



South East Councils Feasibility Study

Abridged Report

—
2 March 2017



Introduction

The Clarence City Council, Sorell Council, Tasman Council and Glamorgan Spring Bay Council have come together, with the support of the Department of Premier and Cabinet (Local Government Division) to explore the merits of shared services and four amalgamation options:

Option 0:	The extension of shared service arrangements currently in place between the councils
Option 1:	Clarence City Council, Sorell Council, Tasman Council and Glamorgan Spring Bay Council
Option 2:	Clarence City Council, Sorell Council and Tasman Council
Option 3:	Sorell Council, Tasman Council and Glamorgan Spring Bay Council
Option 4:	Sorell Council and Tasman Council

KPMG was selected by the four participating councils to undertake the study. The study was guided by a Steering Committee comprising the Mayors and General Managers of the participating councils.

The study and the ultimate assessment of the options has been guided by the following principles that must be applied when considering all options as they relate to local government reform:

- **Be in the best interests of ratepayers**
- **Improve the level of services for communities**
- **Preserve and maintain local representation, and**
- **Ensure that the financial status of the entities is strengthened.**

The study was required to look at all reform options.

Abridged Report compiles the key analysis and conclusions of the study into two sections - current situation and options assessment.

The current situation

- We outline the current community profiles, including population projections and the characteristics of the communities
- We present the current service profiles to illustrate the comparable/ complementary services and those services that are more unique or tailored to each of the councils
- We outline the current financial position of each council and the 10 year financial forecasts

The options assessment

- We define the options and their key characteristics
- We comment on the options in terms of impacts on services, financial outcomes and community/ governance outcomes
- We assess the performance of the options against the four guiding principles
- We outline key considerations in moving towards the implementation of any amalgamation option

Further detail can be found in the Final Report, which can be accessed via the website of each participating council.

Please refer to the Important Notice on the last page of this report.

In summary

The Current Situation

- There are fundamental differences in the profile, size and scale of the councils
- Diverse communities exist within each of the council areas and across the current council boundaries
- Forecast population growth is concentrated in Clarence and Sorell, with low growth in Tasman and decline in Glamorgan Spring Bay
- The councils have many similar goals and offer the same core services to their communities
- Each council is currently living within their means but face long term challenges

Our analysis of the current situation shows the councils have some differences, but many more similarities. This suggests that there is no reason to not consider the amalgamation options.

The Options Assessment

- There is one shared services option and four amalgamation options
- Conservative assumptions have been used in assessing the options
- All options provide a positive financial return for the councils and their community, but the impacts vary
- Local representation can be maintained through wards with fewer elected members
- On balance, ratepayers are better off under any option, but the impacts vary
- There is still work to be done if councils decide to move ahead with one of the amalgamation options

Our assessment of the options found Option 1 provides the greatest financial benefits. If services are improved and if local representation is preserved through electoral districts, amalgamation should be in the best interests of the community.





The Current Situation



Community profile

There are fundamental differences in the profile, size and scale of the councils

- Clarence's councillor-voter ratio is ten times that of Tasman
- The total length of managed roads is not vastly dissimilar, though the mix of roads is more variable
- Clarence's parks, gardens and reserves are over ten times that of Tasman despite being a little over half the size of Tasman
- Clarence processes almost ten times the number of building applications to that of Tasman, but only twice that of Glamorgan Spring Bay
- Clarence's population is 22 times larger than Tasman, 12 times larger than Glamorgan Spring Bay and almost 4 times the size of Sorell
- Glamorgan Spring Bay's geographic area is almost 7 times larger than Clarence, 4.5 times bigger than Sorell and 4 times bigger than Tasman
- Clarence's average income is 30% higher than Tasman, 25% higher than Glamorgan Spring Bay and 15% higher than Sorell

The overall profiles of the municipal areas shows some similarities between the economically stronger regions of Clarence and Sorell and the more economically challenged regions of Tasman and Glamorgan Spring Bay.

	Clarence	Glamorgan Spring Bay	Sorell	Tasman
Representation Profile				
Voter Enrolment (2014)	39,902	4,406	10,164	2,340
Councillors	12	8	9	7
Councillor-Voter Ratio	3,325	550	1,129	334
Service Profile				
Roads (KM)				
- Managed urban sealed roads	252	78	88	40
- Managed rural sealed roads	160	91	147	31
- Managed urban unsealed roads	3	13	23	18
- Managed rural unsealed roads	54	175	153	107
Total	469	357	411	196
Parks, Gardens and Reserves (Ha)	1,051	245	155	97
Planning Applications				
- Discretionary	492	307	151	54
- Permitted applications	54	25	62	46
- Permit not required		106	37	13
Total	546	438	250	113
Building Applications	738	483	195	86
Demographic Profile				
Population	54,674	4,493	13,955	2,405
Area (Sq KM)	378	2,591	584	661
Population Density (per Sq Km)	144.64	1.73	23.91	3.64
Average Income (\$)	51,893	39,104	44,062	37,154

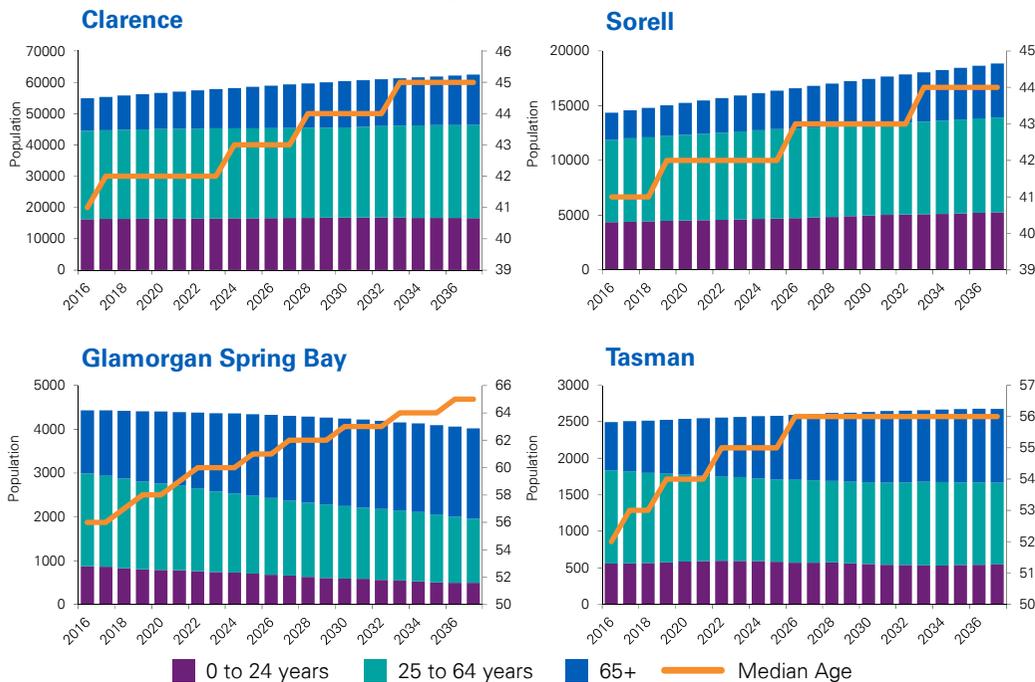
Community profile

Forecast growth varies across the south east

The cost of servicing communities will rise as they age and the capacity for the resident communities to pay rates will decline in Tasman and Glamorgan Spring Bay.

- Forecast population growth is concentrated in Clarence and Sorell. Whilst the population is ageing, there is still growth in the core 25-64 year age bracket
- The population is forecast to age significantly in Glamorgan Spring Bay, and Tasman with a net reduction in the 25-64 year age bracket
 - When combined, a net reduction in the 25-64 year age bracket will reduce the proportion of the wage earning population in those municipalities
 - The average annual income to households will reduce as this occurs, which reduces the capacity for the population to pay council rates

Projected Population by Age



Diverse communities exist within and across current councils boundaries

There are many shared characteristics between the potential municipal areas and therefore communities of interest factors should not prevent the amalgamations.

- The concept of ‘communities of interest’ has been widely adopted as part of the discussion around local government reform
- A community of interest is “essentially a group of people with similar traits – social, economic, language, culture, race etc., and a similar set of interests”
- In the south east region, the existing council areas show broad communities of interest, for example, Clarence has a vastly different community profile to Tasman
- Within each of the existing south east council areas, there are a range of more ‘micro’ communities. For example:
 - **Clarence** - possesses socially/ economically advantaged suburbs (e.g. Bellerive and Lindisfarne) and more disadvantaged suburbs (e.g. Risdon Vale and Clarendon Vale)
 - **Sorell** - has a rapidly growing urban commuter community that is different from its rural and south beach communities
 - **Glamorgan Spring Bay** - communities in the north of the council area (e.g. Coles Bay and Bicheno) may feel more aligned to the north of Tasmania compared to the communities to the south (e.g. Orford and Triabunna)
 - **Tasman** - the shack owning non-resident community at White Beach differs from local residents and the more visitor-support orientated community surrounding and supporting Port Arthur

This suggests that while the current boundaries are somewhat reflective of communities of interest, there are diverse “communities within communities”, suggesting that the current boundaries do not define the sense of community.

Services profile

The councils have many similar goals and offer the same core services

In broad terms, the south east councils offer the same core services to their communities.

However, there is some disparity in the scale and scope of services and service levels. Some areas of more notable differences in services include:

- Child care
- Health services
- Visitor infrastructure
- Frequency of cleaning public toilets
- Green waste and hard rubbish collection
- Marine infrastructure development and maintenance.

Councils strategic plans suggests that there are many areas of common interest for all councils including:

- Financial sustainability
- Community engagement
- Infrastructure/ asset management
- Environmental sustainability
- Provision of recreational facilities, and
- Local leadership.

The risk management practices of Sorell, Tasman and Glamorgan Spring Bay are broadly similar, whereas Clarence has a more sophisticated approach, reflecting its greater resources. None of the councils have identified any significant risks that cannot be managed.

Common/ comparable services

Corporate services

- Administrative support
- Human resource
- Financial management
- Risk management

Governance

- Elected member support

Regulatory services

- Planning control
- Building control
- Environmental health

Parks and recreation

- Parks and reserves maintenance
- Barbeque maintenance/ cleaning
- Monument maintenance

Civil works

- Roads and bridges maintenance
- Building infrastructure/ maintenance
- Storm water and drainage



Financial profile

Each council is currently living within their means but face long term challenges

All councils have made progress in their financial performance

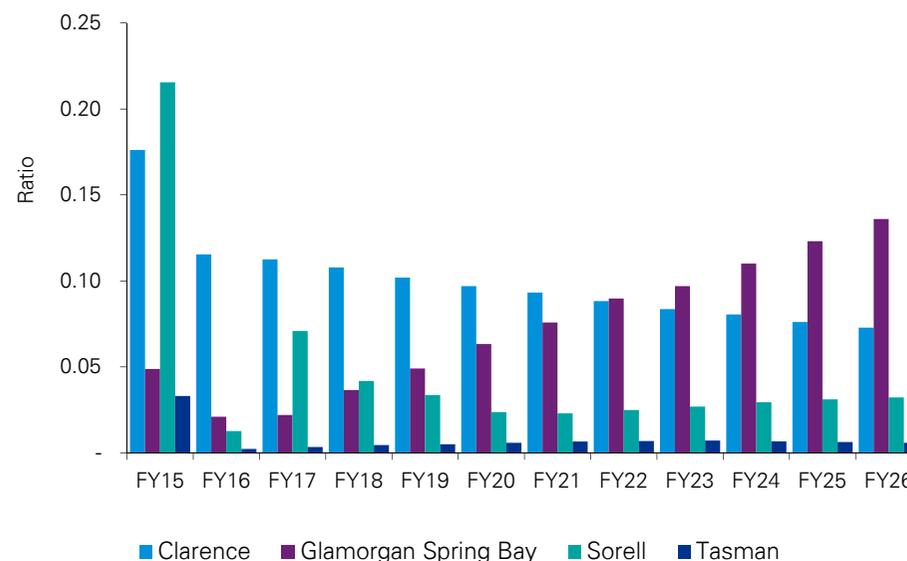
- In the Auditor General’s view, all four councils have come a long way over the last 10 years in terms of implementing long term financial and asset management planning
- There are significant differences in the Auditor General’s 2014/15 snapshot of the councils. This highlights the comparative financial strength and higher service levels of Clarence and the generally lower service levels able to be afforded by the smaller, more remote councils

The long term projections prepared by the councils show long term viability but with some challenges for the smaller councils

- A positive underlying surplus for all the councils
- A positive net cash position for all councils
- A positive current ratio for all councils, showing a surplus of current assets over current liabilities
- Favorable self-financing and indebtedness ratios for all councils, reflecting a conservative policy to not borrow over the forecast period

Management Indicators 2015	Clarence	Glamorgan Spring Bay	Sorell	Tasman	South East Tasmanian Council Average	Tasmanian Councils Average
Financial Results						
Net Surplus to Revenue	66.7%	48.9%	28.6%	17.2%	40.4%	27.1%
Operating Surplus Ratio	7.1%	(1.4%)	16.5%	12.4%	8.7%	1.1%
Assets and Infrastructure						
PPE per square kilometre	\$1,314,728	\$34,346	\$334,900	\$70,845	\$438,705	\$811,951
PPE per head of population	\$19,861	\$15,829	\$22,547	\$13,442	\$17,920	\$25,295
Servicing						
Net Cost to Serve per Rateable Property	\$475	\$949	\$397	\$326	\$509	\$1,095
Net Cost to Serve Ratio	1.27	1.82	1.31	1.28	1.33	1.78
FTE per 1000 Population	4.4	13.6	4.9	8.3	7.8	8
Operating Government Grants per rateable property	\$241	\$306	\$400	\$266	\$303	\$344
Employment						
Employee Costs per FTE	\$70,869	\$70,000	\$77,912	\$68,950	\$71,933	\$79,000
Total Labour Costs to Operating Revenue	27.8%	36.4%	30.4%	23.3%	29.5%	35.1%
Total Labour Costs to Operating Expenditure	29.9%	35.9%	36.4%	26.6%	32.2%	35.5%
Employee Entitlements per FTE	\$19,081	\$13,869	\$15,467	\$14,850	\$15,817	\$18,892

Forecast Underlying Surplus Ratio





The Options Assessment

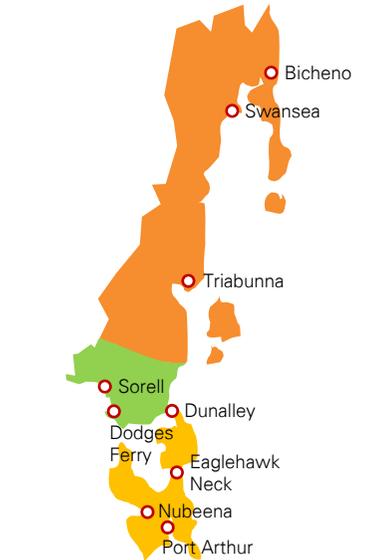
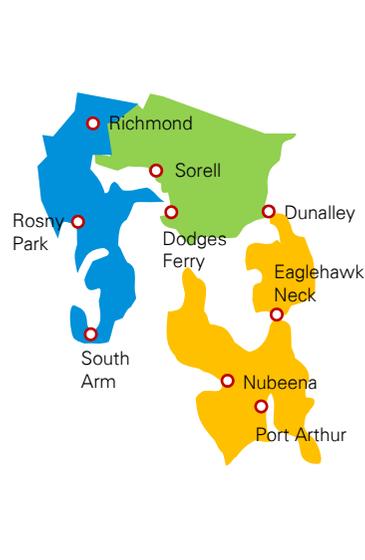
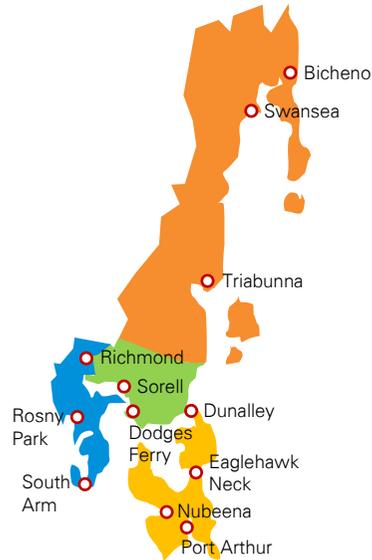


The five options available

There is one shared services option and four amalgamation options

Option 0:	Option 1:	Option 2:	Option 3:	Option 4:
Shared Services	Full amalgamation	Partial amalgamation (excluding Glamorgan Spring Bay)	Partial amalgamation (excluding Clarence)	Amalgamation of Sorell and Tasman only

This option is based on the extension of resource-sharing arrangements currently in place between the councils.



Demographic Profile

Population	75,527
Area (Sq KM)	4,214
Population Density (per Sq Km)	17.92
Average Income (\$)	49,347

Demographic Profile

Population	71,034
Area (Sq KM)	1,622
Population Density (per Sq Km)	43.79
Average Income (\$)	49,958

Demographic Profile

Population	20,853
Area (Sq KM)	3,836
Population Density (per Sq Km)	5.44
Average Income (\$)	42,261

Demographic Profile

Population	16,360
Area (Sq KM)	1,244
Population Density (per Sq Km)	13.15
Average Income (\$)	43,116

Financial considerations

Conservative assumptions have been applied to develop the financial projections for the options

In order to undertake the financial modelling of the options, several important assumptions have been used:

- No changes to services
- No changes to rates
- Local shop fronts maintained
- No changes to community facing staff

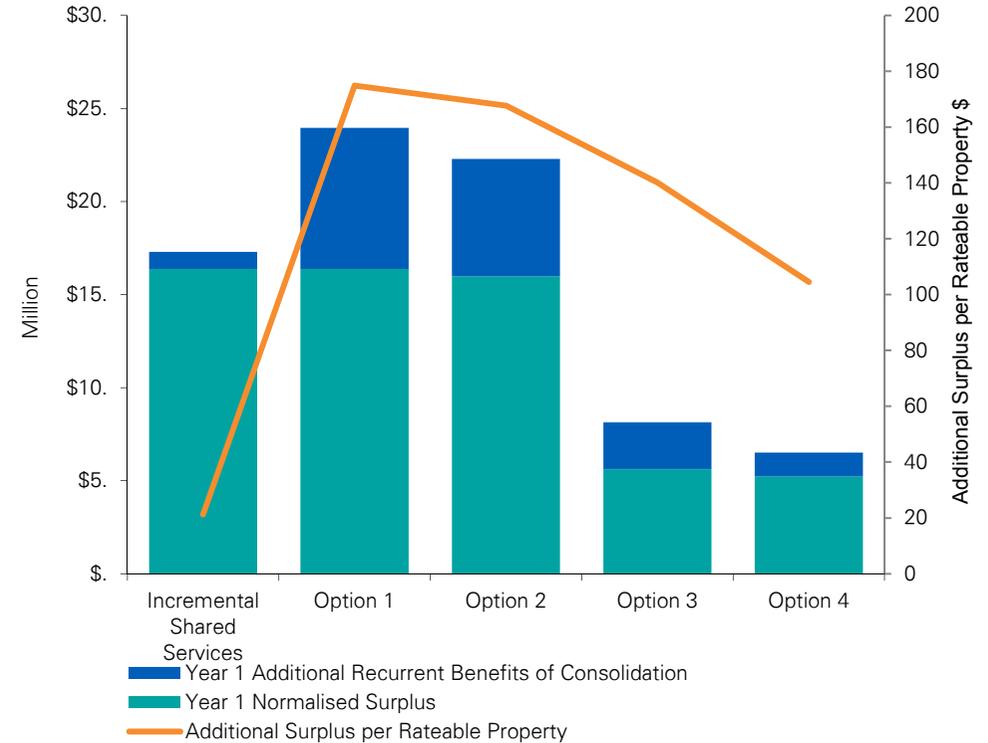
All options provide a positive financial return for the councils and communities but the impacts vary

All options provide positive financial results:

- Improved operating surpluses
- Positive notional surpluses per rateable property
- Positive net present values
- Savings in total operating expenses

The financial gains can be applied to limit the growth of future rate rises, improve services, additional asset maintenance and build new assets for communities.

Comparison of Surplus- Normalised versus Consolidated



Financial Considerations

	Option 0	Option 1	Option 2	Option 3	Option 4
Year 1 additional annual surplus	\$0.9m p.a.	\$7.6m p.a.	\$6.3m p.a.	\$2.5m p.a.	\$1.3m p.a.
Notional additional surplus per rateable property	\$21 p.a.	\$174 p.a.	\$167 p.a.	\$141 p.a.	\$104 p.a.
Net present value (NPV) of additional surplus	\$9.0m	\$49.8m	\$42.1m	\$21.3m	\$10.8m
Year 1 additional surplus as percentage of operating expenses	1.1%	9.2%	8.9%	8.4%	6.7%
Estimated transition costs	\$0.3m	\$6.3m	\$4.1m	\$1.8m	\$1.1m

Governance and community considerations

Local representation can be maintained through wards with fewer elected members

A number of representation options are available to a newly merged council, but there are two broad categories:

- Election at large, where councillors stand for the entire region
- Election through districts (or wards), which divides up the municipal area into sectors

Electoral districts can be designed in various ways. The approach that designs electoral districts around smaller, discernible communities of interest would appear to have merit in the south east. This model is more likely to address community concerns about loss of representation arising from boundary reform.

Local government legislation in Tasmania and other jurisdictions permits the formation of wards. Wards remain relatively uncommon across Australia and were last seen in Tasmania in 1996. Wards have been employed as part of local government structural reform processes, most recently in New South Wales.

There will be fewer councillors in the south east region under options 1 to 4 – 15 for Options 1 and 2, 13 for Option 3 and 9 for Option 4 – subject to more detailed design.

The formation of wards for a transition period (with the first electoral cycle as a minimum) is proposed in order to address any community concerns about loss of adequate representation under an amalgamated model.



Governance & Community Considerations	Option 0	Option 1	Option 2	Option 3	Option 4
Population	75,527	75,527	71,034	20,853	16,360
Enrolled voters	56,812	56,812	52,406	16,910	12,504
Current councillors	36	36	28	24	16
Proposed councillors	36	15	15	13	9
Proposed councillor-voter ratio	1,578	3,787	3,494	1,301	1,389

Assessment against the principles

On balance, ratepayers are better off under any option, but the impacts vary

The options have been evaluated against the four principles that must be applied when considering council reforms. On balance, the assessment points to:

- Options 1 followed by Option 2 as being in the overall best interests of the south east community as a whole
- Option 3 delivers some positive outcomes, but less than Options 1 and 2
- Options 0 and 4 provide limited positive outcomes, but are still preferable to no reform at all

The conclusions illustrate that all of the councils are better off by reform in any of the options in which they feature, but there are variations in financial impacts.

In all options involving amalgamation, there will be a reduction in the number of elected members, and that is the trade off for improved financial strength. The creation of electoral districts can be put in place to lessen any real or perceived loss of access to local representation.

Principles	Option 0 <i>Shared Services</i>	Option 1 <i>Four council merger</i>	Option 2 <i>Clarence, Sorell and Tasman</i>	Option 3 <i>Glamorgan Spring Bay, Sorell and Tasman</i>	Option 4 <i>Sorell and Tasman</i>	Comment
Improved service levels	☐	✓	✓	✓	☐	<p>Service levels are not adversely impacted under any option, but the scope for improvement varies</p> <ul style="list-style-type: none"> Option 1 and Option 2 provide significant additional financial capacity for efficiency gains to be reinvested into improved services Option 3 provides some additional financial capacity for efficiency gains to be reinvested into improved services Options 0 and 4 provide limited additional financial capacity for efficiency gains to be reinvested into improved services
Maintained local representation	☐	✗	✗	☐	☐	<p>Local representation is maintained under any option, but the impacts vary by option</p> <ul style="list-style-type: none"> Options 0 maintains the current level of local governance/ representation Options 1, 2 and 3 could maintain local governance by the creation of voting wards but councillor to voter/ population ratios increase Option 4 may not warrant the creation of wards
Strengthened financial status	☐	✓	✓	✓	☐	<p>Financial status is strengthened under al any option, but the results vary by option</p> <ul style="list-style-type: none"> Option 0 delivers a combined additional surplus of \$0.9m p.a. Option 1 delivers a combined addition surplus of \$7.6m p.a. Option 2 delivers a combined addition surplus of \$6.3m p.a. Option 3 delivers a combined addition surplus of \$2.5m p.a. Option 4 delivers a combined addition surplus of \$1.3m p.a.
Best interests	☐	✓	✓	✓	☐	<p>The best of interests of ratepayers are well served by all options but the impacts vary.</p> <p>On balance, Options 1 and 2 may be in the overall best interests of the region</p>

 = significant positive outcome
  = some positive outcome
  = neutral outcome
  = limited negative outcome
  = significant negative outcome

Transition planning and potential transition schedule

There is still work to be done if councils decide to move ahead with one of the amalgamation options

The capacity to achieve the potential financial advantages of council mergers is a direct function of the effectiveness of the merger implementation plans and strategies in place.

Should any of the amalgamations go ahead, the formation of a Local Transition Committee (LTC) with representatives of the merging councils would be formed. The LTC would oversee the range of tasks to be undertaken over 12-24 month period.

The existing councils would remain in place until such time as the new council is formed and the LTC wound up. A high-level implementation plan for the merger of two or more councils is illustrated below. This shows:

- The process for each council and its community to determine a position in respect to the options available has been determined by the participating councils. That process will extend through to June 2017.
- Beyond that, an indicative implementation schedule at this stage would propose that a new council could commence operations later in 2018, having regard to the next round of local government elections in October 2018.

History shows that the potential merger benefits can be eroded by factors such as poor leadership, insufficient oversight of the transition, incompatibility of IT and record-keeping systems, delays to implementation and lost productivity, differences in work culture and practices and not managing community expectations.

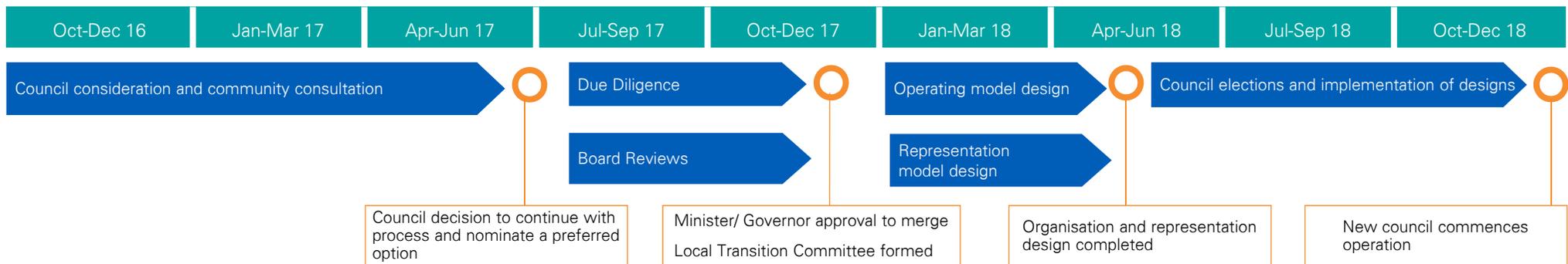
Short term implementation priorities (next 6-12 months)

Due Diligence	Operating model	Consultation
Financial	Organisation design	Identify key stakeholders
Infrastructure	Change management	Tailor key messages
Information systems	Performance indicators	Undertake engagement
HR and Legal	Strategies and plans	Monitor and update

Longer term implementation priorities (next 12-24 months)

Corporate plans and systems	Ward boundaries and representation	New statutory requirements
Strategic plans	Ward boundaries	By laws
Asset management plans	Representation model	Rating systems
Risk management plans	LTC hand over	Statutory reporting
IT and Communications	Election planning	Regulatory services

Potential Transition Plan





Important Notice

Inherent Limitations

This report is given subject to the written terms of KPMG's engagement. This report has been prepared as outlined in the introduction. The services provided in connection with this engagement comprise an advisory engagement which is not subject to Australian Auditing Standards or Australian Standards on Review or Assurance Engagements, and consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the south east councils consulted as part of the process. KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. No reliance should be placed by the councils or Department of Premier and Cabinet on additional oral remarks provided, unless these are confirmed in writing by KPMG. KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form. The findings in this report have been formed on the above basis.

Third Party Reliance

This report has been prepared at the request of Department of Premier and Cabinet and the south east councils in accordance with the terms of KPMG's engagement letter/contract dated 19 August 2015. Other than our responsibility to the Department of Premier and Cabinet, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility. This report is provided solely for the benefit of the parties identified in the engagement letter/contract and are not to be copied, quoted or referred to in whole or in part without KPMG's prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in the engagement letter/contract for the information contained in this report.

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