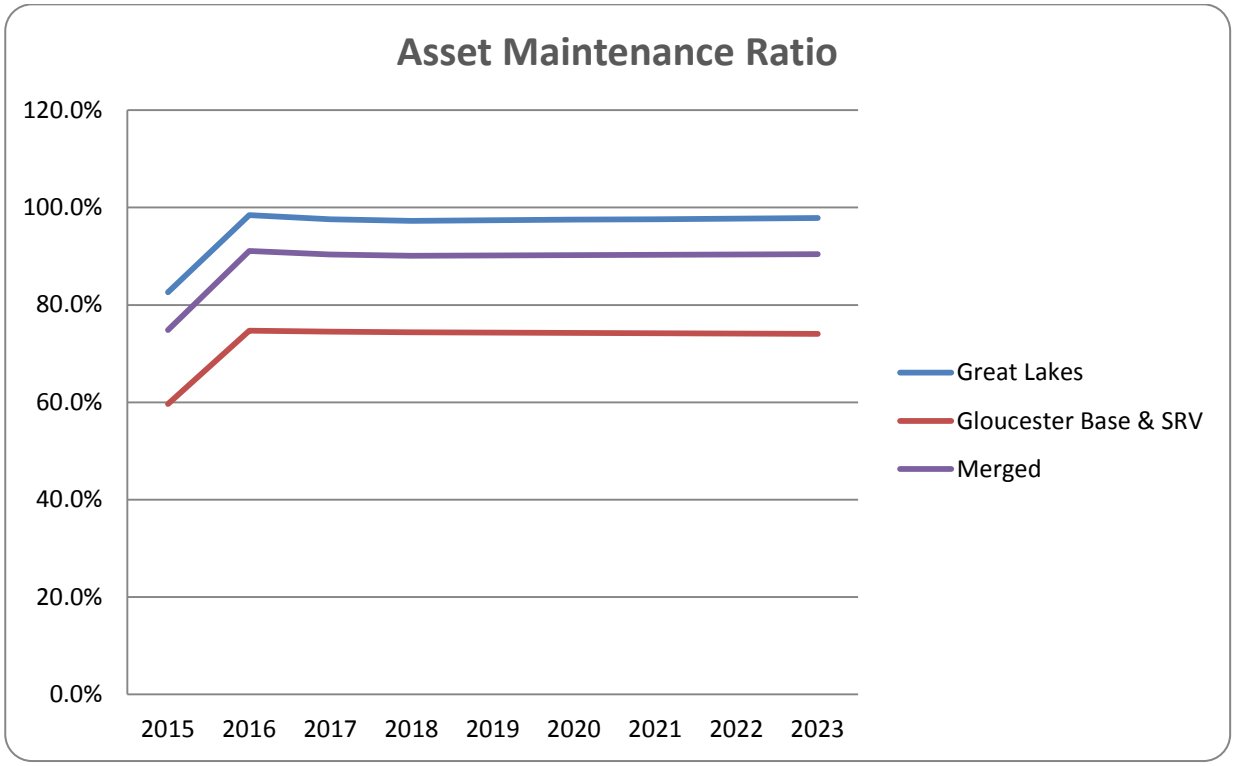
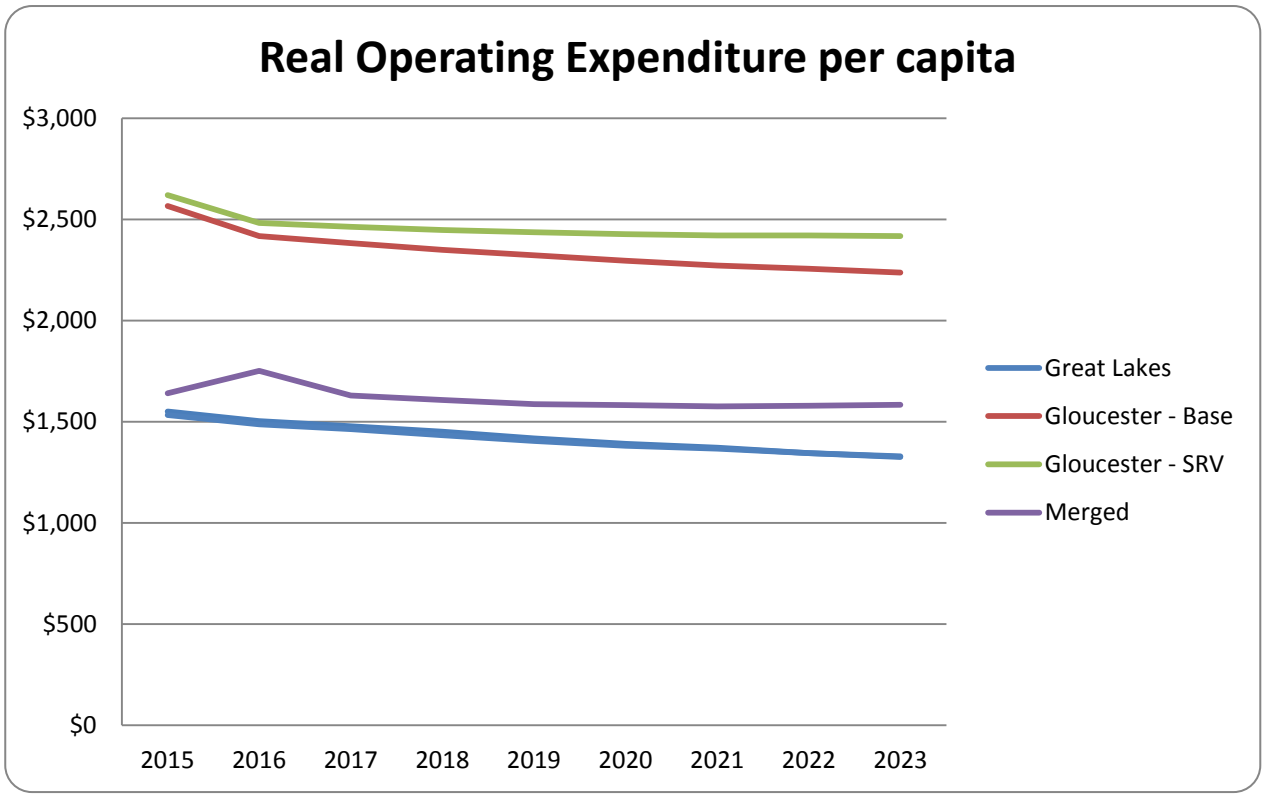


Figure 29 Merged council real operating expenditure



4.3.9.1 Asset Maintenance

The same approach to the calculation of required annual maintenance used for each individual council was applied to a merged council to identify what, if any, gap in maintenance expenditure would exist. For the purposes of the modelling it is assumed that the combined expenditure on maintenance for the merged council is the total of the existing/predicted maintenance budgets.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 29 Merged council asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Merged Council	11,570	12,817	-1,247

4.3.9.2 Asset Renewal

The required annual renewal expenditure for the merged council is based on the combined calculation of the depreciation on building and infrastructure assets. For the purposes of the modelling it is assumed that the combined expenditure on building and infrastructure renewals for the merged council is the total of the existing/predicted renewal budgets for these assets.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 30 Merged council asset renewal funding gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
Merged Council	14,136	17,770	-3,633

We have then calculated what the merged council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years and set that out in the table below.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 31 Merged council infrastructure backlog funding gap

Council	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Merged Council	32,698	16,099	-16,598	-3,320

4.3.9.3 Funding shortfall

Table 32 Merged council asset funding gap

Council	Asset Maintenance ($000)	Renewals ($000)	Infrastructure Backlog ($000)	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	**-1,247**	**-3,633**	**-3,320**	-8,200	-4,880

4.3.10 Operating Performance

The operating result of the merged council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 33 Operating performance funding gap

Council	Gap ($000)
Merged Council	**-10,379**

4.3.11 Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved. There is always a danger that a merger of a small council and a larger council as is the case with Great Lakes and Gloucester is viewed as a takeover rather than a merger.

In the case of Great Lakes and Gloucester the impact of section 218CA of the Local Government Act also creates risks to successfully bringing together the two workforces. This section of the Act relates to the maintenance of staff in rural centres and provides that a council must ensure that the number of regular staff of the council employed at a rural centre of 5,000 people or less is, as far as is reasonably practicable, maintenance at not less than the same level of regular staff as were employed by the previous council at the centre immediately before amalgamation.

The impact on the merger will be to require the merged council to maintain a workforce in Gloucester (and other small centres currently in the Great Lakes area such as Stroud) at the same size as they are currently unless the Council can show that it is not reasonably practicable. The perception may therefore be that the reduction in staff numbers as proposed under this merger business case can only occur in Forster. While this is not the case as the reduction can and would occur from any location, any reduction in staff numbers at Gloucester would have to be offset by moving staff to Gloucester to satisfy the requirements of 218CA. The section also embeds into the Council's operations an inefficiency from having a large proportion of the workforce based in Gloucester in perpetuity.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger any reduced financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

The approach to standardising the calculation of the infrastructure backlog and the asset maintenance ratio is intended to help address the risk of taking on another community's assets

and the lack of undertaking of the condition of those as it provides a consistent and comparable approach.

5. CONCLUSIONS

The government has made it clear that the starting point for every council is scale and capacity. Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other. While either council could make an argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that. In the case of Gloucester Shire Council it may be difficult, given the size of the council and the population it serves to meet the government's test around scale and capacity on its own but that is something for the Council to assess.

Individually, each council achieves only some of the governments Fit for the Future benchmarks.

5.1 Meeting the benchmarks

In order to meet the Fit for the Future benchmarks each of the councils requires an increase in revenue and/or a decrease in costs to address both an operating deficit (as judged against the Operating Performance Ratio criteria) and short and longer term infrastructure issues.

The table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset maintenance ratio[27], renewal ratio and bringing the infrastructure backlog[28] to the benchmark of 2% within five years. After that the funding gap diminishes for each council in order to satisfy only the renewals and maintenance ratios.

Table 34 Summary of infrastructure funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Gloucester Shire Council	- 5,458	- 3,212
Great Lakes Council	- 1,020	- 607

The table below identifies the average annual gap between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each Council's LTFP. Each council will also need to address this in order to meet the benchmark.

Table 35 Operating performance funding gap

Council	Average gap ($000)
Gloucester Shire Council	-3,321
Great Lakes Council	-245

Even if the additional expenditure requirements set out above are achieved and a council meets all the Fit for the Future benchmarks, which logic would dictate means that scale and capacity has therefore been met, a council will still need to address the government's starting point of scale and capacity first.

[27] Based on Morrison Low's assessment of required maintenance

[28] Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology

5.2 Merged council

5.2.1 Scale and capacity

Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other. While either council could make an argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

In the case of Gloucester Shire Council it may be difficult, given the size of the council and the population it serves to meet the government's test around scale and capacity on its own but that is something for the Council to assess

5.2.2 Fit for the Future benchmarks

The merged council is the sum of its parts. This means that the asset and financial positon of each council directly contributes to the overall asset and financial position of the merged council.

The asset focus of the Fit for the Future benchmarks means that like the individual councils, the merged council does not meet the asset related benchmarks. A funding gap in order to address the asset maintenance, asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 36 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	- 8,200	- 4,880

The transitional costs identified throughout this report and the financial performance of the two councils combined means the operating performance ratio is negative from day one and while some efficiency benefits have been modelled in arising through the merger these are not sufficient to improve the financial performance of the council.

The trend over the period modelled is for the operating result (excluding grants and contributions for capital purposes) to stay relatively stagnant and well below the required benchmark for the Operating Performance ratio.

A merged council would meet three of the indicators from day one; Own Source Revenue, Debt Service Cover and Real Operating Expenditure. Of the other indicators:

- The Operating Performance ratio remains static at an average of around 11.1% of the benchmark for the duration of the period modelled, well below the break-even requirement for the benchmark
- The Asset Maintenance ratio remains static at around 90% of the benchmark for the duration of the period modelled, below the required benchmark of 100%
- The Asset Renewals ratio falls from above 90% in 2016 substantially by 2019 to remain at around the 75% mark, well below the required benchmark of 100%
- The Infrastructure Backlog rises consistently from 3.6% to over 7% by the end of the modelling period, remaining above the 2% benchmark

Table 37 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

5.2.3 Debt

Both Councils carry debt with Great Lakes Council carrying more on a per capita basis. Looking at the debt servicing ratios, both councils are within the Fit for the Future benchmarks as would a merged council. On a per capita basis, Great Lakes has a higher debt ratio than Gloucester. It is recognised that debt is an issue of general concern to communities and the Gloucester community may have a view about an increase in debt on a per capita basis with a merger, although this is likely to be offset by the greater capacity to meet the debt servicing requirements overall.

5.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property.

Changes to the average business, residential and farmland rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category shown in the table below.

Table 38 Merged council modelled rating impacts

	Gloucester (ad valorem)	Gloucester (base rate)	Great Lakes (ad valorem)	Great Lakes (base rate)
Residential	- 8%	+ 19%	+ 1%	- 1%
Business	+ 3%	+ 55%	0%	- 6%
Farmland	+ 31%	- 16%	- 13%	+ 7%

5.2.5 Environment and Community Aspirations

The comparison of the community strategic plans highlighted the environment as a common theme across both councils. Both councils want to protect their environments, create and build strong local economies, ensure they have engaged, vibrant and supportive communities and to provide strong local leadership based on strong governance and partnering and representing the communities they serve.

One area of difference is in the references each council makes to infrastructure. Gloucester includes a key direction around maintaining core infrastructure which like many areas facing static or declining population, is a key issue to be addressed. Great Lakes refers in their vision to balancing their unique and sustainably managed environment with quality lifestyle opportunities created through appropriate development, infrastructure and services, which reflects the growth and development pressures they, like many coastal councils, are facing.

5.2.6 Representation

Assuming a merged council had eleven councillors compared to the present seven for Gloucester Shire Council and nine for Great Lakes Council, the number of people represented by each councillor will decrease slightly for Great Lakes residents and increase significantly for Gloucester Shire Council residents.

It may be possible to put in place measures to address the loss of representation for the Gloucester Shire Council residents through local or community boards, but at present the government has not set out in detail any proposal that the community could consider.

5.2.7 Community profile and communities of interest

The Local Government Areas of Gloucester and Great Lakes have some similar features, and some differences, many of which reflect the different natures of the areas, Gloucester being a smaller rural shire, with Great Lakes a larger and more urbanised area.

Both areas have similar age profiles, with low adult retention, high proportion of elderly people and a high ratio of children to adults. There is similarity in household types, with similar proportions of couple families with no children and lone person households, likely reflective of the age of the population. The areas have low multicultural diversity, and a lower education profile. Both areas are below the NSW median for socioeconomic disadvantage.

Gloucester has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, as well as higher home purchasing and labour force participation and lower unemployment. The population of Gloucester is predicted to decrease by 3.35 in the period to 2013 while the Great Lakes is predicted to increase by 7.7%.

Studies of cross-border movements do not reveal high levels of interdependency between Gloucester and Great Lakes, with Great Lakes linked more closely with Greater Taree. Gloucester has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

5.2.8 Costs and Savings of the merger

The costs and savings of the merger arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition from two councils into one there are costs associated with creating the single entity (structure, process, policies, systems and branding), costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the merger continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors. In this case these are minor as only the General Managers are considered Senior Staff. Natural attrition is used to reduce staff numbers in the short term with a focus on removing the duplication of roles across the two councils and creating greater efficiency in operation, however the overall decrease in staff numbers is small leading to a small saving. Procurement and operational expenditure savings are also expected due to the size and increased capacity of the larger council but again these are small given the increase in size is modest. In the medium and longer term savings continue to arise.

The operating performance of the merged council (excluding grants and contributions for capital purposes) is negative in every year of the period being modelled. The NPV of the costs and savings over the period being modelled (2023[29]) has been calculated and set out below and identifies a net cost to the councils and community arising from the merger.

Table 39 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
- $1.1 million	- $1 million	- $.96 million

5.2.9 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

[29] 2023 is the period being modelled to match the time covered by both council LTFPs

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a “no forced redundancies” position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

In terms of operational risks a key ongoing risk is managing the implications of section 218C of the Local Government Act which may require the merged council to maintain a workforce of the same size in Gloucester unless it can be shown that it is not reasonably practicable. This is likely to lead to inherent inefficiency in the organisation from travel time, separation of staff and unless handled carefully a perception that any reduction in staff arising from the merger will occur in Forster as staff numbers in that locations are not protected by the Act.

APPENDIX A Fit For The Future Benchmarks[30]

Operating Performance Ratio

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

[30] Office of Local Government Fit for the Future Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

$$\frac{\textit{Cost of debt service (interest expense \& principal repayments)}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

Description and Rationale for Criteria:

The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textbf{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

Description and Rationale for Criteria:

The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and
- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B Costs and benefits arising from a merger of the Gloucester Shire and Great Lakes Councils – detailed assumptions

Costs and benefits identified below form the basis of the modelling referred to throughout the report.

Assumptions have been made using the best available information including analysis of various reports on and estimates of merger costs in other similar situations. This has been supplement with professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Queensland Treasury Corporation August 2009 Report

In an August 2009 report[31] from the Queensland Treasury Corporation reporting on costs associated with the amalgamation of the Western Downs Regional Council, the report said:

> *A net cost outcome in the first local government term is likely as local governments will incur most of their amalgamation costs prior to, and in the two to three years subsequent to, amalgamation. These costs then taper off. However, the savings resulting from amalgamation are likely to gradually increase over time through:*
>
> - *greater efficiency (ie, a reduction in costs through improved economies of scale)*
> - *Improved decision making capability, and*
> - *Improved capacity to deliver services.*
>
> *While Western Downs only identified minor potential future benefits, it is likely that benefits will be generated from a reduction in CEO wages, natural attrition and procurement efficiencies etc, while providing existing services at current service standards. It is noted that Western Downs has been able to extend the delivery of certain services across the local government area.*

Queensland Treasury also provided comment on the reality that local government is different from businesses and that it can be difficult to measure benefits from mergers on a commercial basis:

> *Businesses generally undertake amalgamations and mergers on the basis of a number of factors such as cost savings, increased market share, improved synergies and improved decision making capability. Generally, these factors are measured in the context of reduced staff numbers, reduced operating costs, improved profitability, increased market share and higher share prices.*
>
> *With local government these benefits are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. As a consequence, the cost savings of amalgamation of local governments do not generally show up as improved profitability (ie, operating surpluses). Similarly, improved decision making capability results in more effective decisions and better outcomes to residents but may not be reflected in a local government's bottom line. This is because local governments, unlike the private sector, are not in the business of making profits. Therefore, it is more difficult to measure the cost savings resulting from amalgamation of local governments than it is for corporations as the benefits will generally be utilised by the amalgamated local government in the provision of services.*

[31] Queensland Treasury Corporation - Review of Amalgamation Costs Funding Submission of Western Downs Regional Council, August 2009

Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 were between 1.1 per cent and 3.1 per cent. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure resulting from amalgamation.

These estimates focused on administrative efficiency rather than the outcomes achieved through improved local government decision making capability. A potential measure of improved local government capability is ratepayer satisfaction. Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was very positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful. This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of jobs and loss of access to elected officials. QTC has not been asked to comment on improved capability.

The costs and benefits that Morrison Low have modelled for a possible merger of Great Lakes and Gloucester Councils are described below:

Costs are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, Council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support Council/Committee Secretarial Support	Reduced councillors and remuneration	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)				

1.1 Governance ($160K)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and Councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on 11 councillors for the new merged council, which is the same number of councillors for Lismore Council.

1.2 Executive management ($185K)

The formation of a single entity will result savings in executive management costs as it is likely that there will be only one less position in a merged council. Revised remuneration packages for the new entity have been informed and assumed to be on par with similar sized councils.

It is important to note that while ongoing efficiencies of $185k have been identified effective from the short term, there is the one off cost of redundancies of an estimated $330k that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3 Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services Section.

2 Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3) Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Long Term (5 years plus)					

2.1 Rationalisation of duplicate services ($300K)

Consistent with the dis-establishment of two councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers.

Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than separate Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans, Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the 'front of house' customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity both in terms of resources and actual cost. However it is expected that ICT would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The starting point for the assumption underpinning

the efficiency for corporate services was a 35%[32] reduction in corporate support personnel based on previous mergers. However, a review of the organisational charts of the two councils means that in this case our view is that there is very limited opportunity for reductions in corporate services and only amount to 2 -3 positions. On costs are considered to be included as the figure used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those outlines above.

In order to achieve the opportunities identified would require detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled on an average of 26 weeks[33]

3 Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)					

3.1 Management tier 3 and 4 ($0)

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out.

On the basis that two councils are being disestablished and a single entity created there is typically opportunity for a reduction in Tier 3 and 4 positions. However, a review of the councils organisational structures and the geographic distance between them means that in this case there is unlikely to be any reduction in this aspect of the organisation.

[32] Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

[33] The Local Government (State) Award provides a sliding scale for redundancy pay-outs from 0 for less than 1 year, 19 weeks for 5 years and 34 weeks for 10 years. An average of 26 weeks has therefore been used throughout the modelling.

3.2 Staff Turnover ($300K)

While the industry average turnover is approximately 9% and on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, there is an estimated annual efficiency of $300k on staff remuneration based on applying a modest 1% natural attrition.

3.3 ICT Benefits ($500K)

Without a full investigation into the current state of the two councils ICT infrastructure and systems, and without an understanding of the future state, the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from two councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce by 40%[34] over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the two councils, the 40% efficiency is unable to be determined at this time.

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and based on an ICT cost of $90 million have estimated the Net Present Value at $200 million and payback period of 5 years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate however to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of $500K per annum.

3.4 Materials and contracts ($20 – 30K)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from two councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement and resource sharing through the various Hunter Councils initiatives.

The increased scale and size of the infrastructure networks managed by the council would in our view lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

Based on the analysis during the project and our experience the combined savings have been modelled as arising only in relation to the materials and contracts purchased by Gloucester.

[34] Report to the Local Government Commission on Potential Savings of a Range of Options for the Re-organisation of Local Government in the Wellington Region, Brian Smith Advisory Services Limited, November 2014

3.5 Properties ($0)

Typically there is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for Council purposes.

However the nature of the two councils, the geography and the limited opportunities to reduce staff numbers means that in our view that no allowance should be made for the rationalisation of buildings.

3.6 Works units

Staff ($350K)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 5% across the works areas will be easily achieved in the medium term to reflect the duplication of services.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet ($250K – one off)

Based on our experience of reviewing a large number of works units across NSW most councils are have significantly more plant and equipment than reasonably required to undertake it day to day functions. As such it is reasonable to assume that a reduction in plant and fleet in the order of 10% would be achievable should there be an amalgamation of the councils.

4 Services and Service Levels

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[35] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition.

5 Transition costs

The formation of the new entity from the current state of two councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[36] for the proposed Wellington reorganisation.

[35] Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

[36] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below:

Governance	• Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	• Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required have role descriptions
Finance and Treasury	• Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	• Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change • Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	• Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	• Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1
Planning Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond

	• Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Da1 and beyond
Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

5.1 Transition body ($2.25 million)

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at $36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[37] including an assessment of the merger costs for the three rural councils of the Wairarapa. Queensland Treasury Corporation also identified a cost for both establishing corporate office accommodation and external contracts to handle the additional workload of creating and implanting the new Council structure of approximately $750,000 in 2009.

On the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the councils is $2.25 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

5.2 ICT ($4-5 milllion)

The costs associated with ICT for the new entity relate to rationalising the existing councils ICT infrastructure, business applications, security and end user support for the single entity. The full

[37] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. Two approaches were considered; the first being the costs to transition the new council to a single system(s) across the board. The second was to take a 'best of breed approach' and use the best existing systems and migrate data across.

The significant costs involved in the first option mean that it is not considered appropriate for a merger of Great Lakes and Gloucester. Comparatively the costs remain high for the second option as well as the difficulties in migrating data and working through system capabilities etc will still incur costs as noted in the QTC report highlighted above. Given the respective size of the councils and the populations they serve in the context of the studies cited it is considered that the most likely costs are in the region of $4 - 5 million.

The estimated cost are spread across the initial years of the councils operations with the majority falling in the first two years.

5.3 Business Process (existing Council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the two existing councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4 Branding ($1.0 million)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace the existing signage of the two councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is $1.0 million based on other amalgamation experience.

5.5 Redundancy Costs ($330K)

This is based on a reduction in from two general managers to one for a merged council and is based on employment contracts with a redundancy period of 38 weeks, and based on the Councils' respective Annual Reports 2013/14.

5.6 Remuneration Harmonisation ($500K)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the two councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for similar councils have been compared to that of the combined councils combined as well as between the two councils.

5.7 Elections ($0 million)

There is a possibility of proportional savings in existing council budgets as instead of two separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the two councils.

APPENDIX C Great Lakes and Gloucester - Planning Controls around Natural Environment, Built Heritage and Approach to Growth and Development

The following is based on overarching aims of applicable planning instruments as an indication of:

- protection of the natural environment
- protection of the built environment and built heritage
- general approach to growth and development

	Natural	Built	Approach to Growth
Great Lakes (Great Lakes LEP 2014)	**Emphasis on natural environment** The particular aims of the LEP which relate to the protection of the natural environment are: • *to protect and enhance environmental, scenic and landscape assets* • *to ensure that development has regard to the capability of the land so that the risk of degradation is minimised* • *to ensure that development meets any local water quality objectives adopted by Council in relation to groundwater, rivers, estuaries, wetlands and other waterbodies* • *to protect, enhance and provide for the long-term management of native biodiversity, including habitat linkages, threatened species populations and endangered ecological communities, and to identify and protect biodiversity links or corridors throughout the landscape.* These aims reflect the significant natural assets of Great Lakes including its waterways and land based environmental characteristics	**Emphasis on built heritage** There are no specific aims in the LEP that relate to the protection of built heritage.	The aims of the LEP concentrate on orderly planning and development, minimising conflict between land uses and making efficient use of services and infrastructure: • *to facilitate the orderly and sustainable economic development of land* • *to promote the equitable provision of services and facilities for the community* • *to ensure that development does not create unreasonable or uneconomic demands for the provision or extension of public amenities or services* • *to minimise land use conflict* These aims reflect the diversity of land use in the LGA and the importance of minimising potential conflict between significant economic sectors such as agriculture, residential and tourist uses. Other aims address the general wellbeing of the community: • *to promote the health and well being of the population* • *to facilitate cultural activities that will benefit the community* • *to promote public transport patronage and encourage walking and cycling*

	Natural	Built	Approach to Growth
Gloucester (Gloucester LEP 2010)	**Emphasis on natural environment** The particular aims of the LEP which relate to the protection of the natural environment are: • *to protect rural lands, natural resources and assets of heritage significance* (emphasis added) • *to embrace and promote the principles of ecologically sustainable development, conservation of biological diversity and sustainable water management, and to recognise the cumulative impacts of climate change* • *to protect, enhance and provide for biological diversity, including native threatened species, populations and ecological communities, by long term management and by identifying and protecting habitat corridors and links throughout Gloucester* These aims recognise the major significance of the natural environment to the LGA and the importance of active management of these resources to ensure their long term viability	**Emphasis on built heritage** The particular aim of the LEP which relates to the protection of the built heritage is: • *to protect rural lands, natural resources and assets of heritage significance* (emphasis added) This suggests that heritage assets are considered as part of a "basket" of "amenity characteristics" in the LGA rather than being emphasised in their own right	The Aims of the LEP in relation to economic activity concentrate on protection of the existing rural base, responsible management of the area's resources and development and provision of a range of housing to meet community needs: • *to manage the resources of Gloucester* • *to manage development to benefit the community* • *to encourage a mix of housing to meet the needs of the community* • *to provide a secure future for agriculture*

APPENDIX D Comparison of Community Strategic Plans of the two Councils

Gloucester	Great Lakes
Vision • We want to work together to preserve this special place: • To value and protect our environment; • To care and contribute to our community, and • To build a sound and prosperous future.	A unique and sustainably managed environment balanced with quality lifestyle opportunities created through appropriate development, infrastructure and services
Values • Pride in our community • Caring for our environment • Strong work ethic • Willingness to support each other • Courage in face of adversity • Welcoming and engaging community • Strong sense of place	**Values**
Key Directions • Maintaining core infrastructure • Project the environment • Create strong economy • Engaged and supportive community • Governance and partnerships	**Key Direction 1** **Our environment** *Objectives* • Protect and maintain the natural environment so it is healthy and diverse • Ensure that development is sensitive to our natural environment • Prepare for the impact of sea level rise and climate change • Sustainably manage our waste **Key Direction 2** **Strong Local Economies** *Objectives* • Promote the Great Lakes as an area that is attractive for residents and visitors • Establish and maintain a supportive business environment that encourages job opportunities • Provide transport infrastructure that meets current and future needs **Key Direction 3** **Vibrant and Connected Communities** Objectives • Provide the right places and spaces • Plan for sustainable growth and development • Increase and improve access to education for all ages

Gloucester	Great Lakes
	• Encourage a positive and supportive place for young people to thrive • Develop and support healthy and safe communities • Build on the character of our local communities and promote the connection between them **Key Direction 4** **Local Leadership** Objectives • Deliver Council services which are effective and efficient • Strengthen community participation • Represent the community's interests through regional leadership

APPENDIX E Detailed Community Profile

MorrisonLow

Gloucester Shire Council

Great Lakes COUNCIL

The Communities of Gloucester and Great Lakes

March 2015

achieving **results** in the public sector

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Document Status

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1. INTRODUCTION

A desktop review of the communities of the Gloucester and Great Lakes council areas has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within these areas.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The two key reference points for this review are ABS Census Data taken from the Councils' Profile ID websites, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A Report for the Independent Local Government Review Panel*[38].

2. SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

The Local Government Areas of Gloucester and Great Lakes have some similar features, and some differences, many of which reflect the different natures of the areas, Gloucester being a smaller rural shire, with Great Lakes a larger and more urbanised area.

Both areas have similar age profiles, with low adult retention, high proportion of elderly people and a high ratio of children to adults. There is similarity in household types, with similar proportions of couple families with no children and lone person households, likely reflective of the age of the population. The areas have low multicultural diversity, and a lower education profile. Both areas are below the NSW median for socioeconomic disadvantage.

Gloucester has a relatively more socioeconomically advantaged community, which is reflected in a higher SEIFA score, as well as higher home purchasing and labour force participation and lower unemployment.

Studies of cross-border movements do not reveal high levels of interdependency between Gloucester and Great Lakes, with Great Lakes linked more closely with Greater Taree. Gloucester has higher employment containment, both in terms of place of residence of local workers, and place of work of local residents.

[38] National Institute of Economic and Industry Research, March 2013

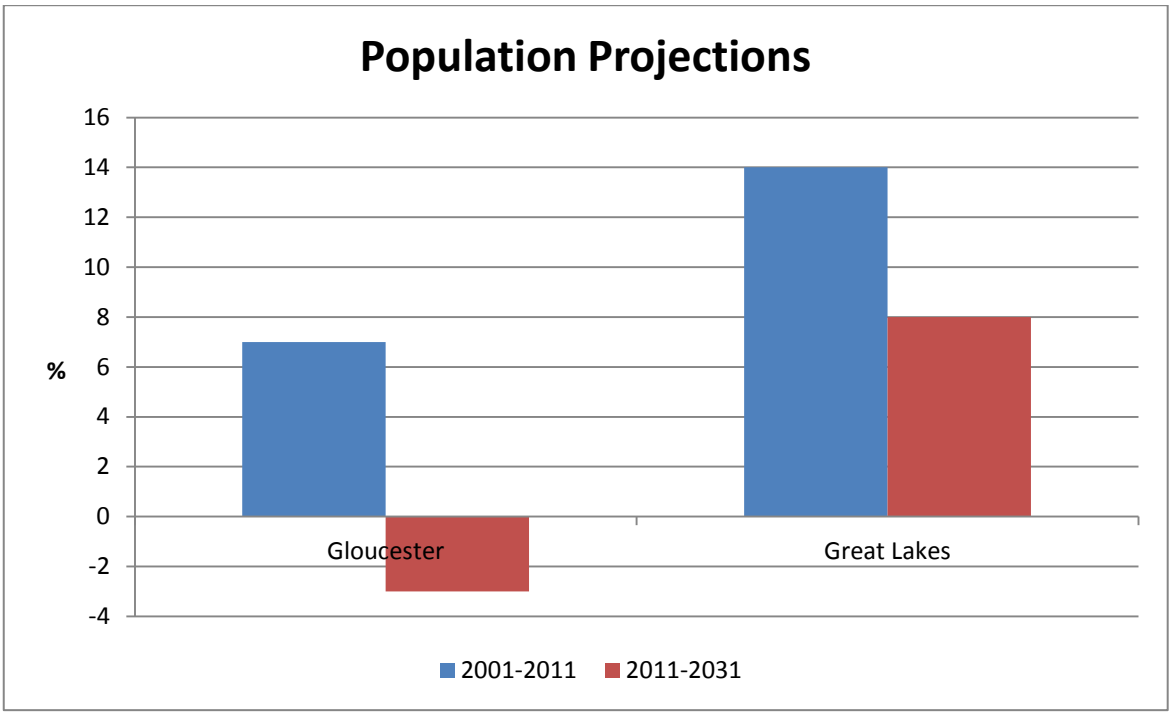
3. POPULATION SUMMARY

3.1 Current Base Information

	Population (ERP 2013)	No. Households	Land Area (ha)	Population Density (persons per ha)
Gloucester	5,016	2,000	295,017	0.08
Great Lakes	36,312	14,305	337,539	0.1
Total	41,328	16,305	632,556	0.07

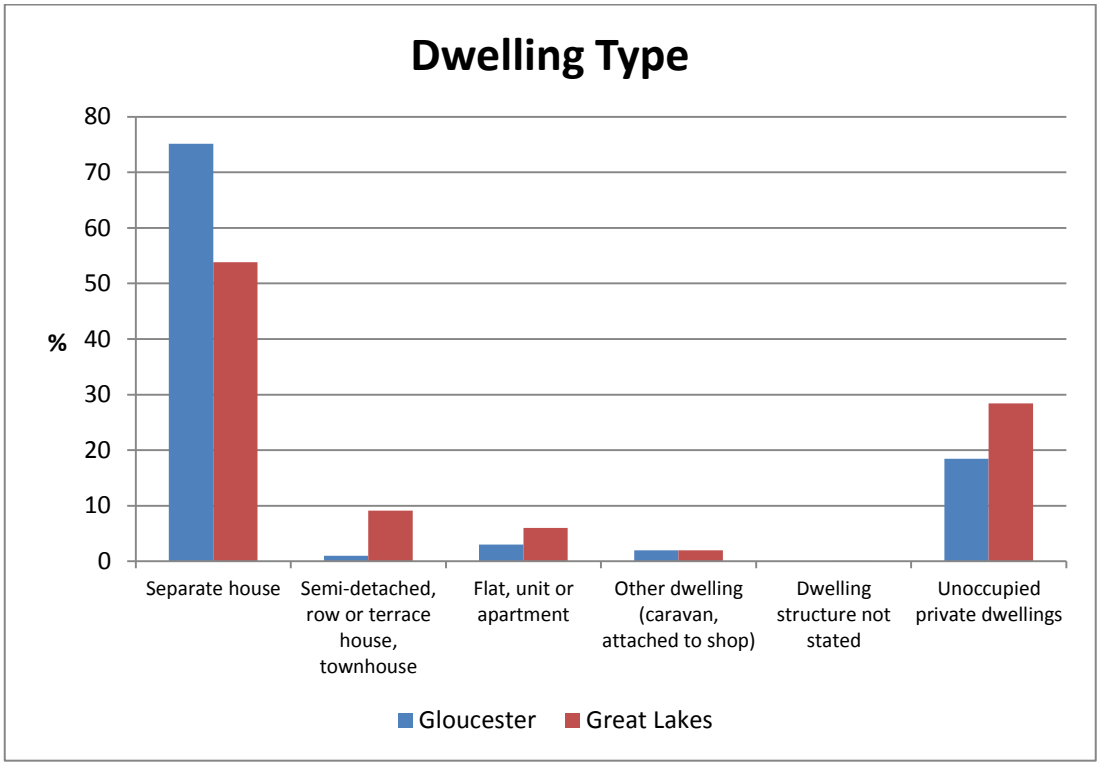
3.2 Population Growth and Forecasts

Analysis of the census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the Great Lakes and Gloucester area. Great Lakes is forecast to see a 7.7% increase to 2031, with Gloucester forecast to decrease by 3.3% over the same period.

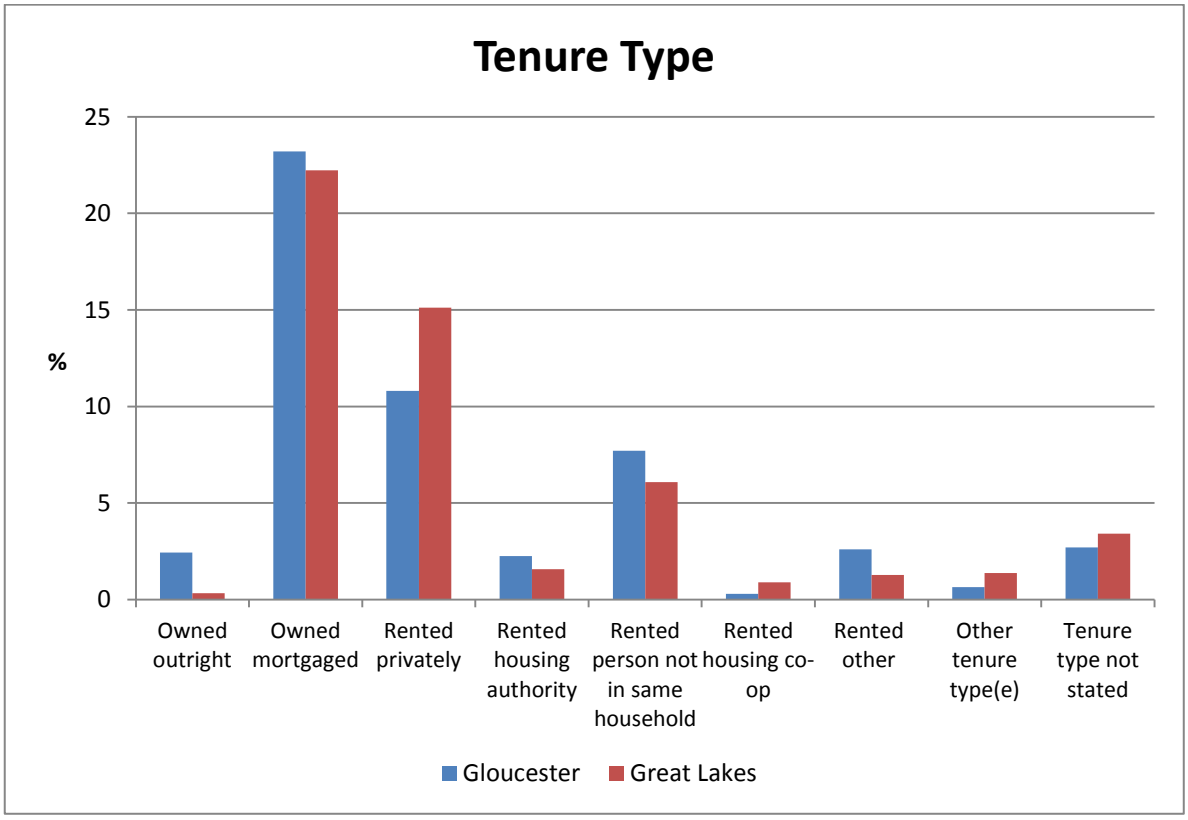


3.3 Dwellings

The two areas cluster differently, with Gloucester in a cluster which includes most of the small-town shires with lowest levels of mobility and tenancy and highest levels of outright home ownership, along with a small mix of caravans. Great Lakes is in a cluster with state-average mobility, a high proportion of caravans, average proportion of rental dwellings and greater outright ownership than mortgage status.



Gloucester has a higher proportion of separate houses and a lower proportion of medium and high density dwellings than Great Lakes, reflecting its less urbanised nature.

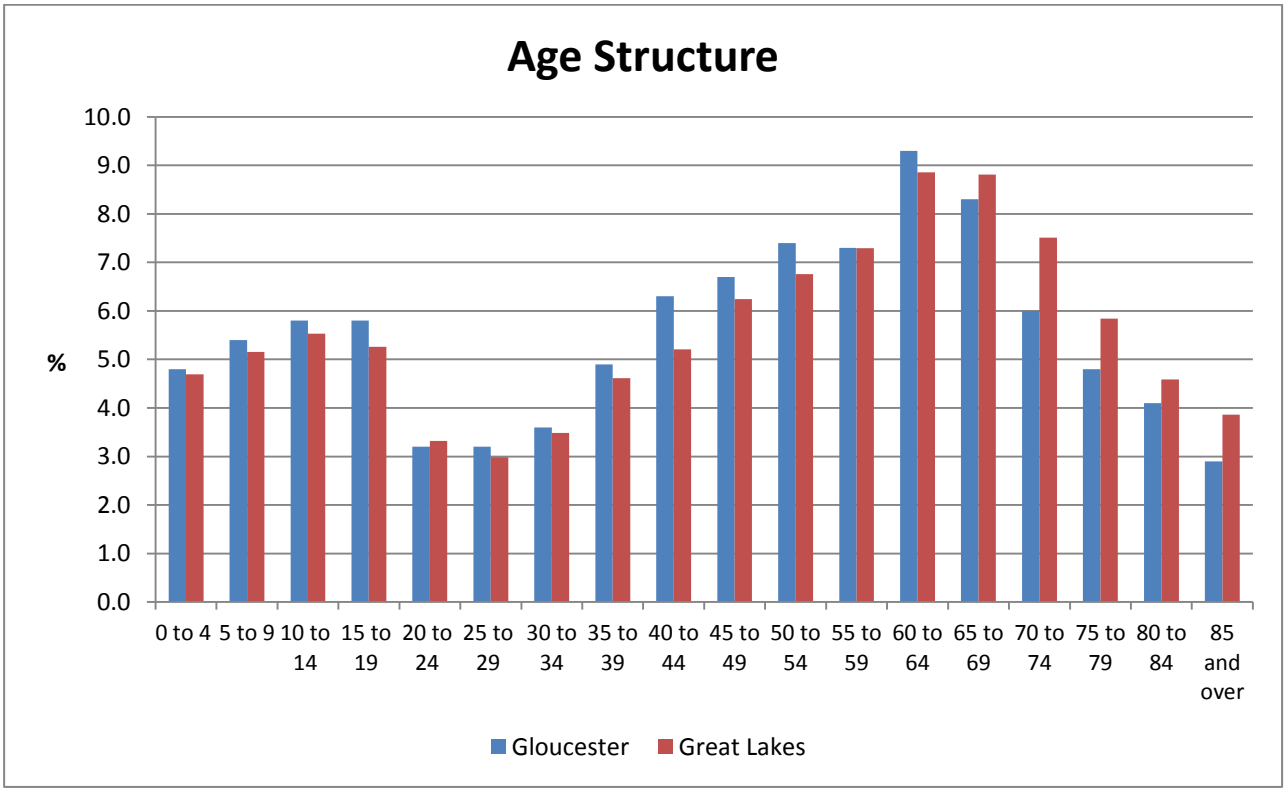


Related to the dwelling types, Gloucester has a higher proportion of homes owned outright or mortgaged, reflecting its lower proportion of medium and high density dwellings, and a slightly higher proportion of social housing.

3.4 Age Structure

The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

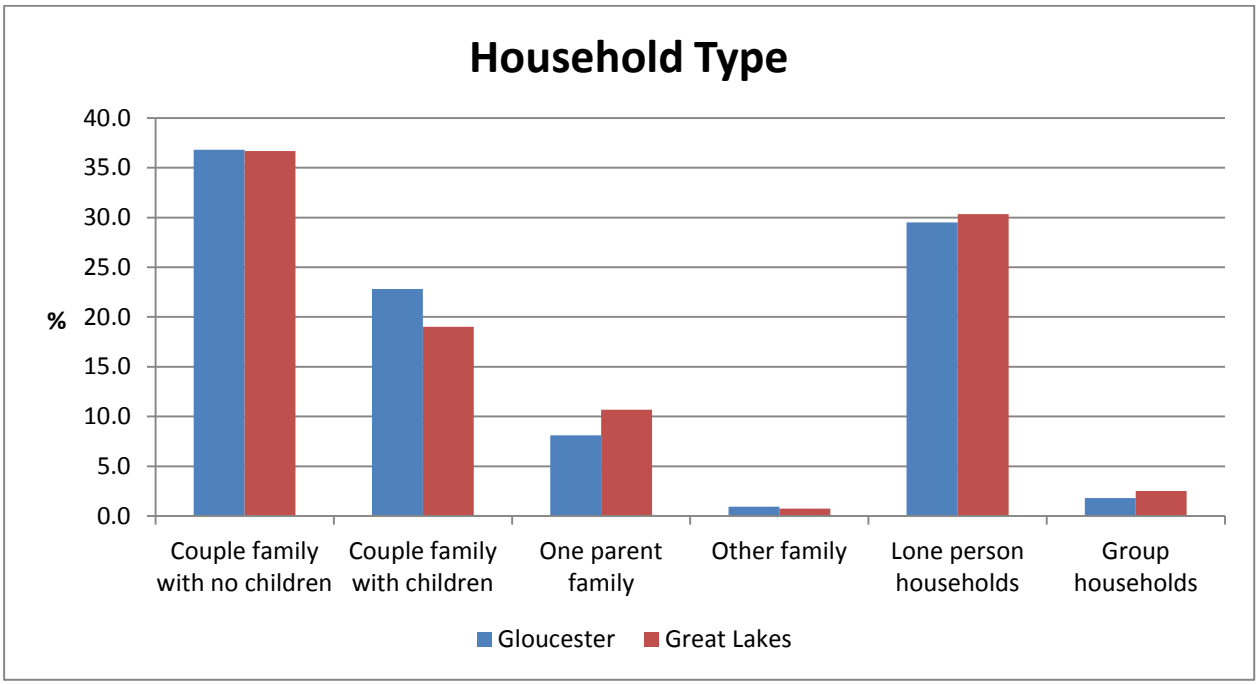
The *Similarities and Differences* analysis groups both Great Lakes and Gloucester in the same cluster for age structure, with low young-adult retention rate coupled with a high ratio of children to adults of parenting age. There is also a high proportion of elderly people and a slightly higher retention rate for very old people than other similar clusters.



Compared to each other, Gloucester displays a high proportion of people in all of the age groups from 0 to 64, with the exception of the 20-24 age group, which is slightly lower, and the 55-59 years group which is the same. Great Lakes then has larger proportions in the older age groups, at much higher rates of difference.

3.5 Household Types

Great Lakes and Gloucester have a similar household profile, with a predominance of couple families with no children and lone person households, likely reflecting the age of the population.



4. CULTURE

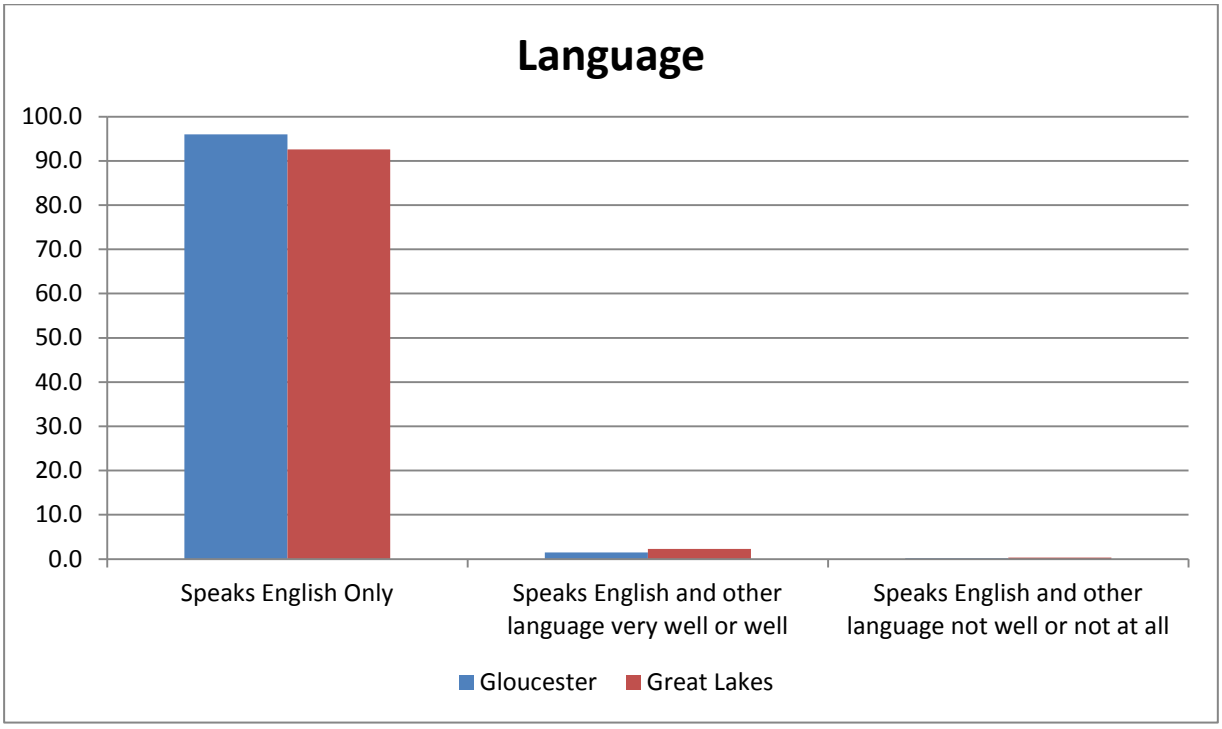
4.1 Birthplace

Great Lakes is in a cluster of areas with around 90% of residents born in Australia, with the remaining coming mainly from North and Western Europe including the UK. Gloucester is in a cluster of areas where virtually all residents were born in Australia, with little recent migration.

4.2 Religion

Both Great Lakes and Gloucester are clustered in a group of entirely non-metropolitan areas that are dominated by the mainline protestant denominations.

4.3 Language



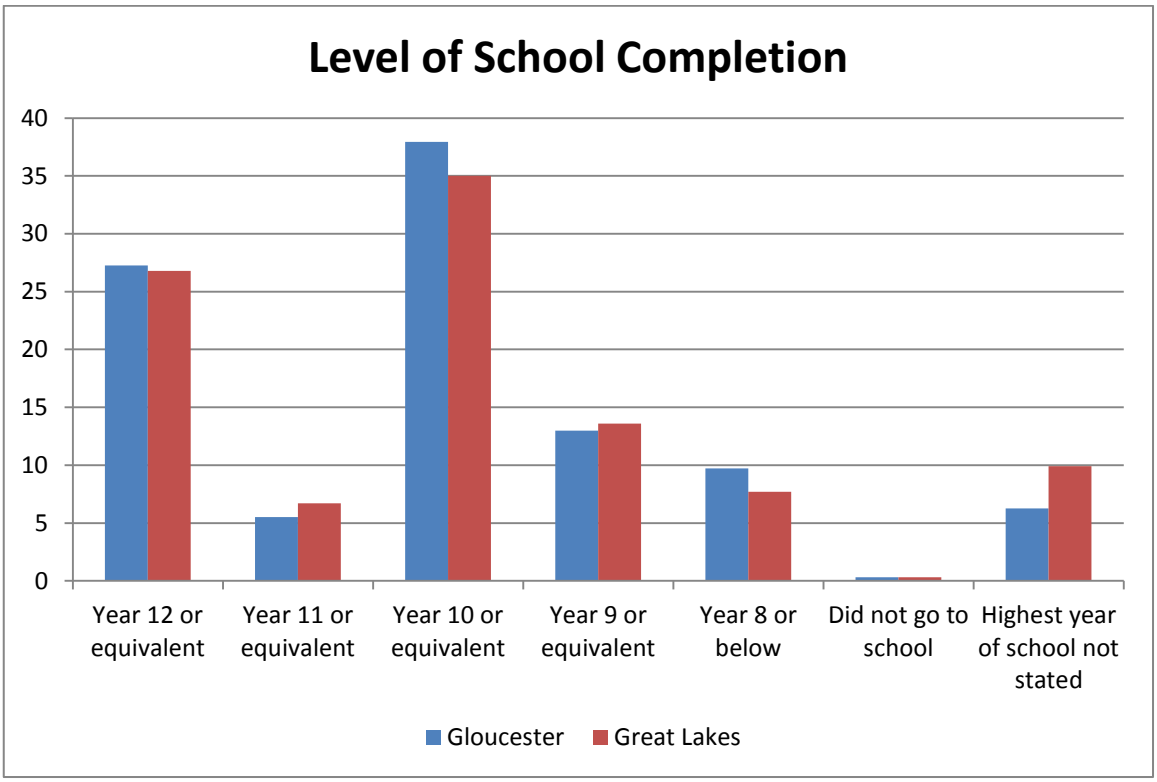
Both Great Lakes and Gloucester have very high proportions of the population speaking English only.

5. EDUCATION

The two councils are clustered together in a group of areas characterised by low Year 12 completion, few overseas-born residents and low proportions of professionals coupled with moderate adolescent educational attendance.

5.1 School Completion

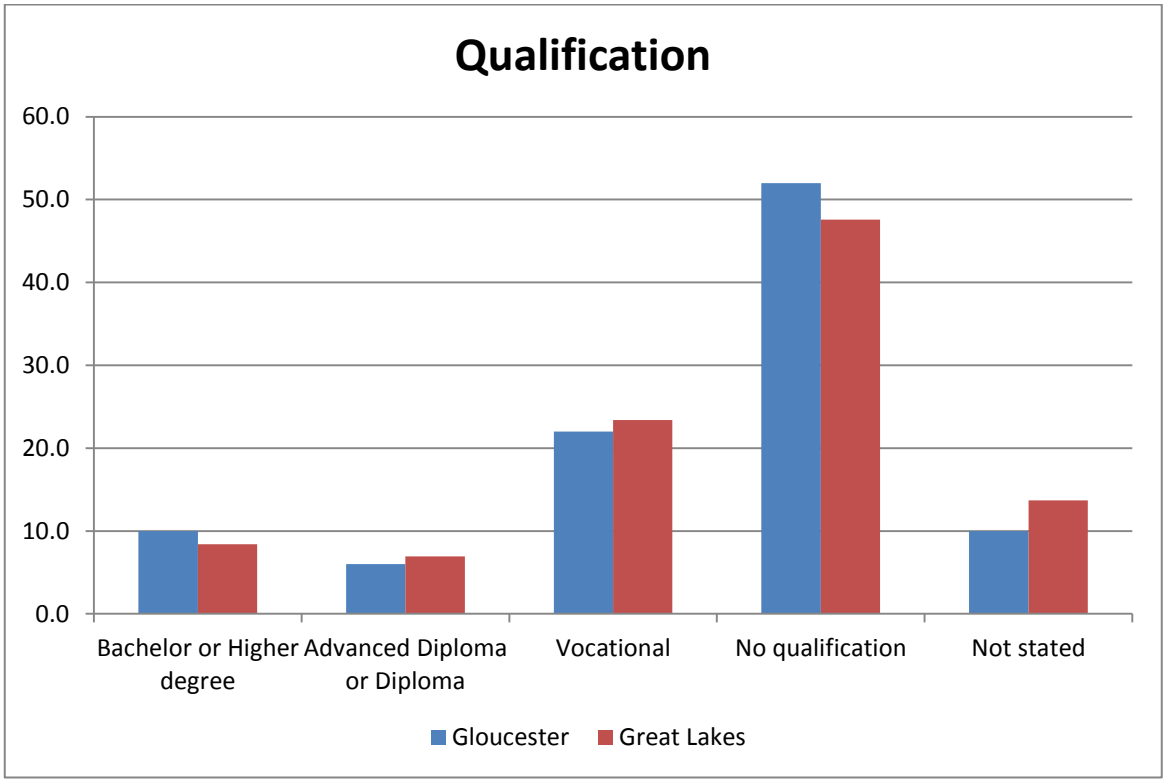
School completion data is a useful indicator of socio-economic status. Combined with educational qualifications it also allows assessment of the skill base of the population.



Gloucester and Great Lakes have a similar school completion profile, with almost identical rates of Year 12 achievement, with slightly more Great Lakes residents finishing in Year 11 and Gloucester residents finishing in Year 10.

5.2 Post School Qualifications

Educational qualifications relate to education outside of primary and secondary school and are one of the most important indicators of socio-economic status. With other data sources, such as employment status, income and occupation, an area's educational qualifications help to evaluate the economic opportunities and socio-economic status of the area and identify skill gaps in the labour market.

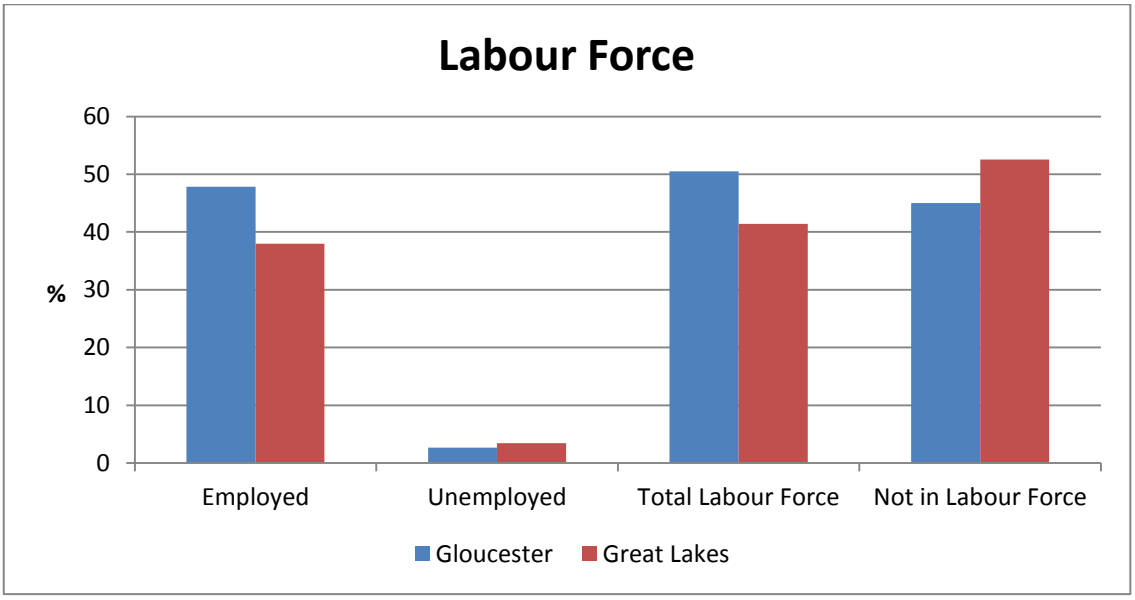


Both Gloucester and Great Lakes have high rates of residents with no qualifications, followed by vocational qualifications. The rates of university education are relatively low.

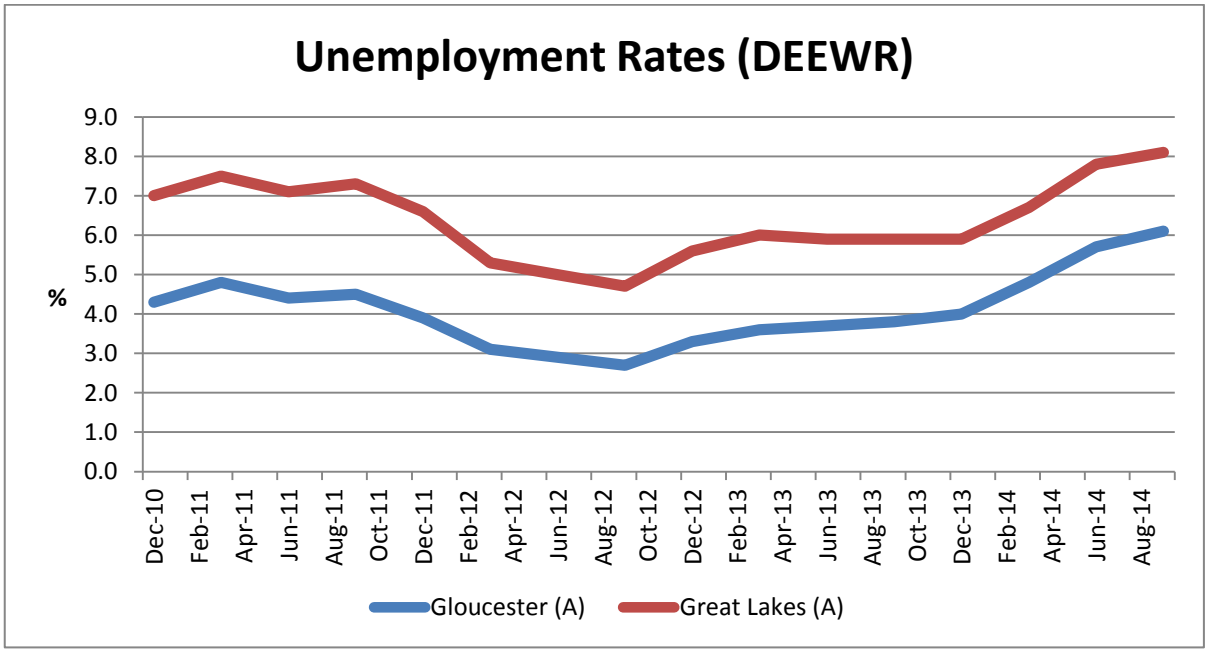
6. LABOUR MARKET

Gloucester and Great Lakes are in different labour market clusters, the most notable difference being higher rates of unemployment in Great Lakes and also higher social security take-up. They both have lower hours of work and FTE employment rates than other areas.

6.1 Employment Status

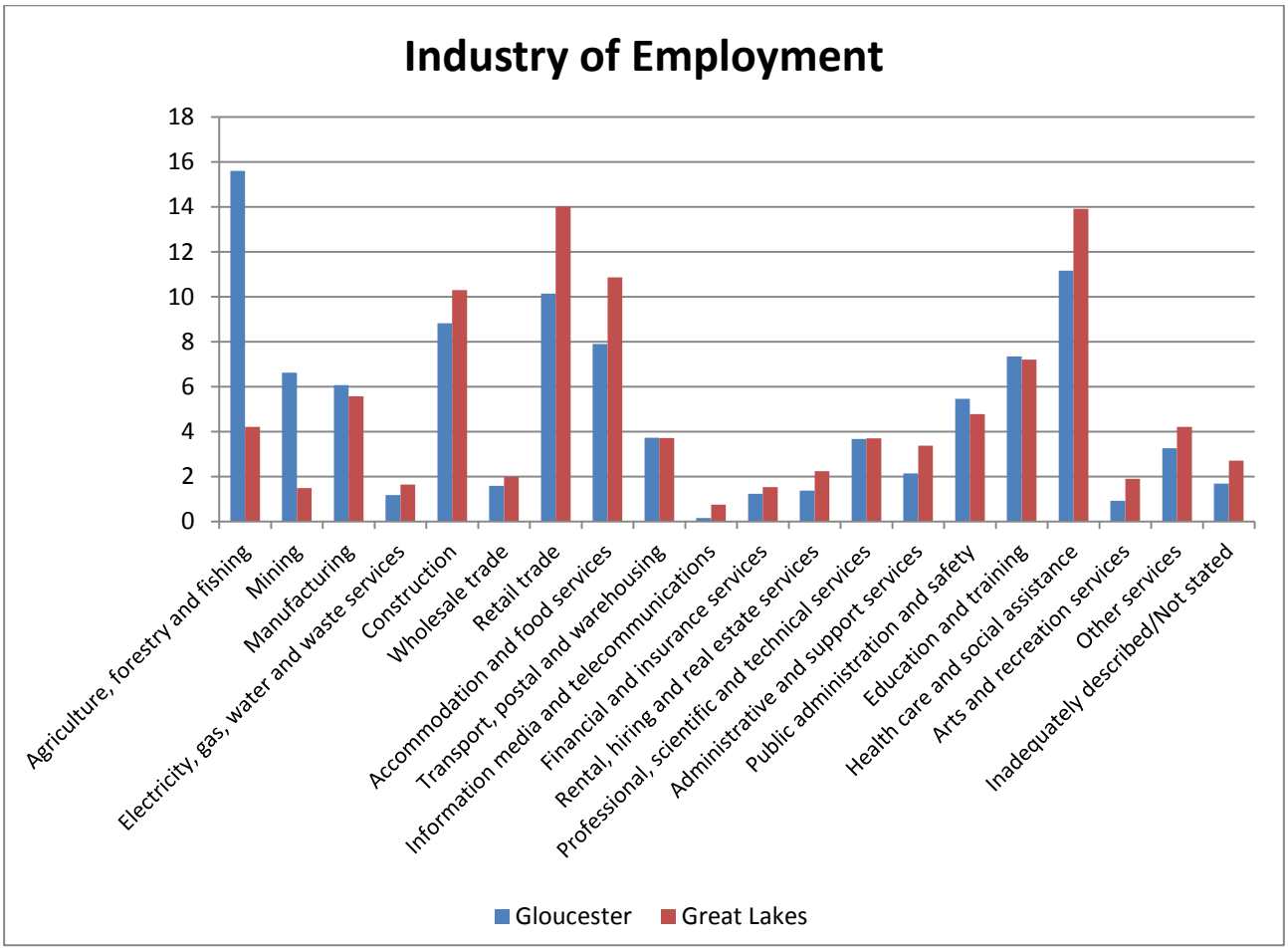


Gloucester has a higher overall labour force participation rate than Great Lakes, as well as lower unemployment. Unemployment rates as published by the Department of Employment[39] show that unemployment has been consistently lower in Gloucester over time.



[39] http://docs.employment.gov.au/node/34451

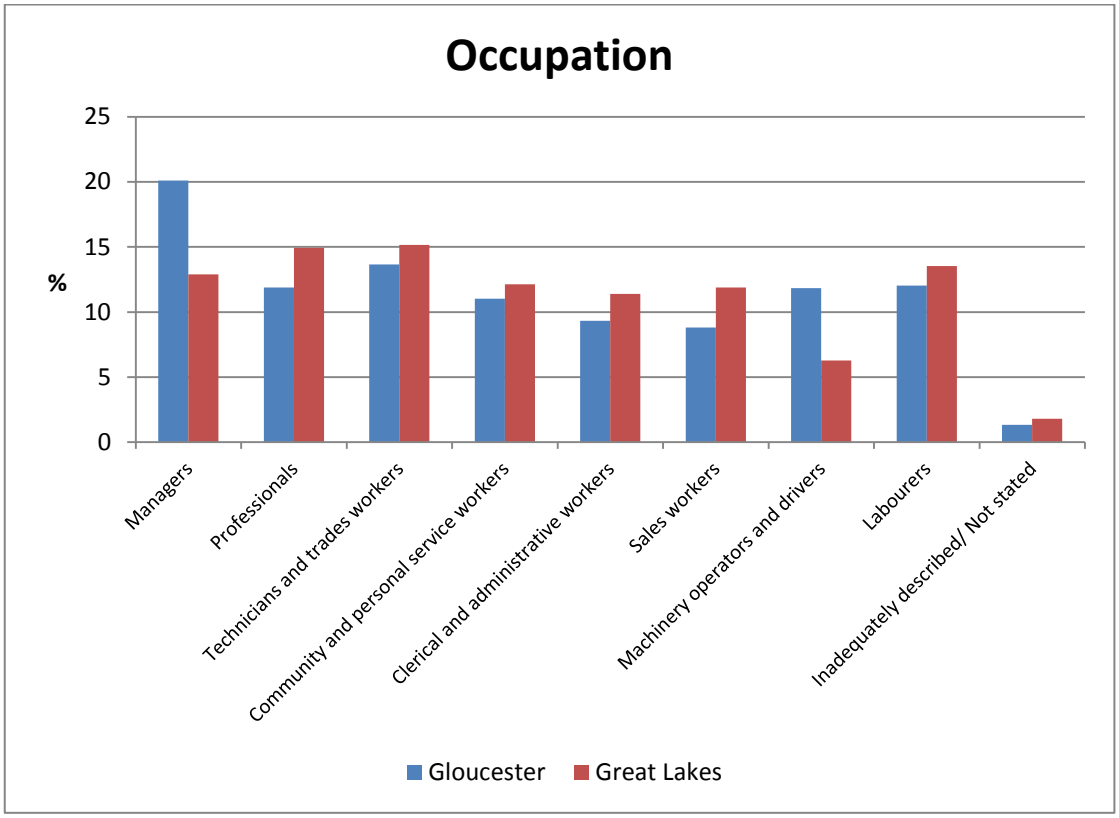
6.2 Industries of Employment



Consistent with their size and nature, Gloucester sees a greater predominance of the agricultural and mining industries, where Great Lakes has more residents employed in retail trade, accommodation and food services, and health care and social assistance.

6.3 Occupations

Gloucester has a higher proportion of managers and machinery operators and drivers. All other occupation types are more dominant in Great Lakes, most notably sales worker and professionals.



7. HOUSEHOLD INCOME AND WEALTH

Both LGAs sit in a large cluster of areas with average incomes low to middle and per capita disposable incomes typically around $35,000. Incomes sources are diversified between wages and small business, property and benefits, and income growth has been fairly low over the past five years.

Great Lakes is clustered with areas with moderately high wealth per household (around $0.85 million each) with much of the wealth in housing, and both liabilities and rate of growth of wealth are moderate. Gloucester is clustered with areas that have low wealth, mainly from property and business with fairly heavy liabilities countered by reasonable growth in net wealth.

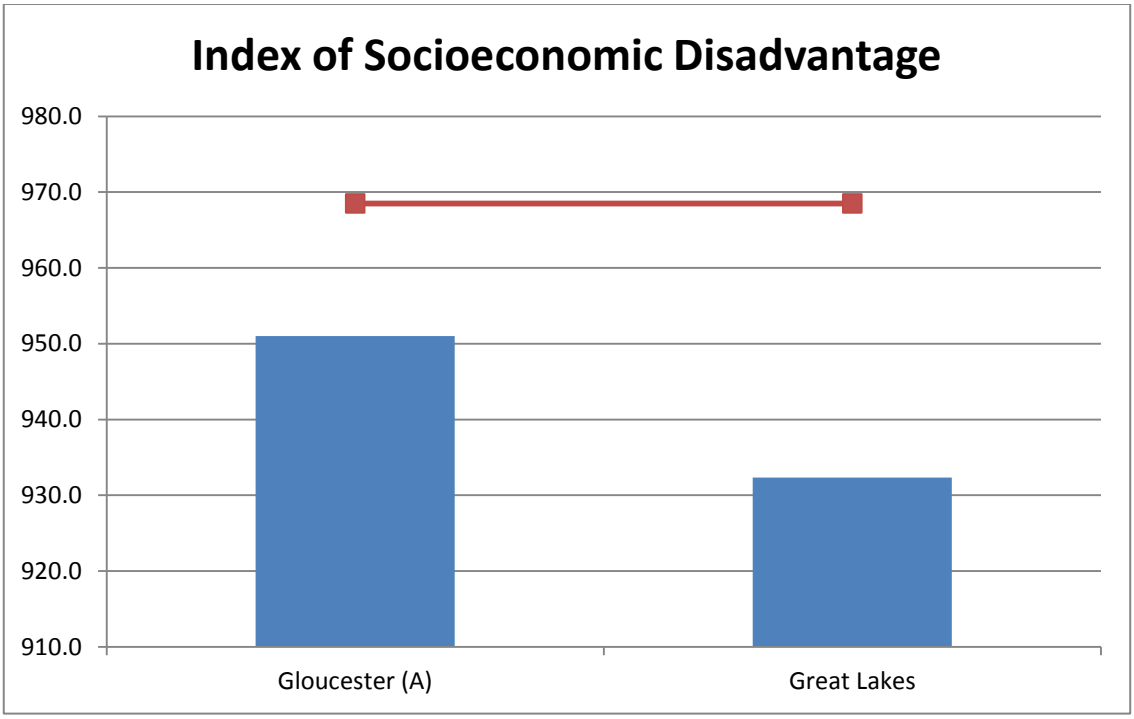
8. SOCIOECONOMIC DISADVANTAGE

The SEIFA Index of Disadvantage measures the relative level of socio-economic disadvantage based on a range of census characteristics. It is a good place to start to get a general view of the relative level of disadvantage in one area compared to others and is used to advocate for an area based on its level of disadvantage.

The index is derived from attributes that reflect disadvantage such as low income, low educational attainment, high unemployment, and jobs in relatively unskilled occupations.

Lower scores on the index reflect higher levels of disadvantage, where higher scores indicate greater advantage. The SEIFA index provides a ranking of all 152 NSW council areas, as follows, where 1 is the most advantaged area.

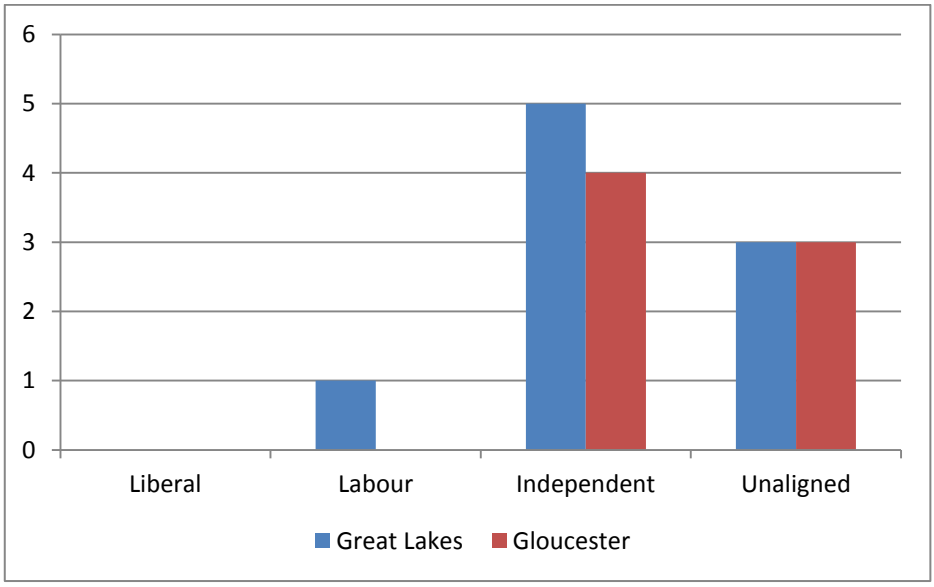
Both Gloucester and Great Lakes fall below the NSW median (Blacktown with a score of 968.5, represented by the red line), with Great Lakes' score of 932.3 indicating a more socioeconomically disadvantaged community than Gloucester, consistent with factors such as lower incomes, lower employment and lower education.



9. POLITICAL PARTY COMPOSITION

9.1 Local Government

The composition of each elected council is presented below:



9.2 State and Federal Government

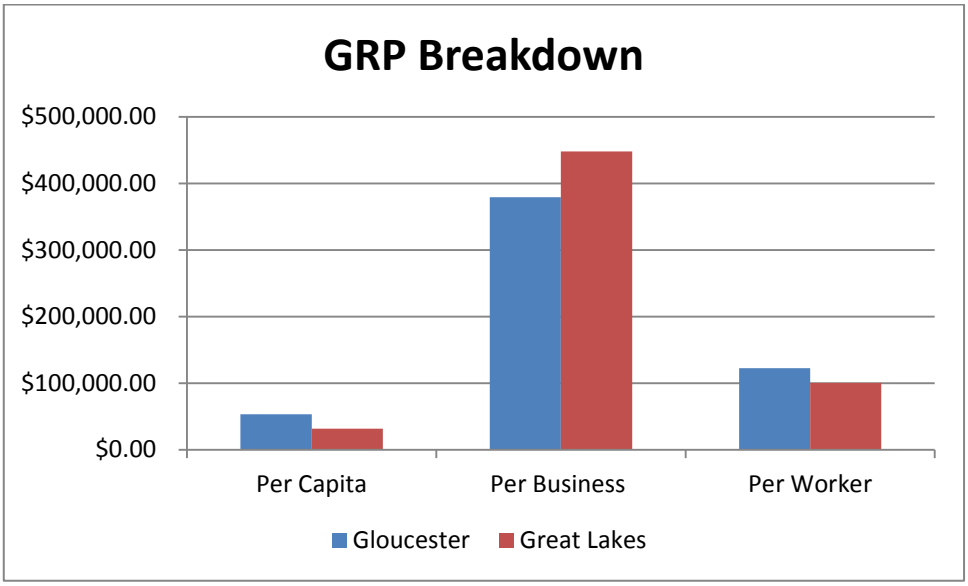
State and federal political representation across the Great Lakes and Gloucester areas is dominated by National Party, and the Liberal Party.

10. LOCAL ECONOMIC FEATURES

10.1 Gross Regional Product

The gross regional products for each of the council areas are:

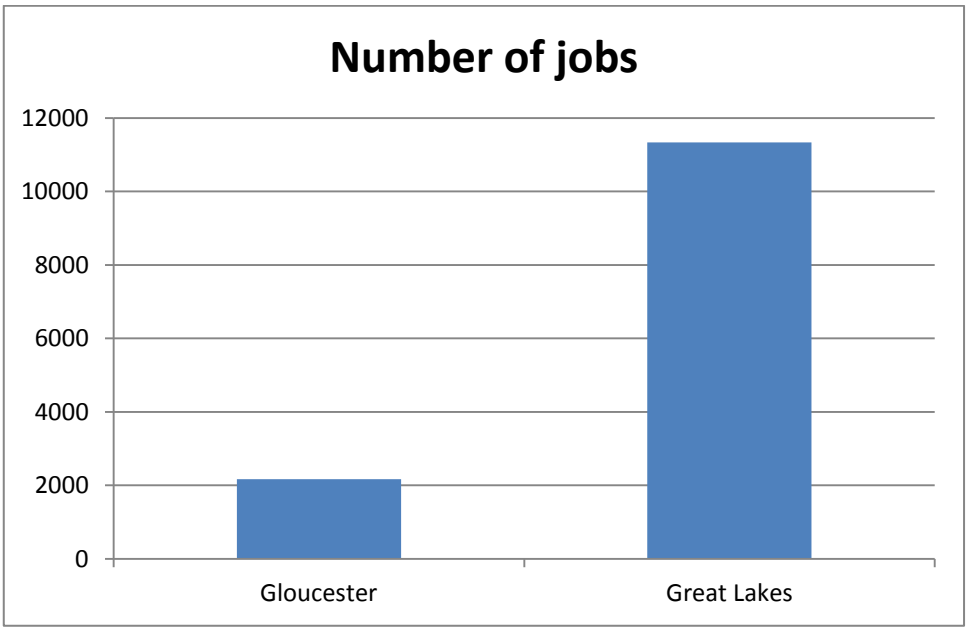
	2012/13 ($m)
Gloucester	$266
Great Lakes	$1,136



In relative terms, Gloucester has higher output per capita and per worker, however Great Lakes has higher output per business.

10.2 Size of Workforce

The number of jobs located within each area is as follows:



This equates to a residents to jobs ratio of 3:1 for Great Lakes and 2:1 for Gloucester.

11. INTERDEPENDENCE AND ECONOMIC RELATIONSHIPS

The major interdependency on the north coast is a strong cluster on the Northern Rivers, with less marked interdependencies between Great Lakes and Greater Taree. No interdependency between Great Lakes and Gloucester is noted in the *Similarities and Differences* Report.

11.1 Workers' Place of Residence

The most prominent places of residence for people employed in local jobs in each area are:

	1	2	3
Gloucester	Gloucester 83.4%	Greater Taree 6.3%	Great Lakes 4.1%
Great Lakes	Great Lakes 80.5%	Greater Taree 12.4%	Port Stephens 1.5%

Gloucester has slightly higher employment containment, with 83.4% of jobs taken by residents, compared to Great Lakes at 80.5%.

Both council areas have more in-bound commuters from Taree than any other areas.

11.2 Residents' Place of Work

The most prominent locations of employment for local residents of each area are:

	1	2	3
Gloucester	Gloucester 76.9%	Great Lakes 5.8%	Greater Taree 2.1%
Great Lakes	Great Lakes 68.1%	Greater Taree 7.2%	Newcastle 2.8%

Once again Gloucester demonstrates higher employment containment, with over three quarters of working residents living and working in the same LGA, compared to 68% for Great Lakes. Movements from both LGAs into Greater Taree are also noted.

11.3 Migration Patterns

The *Similarities and Differences* report notes that Great Lakes and Greater Taree form a pair with fairly strong interaction for cross-border migration.

11.4 Relationship Clusters

Gloucester and Great Lakes are in a cluster of areas that are classified as 'distant', not relying heavily on their neighbours for employment and no close migration ties.

12. COMMUNITY STRATEGIC PLAN PRIORITIES

A high level analysis of the vision and key directions in the Community Strategic Plans identifies the areas of relative emphasis for each council area:

Gloucester

Great Lakes