

GREATER TAREE CITY COUNCIL – CIP

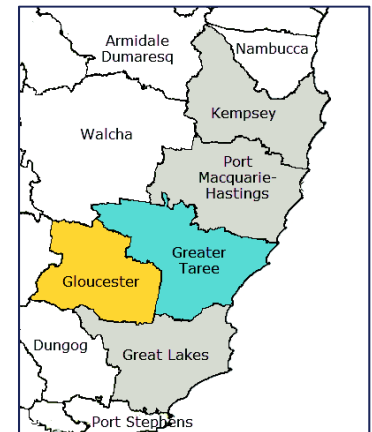
NOT FIT

| | | | |
|-----------------------------|---------|------------------|-----------------------------------|
| Area (km ²) | 3,731 | Population 2011 | 48,100 |
| OLG Group | 4 | (2031) | 51,900 |
| ILGRP Group | G | Merger 2011 | 53,100 |
| | | (2031) | 56,750 |
| Operating revenue (2013-14) | \$52.3m | TCorp assessment | Very weak FSR Negative Outlook |

ILGRP options
(no preference)

Council in Mid-North Coast JO (all shaded) or merge with Gloucester (yellow).

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



Fit for the Future – NOT FIT

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. Although it satisfies the efficiency criterion, the council does not satisfy the infrastructure and service management criterion.
- It also does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- The council currently meets or partially meets most of the elements of scale and capacity.
- The council's 2031 forecast population represents 91% of the suggested merged entity's forecast population. The suggested merged entity would not greatly increase scale and capacity compared with Greater Taree as a stand-alone council.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability because it does not meet the operating performance ratio benchmark by 2019-20. The operating performance ratio was -24.2% in 2014-15 and will improve to -2.3% by 2019-20.
- The council meets the benchmark for own source revenue by 2019-20.
- The building and infrastructure asset renewal ratio is forecast to be 75.9% by 2019-20, which is below the benchmark.
- In its financial planning, the council assumes the successful application for and adoption of a special variation from 2016-17 of 63.2% cumulative over 6 years (47.2% above the rate peg).

Infrastructure and service management – does not satisfy

- The council does not satisfy the criterion for infrastructure and service management based on its forecasts of a high infrastructure backlog ratio.
- The infrastructure backlog ratio was 24.1% in 2014-15 and is forecast to improve to 11.8% by 2019-20, which remains above the benchmark. According to the Long Term Financial Plan, it would not meet the benchmark by 2024-25.
- The council meets the benchmark for the asset maintenance and debt service ratios.
- The council intends to change its approach to asset service levels. It will consult the community in the coming months proposing the 'satisfactory condition' of a road is less than condition 1 or 2.

Efficiency - satisfies

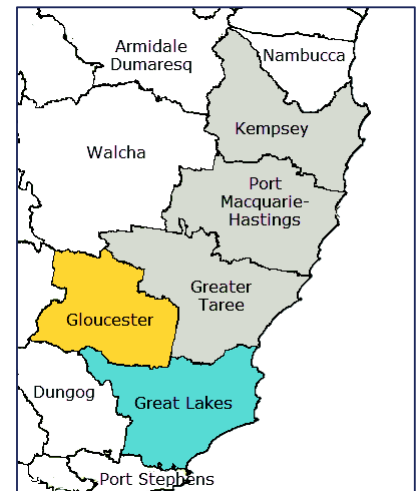
- The council satisfies the criterion for efficiency based on a forecast decline in real operating expenditure per capita over the outlook period.

Other relevant factors

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| Social and community context | The council has not included much information on the social and community context in regards to this proposal other than stating it is in the growth corridor of NSW. It has suggested border changes such that Greater Taree would include the communities currently to the north of the Great Lakes LGA which it considers are strongly connected with the Mid-North coast |
| Community consultation | The council has not indicated it undertook community consultation regarding its Fit for the Future application. |
| Water and/or sewer | The council does not supply water/sewerage services. |
| Submissions | We received one submission regarding Greater Taree's submission, stating the council is not Fit for the Future. |

GREAT LAKES COUNCIL – CIP

| FIT | | | |
|-------------------------------|---|--------------------------|---------------------------------|
| Area (km ²) | 3,380 | Population 2011 | 35,750 |
| OLG Group | 4 | (2031) | 38,500 |
| ILGRP Group | G | Merger 2011 | 40,750 |
| | | (2031) | 43,350 |
| Operating revenue (2013-14) | \$63.5m | TCorp assessment | Moderate FSR Neutral Outlook |
| ILGRP options (no preference) | Council in Mid-North Coast JO (all shaded) or merge with Gloucester (yellow). | | |
| Assessment summary | Scale and capacity | Satisfies | |
| | Financial criteria | Satisfies overall | |
| | • Sustainability | Satisfies | |
| | • Infrastructure and service management | Satisfies | |
| | • Efficiency | Satisfies | |



Fit for the Future – FIT

- The council satisfies the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.

Scale and capacity – satisfies

- The council's proposal is consistent with the ILGRP's option to stand alone.
- We consider the council currently meets or partially meets most of the elements of scale and capacity.
- We note that the council is currently participating in the Hunter pilot JO and the OLG has allowed it to join the Hunter JO rather than the Mid-North Coast JO.
- The council engaged Morrison Low to undertake a business case for the ILGRP option to merge with Gloucester, which resulted in a negative NPV of -\$1m over 8 years. On this basis, both councils decided not to pursue the merger.
- Our analysis of this business case suggests the merger would generate benefits of \$11m over 20 years (including the Government grant). While this evidence suggests a merger may be a better alternative to the council's proposal to stand alone, our finding is based on the proposal being consistent with the ILGRP option to stand alone.

Sustainability – satisfies

- The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio and the own source revenue ratio by 2019-20.
- Although the council's forecast to meet the operating performance ratio benchmark in 2019-20 is marginal, further improvement in the ratio is forecast to 2024-25.
- While the building and infrastructure asset renewal ratio is slightly below the benchmark in 2019-20, it peaks at around 128% in 2015-16.
- In its proposal, the council relies on the successful application for and adoption of a special variation from 2016-17 of 20.7% cumulative over 4 years (10.3% above the rate peg).

Infrastructure and service management – satisfies

- The council satisfies the criterion for infrastructure and service management based on maintaining its asset maintenance ratio at the benchmark level and having an asset backlog ratio which meets the benchmark.
- The council undertook community consultation in 2014 to determine the community's preferences regarding asset quality, cost and service levels. Feedback from this consultation resulted in a reduction in asset service levels and the required cost to bring assets to a satisfactory condition, thereby improving the infrastructure asset backlog ratio.
- The debt service ratio is forecast to meet the benchmark in 2019-20.
- The council states it historically received \$3m-\$5m in grants and contributions for capital purposes, but given the variability and uncertainty of approval surrounding these, it has conservatively included \$1.17m of grants and contributions annually from 2016-17.

Efficiency - satisfies

- The council satisfies the criterion for efficiency based on forecast decreases in real operating expenditure per capita over time.

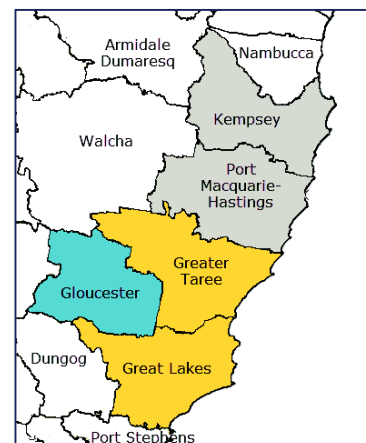
Other relevant factors

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| Social and community context | Morrison Low compared Great Lakes and Gloucester communities, noting similar features such as demographics, a well-developed focus on environmental protection and many aligned policies. Differences include the councils' approaches to infrastructure: Gloucester focuses on maintaining the core elements and Great Lakes refers to managing its environment with quality lifestyle opportunities. |
| Community consultation | Great Lakes Council's proposal has not outlined details of any community consultation undertaken on Fit for the Future. In 2014, it consulted its community on asset service levels to inform its Asset Management Plans. |
| Water and/or sewer | The council does not have water/sewer businesses. |
| Submissions | We received 5 submissions regarding Great Lakes Council's proposal. All support amalgamation stating discontent with the current council and believing there would be benefits from a merger. Two of these submissions supported a merge with Port Stephens Councils. One late submission was received which raised concerns about council management. |

GLOUCESTER SHIRE COUNCIL – CIP

NOT FIT

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|-------------------------------|--|------------------|---|
| Area (km ²) | 2,996 | Population: 2011 | 5,000 |
| OLG Group | 10 | 2031 | 4,850 |
| ILGRP Group | F | Mergers: 2031 | 43,350 with Great Lakes 56,750 with Greater Taree 95,250 all three councils |
| Operating revenue (2013-14) | \$10.2m | TCorp assessment | Very weak FSR Negative Outlook |
| ILGRP options (no preference) | Council in Mid-North Coast JO (all shaded) or merge with Great Lakes and/or Greater Taree (both yellow). | | |



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

Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet, therefore the council is not fit.

Scale and capacity - does not satisfy

- The council's population is forecast to decline 4,850 by 2031 based on DP&E data. While the council forecasts population growth of 1.8% over the next 10 years, the population is likely to remain below 10,000, which the ILGRP considers may place a council at risk of becoming unsustainable. Our analysis suggests the council has insufficient scale to deliver services cost-effectively for its community and to partner effectively with governments compared to the merged entity. Therefore the council's proposal to stand alone does not satisfy scale and capacity.
- The council's current financial position also restricts its regional capacity, and a merged council would have a more robust revenue base.
- A merged council is likely to have improved capabilities and a more robust revenue base, greater scope to undertake new functions and projects, improved integrated planning and regional collaboration.
- The council engaged Morrison Low to undertake a business case for the suggested merger with Great Lakes Council, which showed a negative NPV from the merger. Based on this model, our analysis suggests the merger could produce net benefits of \$11m over 20 years (including the Government grant).

Sustainability - does not satisfy

- The council does not satisfy the criterion for sustainability. Its forecast for a positive operating performance ratio by 2024-25, which is largely dependent on a successful application and adoption of a large special variation which we consider may not be a reasonable assumption because it could have a high impact on ratepayers.
- We approved a special variation of 44.3% over 3 years to begin in 2015-16 (33.6% above the rate peg). The council relies on the successful application for and adoption of a special variation from 2018-19 of 44.3% cumulative over 3 years (36.6% above the rate peg). Together, these special variations result in a cumulative increase in rates of 108% over 6 years (92% above the rate peg).

- The council meets the benchmarks for the own source revenue and the building and infrastructure asset renewal ratios by 2019-20.

Infrastructure and service management – satisfies

- The council satisfies the benchmarks for the infrastructure backlog and the debt service ratios. It shows considerable improvement in the asset maintenance ratio but does not meet the benchmark.
- The council changed its asset condition assessment methodology to a risk-based approach. This led to a significant improvement in the backlog ratio from 2013-14 to 2014-15 and has contributed to the operating performance ratio improvement through lower depreciation costs.

Efficiency - satisfies

- The council meets the criterion for efficiency based on forecast decreases in real operating expenditure per capita over time.

Other relevant factors

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| Social and community context | <p>Gloucester Shire is a small rural area with its economy mainly based on retail and services (43%), farming (20%) and manufacturing (14%) as well as tourism industries. It includes the World Heritage listed Barrington Tops NP. It has an older demographic than the State average.</p> <p>Morrison Low compared Gloucester and Great Lakes communities, noting similar features such as demographics, a well-developed focus on environmental protection, and many aligned policies. Differences include the councils' approach to infrastructure: Gloucester focuses on maintaining the core elements, whilst Great Lakes aims to manage its environment to produce quality lifestyle opportunities through appropriate development.</p> <p>Morrison Low suggests merging unequal sized councils presents a risk of a perceived takeover by the larger council, in this case Great Lakes.</p> |
| Community consultation | <p>The council consulted its community via:</p> <ul style="list-style-type: none"> • an information brochure included in the rate notices and handed out at local events • its website • local radio and newspaper • staff information and workshops with councillors. <p>It undertook a survey which showed:</p> <ul style="list-style-type: none"> • 81% of respondents preferred the council to remain independent (with 11% unsure), • 55% of respondents disagreed that Gloucester should merge with Great Lakes Council (with 25% unsure). <p>Comments related to retaining a local focus and losing representation in a merger, needing to be realistic about the financial situation and potential benefits, and that rural councils require different treatment to Sydney councils.</p> |
| Water and/or sewer | <p>The council does not have a water/ sewer business.</p> |
| Submissions | <p>There were no submissions received in relation to Gloucester's proposal.</p> |