Greater Hobart: Local Government Reform

Final Feasibility Report

Clarence City, Glenorchy City, Hobart City & Kingborough Councils

January 2017

SGS Economics & Planning

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Introduction

The four Greater Hobart councils – Clarence City, Glenorchy City, Hobart City and Kingborough Councils – have agreed to explore the merits or otherwise of local government reform. Local government reform can involve various forms of collaboration, mergers and/or boundary adjustments. Such reforms have historically sought to achieve:

- Operational efficiency savings and/ or improved service delivery
- Enhanced strategic capacity to address strategic issues and regional interests, and/ or
- Improved advocacy and promotion of shared interests.

The four Greater Hobart councils have agreed on these guiding principles for assessing reforms:

- Is in the interest of ratepayers
- Improves the level of services for communities
- Preserves and maintains local representation, and
- Ensures that the financial status of the entities is strengthened.

The stated potential for efficiency savings from mergers often exceeds what is achieved. Experience elsewhere shows that mergers may come at a net cost instead of savings. But levels of service, the range of services provided and other community benefits generally increase. The same finding applies for collaboration between councils, such as shared service arrangements and resource sharing.

Consequently, nationally and internationally the focus in relation to local government reform has shifted from pursuing efficiency savings within local government administration to achieving better strategic outcomes for the community. **The analysis in this report clearly shows that these strategic impacts overwhelmingly dominate.**

For the Greater Hobart councils, the case for strategic opportunities is especially strong. Planning for future growth, i.e. where people are going to live, and where they will work and how they will travel, is most effective at the appropriate geographic scale, i.e. the metropolitan level. Capital city regions, like Auckland, Brisbane, Toronto and Vancouver have been able to capitalise on the benefits of integrated planning and governance of metropolitan affairs.

Better planning and decision making across Greater Hobart can deliver:

- A more sustainable metropolitan area through the progression of a more compact, multi-nodal spatial form of urban development
- A more efficient transportation system which better supports urban development and reduces car dependency and congestion costs
- A more productive economic base given the agglomeration economies that result from the above-mentioned benefits
- A more effective tourism promotion and development strategy, resulting in increased visitation and tourism spending
- A more resilient pattern of urban development, as natural hazard areas are better managed and damages as a result of extreme events are reduced, and
- A better coordination and sequencing of social infrastructure and social services delivery.

Reform options

The detailed feasibility analysis documented in this report assessed the costs and benefits of the following reform options compared to the no reform option (Option 1 - Business as usual):

– Option 2 - Merger of all four councils (Kingborough, Clarence, Glenorchy and Hobart)
– Option 3 - Strategic alliance between all four councils
– Option 4 - Merger of three councils (Clarence, Glenorchy and Hobart)
– Option 5 - Merger of two councils (Glenorchy and Hobart).

For all reform options, it is assumed a Hobart Capital City Act is introduced that recognises the relationship between the city government and the state government, and the associated responsibilities of being a capital city. Tasmania is currently the only Australian state without a Capital City Act and its usual accompaniments, i.e. a metropolitan wide and integrated land use and transport strategy, and an economic development strategy.

In Greater Hobart there have been past attempts to take an integrated approach to planning for sustainable and competitive urban growth, in the form of the Southern Metropolitan Master Planning Authority (SMMPA), Southern Metropolitan Planning Authority (SMPA), Hobart Metropolitan Councils Association (HMCA) and more recently the Southern Tasmania Councils Authority (STCA). While important, these former collaborations have all failed to deliver the anticipated outcomes. This was mostly driven by the lack of a Capital City Act and individual councils not agreeing on strategic directions and the ability of councils to opt out of strategic decisions, thereby undermining the collective benefits of the joint approach. The commitment of state government is also crucial given its key role in delivering regional transport infrastructure, social infrastructure facilities, and other 'city-shaping' investments.

For any form of collaboration to succeed in the future there is a need a) to involve state government, b) to ensure there are clear roles and responsibilities for member councils and the State, c) to have specific requirements on what the Act must deliver, and d) to ensure outcomes support the interests of the wider community by removing the opt out option of single members.

The key assumptions for each option are summarised in the following table (Table 1).

TABLE 1 OPTIONS FOR REFORM – KEY ASSUMPTIONS

Option 1 Business as usual	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Existing electoral arrangements	Wards implemented initially, phased out over eight year period	Existing electoral arrangements	Wards implemented initially, phased out over eight year period	Wards implemented initially, phased out over eight year period
Existing management arrangements	Rationalisation of the existing executive management teams	Existing management arrangements	Rationalisation of the existing executive management teams	Rationalisation of the existing executive management teams
Same number of elected members	Total number of elected members will be twelve	Same number of elected members	Total number of elected members will be twelve	Total number of elected members will be twelve
Scope and level of services unchanged	Increase in scope and level of services	Level and type of services unchanged	Increase in scope and level of services	Increase in scope and level of services
No savings	Elimination of duplication of services	No savings	Elimination of duplication of services	Elimination of duplication of services
No savings	Savings due to economies of scale	No savings	Savings due to economies of scale	Savings due to economies of scale
No change	Introduction of Capital City Act	Introduction of Capital City Act	Introduction of Capital City Act	Introduction of Capital City Act

Feasibility modelling

The feasibility analysis consists of two forms of analysis of the local government reform options:
– Modelling of financial costs and savings accruing to the participating councils, and
– Modelling of wider social, economic and environmental costs and benefits accruing to the Greater Hobart community.

The most important benefits from local government reform are expected to emanate from better decision-making, generating important benefits to the wider community, but these develop slowly and show their benefits over the long term, 20 years of more. The financial changes tend to be upfront costs, followed by savings over the subsequent years, which effects are largely apparent by year ten. While extrapolation of financial conditions beyond ten years is highly uncertain, we have chosen to extrapolate to show the relative effects of financial and strategic effects in the longer term.

The integrated results of the financial and wider cost benefit modelling of the reform options are shown in Table 2. The net overall benefits over a twenty year timeframe show:

– The merger of all four councils (option 2) results in a net benefit of $383 M (Net Present Value), or approximately $19 M per annum on average
– The strategic alliance for all four councils results in a net benefit of $294 M, or approximately $15 M per annum on average
– The merger of Clarence, Glenorchy and Hobart results in a net benefit of $264 M (NPV), or approximately $13 M per annum on average, and
– The merger of Glenorchy and Hobart results in a net benefit of $166 M (NPV), or approximately $8 M per annum on average.

TABLE 2 FINANCIAL AND WIDER COST BENEFIT MODELLING RESULTS, 20 YEAR TIMEFRAME

Impact (millions of dollars, present day values)	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Financial costs/benefits	-$10	-$1	-$3	$33
Wider costs/benefits	$393	$295	$267	$134
Net present value (NPV)	**$383**	**$294**	**$264**	**$166**
NPV/ratepayer - benefit	**$391**	**$300**	**$333**	**$321**

Source: SGS Economics and Planning 2017

Financial feasibility modelling

The financial feasibility modelling makes realistic assumptions reflecting past experience that shows optimistic aspirations for financial savings are generally not achieved due to:

– Unforeseen implementation costs
– The new council entity failing to follow through with envisaged changes, and/ or
– Efficiency gains being reinvested into service delivery improvements or strategic projects.

The financial feasibility analysis (the apparently worst case but in practice realistic scenario) therefore makes a number of key assumptions, the two with the biggest impact being that as part of staff harmonisation, salaries will skew towards the highest reward level of the four councils, and the high initial cost of an investment into an integrated new ICT system.

The results of the financial feasibility analysis are summarised in Table 3. The financial impact on ratepayers varies from a cost of $10 per ratepayer per year for Option 2 to a savings of $63 per year for Option 5.

TABLE 3 FINANCIAL FEASIBILITY MODELLING RESULTS, NET PRESENT VALUES (NPV), 10 AND 20 YEAR TIMEFRAME

Impact (millions of dollars, present day values) ten years Negative values = costs	**Option 2 – Merger 4 councils**	**Option 3 – Strategic alliance**	**Option 4 – Merger 3 councils**	**Option 5- Merger two councils**
Transitional Costs	-$8.5	$0	-$4.9	-$5.4
Staff	-$17.7	$0	-$4.5	$18.3
IT	-$17.1	$0	-$17.1	-$5.0
Governance	$10.1	$0	$6.7	$3.1
Materials and contracts	$15.3	$0	$12.8	$8.4
Assets	$1.8	$0	$1.8	$0.8
Net present value, all, ten years	**-$16.0**	**-$0.9**	**-$5.3**	**$20.3**
Annualised impact per ratepayer (cost or savings), ten years	**$25**	**$1**	**$10**	**$60**
Net present value extended to 20 years	**-$10.0**	**-$0.9**	**-$5.0**	**$32.8**

Source: Morrison Low 2017 & SGS 2017

The financial results over a 20 year (and 10 year) timeframe are:

- Option 2, Merger of four councils: net cost of $10.0 M ($16.0 M), or about $0.9 M per annum
- Option 3, Strategic Alliance of four councils: net cost of $0.9 M ($0.9 M), or $0.08 M per annum
- Option 4, merger of Clarence, Glenorchy and Hobart: net cost of $2.8 M ($5.3 M) or $0.24 M per annum, and
- Option 5, the merger of Glenorchy and Hobart: net saving of $32.8 M ($20.3 M), or about $2.9 M per annum.

The two city merger option saves money while the wider mergers show a net cost. This is largely because the staff costs for Clarence are particularly low compared to Hobart and Glenorchy, both staff numbers and average wages. The assumption is that staffing patterns will tend to skew toward the highest level within the merged entity. This would raise the employment costs for the Clarence staff in the merged entity, and combined with the high initial IT costs exceed the anticipated savings. This is also true for the four council merger.

However, these financial costs are very small in percentage terms. The savings from the Hobart Glenorchy merger represent about 1% of the total budget for these cities. The costs for Hobart-Glenorchy-Clarence merger represent less than 0.2% of these cities combined budgets. There are likely to be other influences over these time frames that have far more impact.

Sensitivity analysis shows that if the merged entity were able to control staff costs to the average of the four councils, there would be a substantial net financial saving in all merger options, ranging from $20 M to nearly $50 M (optimistic scenario).

The merged entities would continue to perform well in terms of financial sustainability with each merger option achieving five of the six sustainability factors (Table 4). As part of the no reform option (Option 1), the stage 1 baseline analysis shows broadly similar performance.

TABLE 4 MERGER OPTIONS PERFORMANCE AGAINST SUSTAINABILITY INDICATORS

	Underlying Operating result	Operating surplus ratio	Net financial liabilities	Net financial liabilities ratio	Asset sustainability ratio	Asset consumption ratio
Option 2 -Merger 4 councils	✓	✓	✓	✓	×	✓
Option 3 – Strategic alliance	✓	✓	✓	✓	×	✓
Option 4 -Merger 3 councils	✓	✓	✓	✓	×	✓
Option 5 – Merger 2 councils	✓	✓	✓	✓	×	✓

Source: Morrison Low 2016

Wider cost benefit modelling

The wider cost benefit modelling, reflects the results of better decision making resulting in improved urban growth patterns and enhanced economic competitiveness. This is driven primarily by the promotion of infill development and the commensurate alleviation of greenfield development demand.

The wider cost benefit modelling was performed over 20 years recognising the long gestation period for these benefits. The results of the wider cost benefit modelling are summarised in Table 5.

TABLE 5 WIDER COST BENEFIT MODELLING RESULTS (20 YEAR ANALYSIS)

Impact (millions of dollars, present day values)	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Transport cost savings	$274.9	$206.2	$186.9	$93.5
Tourism yield improvements	$68.0	$51.0	$46.2	$23.1
Infrastructure cost savings	$30.6	$22.9	$20.8	$10.4
Active transport health	$12.0	$9.0	$8.2	$4.1
Environmental savings	$7.7	$5.8	$5.2	$2.6
Agglomeration economies	-$0.3	-$0.2	-$0.2	-$0.1
Total	**$392.9**	**$294.7**	**$267.1**	**$133.6**

Source: SGS Economics and Planning 2016

The most significant benefits are generated through transport cost savings, as a result of the improved integration of land use and transport planning and a more consolidated form of urban growth, with reduced travel distances and times for the population in accessing jobs and services, and more people using active forms of travel (e.g. walking, cycling) generating health benefits.

An integrated strategy for tourism and economic development will generate a higher tourism yield by local businesses as more interstate and international tourists are attracted to Greater Hobart and/ or the length of their stay (spend) is extended.

Due to the more consolidated pattern of urban growth involving more infill development, there are anticipated savings in terms of infrastructure costs. Infill dwellings are associated with lower off-site infrastructure servicing costs, generating substantial savings over time.

In comparison to the relatively minor financial costs and savings in council administration of the four options, the potential strategic benefits are very large.

Key risks

One of the main risks, and a risk that is also hard to manage for the councils, is the declaration of the Capital City Act by state government. This risk will predominantly affect the strategic alliance option

(Option 3), as a failure to declare the Act will particularly undermine the effectiveness and expected benefits of this option more than if there is an effective merger.

Another key risk is the potential disruptive and costly consequences of different organisational cultures clashing in a merger. Strong leadership to build a new entity with a strong shared identity combined with a well-managed transition process will be need to manage this risk.

If restrictive legislation, political pressures or other factors prevent the new entity from implementing key cost saving decisions, the financial outcomes of any merger will be adversely affected.

A possible risk is rates equalisation. Over time, a merged entity would likely equalise its rates regime. The general rate regimes for Hobart and Glenorchy are very similar. However, the average rate paid per household in for instance Hobart is much higher than in Glenorchy. This is due to differences in property values rather than differences in rates between the two councils. Rates equalisation between Hobart, Glenorchy and Clarence is therefore expected to be manageable, without major changes to ratepayers concerned[1].

Conclusions

The four guiding principles need to be broadly interpreted to reflect the extent to which the reform options generate benefits for the community, outside of changes to rates and council services. To fully reflect the merits of the options, the generation of wider benefits to the community was added to the four guiding principles formally adopted (Table 6).

The financial modelling, backed by experience of recent mergers elsewhere in Australia suggests net costs of the merger options 2 and 4 will result in increased costs which may require rates increases if no assistance is received from State government. The merger options are all expected to result in service improvements with the merged councils also diversifying the range of services in line with changing community needs and expectations. Local representation is largely maintained during the transition across all options. The inclusion of a wards system ensures all communities are electorally represented as the larger entity becomes established.

All of the options are expected to result in financially sustainable councils. However, the stand-alone and strategic alliance options will over time likely see increasing pressure to increase rates to ensure service levels meet the needs of the community.

The main merit of local government reform is improved strategic capacity and decision making. The wider costs and benefits modelled in this report signify how the community as a whole benefits from council merger, especially where it involves all four councils, and the introduction of a Capital City Act.

TABLE 6 THE REFORM OPTIONS AGAINST THE KEY PRINCIPLES

	Option 1 – Business as usual	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Ratepayer's interest	Neutral	Rates may go up	neutral	Rates unchanged	Rates may go down
Level of services improves	No, may deteriorate	Yes	No, may deteriorate	Yes	Yes
Maintains local representation	Yes	Via wards in transition	Yes	Via wards in transition	Via wards in transition
Ensures financial status is strengthened	Neutral	Potentially	Neutral	Potentially	Potentially
Generates benefits to the community	No	Yes, greatest benefits	Yes, second greatest benefit	Yes, third greatest benefit	Yes, significant benefit

[1] Kingborough has a different rating regime which is not directly comparable.

A merger of all four councils would provide the best overall outcomes, but also attracts substantial complexities in terms of risk management, transition and cost control. State government support, community support and engagement of current elected members are critical for the success of the transition to the new capital city council. The mergers of Clarence, Glenorchy and Hobart and especially Glenorchy and Hobart are less complex in terms of risks, transition and cost control. The stand-alone option does nothing to improve the outcomes for the community.

INTRODUCTION

Independent insight.

1 INTRODUCTION

State Government has initiated a voluntary process for local government in Tasmania to collect and consider evidence for local government reform. Reform has been identified as a means to address issues that (some) councils in Tasmania are facing (February 2015):

- Sustained annual operating deficits
- Low asset management ratios
- Backlogs in road infrastructure maintenance
- Falling net financial assets
- Rates increases beyond price inflation, and
- Low and sometimes declining population numbers, and ageing of population

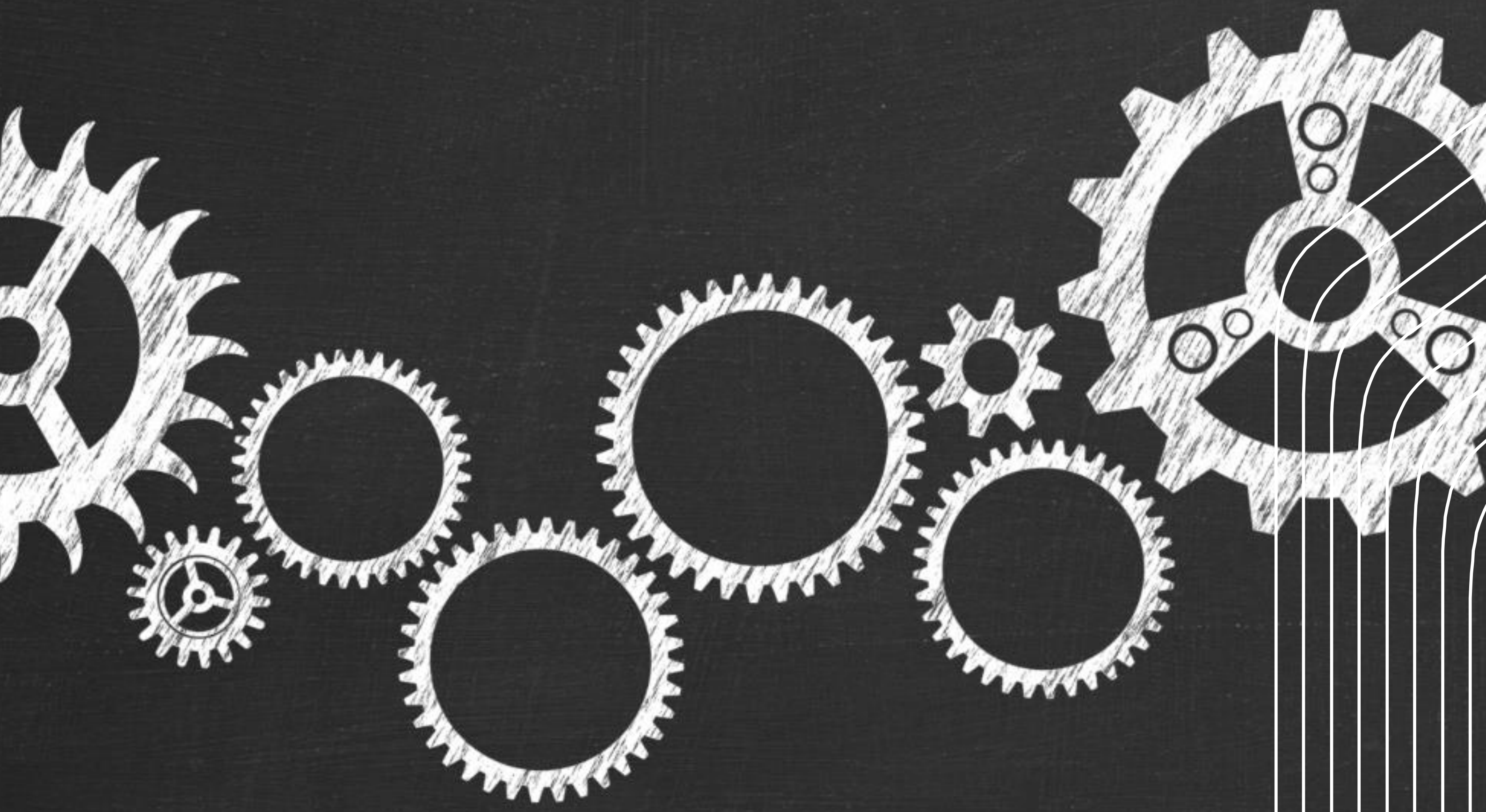
By addressing these issues, the Minister expects that councils will continue to deliver quality services and charge affordable rates, while remaining financially sustainable. Councils may also see an increase in the scope of services expected from their communities in future, with the ageing of their constituent populations being just one driver.

Clarence City, Glenorchy City, Hobart City and Kingborough Councils have taken up the challenge to collate and consider evidence for local government reform. The guiding principles for local government reform as defined by the four councils stipulate that local government reform:

- Is in the interest of ratepayers
- Improves the level of services for communities
- Preserves and maintains local representation, and
- Ensures that the financial status of the entities is strengthened.

This report provides a detailed feasibility analysis of short listed reform options. It builds on the results of Stage 1 Discussion Paper report which includes a baseline analysis of the individual performance of the four councils, a functional region analysis, a review of the communities of interest and local priorities, a review of local government reform best practice and a short listing of options for further detailed analysis.

THE CASE FOR CHANGE



Independent insight.

2 THE CASE FOR CHANGE

2.1 Why reform and how?[2]

Objectives of local government reform

When considering local government reform, the first question to ask is: Why pursue local government reform?

The Australian Centre of Excellence for Local Government (ACELG) identified that the need for local government reform is evolving, with the focus of addressing "challenges such as financial sustainability, changing community needs and expectations, metropolitan growth and shifting relationships with centre governments" (ACELG 2011, p8).

While efficiency savings are often at the forefront of local government reform discussions, they are not nor should they be the sole objective of reform.

The objectives for local government reform can be summarised as:

a. **Operational efficiency savings and improved service delivery** (economies of scale, reducing duplication). Typically, areas that can generate efficiency savings involve operational, back office activities such as IT, human resources, procurement, asset and waste management. The actual efficiency savings realised vary by service and local government formation, as the threshold population size for optimal service delivery varies by service.

b. **Strategic capacity** to address strategic issues and regional interests. Councils need the skills and resources "to be high capacity organisations with the requisite knowledge, creativity and innovation to enable them to manage complex change" (Local Government Reform Commission Queensland, 2007). Local government reform can substantially contribute to the strategic capacity of participating councils, or the merged entity.

c. **Advocacy and promotion**. Reform enables participating councils or the merged entity to speak with one voice and to become a substantial partner for state and federal government and other organisations. Advocacy is especially important and interrelated with strategic capacity and ensuring sub-regional challenges around land use, housing, transport and infrastructure are being addressed.

Important in regards to the four councils is that together they form the majority of Greater Hobart, the economic, civic, cultural and population capital of Tasmania.

Over recent decades in Australia, reform objectives have shifted from the early (1990s) focus on efficiency gains to more contemporary, all-encompassing objectives. This shift has recognised the inter-relationship between the reform objectives and the elusiveness of long term efficiency gains.

Greater Hobart as a City Region

In modern economies, major cities have become the economic engine of regions. These cities often experience substantial pressure in terms of population and economic growth; increasing infrastructure delivery demands and impacts on (natural) resources. In short, there is often a strong common agenda

[2] This section provides a synopsis of the Stage 1 Discussion Paper.

with strategic opportunities and issues, and a need for a concerted effort in relation to advocacy and promotion.

Hobart is the only capital city in Australia that is not recognised through a **Capital City Act**. A Capital City Act recognises the relationship between the city government and the state government, and the associated responsibilities of being a capital city. Benefits of a Capital City act include enhanced outcomes for strategic planning, including in the crucial areas of economic development, transport infrastructure, affordable housing, social inclusion, tourism and so on.

The four Greater Hobart councils believe that any potential local government reform needs to promote the better management of the Greater Hobart region within the framework of a Capital City Act. Local government reform within this context can occur in the form of:

- Stand-alone improvements
- Collaboration among councils (including partnerships for shared services and formalised alliances)
- Council mergers, and
- Boundary adjustments.

Standalone improvements

All councils should strive for standalone improvements as they aim to evolve to better serve their communities.

Some common elements of standalone improvements include a culture of integrated strategic planning, aligning a clear hierarchy of strategic plans, a commitment to reviewing service delivery to best reflect strategic goals, the measurement and benchmarking of service delivery performance, strong community engagement with the business of council, ensuring councillors focus on strategy and policy direction rather than local decisions, and outsourcing the right services to external parties.

Given the relative sophistication of local government in Tasmania, ongoing standalone improvements are expected to generate only marginal benefits. Moreover, a narrow focus on standalone improvements may inhibit the realisation of broader reform opportunities.

Collaboration between councils

Collaboration between councils can take many forms and can generate significant benefits in terms of efficiency gains, service delivery improvements, strategic capacity improvements, and advocacy and promotional advantages.

As cities grow, they increasingly grow across historically defined municipal borders. Greater Hobart too has grown well beyond the initial geographic boundaries of the City of Hobart. Councils in city regions generally show a strong interest in collaborating towards their shared strategic agenda for urban growth and development. Collaboration is designed to strengthen the capacity of the city to leverage the socio-economic development advantages of joint planning for land use, infrastructure and services, as well as advocating the funding of these priorities to state and federal government. Examples include regional strategic planning, social policy and city transport services in Metro Vancouver, as well as both Toronto and Auckland prior to their full mergers. These examples are particularly important in the context of Greater Hobart.

There are numerous collaboration forms, with the intensity and structuring of collaboration varying widely. Collaborative forms extend from informal networks to shared resources to the devolution of particular council authorities to a joint body to pursue a shared agenda between councils.

Ultimately 'form should follow function' in that the form in which collaboration is effected should reflect the initially agreed functions or objectives of collaboration. In turn, as collaboration objectives evolve over time, so too might the form of collaboration.

Some of the most relevant forms of collaboration, described in detail in the stage 1 report, include:

- Shared services
- Shared outsourcing
- Alliances to enhance strategic capacity, and
- Statutory joint authorities and council owned companies.

Joint authorities have the mandate to act on agreed topics and there is reduced opportunity for councils to opt-out of particular decision/ initiatives. Given the role of councils there is often a strong incentive to collaborate on issues surrounding urban growth and development, particularly across contiguous urban areas. Benefits can be derived through the collaborative planning of land use, infrastructure and service delivery, and in advocating for the funding of these functions.

Best practice collaboration respects the need for:

- The form of collaboration to follow agreed collaboration functions/ objectives
- The accurate targeting of services that are shared and/ or outsourced (i.e. routine, high volume services)
- Market contestability for the delivery of these shared/ outsourced services
- Designing collaboration arrangements around communities with a common identity, common interests and which are considered cohesive
- Clearly distinguishing the roles of elected councillors and service managers
- Building trusted relationships between collaboration participants, and
- Ensuring that the costs and benefits of collaboration are equitably allocated among participants.

In case of Greater Hobart there have been past attempts to take an integrated approach to plan for sustainable and competitive urban growth, in the form of the Southern Metropolitan Master Planning Authority (SMMPA), Southern Metropolitan Planning Authority (SMPA), Hobart Metropolitan Councils Association (HMCA) and more recently the Southern Tasmania Councils Authority (STCA). While important attempts, these former collaborations have all failed to deliver the envisaged outcomes. This was mostly driven by individual councils not agreeing on strategic directions and the ability of councils to opt out of strategic decisions, thereby undermining the collective benefits that could have been derived from a joint approach. Also, commitment of state government is crucial given its key role in the delivery of transport infrastructure, regional facilities and other 'city-shaping' investments.

For any form of collaboration to succeed in the future there is a need a) to involve state government, b) to ensure there are clear roles and responsibilities for member councils and state, c) to have specific requirements on what the Act has to deliver (see below) and d) to ensure outcomes support the interest of the wider community while single members cannot opt out on.

Capital City Acts around Australia recognise the special role the capital city council plays and how that role differs from other councils. The local authorities of a capital city have a greater responsibility to develop as the 'centre' or at the 'heart' of a state, and therefore play a leading role in economic development and civic affairs for the benefit of the whole state. The Acts enable partnerships to be formed with other levels of government, mainly the state government, that enable planning and development of the city that benefits the broader community that is served by the capital. In order to enhance the capital cities role special provisions are made under the Acts that may change electoral arrangements, statutory planning, regulation of the area, and service delivery.

Council mergers

Council mergers occur when two or more councils form one larger governing entity and become accountable to a single strategic plan and budget, and ultimately, a single set of land use controls, and policies and processes for service delivery.

Until the 1990s mergers were typically driven by intended efficiency savings. From the 1990s onwards, however, there has been a change in direction with state governments pursuing an agenda of enhanced strategic capacity, of which efficiency savings form an element. This is true for both the Queensland reform cycle in the nineties and the more recent Fit for the Future process in NSW.

Mergers can certainly improve the strategic capacity of councils to manage complex urban development issues, particularly in relation to land use and transport. Indeed well-designed mergers may be better than council collaborations for managing and advocating for land use and transport integration across contiguous urban areas.

Strengthening strategic capacity – city regions

To plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, there is a need to effectively pursue a strategic agenda and enhance advocacy and promotion of the city.

Nationally and internationally, there are city councils that have maximised strategic capacity through mergers, such as Toronto (2007), Auckland (2010) and Brisbane (since 1925).

While the scale of Toronto, Auckland and Brisbane is well beyond Greater Hobart, the key lesson from these city regions is their ability to achieve strategic capacity through transit, transport and land use, not necessarily a reduction of costs.

The potential benefits of amalgamation can be diverse and depend on the specific situation and context of the amalgamating councils. Typical benefits include:

- Enhanced long term sustainability (through efficiencies and other savings)
- More robust and growing rate base and other sources of own source revenue
- Increased level of service to the community
- Increased strategic capacity
- Enhanced advocacy on behalf of the community, and
- Enhanced resources and capabilities to cope with complex issues and unexpected change.

A report by the NSW Independent Local Government Review Panel (2013) noted that:

> *"There needs to be a balance between two seemingly opposed agendas: the need for increased scale and capacity to meet a number of key challenges facing councils and community and the importance of keeping the local in local government so that community identity and local democracy are protected and where possible enhanced".*

Typically a rationalisation in the number of councillors occurs, though local community boards or an expanded ward systems can be used to ensure local representation is maintained. Certainly the experience points to the ongoing conflict between generating economies through greater council 'scale' and the need to protect 'local democracy'.

While council mergers can generate benefits across the areas of efficiency gains and service delivery, strategic capacity, and advocacy and promotion enhancements, the actual results appear to be highly variable. Sometimes potential efficiency gains remain unrealised as new councils:

- Face unforeseen implementation costs
- Fail to follow through with envisaged changes, or
- Reinvest efficiency gains into service delivery improvements or strategic projects.

Best practice highlights that:

- Amalgamated entities must be designed to match with communities of common interest (similar to collaboration between councils)
- A threshold of community support is required to ensure success

- Benefits relating to improved efficiency, strategic capacity and advocacy and promotion must clearly outweigh likely losses in local democracy
- Transaction and transition costs need to be well understood and managed, and
- Legacy issues linked with particularly poor council performance (e.g. massive asset maintenance backlogs) do not burden the new entity disproportionately.

When merging councils it is important that a transitional body and governance relationships are established, a reasonable timeframe for implementation and evaluation is provided, and that the steps towards full amalgamation are identified and mapped.

Key implementation issues revolve around the prioritising of services for joint delivery, i.e. to minimise duplication and maximise efficiencies, and resolving award (staff remuneration) and community service delivery expectations, which if not addressed specifically usually equalise upwards.

Boundary adjustments

Boundary adjustments can occur in combination with mergers or stand-alone improvements, and are generally intended to make council operations more efficient and effective, and/or to achieve better alignment of council boundaries with communities of interest.

2.2 Serving communities of interest

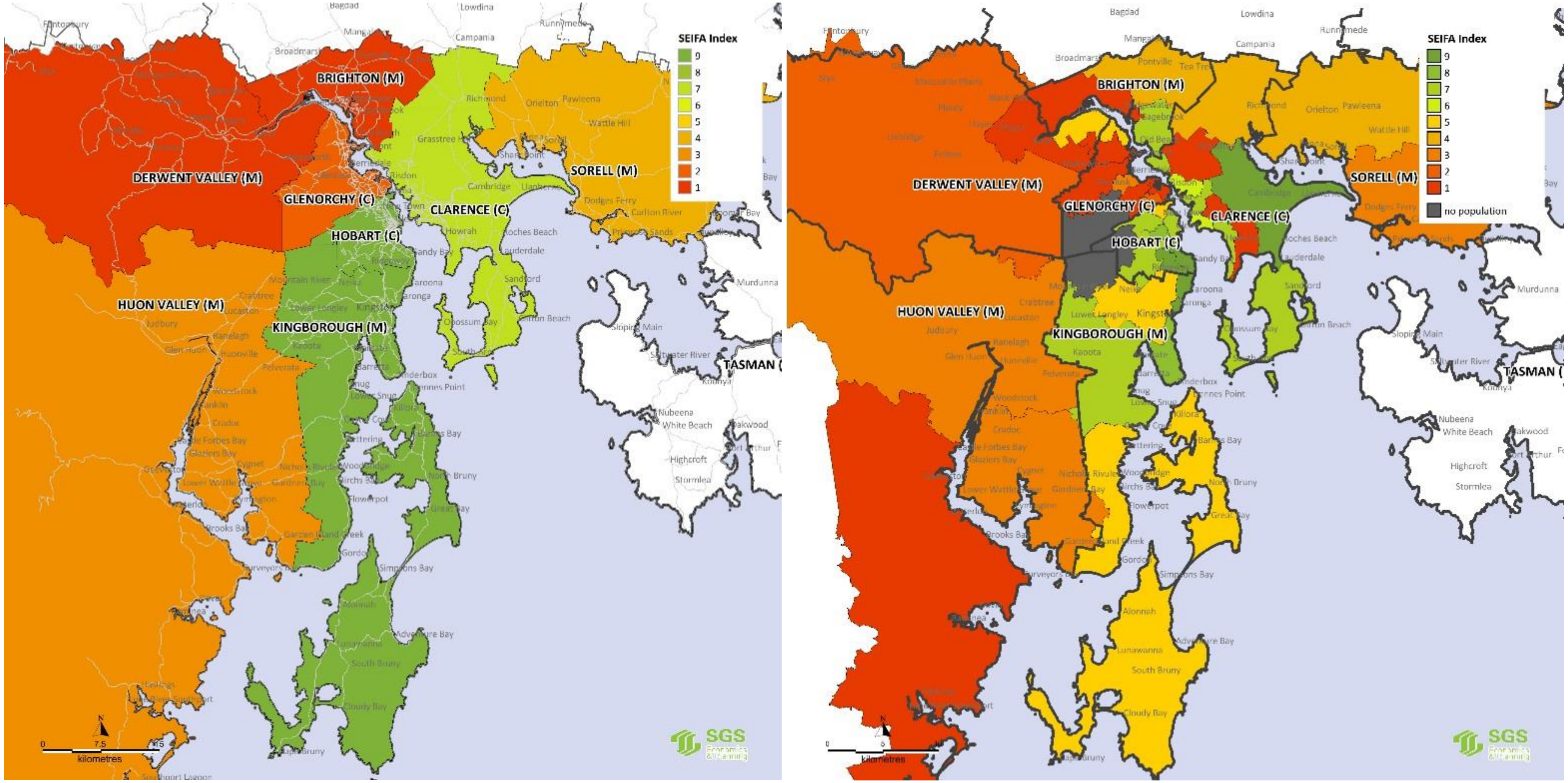
Communities of interest

Given that success elsewhere in implementing local government reform has relied on targeting reforms to communities that share common interests and characteristics and feel connected, SGS examined functional economic and social relations between the four participating councils.

This examination found that all four councils have significant functional linkages (population growth, employment, transport, migration); showing that together they truly form a continuous urban area. However, the analysis has also revealed that from a socio-economic perspective, Glenorchy is substantively different in that it is socio-economically more disadvantaged.

Taking a more granular approach, Glenorchy shows strong commonalities with particular SA2 areas in Clarence (Figure 1, next page). The Huon Valley also has strong linkages with Kingborough.

FIGURE 1 SOCIO-ECONOMIC SCORES FOR LOCAL GOVERNMENT AND STATISTICAL AREAS (SA2) IN GREATER HOBART



Score 1 = highly disadvantaged area; 9 = highly advantaged area. SEIFA (Socio-Economic Index for Advantage and Disadvantage) is an index on indicators such as household income, unemployment levels, literacy, education and housing

Source: ABS data, SGS Economics & Planning (2016)

Indicative population projections by SGS, based on an extrapolation of ABS estimated resident population data, suggest population growth rates will be particularly strong in Clarence and Kingborough, the areas that also have the majority of greenfield land available for development (Table 7).

TABLE 7 PROJECTED POPULATION GROWTH RATES FOR THE FOUR LGAS

	Projected population growth AAGR (2016-2021 – SGS projections)
Clarence	0.95%
Glenorchy	0.54%
Hobart	0.28%
Kingborough	2.09%

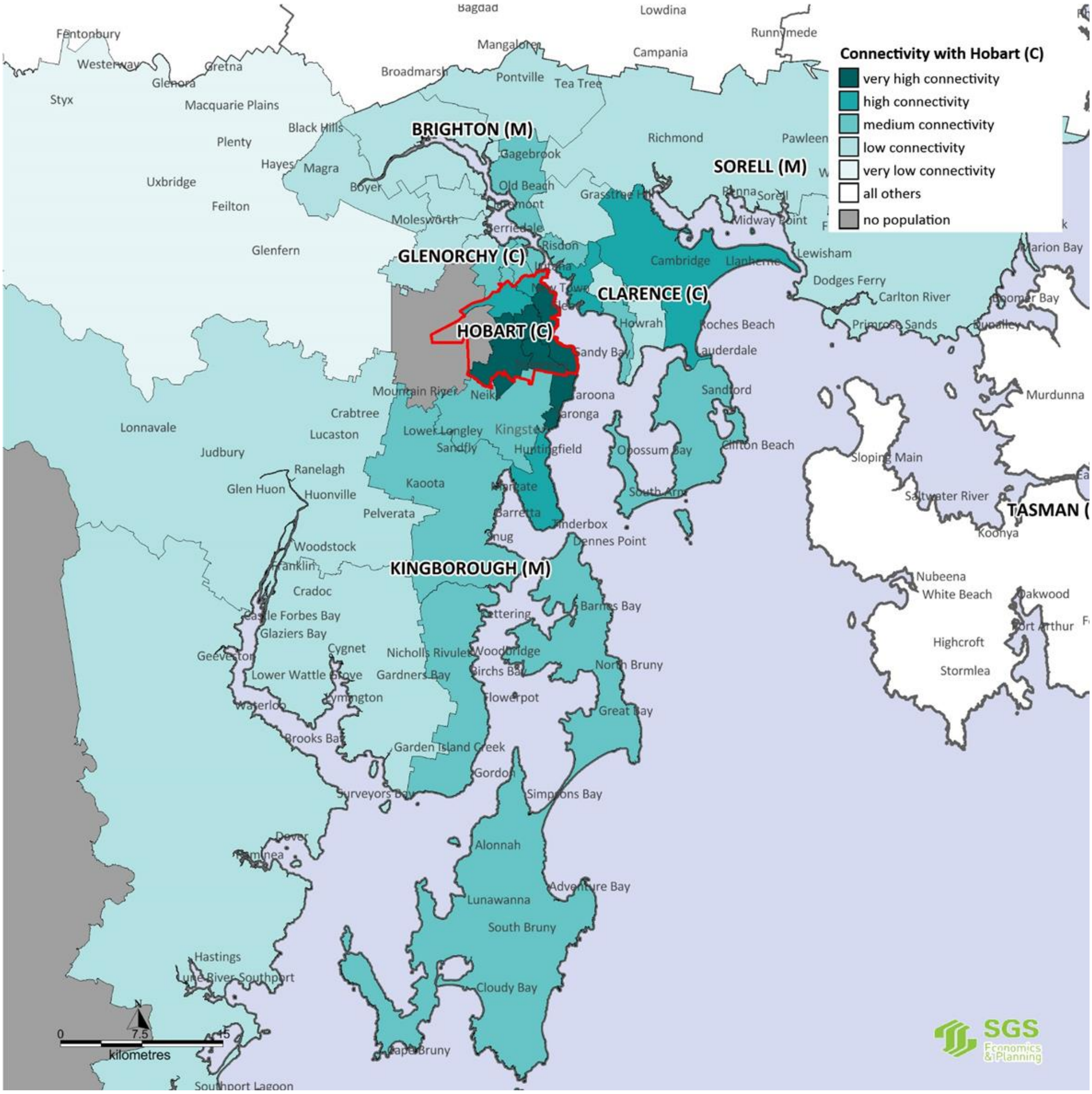
AAGR = annual average growth rate
Source: SGS (2016), based on ABS; DPAC (2016)

The functional area analysis shows that Clarence, Glenorchy and Kingborough have strong ties with Hobart especially in terms of employment (Figure 2, next page). The City of Hobart is the economic centre of the region. Many residents from Kingborough, Clarence and Glenorchy commute into Hobart for employment; they are more likely to be employed in Hobart than in the municipality they reside in.

There are strong migration patterns between the four councils. There are strong flows from Glenorchy, Clarence and Kingborough into the City of Hobart. However, there is also significant migration from Hobart and Glenorchy into Clarence, and from Hobart into Kingborough.

The functional area analysis further shows that Taroona-Bonnett Hill is very highly connected to Hobart (that is across all four indicators), and Brighton-Pontville, Bridgewater-Gagebrook and Austins Ferry-Granton are highly connected to Glenorchy.

FIGURE 2 FUNCTIONAL CONNECTIVITY OF GEOGRAPHIC AREAS WITH HOBART LGA



Source: SGS Economics and Planning (2016)

Common priorities & Council services

Communities of interest also relate to the potential for a shared agenda amongst the participating councils. To examine this potential, SGS reviewed the strategic plans, organisational structures, service delivery profiles and financial positions of each of the four councils.

At present, the majority of population and economic growth occurs in cities, as is evidenced across Australia and internationally. Given that cities are now the locus for economic development, i.e. in a competitive arena where accessibility and liveability are paramount, these themes reinforce the need to manage the development of Greater Hobart optimally.

Recent urban growth across Greater Hobart, and the congestion issues that have resulted, highlight that there is no strategic vehicle that shapes urban development in a manner that ensures Hobart continues to be well positioned to attract investment, people and jobs. Greater Hobart is the only capital city in Australia that lacks a comprehensive urban growth strategy; an integrated land use and transport strategy, an economic development strategy and a Capital City Act to commit government to act. Together, the four councils have the opportunity to fill this vacuum.

This examination highlighted a number for opportunities that might be progressed through reform, with these opportunities coalescing under the themes of:

- Integrated land use and transport planning, resulting in a more consolidated pattern of urban growth, optimising land use and transport infrastructure investment
- Capital city economic development and urban competitiveness
- Social inclusion and participation
- Environmental management and waste management of natural hazards across municipal boundaries
- Regional planning for sports and recreation, preventing duplication of facilities and improve positioning to attract funding to invest, and
- Service delivery.

A summary of council strategic priorities is included in the appendix (Section 6.2).

2.3 The reform options

A long list of reform options of the constituent communities was prepared (as per best practice). The list was also informed by the over-riding instructions of the participating councils, i.e.

- Hobart was to be considered as part of all options, and
- Options should test the impact of including and excluding Kingborough (which has also been highlighted as a potential need in the communities of interest discussion).

The potentially feasible combinations of councils included all four, groups of three, and groups of two councils.

A multi-criteria analysis of these 19 options[3] was undertaken to short list the options that were likely to be most feasible. This MCA analysis included a qualitative assessment of the performance of each option in terms of the guiding principles stipulated by the four councils, the strategic opportunities identified, along with the degree of potential efficiency savings that might be generated.

Local government reform guiding principles	Identified strategic opportunities
– Is in the interest of ratepayers – Improves the level of services for communities – Preserves and maintains local representation – Ensures that the financial status of the entities is strengthened.	– Integrated land use and transport planning – Capital city economic development and urban competitiveness – Social inclusion and participation – Environmental management and waste management – Regional planning for sports and recreation – Service delivery.

[3] See appendix for overview of all options (Section 6.1)

From the nine options that were shortlisted, the following 5 options have been subjected to a more detailed feasibility analysis:

1. Stand-alone councils (business as usual)
2. Merger between all four councils
3. Strategic alliance between all four councils
4. Merger between Clarence, Hobart and Glenorchy
5. Merger between Hobart and Glenorchy

Option 1. Business as Usual – stand-alone councils

The business as usual scenario describes and values the performance of the four councils as they continue to operate as four independent entities. All councils will continue to pursue improvement in service delivery, governance structures and processes, and continue to recognise and respond to changing internal and external conditions. These improvements have been built into councils' current strategic plans, long term financial plans and subordinate plans.

As part of this scenario, councils will continue to enhance their operations on a stand-alone basis involving a mixture of (based on best practice) some or all of the following elements:

- Integrated strategic planning, including an aligned hierarchy of strategic plans
- Ongoing review and improvement of service delivery
- Benchmarking of service delivery performance
- Community engagement, and
- Where applicable - outsourcing of services.

Experience elsewhere shows that stand-alone improvements are likely to deliver marginal gains. Furthermore, stand-alone improvements are also expected to occur under any of the remaining scenarios.

Last but not least, strategic opportunities the four urban councils share will not be pursued.

Key assumptions:

- Each council will continue to improve its performance and service delivery in line with existing strategic and long term plan
- Each council will continue to seek opportunities for ad hoc opportunities for shared services and resource sharing, and
- Strategic issues concerning Greater Hobart will continue to be addressed via MoUs, ad hoc deliberations and Think South (STCA).

Option 2. Amalgamation of Clarence, Glenorchy, Hobart and Kingborough

An amalgamation of the four councils would involve one large metropolitan or capital city council with a total population of around 190,000 residents. This is comparable to Wollongong (192,000), Lake Macquarie (189,000), Bankstown (182,000) or Townsville (174,000).

As a merged entity, the new council could very effectively pursue more consolidated and sustainable patterns of urban growth and strategic opportunities for the capital city. It would be an effective and influential party in relation to other tiers of government. The merged entity will have the ability to plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, enhancing advocacy and promotion of the city.

The merged entity will be able to generate savings by eliminating duplication of services and improved efficiencies. To ensure protection of local representation, the merged entity will make use of wards[4].

[4] An administrative division of a council that typically elects and is represented by a councillor or councillors

The merger is accompanied by a Hobart Capital City Act so that it is most effective in generating wider strategic benefits to the community. The Act will statutorily recognise Greater Hobart as a capital city, and the joint responsibilities of the city and state government to deliver on strategically important objectives, particularly in regards to the development and implementation of an integrated transport, infrastructure and land use plan, economic development plan, waste management strategy, natural hazard management plan and social inclusion plan.

Key assumptions:

- The four councils will merge into a single entity
- Wards or community boards will be implemented initially and phased out over an eight year period
- Implementation of a new governance model and rationalisation of the existing executive management teams
- The total number of elected members will be twelve
- The types and level of services delivered are assumed to remain unchanged
- Elimination of duplication will result in savings, especially in areas such as corporate services (finance, hr, communications, customer services and ICT)
- Economies of scale enable efficiency savings, especially in areas such as management, procurement, business processes, property/accommodation, works, plant & fleet and waste management.
- The introduction of a Hobart Capital City Act.

Option 3. Strategic Alliance between Clarence, Glenorchy, Hobart and Kingborough

The four councils together form the capital city region. This is evidenced by the functional region analysis. For urban regions like Greater Hobart there are strong common interests across municipal boundaries revolving around the management of the urban system; particularly around land use and transport integration, and coordinated service delivery.

Historic attempts of the Greater Hobart councils to collaborate effectively on key strategic issues and metropolitan planning without legislated power necessitates the need for a statutory agreement, with clear roles and responsibilities for both local government and state government, in the form of a Capital City Act.

The strategic alliance option between the four councils will be effected and driven by the introduction of a Greater Hobart Capital City Act that recognises the role and responsibilities of the capital city and ensures commitment by local government and state government to deliver on a range of strategic objectives that are important to the prosperity of the city.

In line with capital city acts in other jurisdictions, the Greater Hobart Capital City Act would recognise the important role the capital plays as a social, economic, civic and cultural centre, plan for balanced and sustainable growth, enhance coordination between state government and local government, progress projects of significance, and improve local governance of the urban functions.

The Act is to ensure all entities work together and deliver on the strategic opportunities. There would not be a new dedicated layer of governance. The individual council entities would continue to exist and so would current systems of local representation.

The strategic alliance would solely focus on strategic opportunities and common interests:

- Regional land use and integrated transport planning
- Capital city economic competitiveness and development
- Regional infrastructure planning
- Environmental and natural hazard management and waste management, and
- Social inclusion and participation.

Opportunities for shared services are likely to arise over time in an ad hoc manner, as a result of the collaboration under the Capital City Act. These activities are however not an integral part of the strategic alliance.

Key assumptions:

- A Hobart Capital City Act will drive collaboration between the four councils
- There will be no new entity or layer of bureaucracy introduced to drive the collaboration
- The councils and state will pool funds for the delivery of strategic plans (overall capital city strategy, land and transport strategy, economic development strategy, environmental management strategy, regional infrastructure strategy and social inclusion strategy), and
- The strategic alliance will only focus on strategic opportunities, and exclude opportunities for shares services and resource sharing which may develop and grow over time.

Option 4. Amalgamation of Clarence, Glenorchy and Hobart

An amalgamation of the three councils would involve a total population of around 151,000 residents. This is comparable to Cairns (156,000), Whitehorse (151,000), Toowoomba (151,000) and Newcastle (148,500).

The merged entity will have the ability to plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, enhance advocacy and promotion of the city. Kingborough is a major growth area for Greater Hobart, and exclusion of this council has the potential to undermine city shaping capabilities and success of planning for more consolidated and efficient urban growth.

The merger is accompanied by a Hobart Capital City Act that recognises the role and responsibilities of the capital city and ensures commitment by local government and state government to deliver on a range of strategic objectives that are important to the prosperity of the city. (Parts of) Kingborough would be incorporated in the Capital City Act.

As per merger of all four councils, the merged entity will be able to generate savings by eliminating duplication of services and improved efficiencies.

Kingborough consists of areas along the Channel and Bruny Island that identify as rural-regional, while other areas like Kingston, Margate and Taroona can be characterised as (sub-)urban. This option allows Kingborough and Huon Valley to seek opportunities for collaboration (shared services) and potentially merger[5].

Key assumptions for the feasibility analysis are:

- Wards or community boards will be implemented initially and phased out over an eight year period
- Implementation of a new governance model and rationalisation of the existing executive management teams
- The total number of elected members will be twelve
- The types and level of services delivered are assumed to remain unchanged
- Elimination of duplication will result in savings, especially in areas such as corporate services (finance, hr, communications, customer services and ICT),
- Economies of scale enable efficiency savings, especially in areas such as management, procurement, business processes, property/accommodation, works, plant & fleet and waste management, and
- The introduction of a Hobart Capital City Act.

[5] The costs and benefits of this have not been modelled as part of this study.

Option 5. Amalgamation of Glenorchy and Hobart

An amalgamation of the two councils would involve a total population of around 94,000 residents. This is comparable to Rockdale (97,340), Ballarat (93,500) and Port Philip (91,000).

As per merger of all four councils, the merged entity will have the ability to plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, and enhance advocacy and promotion of the city. The merged entity will be able to generate savings by eliminating duplication of services and improved efficiencies. Wards or community boards are an important means to ensure ongoing local representation during transition. The merger is accompanied by a Hobart Capital City Act that recognises the role and responsibilities of the capital city and ensures commitment by local government and state government to deliver on a range of strategic objectives that are important to the prosperity of the city.

This option excludes both Clarence and Kingborough which form the key residential growth areas of Greater Hobart. It also excludes substantial growth areas for employment, with significant areas of (vacant) industrial land and the Hobart International Airport being in Clarence.

While this option assumes the implementation of a Capital City Act, the likelihood of the Act not being legislated and/or being undermined is much higher than under the other options, as both key growth area councils are not part of the merger.

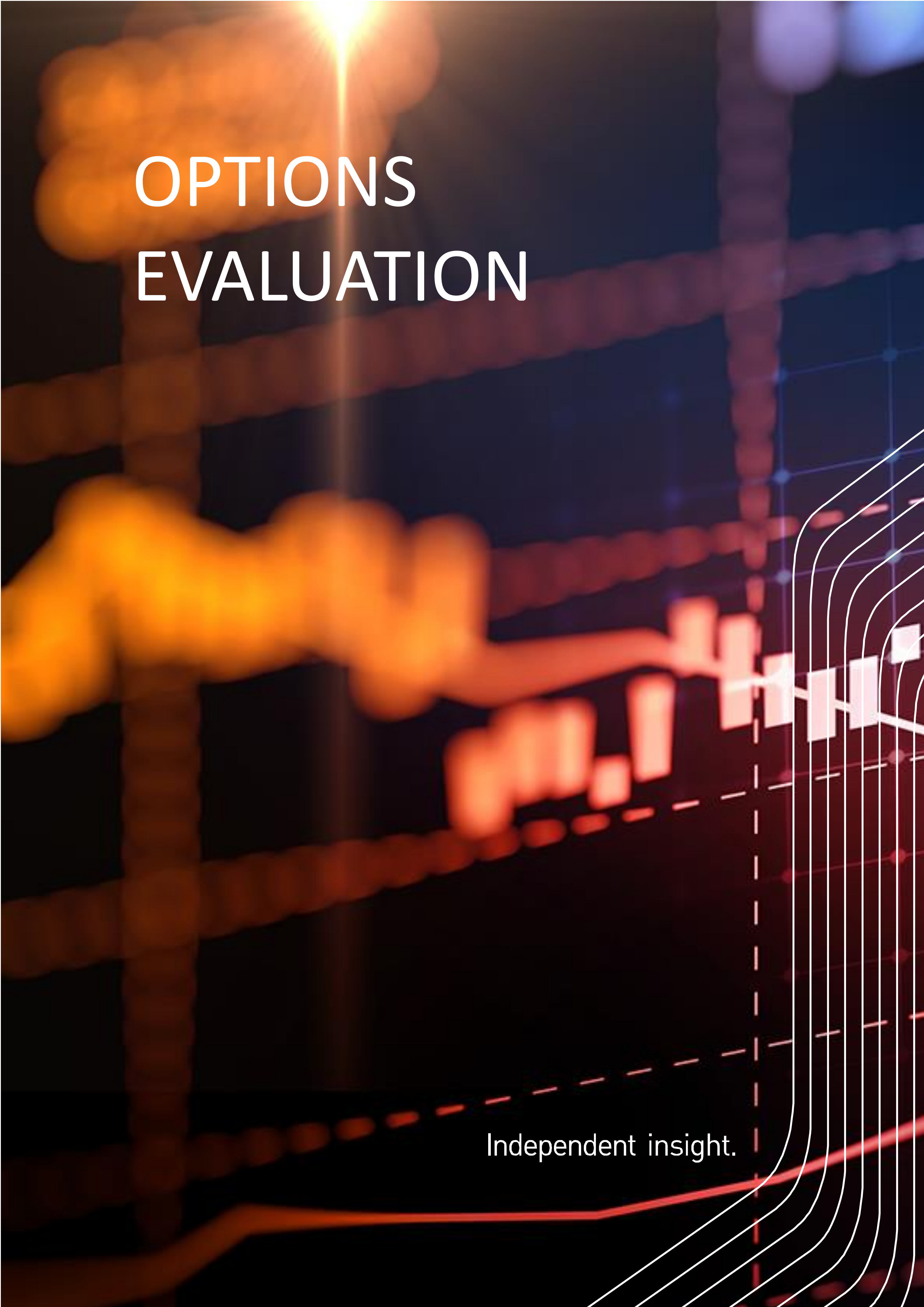
This option allows Kingborough to progress collaboration and possibly a merger with Huon Valley Council, and Clarence with the south-eastern councils[6]. This would draw their priorities and focus away from the development and growth of a capital city region towards rural-regional issues.

Key assumptions for the feasibility analysis are:

- Wards or community boards will be implemented initially and phased out over an eight year period
- Implementation of a new governance model and rationalisation of the existing executive management teams
- The total number of elected members will be twelve
- The types and level of services delivered are assumed to remain unchanged
- Elimination of duplication will result in savings, especially in areas such as corporate services (finance, hr, communications, customer services and ICT)
- Economies of scale enable efficiency savings, especially in areas such as management, procurement, business processes, property/accommodation, works, plant & fleet and waste management, and
- The introduction of a Hobart Capital City Act.

[6] The costs and benefits of this have not been modelled as part of this report.

OPTIONS EVALUATION



Independent insight.

3 OPTIONS EVALUATION

The options evaluation comprises two elements:

- A financial feasibility analysis that examines the impact of different options on the operating costs of the councils to estimate the net effect on council financial position compared to the business as usual case;
- A cost benefit analysis that considers the potential impact of each option on the entire community in economic, social and environmental outcomes

The cost benefit analysis goes beyond the financial analysis to assess whether or not progressing each reform option generates a net gain or loss for the community **as a whole** when compared to the standalone option. While there may (or may not) be a direct impact on ratepayers from changes in the Council financial position, ratepayers also benefit from wider benefits should they arise from better managed development, transportation planning, etc.

The financial analysis uses ten years, typical of the time horizon of the different Long Term Financial Projections prepared by Councils. The financial changes tend to be upfront costs, followed by savings over the subsequent years, which effects are largely apparent by year ten. Extrapolation beyond ten years is increasingly uncertain, as the conditions affecting councils in the longer term are bound to change in ways that are hard to anticipate.

While the most important benefits from local government reform are expected to emanate from better decision-making, generating important benefits to the wider community, these develop slowly and develop over the longer term, 20 years of more. Therefore the cost benefit analysis also uses a longer period of 20 years to capture these slowly developing effects.

In order to combine the two elements, the financial performance is also extrapolated to 20 years to complete the analysis. While extrapolation of financial conditions beyond ten years is highly uncertain, this shows the relative effects of financial and strategic effects in the longer term.

3.1 Financial feasibility analysis

Financial costs and savings of the merger options

The financial costs and savings of the mergers arise throughout the period being modelled[7].

In the initial transition period, for each merger option, 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.

Further costs 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 are considered to arise as a result of a more complex organisation.

Savings initially arise in the short term through the reduction in the number of senior staff and councillors required in comparison to the councils combined. Natural attrition is initially applied to a

[7] The costs and savings should not be considered in isolation. They form part of the information on which a decision should be made and, in particular, the overall financial performance of the merged council and projected asset expenditure.

merger, with efficiencies meaning that overall staff numbers fall in the short term. Also in the medium and longer term, benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

The costs and savings arising from the mergers are in comparison to the current operating costs of the combined councils (Option 1, Business as usual).

The merged councils are modelled on the basis of a combined long-term financial plan (LTFP), i.e. where all council costs and revenues set out in the LTFPs are brought together. The agreed base case LTFPs have been used for this process.

The combined councils' LTFPs have then been adjusted by 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 in 2018.

The costs and benefits for the possible merger Scenarios are described below.

Governance and executive team

The formation of a new entity is likely to produce some efficiencies as the result of 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.

Table 8 summarises the expected efficiencies together with the associated timing for governance.

TABLE 8 COSTS AND SAVINGS GOVERNANCE AND EXECUTIVE TEAM

	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)				

Source: Morrison Low 2017

Governance

The formation of 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 the councillor fees and expenses of comparator councils as reported in the annual report 2015. It is assumed that there would be 12 elected members (for all Scenarios) as this is the largest number of elected members amongst the current councils.

TABLE 9 COSTS AND SAVINGS GOVERNANCE

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Governance savings	$0.45M	$0.90M	$1.27M

Source: Morrison Low 2017

Executive management

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors) levels. Revised remuneration packages for the new general manager and directors for the new entity have been informed and assumed to be similar to that of the comparator council executive remuneration packages, given the size and scale, to that of the proposed new entity.

The general managers' total remuneration for the councils was based on the councils' respective annual reports 2014/15, and the amalgamation to a single entity with a single general manager.

In addition, there would be a rationalisation of the existing director positions. Based on the Annual Reports there are 21 such positions across the Councils with the combined remuneration based on the Annual Reports 2014/15 of $3.59M. It is assumed the new entities would all retain four director positions, but with changes to responsibilities. Together with the reduction in general managers, this is likely to have an additional savings as shown below.

TABLE 10 COSTS AND SAVINGS EXECUTIVE MANAGEMENT

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Executive management saving	$1.33M	$2.53M	$3.52M
Senior Staff (excluding GM)	9	16	21

Source: Morrison Low 2017

It is important to note that while ongoing efficiencies have been identified as effective from the short term, there is the one-off cost of redundancies that, in our experience, is a cost incurred during the transition period. This redundancy cost is based on an estimated average of 26 weeks although we note some contracts may have more generous conditions.

Rationalisation of services

Under the proposed merger scenarios, 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 each scenario, 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.

Based on our previous experience, we would expect resource efficiencies in a council of this size of between 25% and 40%, however, having regard to the asset base and size of the comparator councils, we do not expect to realise these full benefits in this merger. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however, having said that, there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services section.

We have assumed a 25% reduction in these resources having regard to the comparator council and other similar sized councils to the merged entity. We note, however, that a scenario of no reduction in staff is possible based on supporting evidence from the most recent council mergers in NSW and Queensland. We have modelled a 'reduced efficiencies' scenario where no staff savings occur below tiers 1 &2 in our sensitivity analysis.

Corporate services

In the formation of a new entity, there is likely to be a reduction in staffing numbers across corporate services in the medium term. The corporate services provide 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.

TABLE 11 COSTS AND SAVINGS CORPORATE SERVICES

	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 (6 years plus)					

Source: Morrison Low 2017

Rationalisation of duplicate services

Consistent with the dis-establishment of the 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 two 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 have 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 an ICT solution 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 assumption underpinning the efficiency for corporate services is a 10%[8] reduction in corporate support personnel. On costs are considered to be included as the figures 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 outlined above.

In order to achieve the opportunities identified there is a requirement for 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 based on an average of 26 weeks, although we note the maximum varies and that employment contract provisions in individual councils may provide for slightly higher redundancy payments.

TABLE 12 COSTS AND BENEFITS RATIONALISATION OF DUPLICATE SERVICES

	Hobart and Glenorch	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy an Kingborough
Corporate Services savings	$3.40M	$3.95M	$4.67M

Source: Morrison Low 2017

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.

TABLE 13 EFFICIENCY SAVINGS

	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)					

Source: Morrison Low 2017

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

Management

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. It is also affected by the relative classification of senior staff as Directors or Managers.

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. In addition to the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

No allowance for Tier 3 and 4 savings have been included to date as this is difficult to estimate without a full review of organisational structure, position descriptions and a profile of Tier 3 and 4 salaries from each councils.

Staff turnover

While the industry average turnover is approximately 12%[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 based on applying a modest 1.5% natural attrition.

TABLE 14 STAFF TURNOVER

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Staff turnover	$6.17M	$7.3M	$8.36M

Source: Morrison Low 2017

ICT benefits

Without a full investigation into the current state of the 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 savings and reduced capital expenditure, higher quality of IT services, 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 the 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 over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the councils, the amount of efficiency is unable to be determined at this time. An allowance of 5% of the IT investment has been allowed for, arising in the long term after the systems are implemented.

TABLE 15 ICT BENEFITS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
ICT Benefits (from 2021)	$0.38M	$1.27M	$1.28M

Source: Morrison Low 2017

Materials and contracts

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

[9] Tasmanian Local Government Workforce Report 2014

multiple councils to one. An estimate needs to take into account that the councils may currently engage in some collective procurement.

The increased scale and size of the infrastructure networks managed by the merged council could, 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 in the short term at 1% of procurement costs for the first three years.

TABLE 16 MATERIAL AND CONTRACT SAVINGS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Materials and contracts savings	$0.49M	$0.98M	$0.98M

Source: Morrison Low 2017

Properties

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. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (Appendix 6.3).

Under the merged council scenarios are assumed that the councils would dispose of 5% of the building assets in the medium term. In the longer term, savings in properties are achievable but should be carried out in a more strategic manner across the combined entity. We note, however, that the addition of the larger more dispersed geographic of Kingsborough is unlikely to generate further savings through property rationalisation.

TABLE 17 PROPERTY SAVINGS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Property savings	$0.48M	$1.30M	$1.30M

Source: Morrison Low 2017

Works units

Staff

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 across the depots. Again we note, however, that the addition of Kingsborough is unlikely to generate further savings through rationalisation of works units.

TABLE 18 WORK UNITS STAFF SAVINGS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Works Unit staff savings	$1.82M	$2.25M	$2.25M

Source: Morrison Low 2017

Redundancy costs have been modelled for all works staff based on an average of 26 weeks, although we note that employment contract provisions in each council may provide for higher redundancy payments.

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

Plant and Fleet

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than is reasonably required to undertake their day to day functions. As such, it is reasonable to assume that a reduction in plant and fleet in the order of 5% would be achievable should there be an amalgamation of councils. The addition of the larger more dispersed geography of Kingsborough is unlikely to generate further savings over and above the two and three council mergers.

TABLE 19 PLANT AND FLEET SAVINGS – ONE OFF

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Plant and Fleet one off savings	$0.47M	$0.91M	$0.91M

Source: Morrison Low 2017

Services and service levels

Typically, merged councils see an increase in staff associated with rises in services, service levels and the formation of larger more complex organisations. 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[10] 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).

Transition costs

The formation of the new entity from the current state 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.[11] for the proposed Wellington reorganisation.

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.

TABLE 20 TRANSITION COSTS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Transition costs	$5.1M	$6.6oM	$7.75M

Source: Morrison Low 2017

Financial costs Option 3 – Strategic Alliance.

The financial costs of the strategic alliance involve the costs associated with developing city-wide plans for land use and transport, infrastructure, economic development, strategic waste management and natural hazard management.

The costs associated with the Strategic Alliance are assumed to be $1 Million over two years to enable the strategic plans to be developed. Ongoing costs and in-kind support are required and assumed to be similar to the costs currently involves with regional collaboration, with the Alliance replacing these costs (no net annual increase for collaboration).

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

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

3.2 Financial analysis results

10 Year Timeframe

The NPV[12] of the costs and savings over the period being modelled (to 2026[13]) have been calculated as follows:

- **Option 2.** A merger of Hobart City, Clarence City, Glenorchy City and Kingborough Councils is expected to produce $16.0 million in net financial costs
- **Option 3**. A strategic alliance in the form of a Capital City Act is expected to produce $0.9 million in net financial costs
- **Option 4**. A merger of Hobart City, Clarence City and Glenorchy City Councils is expected to produce $5.3 million in net financial costs
- **Option 5.** A merger of Hobart City and Glenorchy City Councils is expected to produce $20.3 million in net financial savings.

The two city merger option saves money while the wider mergers show a net cost. The table below shows the breakdown of the net results by line item (Table 21). The key driver for the results for option 2 and 4 are the costs associated with staff.

This is largely because the staff costs for Clarence are particularly low compared to Hobart and Glenorchy, both staff numbers and average wages. The assumption is that staffing patterns will tend to skew toward the highest level within the merged entity. This would raise the employment costs for the Clarence staff in the merged entity, and combined with the high initial IT costs exceed the anticipated savings. This is also true for the four council merger.

TABLE 21 FINANCIAL IMPACTS BY LINE ITEM, TEN YEAR TIMEFRAME

Impact (millions of dollars, present day values) Negative values = costs	**Option 2 – Merger 4 councils**	**Option 3 – Strategic alliance**	**Option 4 – Merger 3 councils**	**Option 5- Merger two councils**
Transitional Costs	-$8.5	$0	-$4.9	-$5.4
Staff	-$17.7	$0	-$4.5	$18.3
IT	-$17.1	$0	-$17.1	-$5.0
Governance	$10.1	$0	$6.7	$3.1
Materials and contracts	$15.3	$0	$12.8	$8.4
Assets	$1.8	$0	$1.8	$0.8
Net present value, all	**-$16.0**	**-$0.9**	**-$5.3**	**$20.3**
Annualised impact per ratepayer (cost or savings), ten years	$25	$1	$10	$60

Source: Morrison Low 2017

However, these financial costs are very small in percentage terms. The savings from the Hobart Glenorchy merger represent about 1% of the total budget for these cities. The costs for Hobart-Glenorchy-Clarence merger represent less than 0.2% of these cities combined budgets. There are likely to be other influences over these time frames that have far more impact.

Sensitivity analysis shows that if the merged entity were able to control staff costs to the average of the four councils, there would be a substantial net financial saving in all merger options, ranging from $20 M to nearly $50 M.

12 Using a real discount rate of 3.0%

13 2026 is the period being modelled to match the time covered by all Council LTFPs

Sustainability indicators

The results of the reform options in relation to the sustainability indicators (see appendix, Section 6.4 for an overview of the indicators) are:

- **Option 2.** A merger of Hobart City, Clarence City, Glenorchy City and Kingborough Councils meets five of the six sustainability benchmarks, failing only to meet the asset sustainability ratio.
- **Option 3**. A strategic alliance in the form of a Capital City Act was not modelled against the sustainability indicators. However, the baseline analysis in Stage 1 (standalone councils) shows that no council meets the forecast benchmark in 2026. Only Hobart is expected to meet the benchmark in most years to 2026.
- **Option 4**. A merger of Hobart City, Clarence City and Glenorchy City Councils meets five of the six sustainability benchmarks, failing only to meet the asset sustainability ratio.
- **Option 5.** A merger of Hobart City and Glenorchy City Councils meets five of the six sustainability benchmarks, failing only to meet the asset sustainability ratio.

The merged entities would continue to perform well in terms of financial sustainability with each merger option achieving five of the six sustainability factors (Table 22). As part of the no reform option (Option 1), the stage 1 baseline analysis shows broadly similar performance to 2026.

TABLE 22 MERGER OPTIONS PERFORMANCE AGAINST SUSTAINABILITY INDICATORS

	Underlying Operating result	Operating surplus ratio	Net financial liabilities	Net financial liabilities ratio	Asset sustainability ratio	Asset consumption ratio
Option 2 -Merger 4 councils	✓	✓	✓	✓	✗	✓
Option 4 -Merger 3 councils	✓	✓	✓	✓	✗	✓
Option 5 –Merger 2 councils	✓	✓	✓	✓	✗	✓

Source: Morrison Low 2017

Sensitivity testing

The table below demonstrates the sensitivity of the modelling to different discount rates, and how the net benefit or cost varies. The discount rate scenarios are applied to three alternative projections:

- The 'with efficiencies' scenario assumes the merged council is willing and able to make efficiencies outlined earlier and in Appendix 6.3. This scenario is the basis of this report (pink cells) and shows the effects of changing the discount rate[14] on this base case.
- The second scenario is that the mergers are unable to generate further savings below tier one and two. This was a common outcome of the mergers in NSW in 2004 and Queensland in 2009. We note no data is available from the current NSW mergers as non-contract staff have three years employment protection.
- The third scenario tested is where mergers are able to generate savings i.e. 'with efficiencies' and staff salaries are able to be harmonised to the average salary across the councils (not the highest).

The results in Table 23 demonstrate how variable the results are to key policy decisions of the new council post mergers.

[14] The 1% real discount rate is close to the 3% nominal discount rate assumed by KPMG in their report on the South East Councils merger assessment.

TABLE 23 OPTION TESTING TO DIFFERENT SCENARIOS POST MERGERS

	Mergers with efficiencies			Mergers with no staff savings below tier 1 & 2			Mergers with efficiencies and salary harmonisation to average salary costs		
Discount rate	1%	3%	6%	1%	3%	6%	1%	3%	6%
Option 2 - merger 4 councils	-$15.7	-$16.0	-$16.3	-$44.1	-$43.0	-$40.0	$57.4	$48.8	$38.3
Option 4 - merger 3 councils	-$4.0	-$5.3	-$6.7	-$29.2	-$28.4	-$27.1	$25.0	$20.6	$15.3
Option 5 – merger 2 councils	$23.3	$20.3	$16.5	$1.5	$0.3	-$1.1	$28.6	$25.0	$20.5

Note negative numbers are costs. All results are the NPV over 10 years at a real 3% discount rate.
Source: Morrison Low 2017

Implications of the financial analysis

The analysis presented in this section has the following implications:

- Only one of the options (Option 4 – merger of Hobart City and Glenorchy City Councils) demonstrates consistent financial benefits over a 10 year period under most circumstances
- All merger options demonstrate financial benefits over a 10 year period if salaries can be harmonised to average salary costs
- Financial benefits disappear if savings through staff reduction cannot be achieved, and
- All merger options meet five of the six sustainability benchmarks measured by 2026.

3.3 Wider cost benefit analysis

Expected improvements in metropolitan outcomes

The participating councils believe that the reform options will help improve the management of Greater Hobart as an urban and economic system. These beliefs reflect the experience in other states, i.e. where integrated land use and transport plans and economic and tourism development strategies are developed at a metropolitan level, and which can generate improved outcomes as per Table 24.

TABLE 24 IMPROVED METROPOLITAN OUTCOMES GENERATED BY REFORM

Improved urban/ economic outcomes	Key performance indicators
1. A more sustainable metropolitan area through the progression of a more compact, multi-nodal spatial form of urban development	– New dwellings in infill vs. greenfield locations – New dwelling mix (attached vs. detached) – New dwelling mix environmental sustainability (energy/ water consumption)
2. A more efficient transportation system which better supports urban development and reduces car dependency and congestion costs	– Travel times to/ from work – Travel distances to/ from work – Travel mode to/ from work
3. A more productive economic base given the agglomeration economies that result from 1 and 2.	– Effective density of economic activity/ employment – Potential employees within 30 mins travel
4. A more effective tourism promotion and development strategy	– Number of interstate tourists – Number of international tourists
5. A more resilient pattern of urban development as natural hazard areas are better managed/ and damages as a result of extreme events are reduced	– New dwellings in hazardous areas (e.g. floods, fires) – New business/ job creation in hazardous areas
6. A better coordination and sequencing of social infrastructure and services delivery	– Improved community wellbeing*

*the financial analysis forecasts potential service delivery efficiencies. These efficiencies can either be generated or reinvested into improved social infrastructure/ service delivery.

Calibration of expected improvements in metropolitan outcomes

The degree to which these improved outcomes are generated by each of the reform options will vary in terms of the 'certainty' (or consistency of decision making) with which the outcomes will result and the 'scope' of the urban area that will enjoy those outcomes. Consequently, the improved outcomes will be bookended by the merger of all four councils, where the most improved outcomes can be expected, and the standalone option, which represents outcomes as per their existing trends.

Table 25 summarises the assumptions around the degree of certainty and size relevant to each of the reform options.

TABLE 25 CALIBRATION OF IMPROVED METROPOLITAN OUTCOMES BY REFORM OPTION

	Option 1 Standalone	**Option 2 Merger 4 Councils**	**Option 3 Strategic Alliance 4 Councils**	**Option 4 Merger 3 Councils**	**Option 5 Merger 2 Councils**
Certainty (Consistency of participating council decisions)	Nil (0%)	All (100%)	Most (75%)	All (100%)	All (100%)
Scope (Urban area covered by participating councils*)	Nil (0%)	All (100%)	All (100%)	Most (68%)	Some (34%)
Rate of improvement in metropolitan outcomes**	0%	100%	75%	68%	34%

*Urban area is the modelled population and employment by Council in 2037.
** Based on the rate of projected population and employment growth, based on Treasury population projections and employment projections as used in the Greater Hobart Travel Demand Model.

The benefits identified in the following analysis are based on certain assumptions about the way in which the pattern of development in the participating councils will be affected, as described in detail in the following sections. The benefits estimated assume that the policies with these effects are in fact adopted, an outcome which is not a foregone conclusion. The size of the benefits will ultimate depend on whether the pattern of actual development follows this course or some other.

Incremental impacts (wider costs and benefits)

From a social welfare perspective, the improved metropolitan outcomes described in Table 24 will result in the following impacts:[15]

Change in **accommodation resources.** Accommodation resources effectively include the land, capital and labour resources required to house the regional population under each of the reform options. It encapsulates the overall area of land consumed under each reform option, as well as the changing value of this land footprint given the development enabled and the relative amenity levels conferred in various areas of Greater Hobart. It also includes the relative cost of construction required to deliver the housing forms envisaged in each of the alternative development patterns enabled.

Change in the **infrastructure costs** required to service the new mix of dwellings (type, location). This relates to off-site infrastructure servicing costs and will therefore reflect the potential to utilise excess capacity, where it exists, in the existing infrastructure network for infill dwellings. Greenfield dwellings, on the other hand, will require new infrastructure investment for their servicing.

Change in the **environmental performance** of the new dwelling mix provided, reflecting the degree to which detached dwellings consume energy and water resources in comparison to semi-detached and attached dwellings. These changes will need to account for the number of persons accommodated in each dwelling.

Change in the **transport costs** linked with the spatial form of development conferred. This will reflect the distances and times endured by the population in accessing jobs and services, as well as the mode by which they travel. Business transport costs are also relevant, particularly the costs of accessing suppliers

[15] These impacts will be recorded as costs if the aggregate impact is negative or benefits if the aggregate impact is positive.

and customers. The degree to which individuals use active forms of travel (e.g. walking, cycling) in going about their lives is relevant too, especially if the change promoted impacts on health levels.

Change in **agglomeration economies** which will be reflected in the productivity of the labour force depending on the effective density within which workers operate, i.e. given the labour force specialisation, knowledge spillovers and competitive tension that density engenders. The term 'effective density' is used as agglomeration economies relate to the actual location of activity/ jobs as well as the relative ease with which surrounding activities/ jobs can be accessed.

Change in **tourism yields** generated by local businesses as more interstate and international tourists are attracted to Greater Hobart and/ or the length of their stay (spend) is extended.

Change in the **damages** caused by natural hazards, including the costs of asset replacement and the costs of lost production, as well as the personal injury and trauma costs associated with hazardous events. These costs will vary depending on the degree urban development locates in hazardous areas.

The aforementioned impacts are over and above the financial impacts estimated earlier.

Quantification assumptions

The key assumptions invoked in the modelling are summarised in Table 26. The main assumption is that new dwellings in infill areas increase from 16% to 25%, whereas new dwellings in greenfield areas decrease from 19% to 10%, as a result of improved land use and transport planning.

TABLE 26 MODELLING ASSUMPTIONS

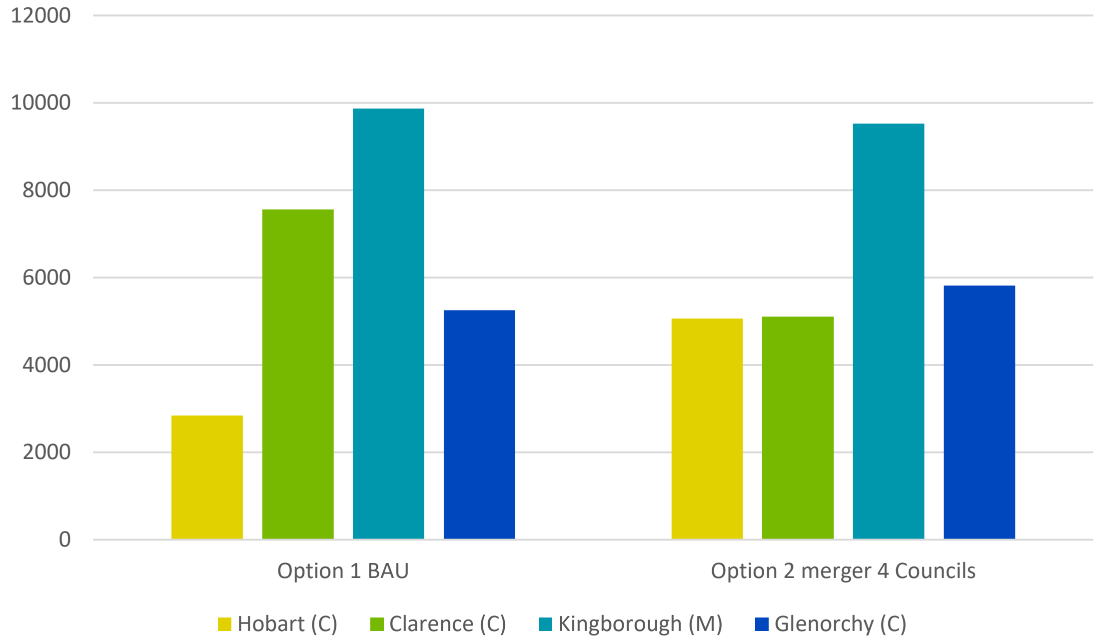
Key performance indicator	Option 1 Business as usual	Option 2 – Merger 4 councils
New dwelling growth*		
– Infill	16%	25%
– Greenfield	19%	10%
– Rest of City	65%	65%
New dwelling growth*		
– Detached	79%	68%
– Semi-attached	9%	11%
– Attached	12%	21%
New jobs growth*		
– Infill	33%	62%
– Greenfield	35%	11%
– Rest of City	32%	28%
Travel patterns**		
– Average journey to work travel distance	10.74 km	10.64 km
– Average journey to work travel time	14.4 Mins	13.6 Mins
– Average travel speed	53.5 km/h	55.65 km/h
Journey to work travel mode**		
– Car	80.0%	79.5%
– Public transport	4.3%	4.4%
– Active travel	15.7%	16.1%
Tourists visitation^		
– Average Annual Growth Rate (interstate tourists)	2.64%	2.76%
– Average Annual Growth Rate (international tourists)	4.85%	5.06%
– Average Annual Growth Rate (total)	3.34%	3.50%

Source:
*Option 1 sourced from Greater Hobart Travel Demand Model. Option 2 developed by SGS.
**Results generated by Greater Hobart Travel Demand Model.
^Option 1 sourced from Tourism Research Australia. Option 2 developed by SGS.

The analysis does not assume an increased rate of urban development in Greater Hobart, i.e. a higher population growth rate. Rather it assumes that the reform options have the ability to change the location and servicing of urban development.

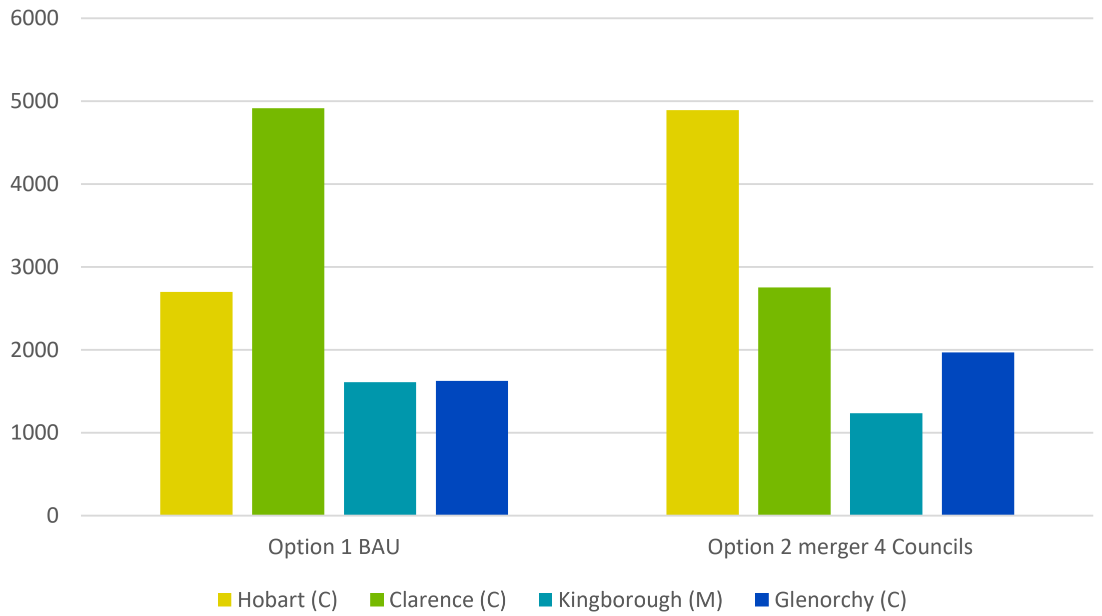
The figures overleaf highlight the differences in forecast population and employment growth under the reform options which are assumed to bookend the analysis, i.e. Option 1 BAU and Option 2 merger four councils.

FIGURE 3 POPULATION GROWTH DISTRIBUTION BY LGA TO 2037



Source: SGS Economics and Planning 2016

FIGURE 4 JOBS GROWTH DISTRIBUTION BY LGA TO 2037



Source: SGS Economics and Planning 2016

Quantification techniques & data inputs

The key techniques and data sources used to model each of the impacts are summarised in Table 27. More detail is provided in the appendix (Section 6.4).

TABLE 27 IMPACT QUANTIFICATION TECHNIQUES & DATA

Impact	Technique	Data inputs
Accommodation resources	Residual land value (RLV) techniques used to model how changing dwelling mix, and infill vs greenfield development impacts on underlying land values.	– Dwellings by location (travel zone) – Dwelling sales value by location – Dwelling construction costs.
Infrastructure costs	Review of published/ available literature	– Dwellings by location (travel zone) – Infrastructure costs per dwelling (infill vs greenfield).
Environmental performance	Review of published/ available literature	– Dwellings by type (detached vs. semi-attached vs. attached) – Energy & water consumption by dwelling type.
Transport costs	Utilisation of Greater Hobart Travel Demand Model (GHTDM) to estimate travel outcomes including travel volumes, times and distances by mode. Parameter values published by ATAP (2016) are then used to monetise these outcomes under the banners of: – Travel time costs – Vehicle operating costs – Accident costs – Environmental externalities.	– Dwellings by travel zone – Jobs by travel zone – Business as usual travel time matrix – Business as usual transport network.
Agglomeration economies	– Calculation of Greater Hobart effective job density (EJD) matrix using data inputs for transport costs above. – Regression of labour productivity (by industry) against EJD matrix for Greater Hobart. – Estimate labour productivity impacts using reform-based EJD matrix.	– Value added (VA) per worker by industry – Elasticity of VA per worker with Effective Job Density index.
Tourism yields	Utilisation of published industry profitability rates to derive the profit generated by an assumed improvement in tourist spending.	– Existing tourist numbers, lengths of stay and spending by visitor origin – Existing rates of tourism industry profitability.
Natural resource and hazard benefits – reduced hazard damages	Not quantified. Nonetheless, this impact is expected to be large in scale given the likely costs linked with specific hazardous events and the likely increasing risk of these events. Natural resources, most importantly the River Derwent and Mount Wellington, cross municipal boundaries. As a merged entity or when collaboration under a Capital City Act, there will be an increased ability to collect relevant data, develop knowledge, identify and manage hazardous areas and develop integrated plans. The outcomes of improved management of natural hazards will result in reduced exposure of life/ assets to damaging extreme events.	
Improved service delivery	Not quantified separately. The financial modelling assesses potential service delivery cost efficiencies assuming services remain constant throughout the options. However, if these efficiencies are reinvested into improved service delivery, substantial socio-economic benefits are likely to be generated.	

Performance results

Based on the conceptualisation of impacts, the assumptions invoked, and the techniques and datasets utilised, SGS has assessed the costs and benefits over the long term (20 years). This lifetime reflects the long term nature of the various impacts that can be promoted by improved urban and economic management. The results have been generated using discounted cashflow techniques, which use a real discount rate of 3% to convert future costs and benefits into present day dollar values (Table 27).

TABLE 27 WIDER COST BENEFIT MODELLING RESULTS (20 YEAR ANALYSIS)

Impact (millions of dollars, present day values)	Option 2 Merger Four Councils	Option 3 Strategic Alliance Four Councils	Option 4 Merger Three Councils	Option 5 Merger Two Councils
Transport cost savings	$274.9	$206.2	$186.9	$93.5
Tourism yield improvements	$68.0	$51.0	$46.2	$23.1
Infrastructure cost savings	$30.6	$22.9	$20.8	$10.4
Active transport health benefits	$12.0	$9.0	$8.2	$4.1
Environmental savings	$7.7	$5.8	$5.2	$2.6
Agglomeration economies	-$0.3	-$0.2	-$0.2	-$0.1
Total	**$392.9**	**$294.7**	**$267.1**	**$133.6**

Source: SGS Economics and Planning 2017

As with the financial savings discussed in Section 3.2, these improvements in metropolitan outcomes are uncertain, and depend on the choices made and actions taken by the new entity, and indeed, the community as a whole. While the actual outcome may be different from that modelled, the potential for large gains exists and is most likely to be achieved with coordinated action under a larger local government entity.

Also, the community benefits are mostly generated over the medium to long term and the benefits are limited over the first ten years as is illustrated in the table below, when compared to Table 27.

TABLE 28 WIDER COST BENEFIT ANALYSIS MODELLING RESULTS, SHORTER TERM TIMEFRAME (10 YEARS)

Impact (millions of dollars, present day values)	Option 2 Merger Four Councils	Option 3 Strategic Alliance Four Councils	Option 4 Merger Three Councils	Option 5 Merger Two Councils
Transport cost savings	$37.2	$27.9	$25.3	$12.7
Tourism yield improvements	$8.2	$6.2	$5.6	$2.8
Infrastructure cost savings	$12.2	$9.1	$8.3	$4.1
Active transport health benefits	$2.0	$1.5	$1.4	$0.7
Environmental savings	$1.4	$1.2	$0.9	$0.5
Agglomeration economies	-$0.1	-$0.1	-$0.0	-$0.0
Total	**$60.9**	**$45.8**	**$41.5**	**$20.8**

Source: SGS Economics and Planning 2017

Combining improved metropolitan outcomes with the financial feasibility analysis

The analysis of the wider benefits uses a longer period of 20 years for the calculation of costs and benefits given the more slowly developing nature of these effects. The financial feasibility presented in Section 3.2 was calculated over a ten year period, consistent with of the LTFP period provided by most of the participating councils. This financial analysis was extended to 20 years to allow the two components to be combined on a like for like basis.

We do not presume that councils, or the priorities and constraints under which they operate, will remain static into the future and recognise that any resulting modelling over such a long period is only broadly indicative. This concern aside, for the purposes of providing a 20 year comparison, we have extrapolated the financial costs and benefits, with the following NPV projects:

- **Option 2.** A merger of Hobart City, Clarence City, Glenorchy City and Kingborough Councils is expected to result in $10.0 million net financial **costs**
- **Option 3**. A strategic alliance in the form of a Capital City Act is expected to result in $0.9 million net financial **costs**

- **Option 4**. A merger of Hobart City, Clarence City and Glenorchy City Councils is expected to produce $2.8 million in net financial **costs**
- **Option 5.** A merger of Hobart City and Glenorchy City Councils is expected to produce $32.8 million in net financial **savings**.

These costs and savings should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council and, in particular, the need to increase asset expenditure to meet the asset sustainability ratio, whether merged or under business as usual as outlined below.

TABLE 29 COMBINED FINANCIAL AND WIDER COST BENEFIT RESULTS, 20 YEAR TIMEFRAME

Impact (millions of dollars, present day values)	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Financial costs/benefits, (20 yrs)	-$10	-$1	-$3	$33
Wider costs/benefits	$393	$295	$267	$134
Net present value total (NPV)	**$383**	**$294**	**$264**	**$166**
NPV/ratepayer - benefit	**$391**	**$300**	**$333**	**$321**

Source: SGS Economics and Planning 2017

It can be readily seen that the wider benefits are vastly larger than the direct financial costs calculated earlier. The underscores the message that the greatest gains from mergers are not the operational savings for Council finances but the potential benefits of improved urban management and development.

The value per ratepayer is estimated to be greatest per ratepayer for the four councils merger, but is generally similar across the four options. This reflects the fact that while the total NPV increases, it is because the scope is wider and more ratepayers are being included.

As suggested earlier, the wider benefits especially accrue over the longer term. The table below shows the results of the combined financial and wider costs and benefits analysis over the shorter, ten year timeframe. The results show, even over the shorter timeframe there is a net community benefit associated with reform, for all options.

TABLE 30 COMBINED FINANCIAL AND WIDER COST BENEFIT RESULTS, SHORTER 10 YEAR TIMEFRAME

Impact (millions of dollars, present day values)	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Financial costs/benefits, (10 yrs)	-$16	-$1	-$5	$20
Wider costs/benefits	$61	$46	$42	$21
Net present value total (NPV)	**$45**	**$45**	**$36**	**$41**
NPV/ratepayer - benefit	**$46**	**$46**	**$45**	**$79**

Source: SGS Economics and Planning 2017

The final reported NPV does not include some benefits arising where they were not quantified and so arguably may be conservative.

Based on the results generated:

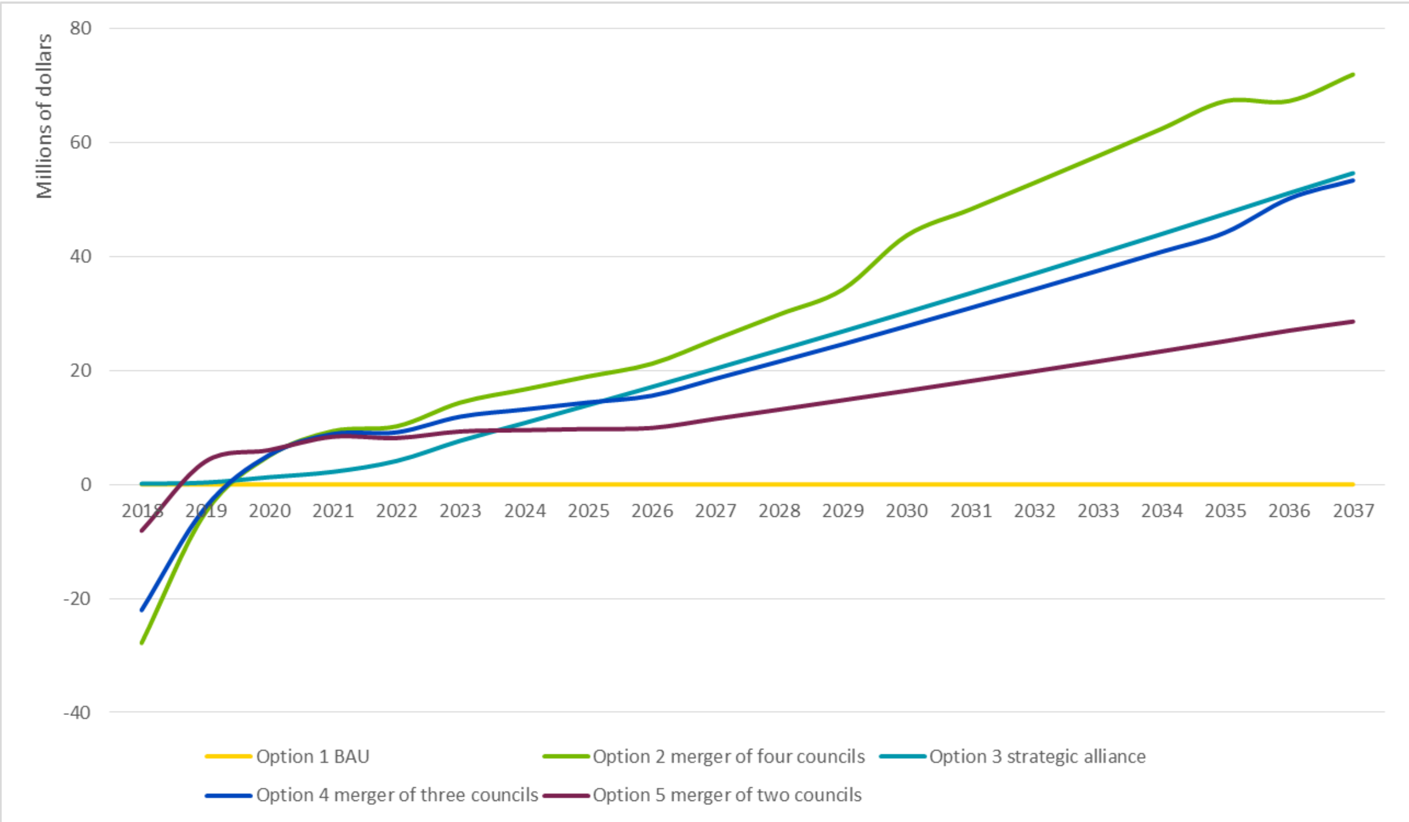
- Option 2, which involves the merger of Clarence City, Glenorchy City, Hobart City and Kingborough Councils has the highest NPV and highest NPV/ratepayer of all the project options. This is despite this option having the highest financial costs of any of the options.

The strategic benefits of being able to plan for the entirety of metropolitan Hobart over time outweighs these financial costs.

- Option 3, the strategic alliance, has the second highest NPV but the lowest per ratepayer. This option performs well due to having the second highest strategic benefits and minimal start-up financial costs, with the operational costs of a Capital City Act largely being absorbed by existing council resources.
- Option 4, the merger of Clarence City, Glenorchy City, and Hobart City Councils, generates the third highest NPV and second highest NPV/ratepayer. This option has a lower financial cost compared to Option 2, however only experiences a portion of the wider strategic benefits of Option 2, due to no longer presiding over and being able to plan strategically for the forecast growth in population and jobs in the municipality of Kingborough.
- Option 5, the merger of Glenorchy City and Hobart City Councils is the only option to generate financial savings from a merger in the financial analysis. However, the wider strategic benefits of this option are diminished by not having the ability to plan and manage for much of the Greater Hobart urban area. As a result the NPV for this option is the lowest and the NPV per ratepayer the second lowest.

The annual rate at which overall costs and benefits are generated are summarised in Figure 5.

FIGURE 5 ANNUAL BENEFITS OF REFORM OPTIONS (2018-37)



Source: SGS Economics and Planning 2017

In the initial period of the analysis the financial costs of mergers are borne by the councils, leading to the annual value of the three merger options to be negative in 2018. Without transition assistance this may result in the need to increase rates in some options. From around 2020 the initial transition costs have been accounted for, and the benefits begin to flow. It was assumed in the modelling that by 2022, or five years after the initiation of mergers and the implementation of a Capital Cities Act, that only 10% of the expected change to the urban form would be achieved, with the majority of the changes occurring from 2023 onwards.

The merger of Glenorchy City and Hobart City Councils is slightly different in that this option experiences financial savings, so initially this is the best performing Option (in 2019), however over time this option is unable to compete with the other options in terms of the annual strategic benefits generated.

Once the mergers have matured and the strategic benefits begin to be realised, the annual benefits in Options 2 and 4 begin to increase. From 2027 onwards, through to the end of the analysis period in 2037, Option 2 is the best performing option, followed by option 3 and option 4. This can be attributed to Option 2 resulting in a single Greater Hobart Council that has the capacity to plan for and develop the entirety of Greater Hobart with greater cohesion and with improved decision making; this allows Option 2 to reap the full suite of strategic benefits.

RISK ANALYSIS

Independent insight.

4 RISK ANALYSIS

A risk management analysis is exhaustive by intent. It attempts to identify all realistic risks. It seeks to rank them according to likelihood and impact. It starts to put in place structures and plans that respond to risks effectively. But it does not attempt to eradicate risks and delete them from the plan. On the contrary, it seeks to put in place effective structures to monitor risks so that they can be predicted and ameliorated. Many risk responses will continue to be a work in progress.

Local government reform intends to generate a range of financial savings and, possibly more important, wider social, economic and environmental benefits to the community; the constituents on whose behalf councils operate.

It is important to note that it is not only reform that carries risks. Doing nothing (i.e. business as usual) carries risks that may be just as relevant and far reaching.

The reform options however typically carry a number of risks of a transitional nature, i.e. involving the reform process itself where existing council entities cease to exist and are being replaced by a new entity.

4.1 Risk register

A risk register was prepared to identify the key risks involved with each of the reviewed reform options plus the business as usual option. A total of 15 different risks categories were identified, with a total of 42 individual risks. The full risk register is included in the appendix (Section 6.5). Each risk category may apply to one or more options. For instance risk category "10. Failure of a Capital City Act to be enacted" applies to four of the five reform options.

The risk categories are:

1. Inability to meet the changing and increasing community needs.
2. Inability to continuously improve efficiencies and service delivery.
3. Escalation of transitioning process costs and time
4. Loss of local representation
5. Inability to meet the needs of communities of interest (deterioration of service levels)
6. Legacy issues undermining the financial performance of the new entity
7. Different organisational cultures
8. Unrealistic expectations about outcomes, especially in regards to efficiency savings
9. Failure of a Capital City Act to be enacted
10. Inability to agree on common directions in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas)
11. Important decisions to achieve efficiency savings are not implemented by the new entity Council
12. Council is unable to dispose of excess assets
13. Rates equalisation and the risk to rates revenue
14. Service levels and costs skew towards the highest service levels
15. Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other

All risks were scored on 'likelihood' and 'impact' to determine the 'raw risk' according to the score matrix below. The high and extreme risks are discussed in this section. The appendix includes the risk register with all risks and their identified mitigating measures and 'residual risks'.

TABLE 31 RAW RISK SCORE MATRIX: LIKELIHOOD AND IMPACT

Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Catastrophic
	A	B	C	D	E
1 (almost certain)	M	H	H	E	E
2 (likely)	M	M	H	H	E
3 (moderate)	L	M	M	H	E
4 (unlikely)	L	L	M	H	H
5 (rare)	L	L	M	H	H

Raw risk

TABLE 32 RAW RISKS FOR LOCAL GOVERNMENT REFORM OPTIONS

Raw Risk	Low	Moderate	High	Extreme
1. Business as Usual			2	
2. Merger all four councils		5	5	2
3. Strategic alliance			1	1
4. Merger Hobart, Glenorchy & Clarence		5	7	1
5. Merger Hobart & Glenorchy		5	7	1
Total	0	15	22	5

For the **business as usual option**, the two *high* risks are:

- Inability to meet the changing and increasing community needs.
- Inability to continuously improve efficiencies and service delivery.

Councils are confronted by changing and increasing community needs. As stand-alone councils, there are limited opportunities for efficiency savings. The impacts are decreasing service levels and/or long term financial unsustainability and risk. Councils may be unable to maintain their levels of service without increasing revenue, for instance through rate increases. It is noted that such an outcome would not be in line with two of the four principles of reform[16].

The response to these risks would be to:

- Implement an effective strategy and culture to improve efficiencies, and to
- Initiate additional shared service arrangements.

For the merger of **all four councils**, the *extreme* risks are:

- **11. Important decisions to achieve efficiency savings are not implemented** by the new entity council. This risk is applicable to all merger options.
  - **Risk response:** Implement effective transitional arrangements including progress against performance indicators.
- **15. Reduced synergies.** Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other. This will result in foregone efficiency savings.
  - **Risk response:** Roll out and implementation of ICT infrastructure, implement strategy for the consolidation of work locations.

For **all the merger options** (Options 2, 4 and 5), the *high* risks are:

[16] i.e. it would not be in the interest of ratepayers and it would not improve the level of services for communities

- **3. Escalation of transitioning process costs and time**. The transitioning process of a merger can be costly and time consuming, and is of risk of escalating.
  - **Risk response:** A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support to prevent cost escalations and delays. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA) have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).
- **4. Loss of local representation**. The merged entity will have a lower per capita number of elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the elected members is likely to increase, resulting in potentially better outcomes in terms of local representation. This is a high risk for the merger of all four councils. The other two merger options are less exposed to this risk due to the fact the new entity represents a less substantial shift in the number of constituents.
  - **Risk response**: Temporary wards (as is assumed in the financial analysis) and/or creating new opportunities for community engagement and empowerment
- **7. Different organisational cultures**. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.
  - **Risk response:** A thoroughly mapped and planned process of transition, which considers cultural differences**.**
- **13. Rates equalisation and the risk to rates revenue**. Under the merged entity there may be a drive to equalise rates levels across the new entity's geographic area. There is a risk this may result in lower council revenue, assuming no rate payers will be made worse off. As part of the NSW reform process, the Government determined it was determined that rates will be protected for four years.

  For Greater Hobart, in terms of general rates, the rate in the dollar for Hobart and Glenorchy are very similar. The general rate for Clarence is approximately 16% lower. The rates regime of Kingborough is not directly comparable. There are significant differences in the total rates paid by households between for instance Hobart and Kingborough. These differences are due to differences in property values rather than differences in rates. Rates equalisation between Hobart, Glenorchy and Clarence is therefore expected to be manageable, without major changes to ratepayers concerned.
  - **Risk response**: Effective transitioning strategy for rates equalisation (staged approach).
- **14. Service levels and costs skew towards the highest service levels.** This risk has been allowed for in the financial modelling of the realistic scenario, i.e. ‘merger with efficiencies’.
  - **Risk response:** Effective transitioning strategy.
- **15. Reduced synergies.** Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other (merger of two and three councils).
  - **Risk response:** Roll out and implementation of ICT infrastructure, implement strategy for the consolidation of work locations.

Number 3, 7, 13 and 14 are risks of a transitional nature, and are best addressed by a thoroughly mapped and planned process of transition. The loss of local representation (4.) can be managed by the introduction (at least temporary) of wards and/or creating new opportunities for community engagement and empowerment. Roll out and implementation of ICT infrastructure[17] and a strategy for the consolidation of work locations are measures to manage risk 15.

For the **strategic alliance** there is two key risks:

[17] Which has been included in the costing of the financial feasibility analysis

- **9. Failure of a Capital City Act to be enacted.** The Capital City Act is the means to ensure all councils and state government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out. (extreme risk)
  - **Risk response:** Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.
- **10. Inability to agree on common directions for strategic initiatives** for the entire Greater Hobart area (encompassing the existing four council areas). Past experience in relation to metropolitan planning and governance in Greater Hobart has illustrated that this risk is real. (high risk)
  - **Risk response:** Establishing an early MoU, fostering a culture that aims to look to the greater good, carefully designed process for plan making, and engaging independent advice where applicable.

To ensure the Capital City Act is introduced, the councils will need to work collaboratively with State Government to deliver a strong business case. At the same time there will be a need to attempt to positively influence political decision makers.

The **merger options for Clarence, Glenorchy and Hobart, and Glenorchy and Hobart**, are subject to the risks identified under the merger of all four councils. In addition, there are risks associated with a possible failure to enact a Capital City Act and to agree on common directions for strategic initiatives for the entire Greater Hobart area.

Residual risk

Of the high and extreme risks, the risk responses are used to manage the risk. The table below shows to what extent these measures are likely to be adequate, inadequate or uncertain.

TABLE 33 RESIDUAL RISKS OF LOCAL GOVERNMENT REFORM OPTIONS

Risk response	Adequate	Inadequate	Uncertain
1. Business as Usual			2
2. Merger all four councils	3	2	2
3. Strategic alliance		2	
4. Merger Hobart, Glenorchy & Clarence	2	4	2
5. Merger Hobart & Glenorchy	2	4	2
Total	7	12	8

Risks that <u>cannot be adequately managed</u> upfront, and therefore need ongoing monitoring and evaluation are:

- **7. Different organisational cultures undermine the success of the merger** (merger options). This aspect needs considerable attention as part of the transition towards the merged entity (see next section). The aim is to shape a common culture based on shared values.
- **9. Failure of a Capital City Act to be enacted.** It is a risk ultimately owned by state government, and the councils have limited ability to influence and control this risk. This risk needs ongoing attention (strategic alliance, and to a lesser extent merger of three and two councils).
- **10. Inability to agree on common directions** in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas). This is especially true in case of a strategic alliance and mergers that do not involve all four councils.
- **11. Important decisions to achieve efficiency savings are not implemented by the new entity council** (merger options). This risk is owned by the newly created entity; the existing

councils have limited ability to ensure that difficult decisions are made and followed through. A carefully planned transition plan with clear performance indicators will support an ongoing focus on key objectives.

The extent to which the following risks can be managed is uncertain. These risks should therefore also be continuously monitored and evaluated:

- 1. Inability to meet the changing and increasing community needs (business as usual).
- 2. Inability to continuously improve efficiencies and service delivery (business as usual).
- 3. Escalation of transitioning process costs and time (merger options).
- 14. Service levels and costs skew towards the highest service levels (merger options).

4.2 Conclusions

Transitional arrangements are crucial to control the risks that will arise. The next section provides more detail on transitional arrangements.

By providing the transitional governance arrangements with a clear brief it is expected that cost escalations after the merger will be controlled and managed. However, the extent to which assumed savings will be actually realised, will ultimately be up to the decisions of the new council and its elected members. Experience elsewhere shows that intended savings are often not realised and the new entity may end up having higher per capita spending than the pre-merger councils combined. This is however usually combined with an increase in the breadth and quality of services offered to the community.

In addition to transitional arrangements, continuous monitoring of risks will be crucial, both during transition and afterwards. This is especially true for risks of which the outcomes of risk management interventions are uncertain.

Risk management during transition and thereafter will need to focus on:

- Inadequately managed and uncertain risks that need sustained and active attention
- Risks where the Response Strategy is seen as “Inadequate” or “Uncertain” at present but which may change in rating given future analysis and response strategies
- Risks with “ownership” that do not rest with the council(s) involved in the reform.

TRANSITIONAL ARRANGEMENTS

Independent insight.

5 TRANSITIONAL ARRANGEMENTS

5.1 Introduction

The transition to the preferred reform option involves a range of steps. The transition is most all-encompassing in case of a merger, especially where it involves more than two council entities.

Practitioners such as Percy Allan (Allan, 2016) highlight the importance of thoroughly mapping and planning the process of transition to minimise costs and maximise benefits. The key elements of this are:

- Establishment of a transitional body and governance arrangements. Some councils have received state financial assistance to fund implementation arrangements.
- Allowing a reasonable and generous program timeframe, not assuming early flow of financial benefits.
- Anticipating and mapping the implementation steps towards full amalgamation.
- Accurately targeting specific services for improved joint delivery where economies of scale or scope are apparent, for example: administrative functions, resource management and human resources.
- Minimising duplication of services within the merged council.
- Determining service quality and financial performance benchmarks, for ongoing monitoring and evaluation.
- Resolving award arrangements in a merged council to ensure that the highest pay scales are not adopted without a clear rationale.

If, after community consultation, the councils decide they want to progress with a merger, they will request the Minister for Local Government to initiate a Local Government Board review. Based on the outcome of this review, the Minister may decide to make a recommendation to the Governor to approve the merger proposal. The Governor then may decide to make an order for creating a new merged council. This is where the transition towards a merged entity commences. The Local Government Act 1993 does not provide for any transitional body or other arrangements. The Local Government Board can however make recommendations for transitional arrangements.

This section considers the staging of transition and the required transitional arrangements based on best practice elsewhere and findings of this study.

5.2 Transition towards mergers

Planning

Carefully planning and mapping the transition process is vital. Also, there is a need to set up effective transition framework and governance arrangements. Project management approaches are generally applied to managing the transition process. It allows the right skills to be involved in exploring options and defining solutions. The next section provides more detail on the staging and the tasks involved in the transition process.

The transition to a merged council proceeds through four stages (LGNSW[18], 2016):

[18] LGNSW (2016), Amalgamation toolkit. www.lgnsw.org.au/amalgamation-toolkit/

- **Review**. Councils prepare to merge, establish a project management framework (transition committee and guiding principles), document the current state (risks, due diligence) of the councils and develop an overarching Transition Action Plan.
- **Plan**. Analyse, consolidate and integrate current state data to inform decision-making and plan development. Prepare risk management plan.
- **Mobilise**. Finalise interim (governance) arrangements for the new entity. Agree on policies and delegations, staff transfer, interim service delivery model and operational plan. During the 1993 reforms in Tasmania, councils used Local Transition Committees.
- **Implement**. New entity commences. Establishment of interim governance arrangements. The interim arrangements may continue for one to three years.

In Tasmania, some options for interim governance arrangements are the appointment of a commissioner or administrator and the establishment of an interim council (*LGA Act 1993*, 214E(5)).

The typical objectives and tasks for the transition to a merged entity are provided in Table 34.

TABLE 34 TYPICAL OBJECTIVES AND TASKS FOR TRANSITION TO A MERGED ENTITY

Governance	– Democratic structures (council committees) – Systems and processes to service and support the democratic structure – Governance procedures and corporate policy and procedures – Organisational structure of the new organisation
Workforce	– Workforce-related change management process – Human Resource capacity for the new entity – Role descriptions
Finance and Treasury	– Ensure the new entity is able to generate the revenue – Ensure the new entity is able to satisfy any borrowing requirements – Ensure the new entity is able to procure goods and services – Methodology for interim rates billing and rates harmonisation – Statutory and management reporting – 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. – ICT strategy to support processes and systems that require change – Longer term ICT strategy for the future integration and harmonisation
Communications	– Appropriate communication strategies and processes – Communication plan for the transition period
Legal	– Legal risks are identified and managed – Existing assets, contracts etc. are transferred to the new entity – All litigation, claims and liabilities are identified and managed
Property and assets	– All property, assets and facilities are retained, managed and maintained – Delivery of property related and asset maintenance services – Relocation of staff and accommodation
Planning services	– Meet its statutory planning obligations – Operate efficiently and staff and customers understand the planning environment Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory services	– Regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place – Business as usual is able to continue
Customer services	– No reduction of the customer interaction element – No customer service system failures – Staff and customers are well informed
Community services	– Continue to provide community services and facilities – Current community service grant and funding recipients have certainty of funding during the short term

Source: Morrison Low, 2015

Communication and engagement

For internal communication it is important to communicate change clearly and often to staff, and to communicate openly and honestly. Throughout the transition it is essential to involve elected members from the participating councils.

It is also important the transition proceeds seamlessly as possible for residents and ratepayers. The case study on the transitional process currently underway in NSW shows how community and engagement is a key element.

Role of communication and engagement – Case study of the Fit for the Future process in NSW

The transition process of 19 new, merged councils in NSW as part of the Fit for the Future program is based on a number of common premises. The transition process runs from 12 May 2016, when the new councils were announced, to 9 September 2017 when council elections will be held. During the transition period the new councils will:

- *Be run by an Administrator and an interim General Manager until council elections are held in September 2017. The administrators are independent and appointed by the Minister for Local Government.*
- *Continue to provide services such as community development programs; assessing development applications; collecting rubbish and recycling; and processing rates, fees and other charges*
- *Run the same community facilities, including libraries, seniors centres and swimming pools*
- *Operate under the same local planning regulations as former areas – for example, where a former council's local environment plan restricted certain development types, this will continue.*
- *Continue valued community engagement*
- *Continue to hold public council and committee meetings and be represented at civic and community events*
- *Consult about priority projects for the Stronger Communities Fund*
- *Deliver substantial savings and benefits to local communities for many years to come*
- *Be better placed to deliver the vital infrastructure that growing communities need*

In NSW, a key element of process is the inclusion and engagement of elected members and community members in the transition process. This is either through an Implementation Advisory Group to advise the Administrator on how best to bring council systems and staff together, or through Local Representation Committees (LRCs) to provide advice on local views and issues. LRCs also include other community members. These committees also contribute in the development of a new Community Strategic Plan.

State Government provides direct funding towards the costs of merger including for ICT and community consultation. In addition, there is the NSW Stronger Communities Fund which provides grants to projects that develop more vibrant, sustainable and inclusive local communities. Each former council receives up to $5 million under this fund.

Organisational culture and performance

Cultural differences between councils may be significant. Organisational cultural is strongly related to people's identity and change may be perceived as a threat to identity. As part of the transition process there is a need to shape a common culture based on common values.

In general terms, there exist three basic organisational cultural styles (Gancel et al, 2002):

- Conceptual - "the head" - rational, thought through
- Pragmatic - "the muscle" - decisive and goal focused, and
- Relational - "the heart" - traditional and relationships driven.

An organisational cultural audit may be undertaken to map cultures and understand differences especially in values, business practices, human resources and communications. This will help preventing 'clashes' during the transition process and forms the basis of shaping a new common culture.

Leadership

One of the most important ingredients for success with any change option is leadership. If there is no enthusiasm for change from the top there will be little willingness or enthusiasm from the staff and community.

The transition process requires leaders with the right skill and energy mix. The appointment of the right candidate should not be the result of a political compromise, but of a rigorous selection process.

5.3 Transition towards a strategic alliance

There are generally seven key steps that contribute to building this support and trust and to creating successful partnerships (VNG, 2014). Many if not all these steps also apply to mergers.

1. Formulate a **shared ambition**. It is important to develop a shared story of what the councils aim to achieve by working together. This shared or collective ambition will help staff, residents, elected members and others understand the added value of the partnership. Such a shared narrative should explain:
   - Who is involved in the partnership and why
   - What the councils aim to achieve
   - Why a partnership is needed to achieve that
   - Why it is urgent
   - What the benefits are.

2. Clear **roles and responsibilities**. Develop a clear plan on how to progress towards and throughout the partnership, and ensure the roles and responsibilities are clear.

3. Show **leadership**. Those involved should demonstrate internal leadership within their own councils and shared leadership within the partnership. There is a need to work towards agreement, bridge possible conflicts of interest and make compromises. This requires both flexibility and steadfastness.

4. Develop a **shared agenda**. The world is dynamic and priorities change. In a partnership it is important to repeatedly address the following three questions:
   - Are we doing the right thing?
   - Are we doing it right?
   - Are we doing it right together?

This requires a certain level of openness. Often key issues remain undiscussed and these issues may undermine the progress of collaboration. This 'undercurrent' may be driven by personal relations, cultural differences between councils, and fear of loss of control or independence.

5. Invest in (personal) **relations**. In developing partnerships there are usually three stages:
    - Orientation
    - Exploration
    - Development and implementation

    Importantly, the people involved in the partnership will evolve over time from decision makers (orientation), to executive leadership and management teams (exploration) to senior staff (development and implementation). For partnerships to succeed, these stakeholders should all be engaged from early on.

6. Build **support** and overcome differences. For a collaboration to succeed it is important that key stakeholders within the councils support the initiative. It is important to allow for sufficient time for each council to ensure relevant stakeholders are informed and to listen to any conditions or concerns that may be raised. Different viewpoints or resistance are best not pushed aside and instead should be addressed. Resistance may be due to *organisational sentiments* (doubt about the urgency, the need or the approach towards collaboration or about support and capacity within the organisation), *personal sentiments* (possible consequences for own functions, or pressure on work-life balance) and cultural sentiments (views about the other organisations).

7. **Connect**. Especially towards the implementation it is important that those involved see how they contribute to and are part of a partnership that will deliver great things.

APPENDICES

Independent insight.

6 APPENDICES

List of appendices:

- 6.1 Appendix – Long list of reform options
- 6.2 Appendix –Council strategic priorities
- 6.3 Appendix – Financial Feasibility Analysis Morrison Low
- 6.4 Appendix – Assumptions and calculation wider costs and benefits
- 6.5 Appendix – Risk register

6.1 Appendix – Long list of reform options

TABLE 35 OPTIONS FOR REFORM

	All four councils	Clarence, Hobart and Glenorchy	Clarence, Hobart and Kingborough	Hobart, Glenorchy and Kingborough	Hobart and Glenorchy	Hobart and Clarence
Stand-alone (BAU)	*					
Shared services and/or outsourcing	*	*	*	*	*	*
Strategic alliance and/or joint organisation	*	*	*	*	*	*
Merger	*	*	*	*	*	*

Source: SGS (2016)

6.2 Appendix –Council strategic priorities

TABLE 36 SUMMARY AND COMPARISON OF COUNCIL STRATEGIC PRIORITIES

Strategic priorities	Clarence	Glenorchy	Hobart	Kingborough
Accommodating significant growth	-	-	Significant levels of retail, residential, education and office development. Managing impact of growth on infrastructure and services.	Greatest anticipated population increase in state. Manage urban sprawl. Parking facilities at commercial centres.
Transport	Coordinated public transport system, bicycle infrastructure, road network.	Public transport and cycling, Hobart to Glenorchy Light Rail.	Better active transport options, cycleways, Hobart to Glenorchy Light Rail.	Improved public transport, infrastructure, tracks and trails, pathways to encourage active transport.
Community facilities, public space and participation	Focus on soft infrastructure.	Improving access to public areas and facilities. Moonah Arts Centre, further development of GASP!	Development of key open spaces, improved public health outcomes and community participation.	Community infrastructure, visitor-friendly commercial centres; enhanced used of existing public spaces.
Sports and recreation facilities	Major regional sports precinct planned	KGV Precinct	Improvements to sports and recreation facilities, Hobart Aquatic Centre redevelopment.	Recreational and sporting facilities.
Age-specific participation	Ageing population, youth unemployment, youth relocation.	Services for people of all ages with reference to Positive Ageing Strategy.	Implementation of positive ageing, children and families, and youth strategies; accessible education and lifelong learning opportunities.	Opportunities for people of all ages.
Diversity and accessibility	Cultural diversity and promotion of social inclusion.	A safe, inclusive, active, healthy and vibrant community. A hub of multiculturalism, arts and culture.	Social inclusion, accessible city, implementation of equal access strategy and multicultural programs; celebrating diversity.	Opportunities for people of all abilities and backgrounds; cultural diversity to be supported.
Environmental protection and risk management	City identity and resident/visitor attraction.	Largely with community and economic focus, includes cleaning up River Derwent.	Contributor to character of City. Greater resilience to natural hazards needed.	Values of the natural environment to be protected; agricultural land.
Climate change	Key priority	-	Desired leadership role in mitigation; Tasmanian Coastal Adaptation Pathways.	Considered a concern, including bushfire planning and community resilience building.
Economic development	Tourism, agriculture, aquaculture, primary resource extraction. Commercial development and wider revenue base desired.	Modernised manufacturing, specialised marine-based activities, tourism, growing health and community services sector.	Education sector (growth of the University of Tasmania), retail sector, creative industries, fostering of international relationships, tourism.	Redevelopment of former Kingston High School site and Kingston central. Local food production and sales; creative and innovative businesses and industries; tourism, lifestyle and investment opportunities.
Tourism	Key priority for economic development, dependent on natural and built heritage.	Increased visitation desired.	Attraction of students and international visitors.	Tourism opportunities to be further investigated; tourism infrastructure (including ferry terminals).
Governance	Efficiency savings through resource sharing, opportunities for joint tenders, expansion of the Copping Refuse Site JA.	Efficiency improvements in service delivery. Better community outcomes and community engagement in decision making.	Changing role of local government and focus on community engagement.	Community engagement in decision making.

Source: SGS Economics and Planning, 2016

6.3 Appendix – Financial Feasibility Analysis Morrison Low

Merger Modelling Analysis Feasibility Study for Hobart, Clarence, Glenorchy and Kingborough Councils

January 2017

Document status

Ref	Version	Approving director	Date
7165	Final	D Bonifant	January 2017

Contents

Appendices

Introduction

This report forms part of the feasibility study into local government reform between the Hobart, Clarence, Glenorchy and Kingborough Councils.

The study is separated into three phases

- Strategic Assessment
- Detailed Appraisal
- Reporting

This report relates specifically to the detailed appraisal phase and builds on the base line analysis completed in the strategic assessment phase.

The detailed analysis considers four scenarios

- A Strategic Alliance
- A merger of Hobart and Glenorchy (Scenario One)
- A merger of Hobart, Clarence and Glenorchy (Scenario Two)
- A merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three)

This report sets out the performance of the latter three scenarios against the financial and asset management indicators identified during the strategic assessment. The Strategic Alliance scenario contains only shared consultancy costs as agreed with the Councils. These costs have been modelled into each of the scenarios. The wider economic benefits of the Strategic Alliance are considered separately by SGS.

We have compared the projected performance of the merger scenarios against the projected performance of each Council using the Tasmanian Financial Sustainability Indicators.

Results of the analysis

Scenario One – Merger of Hobart and Glenorchy

- This scenario results in a **net financial benefit of $20.3M**[1] over ten years -the life of the combined long term financial plans (LTFP)
- If the LTFP is extrapolated to 20 years the net financial **benefit** increases to $32.8M[2]
- By 2026 the merged council meets five of six indicators failing to meet only the Asset Sustainability Ratio

Scenario Two – Merger of Hobart, Clarence and Glenorchy

- This model results in a **net financial cost of $5.3M**[3] over ten years -the life of the combined long term financial plans (LTFP)
- If the LTFP is extrapolated to 20 years a net financial **cost** of $2.8M[4] results
- By 2026 the merged council meets five of six indicators failing to meet only the Asset Sustainability Ratio

[1] Net Present Value using a real discount rate of 3% advised by SGS
[2] Same as above
[3] Same as above
[4] Same as above

Scenario Three – Merger of Hobart, Clarence, Glenorchy and Kingborough

- This model results in **a net financial cost of $16.0M**[5] over ten years -the life of the combined long term financial plans (LTFP)
- If the LTFP is extrapolated to 20 years net financial **cost** is $10.0M[6]
- By 2026 the merged council meets five of six indicators failing to meet only the Asset Sustainability Ratio

Developing the model

To provide a long term perspective and comparison of the sustainability of each council, a period of ten years has been modelled from 2016 to 2026. The councils' financial data has been assessed against sustainability indicators using data from published documents and LTFPs.

The base case financial model was developed using the most recent LTFPs from the councils, noting that:

- **Hobart's** LTFP has been uploaded from their website and covers the period 2016 to 2036
- **Glenorchy** has prepared a new LTFP for the period 2016 to 2026
- **Clarence's** LTFP model has been built from the 2015 to 2023 LTFP provided by the Council. Data has then been extrapolated to 2026
- **Kingborough** provided an updated LTFP covering the period to 2026

Financial information for the 2014 and 2015 years was obtained from the published annual reports from each council. The same methodology has been used to calculate the sustainability indicators in both the strategic and detailed assessment phases.

Each different merger scenario is constructed by combining the respective councils' LTFPs and then applying a range of costs and benefits that are specific to that merger. Costs and benefits have been modelled using a real discount rate of 3% as requested.

A snapshot of the LTFPs for each scenario are contained in the appendices

- Appendix A - a merger of Hobart and Glenorchy (Scenario One)
- Appendix B - a merger of Hobart, Clarence and Glenorchy (Scenario Two)
- Appendix C - a merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three)

For the purpose of applying a consistent approach to calculating future employee costs and benefits, total employee costs and full time equivalent staff numbers for 14/15 have been drawn from the 2015-16 Auditor Generals Comparative Analysis[7]. From these reported costs have been deducted senior staff costs and one-off redundancy costs incurred in that year.

[5] Net Present Value

[6] Net Present Value

[7] Report of the Auditor-General No. 6 of 2015-16 Auditor-General's Report on the Financial Statements of State entities Volume Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15, Pg. 36.

The cost and benefits of merger are influenced by two main factors: the number of councils merging and distance between centres. Traditionally, metropolitan mergers generate more benefits where there is obvious duplication, councils are in close proximity and/or resources can be easily shared or rationalised. In Scenario's One and Two, the merged councils are in close proximity and provide a more compact local government if merged resulting in benefits arising over the longer term. The addition of Kingborough in Scenario Three, which has a greater land area than the other three councils combined and different geography, however offers few additional benefits and opportunities for rationalisation.

The costs and benefits for each are scenario are also contained in the appendices

- Appendix D - cost and benefits for a merger of Hobart and Glenorchy (Scenario One)
- Appendix E - cost and benefits for a merger of Hobart, Clarence and Glenorchy (Scenario Two)
- Appendix F - cost and benefits for a merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three)

A comparison of the different cost and benefits and the supporting assumptions are contained in Appendix G.

Assumptions

In the course of modelling the merger scenarios, the following assumptions have been made:

- We have used the LTFPs from the base line analysis as a starting point for developing a merger model for each scenario. The assumptions for the base case models are outlined in the Strategic Assessment
- For the purpose of modelling the financial costs, it is assumed that the program of work the Strategic Alliance must proceed regardless of this analysis, and the costs would be shared equally by the councils if the Alliance does not proceed. Therefore the base case and each merger scenario bears a portion of these costs in the modelling analysis.

Identified risks

The merger of the councils also creates a range of risks that would need to be managed. In our view the key priorities for the councils, if any of these proposed mergers proceed, and recognising the risks inherent with any such change to local government, are:

1. Managing the transition from the existing councils into a new merged council
2. Continuing to fund the infrastructure needs of the combined council and apportioning the costs of renewing and upgrading infrastructure in a fair and equitable manner
3. Addressing the needs of different communities of interest within a merged council area
4. Managing the impact of any staff changes.

There are a number of significant potential financial and non-financial risks arising from this particular merger that will need to be considered, including the following:

- 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 may be 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 council organisations may not go well, resulting in low morale, increased staff turnover rate etc. This would reduce business performance and prolong the time it takes for the predicted efficiencies to be achieved
- Service levels rise across the merged councils, 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 councils are less than that modelled and this may result in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit
- Developing a governance model that represents the communities of interest across the proposed merger area.

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.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of the 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.

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.

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 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.

Sustainability indicators

The following Financial Sustainability indicators were modelled in line with recommendations from the Tasmanian Audit Office, and published guidance.

Underlying operating result

The underlying operating result is the difference between day to day income and expenses for the period, and has been calculated by subtracting operating expenses (excluding one-off expenditure such as restructuring costs) from operating income (excluding capital grants and contributions, and unearned income) for the period.

Operating surplus ratio

The operating surplus ratio is the operating surplus (per above) expressed as a percentage of operating income (as calculated per the operating income above). For the purposes of calculating the operating surplus ratio, we have included state fire service commission levies, however we note that this income is not 'controlled' by the individual councils, and there is a case for its exclusion. Exclusion of this income would result in an increase in the percentages reported.

Net financial liabilities

Net financial liabilities are a measure of each council's ability to repay outstanding debts with current cash and cash equivalents, and are a measure of each council's liquidity. The net financial liabilities for each council have been determined by subtracting the total liabilities of a council from its cash, cash equivalents, debtors and other receivables, and other financial assets (i.e. investments).

Net financial liabilities ratio

This measure indicates the extent to which net financial liabilities could be met by the operating income of each council. The ratio is calculated by dividing the net financial assets (liabilities) by operating income for each entity.

State Fire Commission levy income has been included in the calculation of operating income for the purposes of assessing each council's performance against this measure. As noted earlier, as this income is not controlled by each council, it is arguable that this should be excluded. Exclusion of the State Fire Commission levy income would increase the reported percentage for each council that has an excess of financial assets and decrease the percentage for those in a net liability position.

Asset sustainability ratio

The asset sustainability ratio is intended to measure whether assets are planned to be replaced at the same rate as they are wearing out. The ratio is calculated as a percentage determined by dividing asset renewal expenditure by depreciation.

Asset consumption ratio

The asset consumption ratio is a measure of how depreciated an asset is, and therefore the percentage of economic benefits that remain in the asset. The ratio is calculated by divided the depreciated value of a council's assets by their replacement value.

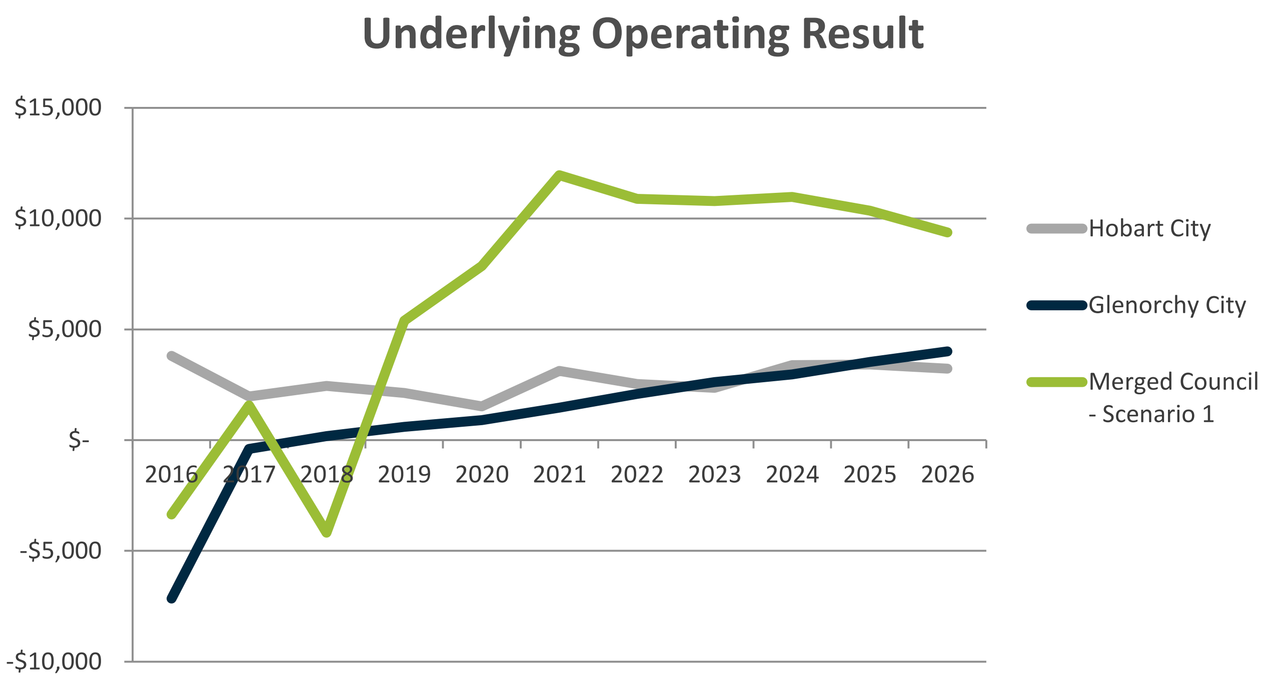
Asset renewal funding ratio

The asset renewal funding ratio compares a council's budgeted asset renewal expenditure with the required asset renewal expenditure that is set out within the council's asset management plan. The ratio is intended to compare the net present value of budgeted renewal expenditure with the net present value of the required renewal expenditure. A full set of data was not available when preparing the baseline analysis and therefore has not been modelled in the merger scenarios.

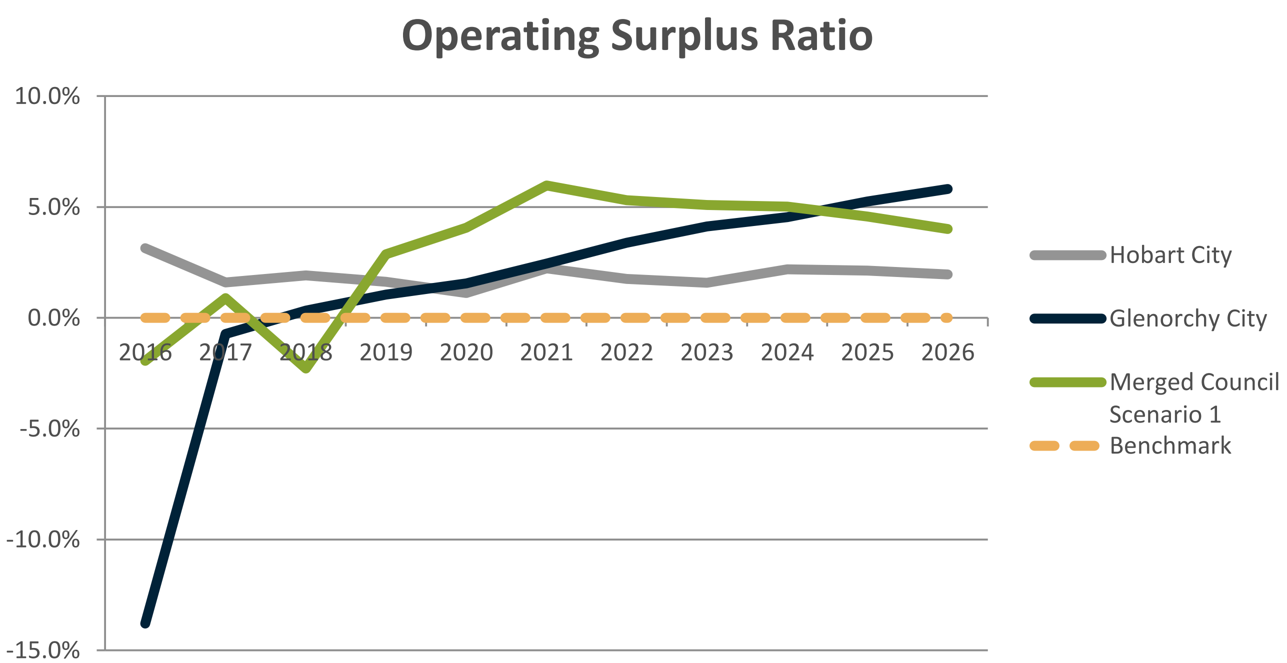
Scenario one – Merger of Hobart and Glenorchy

Performance against the indicators

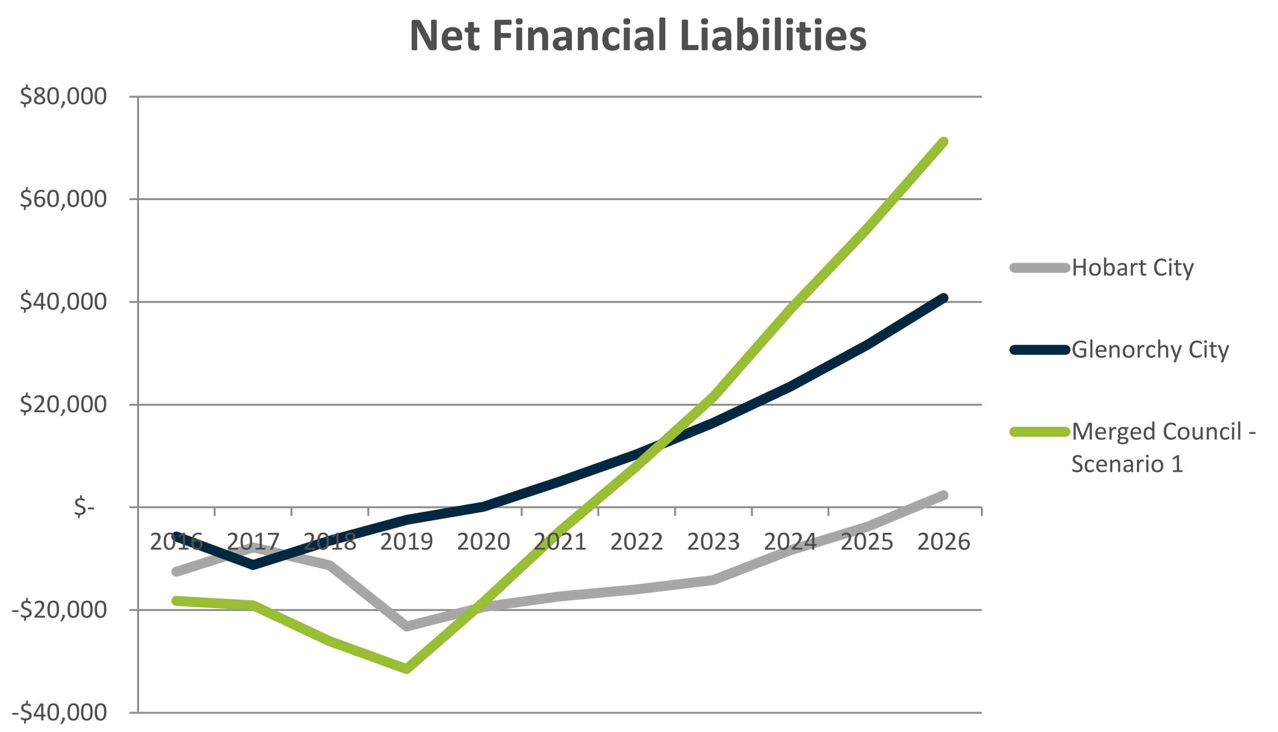
Graph 1: Underlying operating result



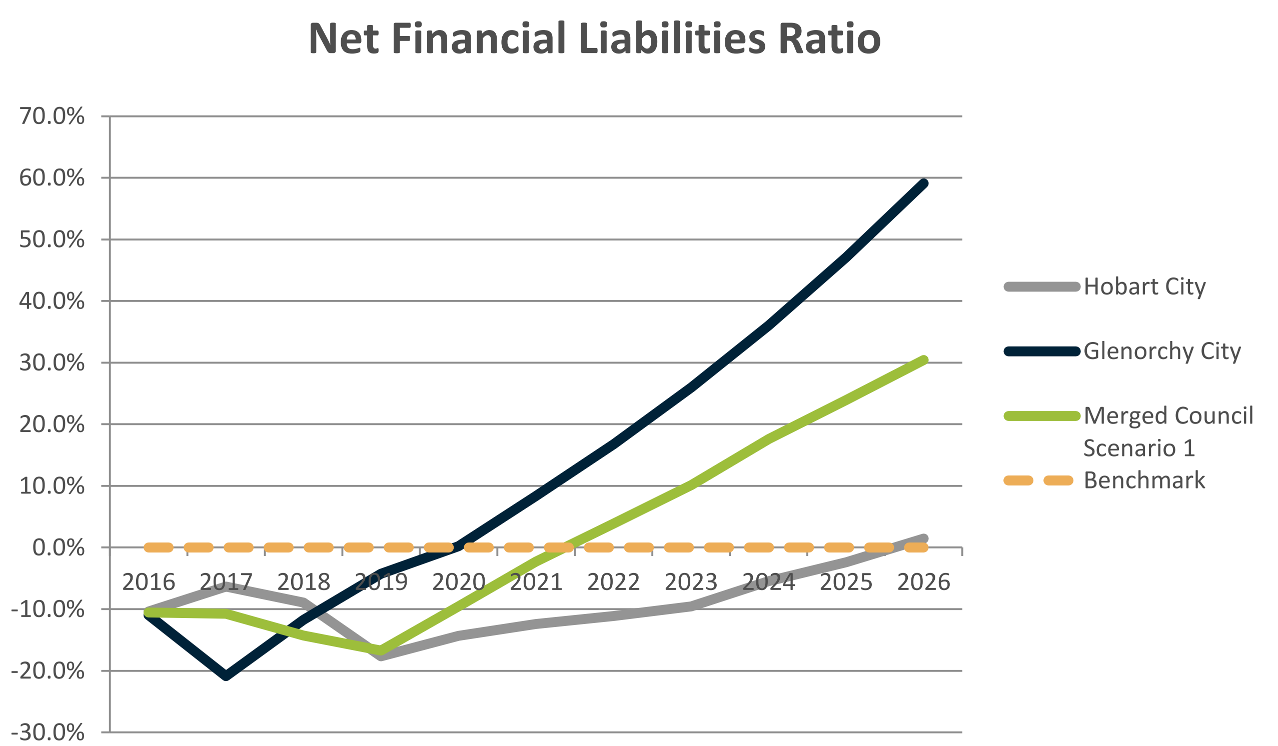
Graph 2: Operating surplus ratio



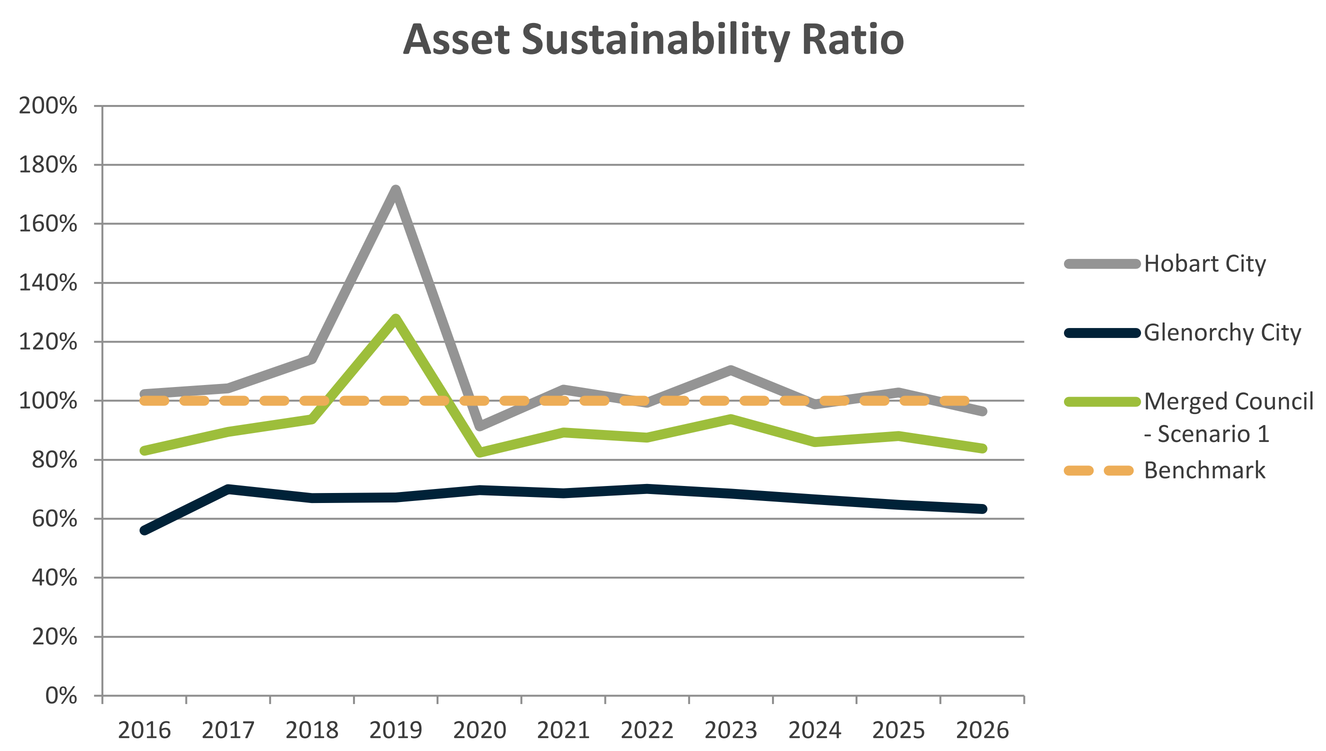
Graph 3: Net financial liabilities



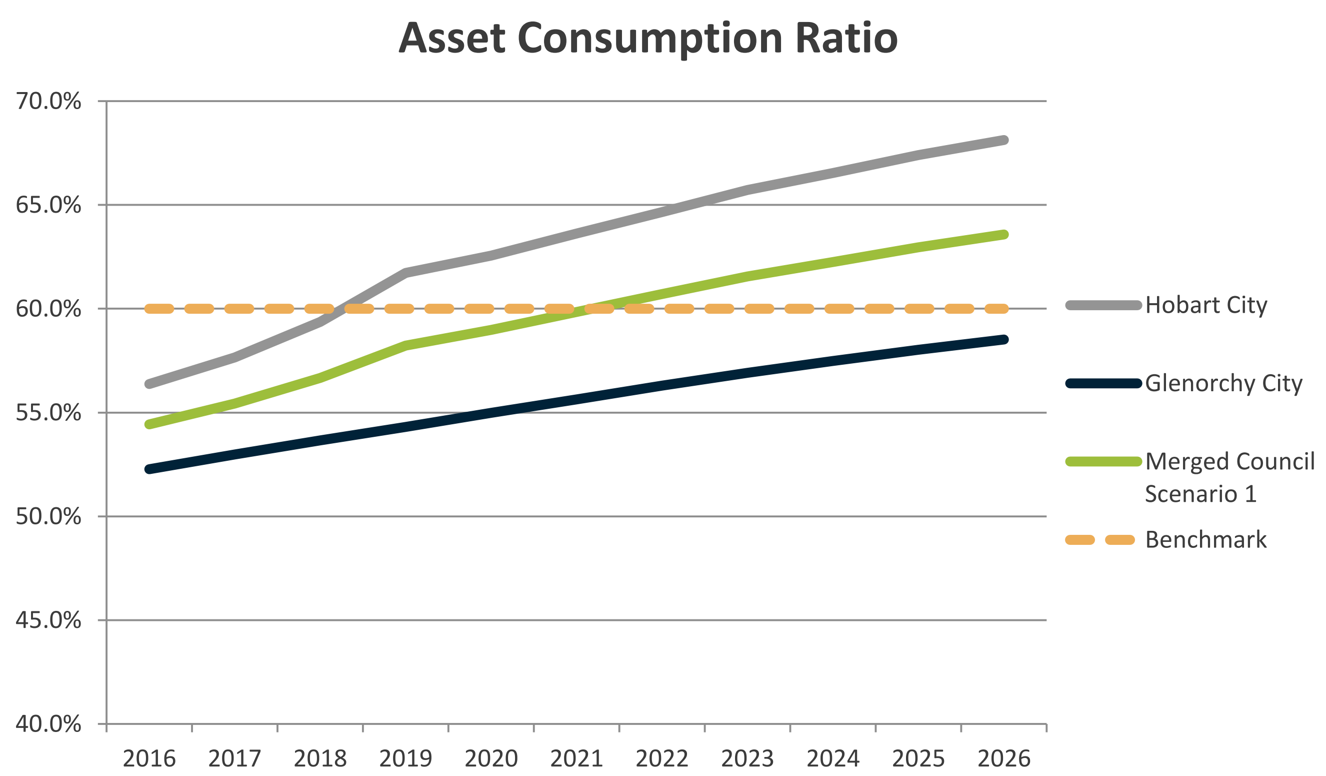
Graph 4: Net financial liabilities ratio



Graph 5: Asset sustainability ratio



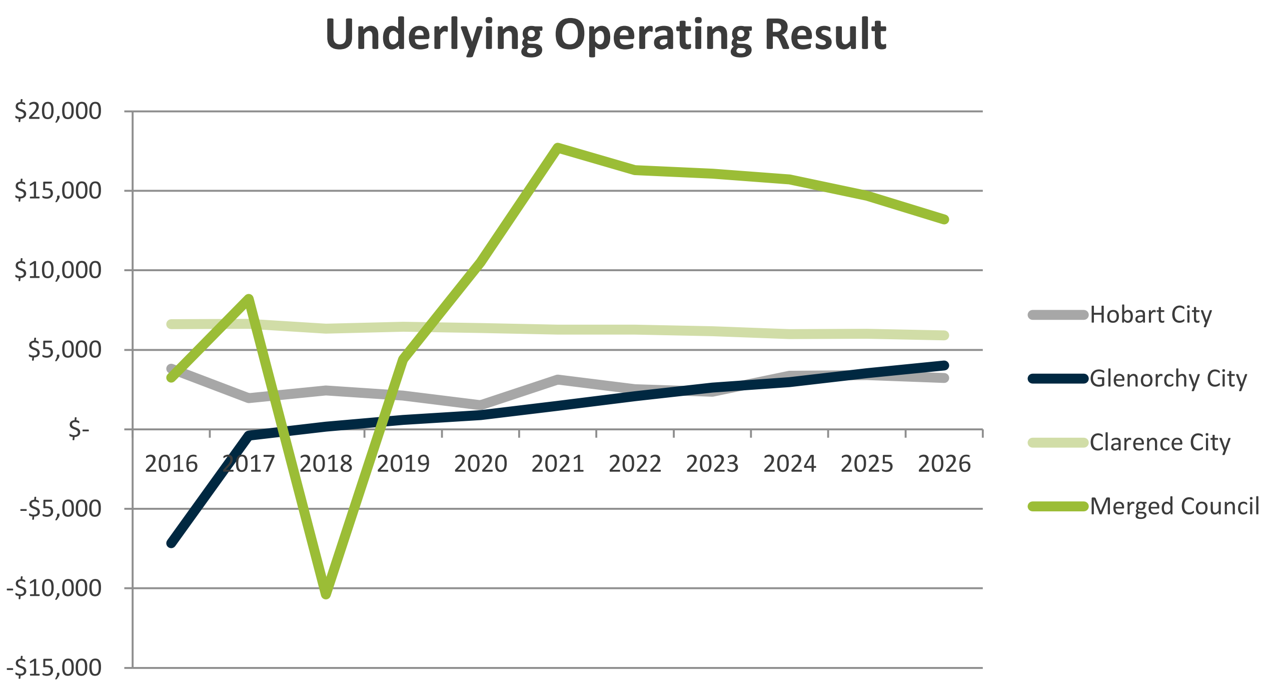
Graph 6: Asset consumption ratio



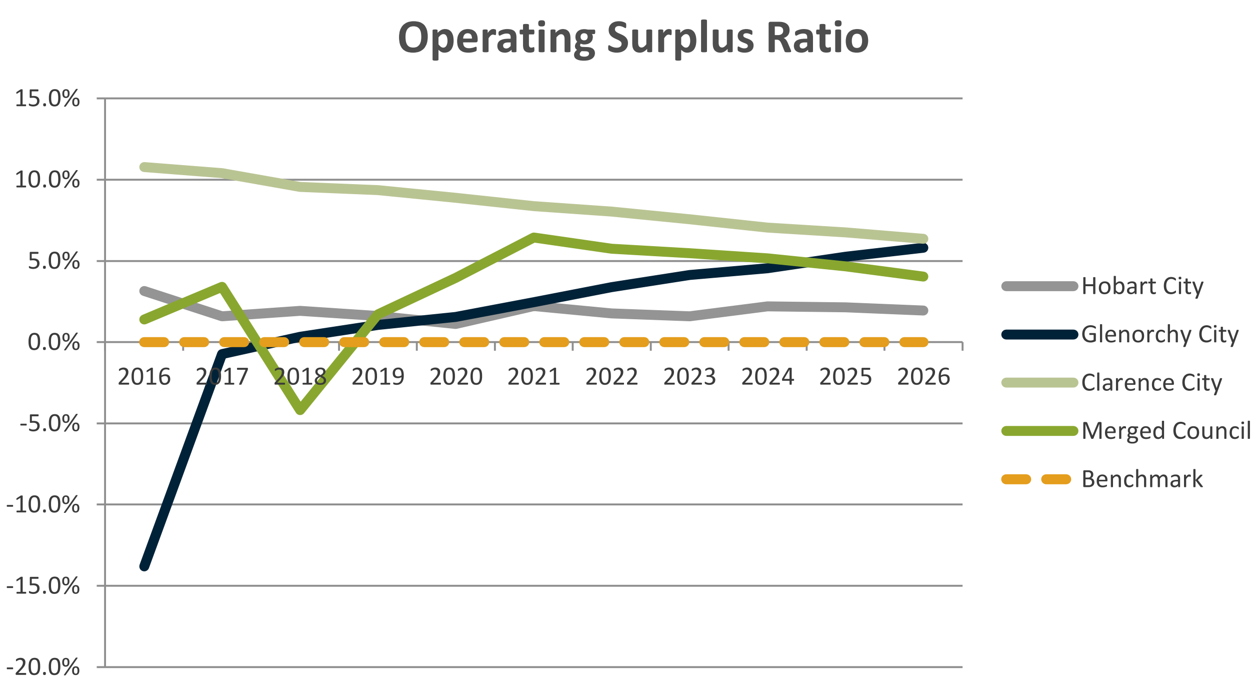
Scenario Two – Merger of Hobart, Clarence and Glenorchy

Performance against the indicators

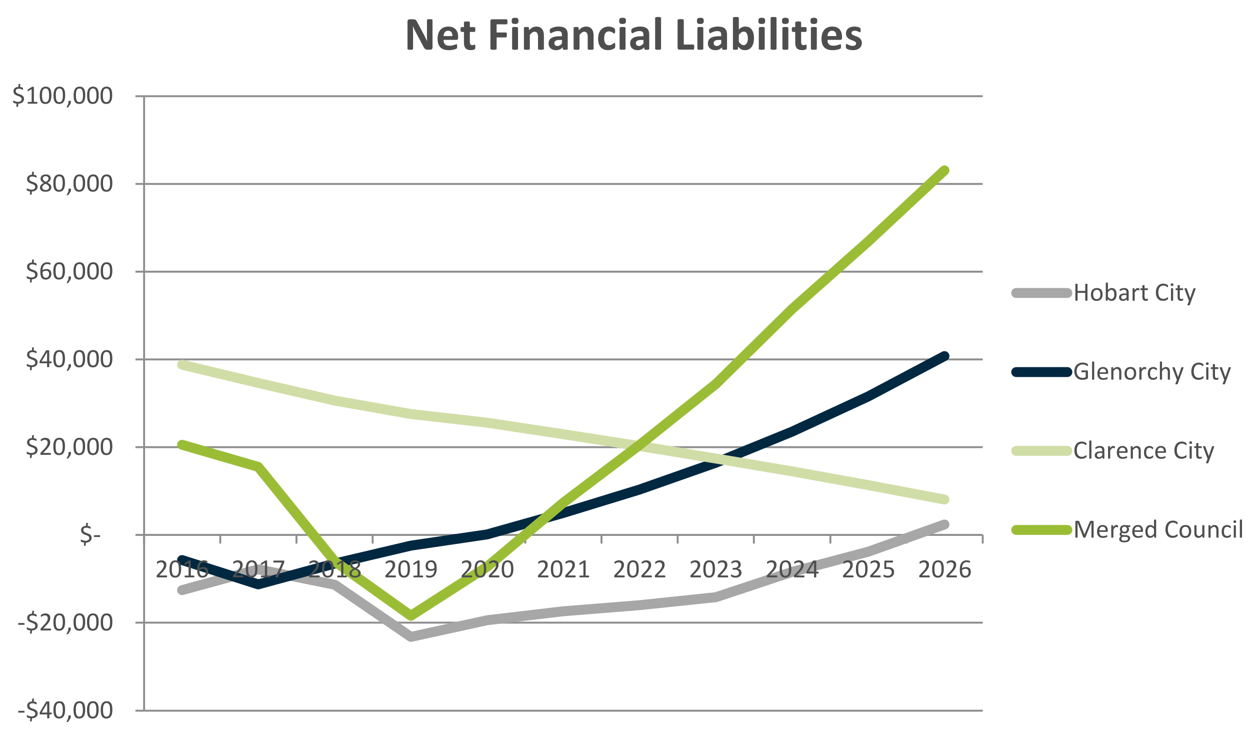
Graph 7: Underlying operating result



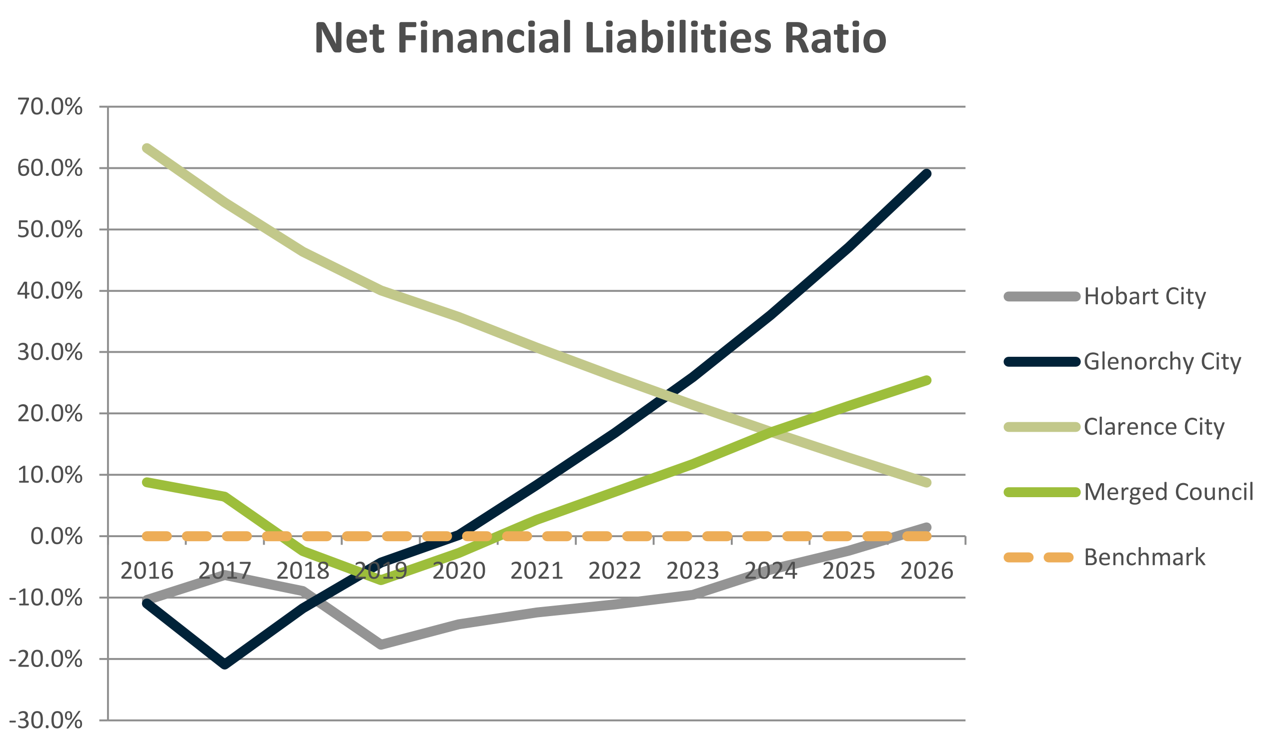
Graph 8: Operating surplus ratio



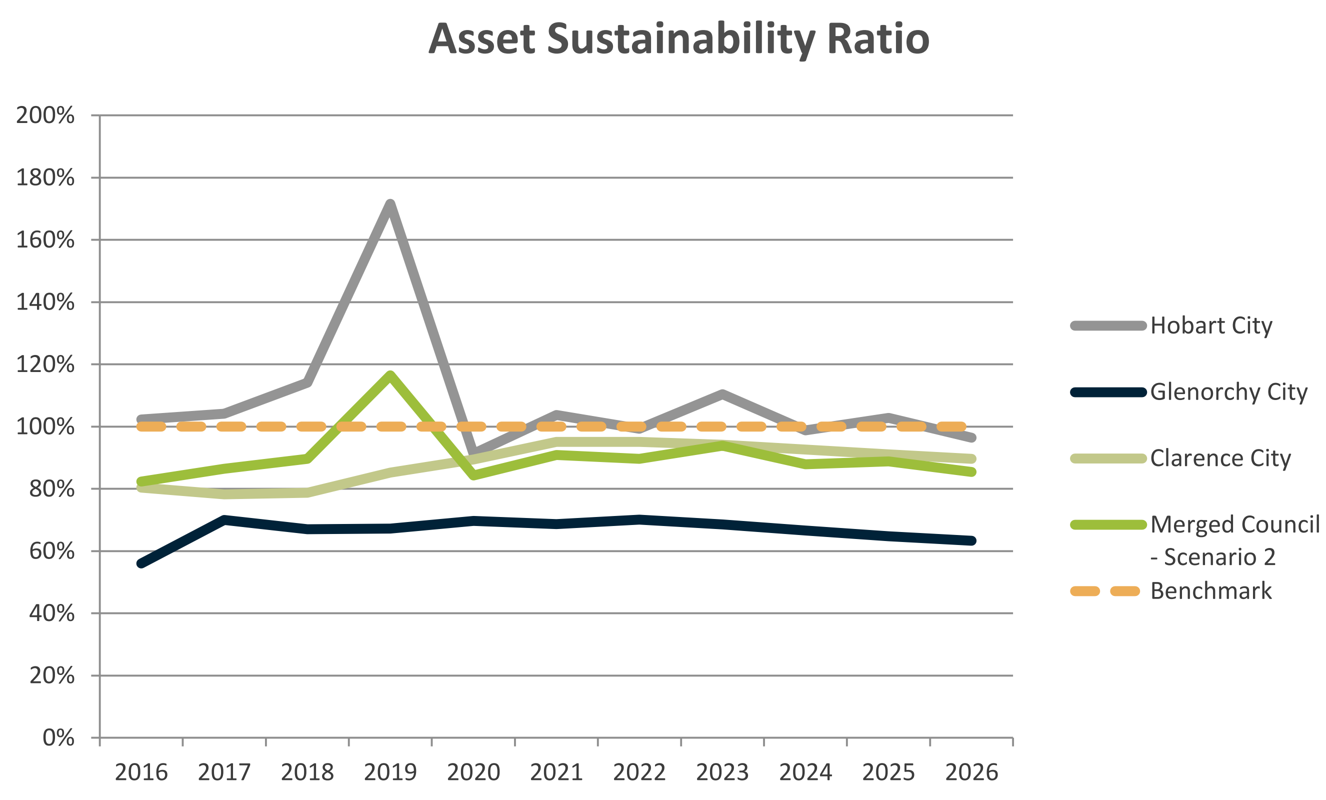
Graph 9: Net financial liabilities



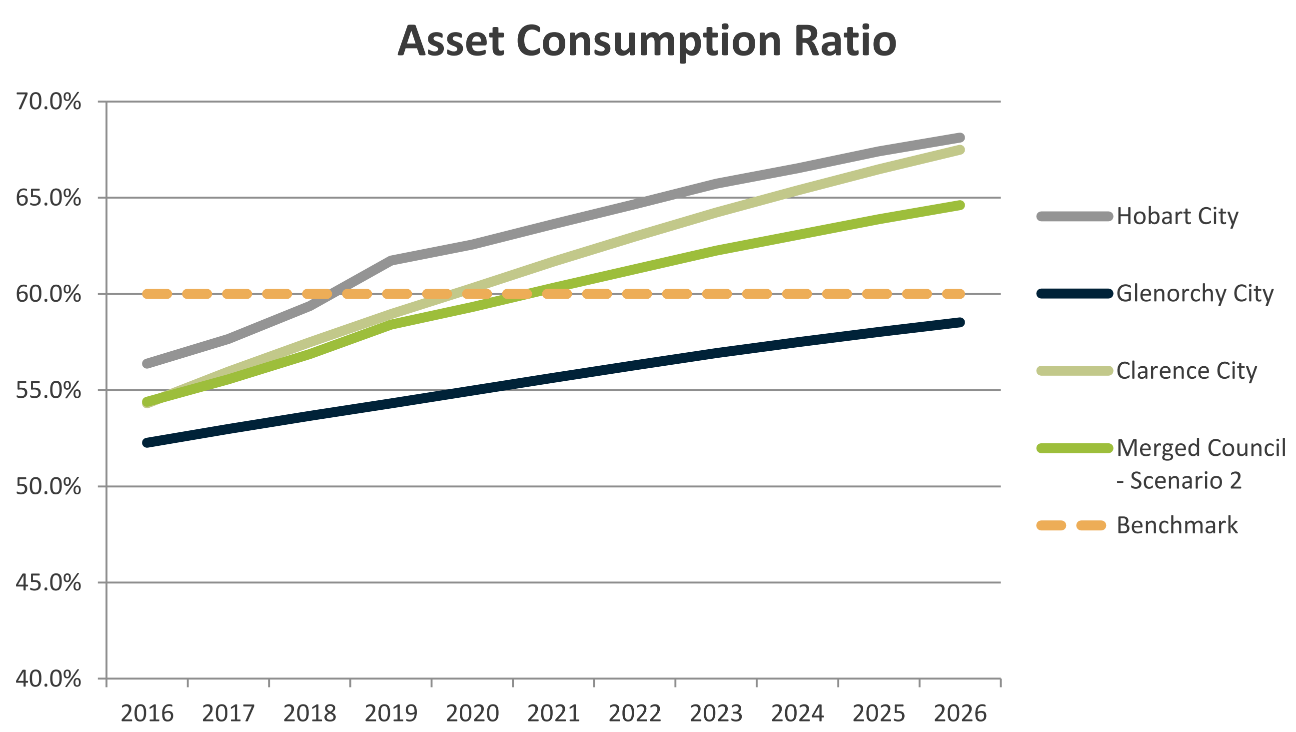
Graph 10: Net financial liabilities ratio



Graph 11: Asset sustainability ratio



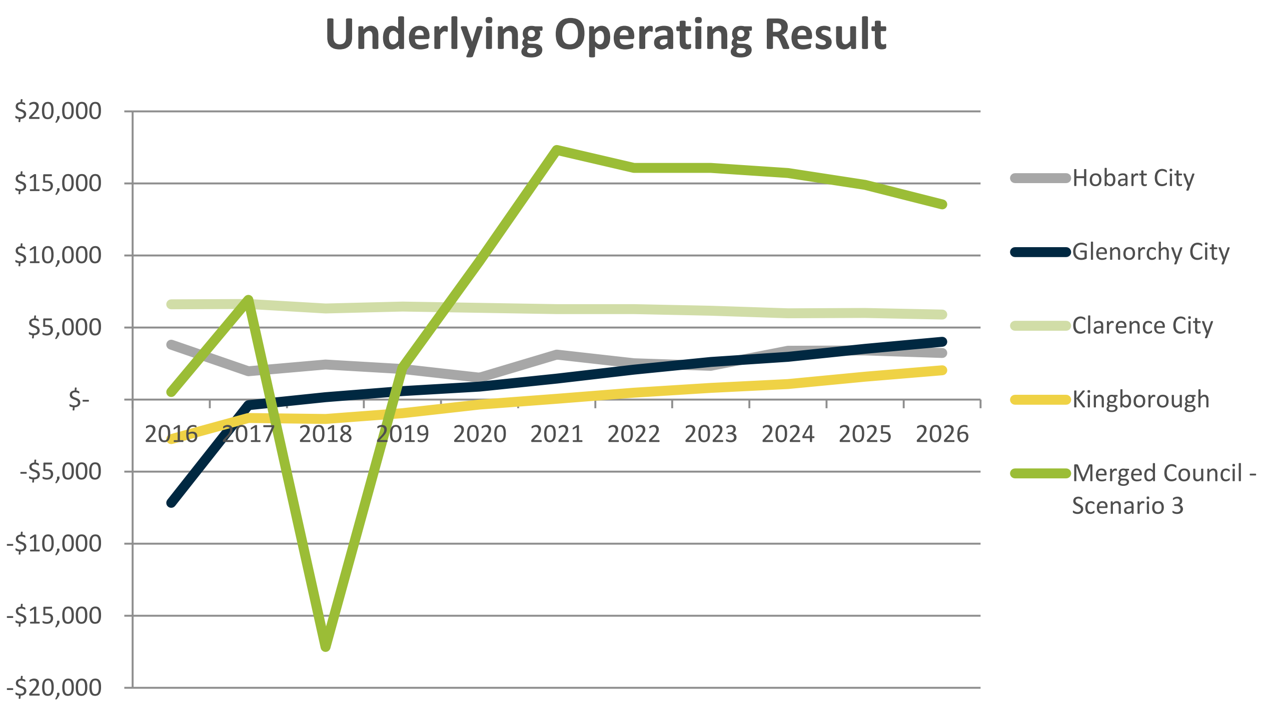
Graph 12: Asset consumption ratio



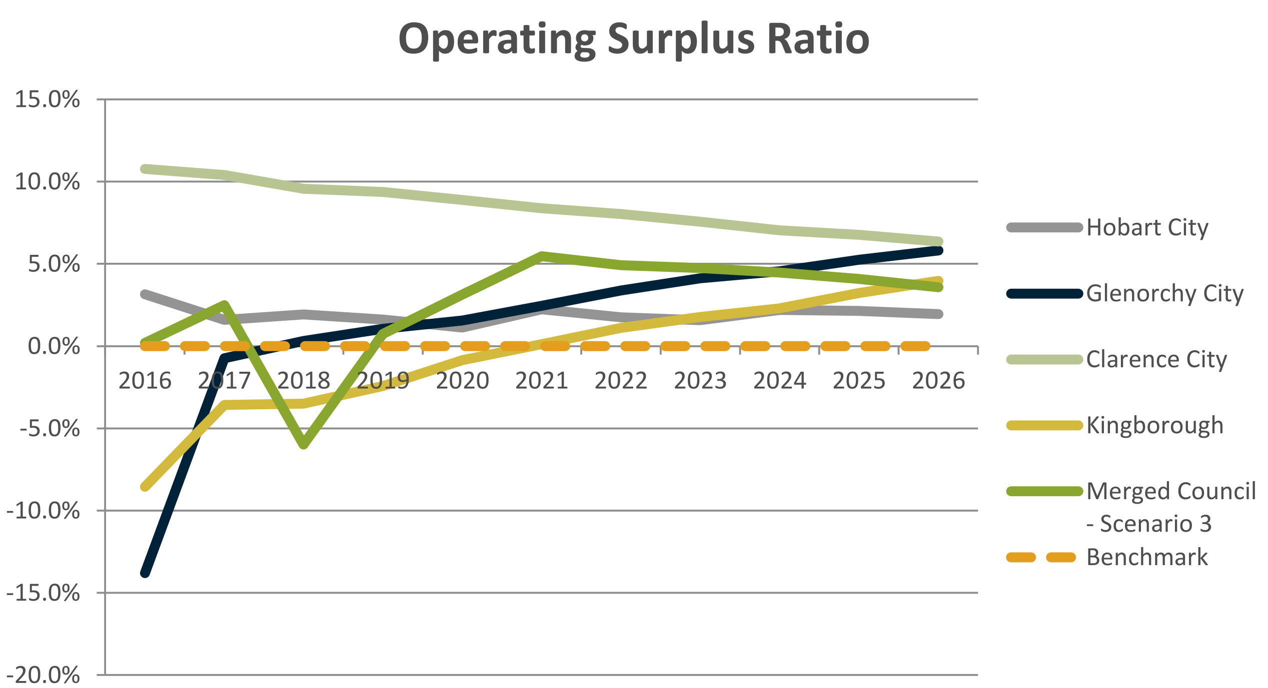
Scenario Three – Merger of Hobart, Clarence, Glenorchy and Kingborough

Performance against the indicators

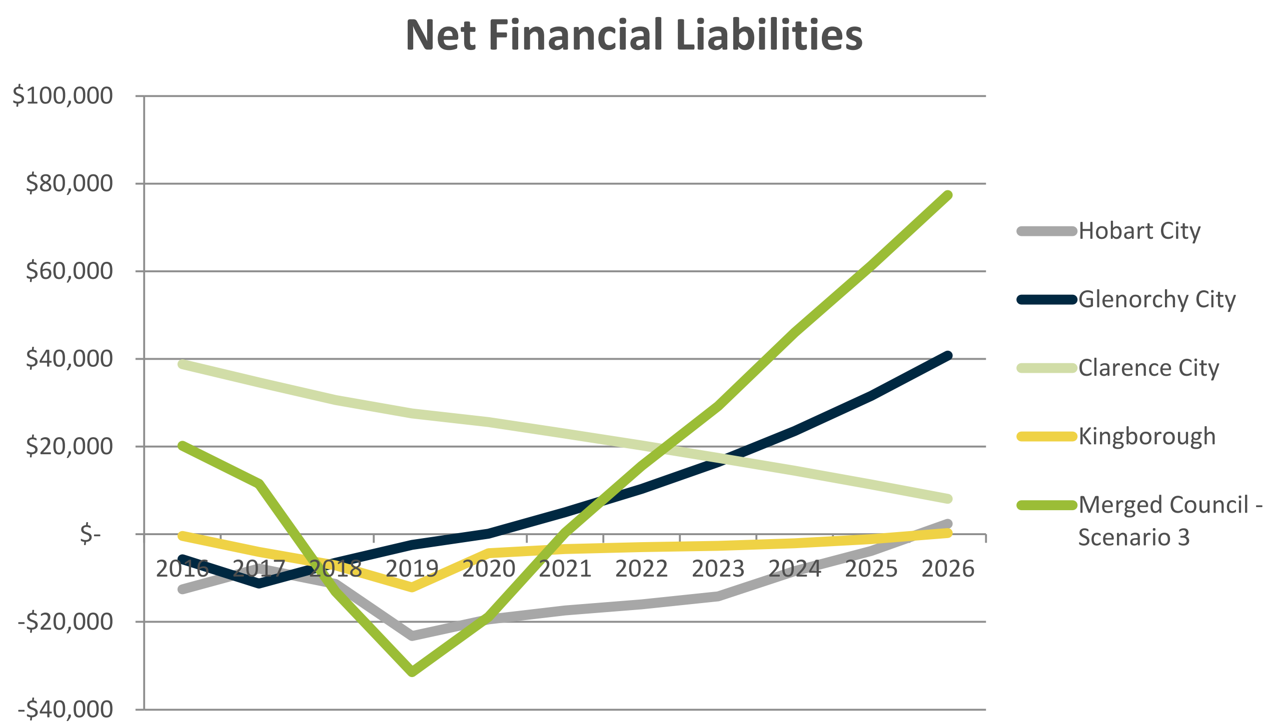
Graph 13: Underlying operating result



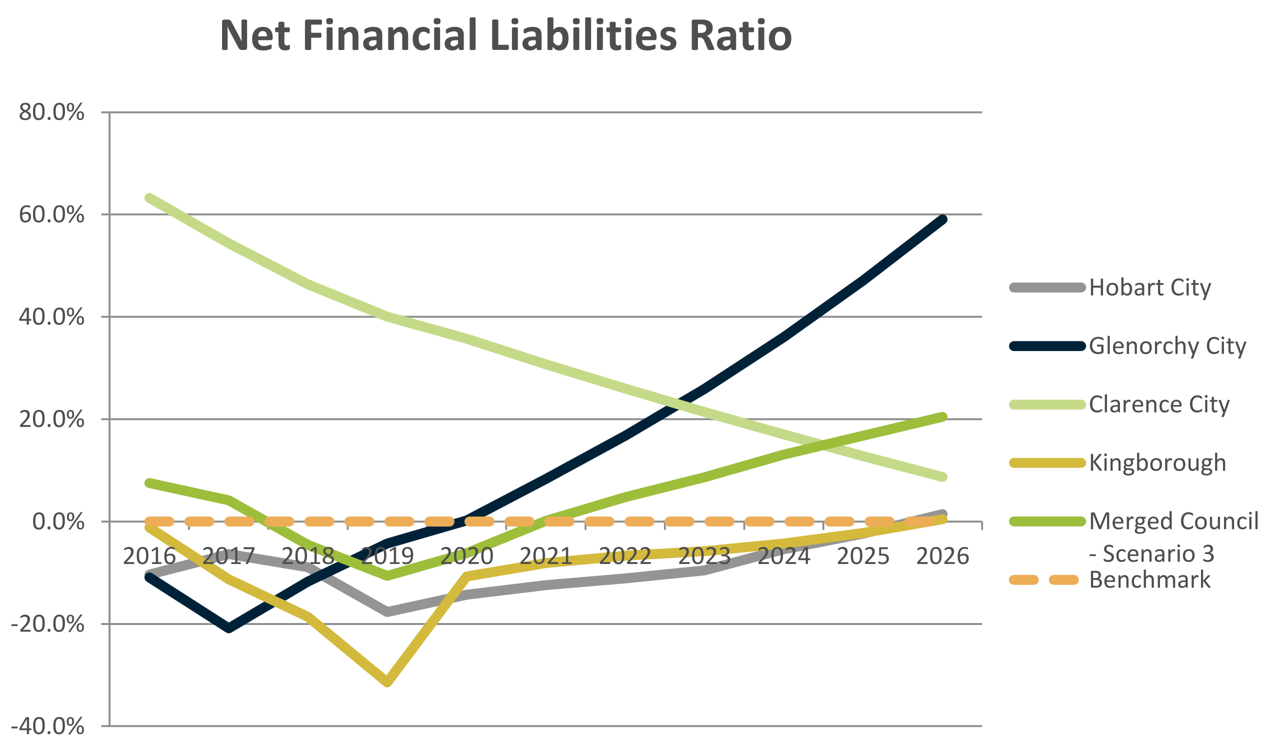
Graph 14: Operating surplus ratio



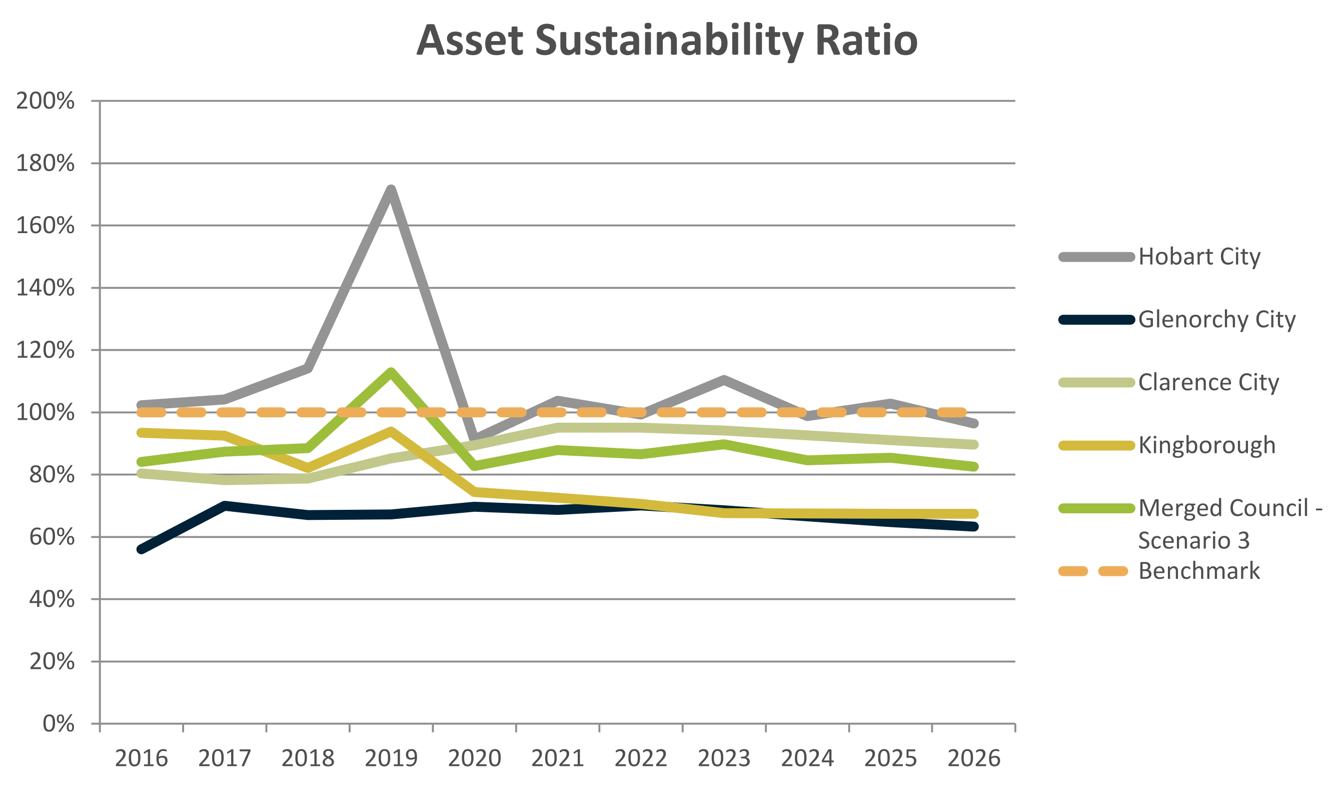
Graph 15: Net financial liabilities



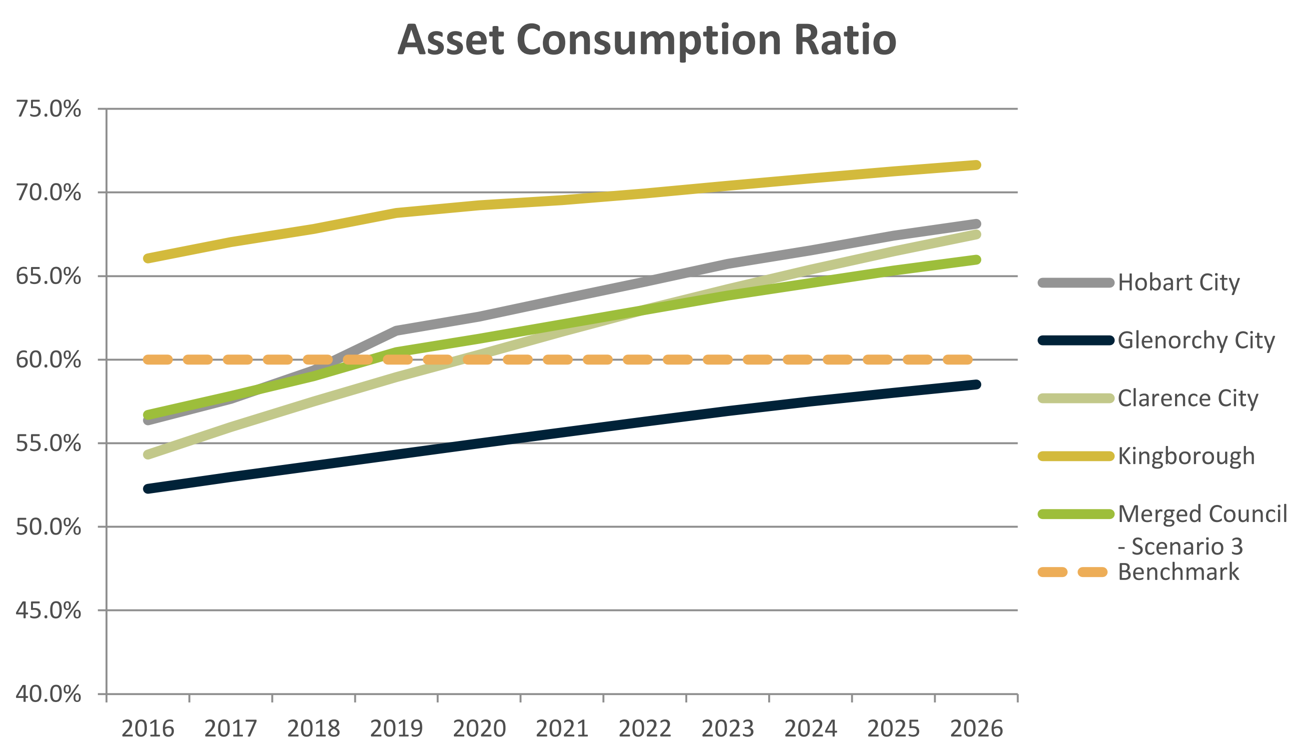
Graph 16: Net financial liabilities ratio



Graph 17: Asset sustainability ratio



Graph 18: Asset consumption ratio



Financial costs and savings of the merger

The costs and savings of the mergers 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, the overall financial performance of the merged council and projected asset expenditure.

In the initial transition period, for each scenario, 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. Further costs 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 are considered to arise as a result of a more complex organisation, increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and councillors required in comparison to the councils combined. Natural attrition is initially applied to a merger, with efficiencies meaning that overall staff numbers fall in the short term. Also in the medium and longer term, benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged councils are modelled on the basis of a combined LTFP where all council costs and revenues set out in the LTFP are brought together. The agreed base case LTFPs have been used for this process.

The combined councils' LTFPs have then been adjusted by 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 in 2018.

The NPV[8] of the costs and savings over the period being modelled (2026[9]) have been calculated, and overall the modelling projects a financial impact to the four communities arising from the different merger scenarios. The NPV of projected costs and savings arising from the mergers projected until 2026 with a real discount rate of 3.0%:

- A merger of Hobart and Glenorchy (Scenario One) is expected to produce $20.3 million in net financial benefit
- A merger of Hobart, Clarence and Glenorchy (Scenario Two) is expected to produce $5.3 million in net financial cost
- A merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three) is expected to produce $16.0 million in net financial cost.

The wider community economic modelling undertaken by SGS uses a much longer period of 20 years for the calculation of costs and benefits given the nature of these costs and benefits, which is beyond that considered by the councils. We do not presume that councils, or the priorities and constraints under which they operate, will remain static into the future and recognise that any resulting modelling over such a long period is most likely to be inaccurate. This concern aside, for the purposes of providing a 20 year comparison, we have extrapolated the costs and benefit. The NPV of projected costs and savings arising from the mergers projected for 20 years with a real discount rate of 3.0% are estimated as:

8 Using a real discount rate of 3.0%
9 2026 is the period being modelled to match the time covered by all Council LTFPs

- A merger of Hobart and Glenorchy (Scenario One) is expected to produce $32.8 million in net financial benefit
- A merger of Hobart, Clarence and Glenorchy (Scenario Two) is expected to produce $2.8 million in net financial cost
- A merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three) is expected to produce $10.0 million in net financial cost.

These costs should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council and, in particular, the need for the merger scenarios to increase asset expenditure to meet the asset sustainability ratio.

Scenario testing

The table below demonstrates the sensitivity of the modelling to different discount rates are used the net benefit or cost varies. The discount rate scenarios are applied to three alternative projections:

- The 'with efficiencies' scenario assumes the merged Council is willing and able to make efficiencies outlined in Appendix G. This scenario is the basis of this report
- The mergers are unable to generate further savings below tier one and two. This was a common outcome of the mergers in NSW in 2004 and Queensland in 2009. We note no data is available from the current NSW mergers as non-contract staff have three years employment protection
- The mergers are able to generate savings i.e. 'with efficiencies' and staff salaries are able to be harmonised to the average salary across the councils (not the highest)
- The results below show how variable the results are to key policy decisions of the new council. Note negative numbers are costs. All results are the NPV over 10 years at a real discount rate of 3%.

	Mergers with efficiencies			Mergers with no staff savings below tier 1 & 2			Mergers with efficiencies and salary harmonisation to average salary costs		
Discount rate	1%	3%	6%	1%	3%	6%	1%	3%	6%
Merger of Hobart and Glenorchy	$23.3M	$20.3M	$16.5M	$1.5M	$0.3M	-$1.1M	$28.6M	$25.0M	$20.5M
Merger of Hobart, Clarence and Glenorchy	-$4.0M	-$5.3M	-$6.7M	-$29.2M	-$28.4M	-$27.1M	$25.0M	$20.6M	$15.3M
Merger of Hobart, Clarence, Glenorchy and Kingborough	-$15.7M	-$16.0M	-$16.3M	-$44.1M	-$43.0M	-$40.0M	$57.4M	$48.8M	$38.3M

Implications

In summary, we consider that the analysis presented in this report has the following implications:

- One merger scenario demonstrates financial benefits over a 10 year period (Scenario One) and two (Scenarios One and Two) over a 20 year period if all efficiencies can be realised.
- All merger scenarios demonstrate financial benefits over a 10 year period if salaries can be harmonised to average salary costs
- No mergers generate a financial benefit if savings though staff reduction cannot be achieved
- All mergers meet five of the six sustainability indicators measured by 2026

Appendix A Scenario 1 – Merger of Hobart and Glenorchy LTFP

Selected Councils Combined LTFP - 2017/18 Extrapolated	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Income Statement **Source: Council Financial Statements and Long Term Financial Plan**											
Rates and annual charges	93,022	96,515	99,655	102,893	106,231	109,677	113,229	116,890	120,662	124,546	128,547
State fire contribution income	14,050	14,930	15,645	16,399	17,192	18,034	18,921	19,857	20,843	21,884	22,981
User fees and charges	45,755	47,923	48,558	49,991	51,445	53,004	53,310	54,967	56,676	58,438	60,256
Grants and contributions - operations	5,455	6,212	6,292	6,375	6,458	6,603	6,751	6,902	7,057	7,215	7,377
Grants and contributions for capital	21,092	5,650	6,616	947	433	444	2,455	466	478	490	502
Interest and Investment Income	8,199	7,952	8,078	8,125	7,789	8,074	8,303	8,586	8,855	9,303	9,705
Capital gains/other capital items	135,106	-	500	977	-	0	-	-	-	-	-
One-off income	-	-	-	-	-	-	-	-	-	-	-
Other income	3,894	4,183	4,283	4,386	4,496	4,628	4,762	4,901	5,043	5,191	5,342
Total Income	**326,572**	**183,364**	**189,628**	**190,092**	**194,045**	**200,464**	**207,732**	**212,568**	**219,614**	**227,066**	**234,710**
Expenses											
Borrowing costs	1,566	1,327	1,184	1,034	886	718	586	482	434	401	366
Employee benefits	71,566	72,879	71,986	72,991	73,944	76,097	79,366	82,745	86,236	89,844	93,573
Employee separation payments	-	-	1,496	-	-	-	-	-	-	-	-
Gains and losses on disposal	8,264	3,029	2,369	2,397	2,363	2,137	2,131	2,091	1,959	1,928	1,895
State fire contribution expenditure	14,034	14,930	15,645	16,399	17,192	18,034	18,921	19,857	20,843	21,884	22,981
Depreciation and amortisation	31,014	33,502	34,139	36,067	37,741	37,730	39,722	41,732	42,800	44,910	47,128
All other expenses	49,857	50,475	61,373	53,888	53,624	53,348	53,661	54,414	55,884	57,261	58,884
Total Expenses	**176,302**	**176,142**	**188,192**	**182,775**	**185,751**	**188,064**	**194,387**	**201,320**	**208,156**	**216,227**	**224,828**
Operating Result	**150,271**	**7,222**	**1,436**	**7,317**	**8,295**	**12,400**	**13,344**	**11,248**	**11,458**	**10,839**	**9,882**
Less Grants and contributions for capital	- 21,092	-5,650	-6,616	-947	- 433	- 444	- 2,455	- 466	- 478	-490	- 502
Less Capital gains/other capital items	-135,106	-	- 500	- 977	-	0	-	-	-	-	-
Less One-off income	-	-	-	-	-	-	-	-	-	-	-
Plus Movement in unearned income	2,577	-	-	-	-	-	-	-	-	-	-
Plus Employee separation payments	-	-	1,496	-	-	-	-	-	-	-	-
Underlying result	**-3,350**	**1,572**	**-4,185**	**5,394**	**7,862**	**11,956**	**10,889**	**10,782**	**10,980**	**10,349**	**9,380**

## Appendix B	Scenario 2 – Merger of Hobart, Clarence and Glenorchy LTFP

Selected Councils Combined LTFP - 2017/18 Extrapolated	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Income Statement **Source: Council Financial Statements and Long Term Financial Plan**											
Rates and annual charges	133,845	139,061	143,996	149,278	154,753	160,490	166,440	172,612	179,014	185,652	192,538
State fire contribution income	18,710	19,802	20,737	21,721	22,755	23,849	24,999	26,210	27,483	28,825	30,236
User fees and charges	50,144	52,499	53,328	54,980	56,665	58,468	59,031	60,957	62,948	65,005	67,132
Grants and contributions - operations	10,861	11,766	11,999	12,253	12,513	12,839	13,174	13,518	13,871	14,234	14,606
Grants and contributions for capital	24,294	8,940	9,996	4,429	4,019	4,138	6,260	4,385	4,514	4,647	4,784
Interest and investment income	13,942	13,825	14,016	14,064	13,794	14,264	14,583	14,965	15,389	15,996	16,562
Capital gains/other capital items	135,106	-	500	-	2,289	0	-	-	-	-	-
One-off income	-	-	-	-	-	-	-	-	-	-	-
Other income	4,171	4,471	4,583	4,700	4,825	4,972	5,123	5,278	5,438	5,604	5,775
Total Income	**391,072**	**250,363**	**259,157**	**261,426**	**271,613**	**279,020**	**289,609**	**297,925**	**308,658**	**319,963**	**331,633**
Expenses											
Borrowing costs	1,603	1,355	1,202	1,042	886	718	586	482	434	401	366
Employee benefits	87,927	90,017	92,659	94,385	96,374	99,646	104,407	109,358	114,507	119,862	125,432
Employee separation payments	-	-	3,080	-	-	-	-	-	-	-	-
Gains and losses on disposal	8,790	3,569	2,924	2,968	2,951	2,743	2,755	2,734	2,621	2,610	2,598
State fire contribution expenditure	18,493	19,575	20,483	21,438	22,441	23,501	24,616	25,788	27,022	28,319	29,684
Depreciation and amortisation	42,598	45,579	46,729	49,236	51,516	52,152	54,823	57,542	59,353	62,241	65,274
All other expenses	71,583	73,128	95,050	83,526	80,643	78,414	79,868	81,568	84,493	87,192	90,307
Total Expenses	**230,995**	**233,223**	**262,127**	**252,594**	**254,812**	**257,174**	**267,055**	**277,472**	**288,430**	**300,625**	**313,661**
Operating Result	**160,078**	**17,140**	**-2,971**	**8,832**	**16,801**	**21,845**	**22,555**	**20,452**	**20,228**	**19,338**	**17,972**
Less Grants and contributions for capital	- 24,294	- 8,940	- 9,996	- 4,429	-4,019	- 4,138	-6,260	-4,385	- 4,514	- 4,647	- 4,784
Less Capital gains/other capital items	-135,106	-	-500	-	- 2,289	0	-	-	-	-	-
Less One-off income	-	-	-	-	-	-	-	-	-	-	-
Plus Movement in unearned income	2,577	-	-	-	-	-	-	-	-	-	-
Plus Employee separation payments	-	-	3,080	-	-	-	-	-	-	-	-
Underlying result	**3,255**	**8,200**	**-10,387**	**4,403**	**10,493**	**17,707**	**16,295**	**16,068**	**15,714**	**14,691**	**13,187**

Appendix C Scenario 3 – Merger of Hobart, Clarence, Glenorchy and Kingborough LTFP

Selected Councils Combined LTFP - 2017/18 Extrapolated	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Income Statement Source: Council Financial Statements and Long Term Financial Plan											
Rates and annual charges	154,552	162,683	168,687	175,085	181,727	188,683	195,909	203,414	211,208	219,303	227,710
State fire contribution income	20,013	21,164	22,160	23,208	24,310	25,473	26,696	27,983	29,337	30,761	32,260
User fees and charges	53,295	55,744	56,670	58,423	60,211	62,120	62,793	64,832	66,939	69,115	71,365
Grants and contributions - operations	14,572	15,477	15,710	16,076	16,450	16,894	17,351	17,820	18,302	18,798	19,307
Grants and contributions for capital	25,578	10,400	10,540	4,973	4,563	4,682	6,804	4,929	5,058	5,191	5,328
Interest and investment income	16,002	15,900	16,112	16,206	15,974	16,490	16,860	17,271	17,717	18,356	18,967
Capital gains/other capital items	135,106	-	500	-	2,284	0	-	-	-	-	-
One-off income	1,040	-	-	-	-	-	-	-	-	-	-
Other income	5,963	6,743	6,922	7,107	7,301	7,520	7,745	7,977	8,216	8,463	8,717
Total Income	**426,120**	**288,111**	**297,301**	**301,077**	**312,819**	**321,863**	**334,158**	**344,225**	**356,777**	**369,988**	**383,654**
Expenses											
Borrowing costs	1,633	1,464	1,390	1,525	1,191	939	761	642	554	481	406
Employee benefits	100,696	103,207	108,392	110,422	112,187	115,998	121,538	127,298	133,286	139,512	145,984
Employee separation payments	-	-	3,581	-	121	-	-	-	-	-	-
Gains and losses on disposal	9,590	4,269	3,524	3,468	3,351	3,043	3,055	3,034	2,921	2,910	2,898
State fire contribution expenditure	19,797	20,937	21,906	22,925	23,995	25,125	26,313	27,562	28,875	30,256	31,708
Depreciation and amortisation	50,587	53,959	55,502	58,403	61,133	62,181	65,323	68,521	70,810	74,200	77,764
All other expenses	85,156	86,949	112,696	97,147	94,515	92,579	94,286	96,168	99,560	102,535	106,035
Total Expenses	**267,458**	**270,785**	**306,991**	**293,889**	**296,493**	**299,865**	**311,277**	**323,225**	**336,006**	**349,893**	**364,794**
Operating Result	**158,662**	**17,326**	**-9,690**	**7,188**	**16,326**	**21,998**	**22,881**	**21,000**	**20,771**	**20,094**	**18,860**
Less Grants and contributions for capital	-25,578	-10,400	-10,540	- 4,973	-4,563	-4,682	-6,804	-4,929	-5,058	- 5,191	-5,328
Less Capital gains/other capital items	-135,106	-	- 500	-	-2,284	0	-	-	-	-	-
Less One-off income	- 1,040	-	-	-	-	-	-	-	-	-	-
Plus Movement in unearned income	2,577	-	-	-	-	-	-	-	-	-	-
Plus Employee separation payments	-	-	3,581	-	121	-	-	-	-	-	-
Underlying result	**522**	**6,926**	**-17,150**	**2,215**	**9,600**	**17,316**	**16,077**	**16,071**	**15,713**	**14,903**	**13,531**

Appendix D Scenario 1 – Merger of Hobart and Glenorchy - Costs and Benefits

	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Governance	- 438	- 450	- 462	- 475	- 488	- 501	- 515	- 529	- 544
Staff									
Redundancies	1,496	-	-	-	-	-	-	-	-
Staff Changes	- 3,033	- 3,117	- 3,202	- 3,290	- 3,381	- 3,474	- 3,569	- 3,667	- 3,768
Harmonisation	1,324	1,361	1,398	1,437	1,476	1,517	1,559	1,601	1,645
Natural Attrition	- 1,122	- 2,261	- 3,392	- 3,392	- 2,191	- 940	364	1,722	3,136
IT									
Transition costs	4,624	2,375	814	-	-	-	-	-	-
Long term Benefits	-	-	-	- 418	- 429	- 441	- 453	- 466	- 479
Materials and Contracts	- 561	- 577	- 593	- 1,227	- 1,261	- 1,970	- 2,024	- 2,080	- 2,137
Assets									
Plant and fleet	-	- 494	-	-	-	-	-	-	-
Buildings	-	- 482	-	-	-	-	-	-	-
Transitional Costs									
Transitional body	5,240	-	-	-	-	-	-	-	-
Rebranding	771	-	-	-	-	-	-	-	-
Total	**8,301**	**-3,644**	**-5,437**	**-7,366**	**-6,274**	**-5,810**	**-4,610**	**-3,420**	**-2,147**

Appendix E Scenario 2 – Merger of Hobart, Clarence and Glenorchy - Costs and Benefits

	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Governance	- 922	- 949	- 975	- 1,003	- 1,031	- 1,061	- 1,091	- 1,122	- 1,153
Staff									
Redundancies	3,080	-	-	-	-	-	-	-	-
Staff Changes	- 4,916	- 5,055	- 5,198	- 5,346	- 5,497	- 5,653	- 5,813	- 5,978	- 6,147
Harmonisation	6,198	6,373	6,554	6,740	6,931	7,127	7,329	7,537	7,750
Natural Attrition	- 1,392	- 2,809	- 3,952	- 3,952	- 2,435	- 845	821	2,565	4,390
IT									
Transition costs	15,734	8,090	2,773	-	-	-	-	-	-
Long term Benefits	-	-	-	- 1,426	- 1,466	- 1,508	- 1,550	- 1,594	- 1,640
Materials and Contracts	- 858	- 882	- 907	- 1,857	- 1,910	- 2,995	- 3,079	- 3,167	- 3,256
Assets									
Plant and fleet	-	-	- 982	-	-	-	-	-	-
Buildings	-	-	- 1,302	-	-	-	-	-	-
Transitional Costs									
Transitional body	3,947	-	-	-	-	-	-	-	-
Rebranding	1,543	-	-	-	-	-	-	-	-
Total	**22,413**	**4,768**	**-3,995**	**-6,844**	**-5,409**	**-4,934**	**-3,384**	**-1,759**	**-56**

Appendix F Scenario 3 – Merger of Hobart, Clarence, Glenorchy and Kingborough - Costs and Benefits

	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Governance	- 1,410	- 1,448	- 1,488	- 1,529	- 1,571	- 1,615	- 1,659	- 1,705	- 1,751
Staff									
Redundancies	3,581	-	-	-	-	-	-	-	-
Staff Changes	- 5,929	- 6,092	- 6,502	- 6,680	- 6,864	- 7,053	- 7,247	- 7,446	- 7,651
Harmonisation	9,523	9,785	10,054	10,330	10,614	10,906	11,206	11,514	11,831
Natural Attrition	- 1,596	- 3,221	- 4,876	- 4,876	- 3,135	- 1,311	601	2,602	4,698
IT									
Transition costs	15,721	8,077	2,766	-	-	-	-	-	-
Long term Benefits	-	-	-	- 1,421	- 1,460	- 1,500	- 1,542	- 1,584	- 1,628
Materials and Contracts	- 1,050	- 1,079	- 1,109	- 2,229	- 2,290	- 3,564	- 3,662	- 3,762	- 3,866
Assets									
Plant and fleet	-	-	- 982	-	-	-	-	-	-
Buildings	-	-	- 1,302	-	-	-	-	-	-
Transitional Costs									
Transitional body	7,963	-	-	-	-	-	-	-	-
Rebranding	1,541	-	-	-	-	-	-	-	-
Total	28,344	6,020	-3,317	-6,405	-4,706	-4,136	-2,302	-380	1,633

Appendix G Costs and Benefits Arising from a Merger of Hobart and surrounding Councils

Costs and benefits identified below form the basis of the modelling referred to throughout the report. Costs outlined below are one-off unless stated otherwise, whereas benefits continue to accrue each year unless stated otherwise. For the ease of comparison, cost or benefits associated with the three different merger scenarios are shown in comparative tables below. For the purposes of the modelling we have assumed that the merged council in each scenario is willing and able to make the necessary decisions that will give effect to the potential savings. We note, however, from merger experience in other States, the majority of councils have been reluctant to capture or, in some cases restricted from capturing, the potential savings. We have not modelled the merger scenarios without efficiencies other than through limited scenario modelling.

To test the validity of some of our assumptions we have selected comparator councils for each of the merger scenarios. These comparators have been selected based on geography, population size, land area and road length.

	Two council merger		Three council merger		Four council merger	
	Hobart and Glenorchy	Melton	Hobart, Clarence and Glenorchy	Mornington Peninsula	Hobart, Clarence, Glenorchy and Kingborough	Gosford
Population	96,277	132,752	150,317	155,015	185,735	193,000
Land area (km^2)	200	527	585	724	1,302	941
Road length (km)	657	849	1069	1,700	1606	1142
Number of elected representatives	22	7	34	11	44	10
Number of staff	814	482	1,066	714	1,252	1,075

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 supplemented with the professional opinion of Morrison Low staff based on experience, including with the Auckland Transition Authority (ATA).

Queensland Treasury Corporation August 2009 Report

In an August 2009 report[10] 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 (i.e. a reduction in costs through improved economies of scale)*
> - *Improved decision making capability, and*
> - *Improved capacity to deliver services.*

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

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 (i.e. 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.

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 has modelled for the possible merger Scenarios are described below.

1 Governance and executive team

The formation of a new entity is likely to produce some efficiencies as the result of 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

The formation of 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 the councillor fees and expenses of comparator councils as reported in the Annual Report 2015. It is assumed that there would be 12 elected members (for all Scenarios) as this is the largest number of elected members amongst the current councils.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Governance savings	$0.45M	$0.90M	$1.27M

1.2 Executive management

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors). Revised remuneration packages for the new general manager and directors for the new entity have been informed and assumed to be similar to that of the comparator council executive remuneration packages, given the size and scale, to that of the proposed new entity.

The general managers' total remuneration for the Councils was based on the Councils' respective Annual Reports 2014/15, and the amalgamation to a single entity with a single general manager.

In addition, there would be a rationalisation of the existing director positions. Based on the Annual Reports there are 21 such positions across the Councils with the combined remuneration based on the Annual Reports 2014/15 of $3.59M. It is assumed the new entities would all retain four director positions, but with changes to responsibilities. Together with the reduction in general managers, this is likely to have an additional savings as shown below.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Executive management saving	$1.33M	$2.53M	$3.52M
Senior Staff (excluding GM)	9	16	21

It is important to note that while ongoing efficiencies have been identified as effective from the short term, there is the one-off cost of redundancies that, in our experience, is a cost incurred during the transition period. This redundancy cost is based on an estimated average of 26 weeks although we note some contracts may have more generous conditions.

1.3 Rationalisation of services

Under the proposed merger scenarios, 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 each scenario, 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.

Based on our previous experience, we would expect resource efficiencies in a council of this size of between 25% and 40%, however, having regard to the asset base and size of the comparator councils, we do not expect to realise these full benefits in this merger. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however, having said that, there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services section.

We have assumed a 25% reduction in these resources having regard to the comparator council and other similar sized councils to the merged entity. We note, however, that a scenario of no reduction in staff is possible based on supporting evidence from the most recent council mergers in NSW and Queensland. We have modelled a ‘reduced efficiencies’ scenario where no staff savings occur below tiers 1 &2 in our sensitivity analysis.

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 provide 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 (6 years plus)					

2.1 Rationalisation of duplicate services

Consistent with the dis-establishment of the 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 two 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 have 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 an ICT solution 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 assumption underpinning the efficiency for corporate services is a 10%[11] reduction in corporate support personnel. On costs are considered to be included as the figures used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term (40-60 FTE, depending on the number of councils merging) 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 outlined above.

In order to achieve the opportunities identified there is a requirement for 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 based on an average of 26 weeks, although we note the maximum varies and that employment contract provisions in individual councils may provide for slightly higher redundancy payments.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Corporate Services Savings	$3.40M	$3.954M	$4.67M

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

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. It is also affected by the relative classification of senior staff as Directors or Managers.

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

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. While Section 1 addresses the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

No allowance for Tier 3 and 4 saving have been included to date as this is difficult to estimate without a full review of organisational structure, position descriptions and a profile of Tier 3 and 4 salaries from each council

3.2 Staff turnover

While the industry average turnover is approximately 12%[12] and, on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, the estimated total efficiency saving over three years, based on applying a modest 1.5% natural attrition is shown in the table below.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Natural attrition through staff turnover	$6.17M	$7.34M	$8.356M

3.3 ICT benefits

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 over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the two councils, the amount of efficiency is unable to be determined at this time. An allowance of 5% of the IT investment has been allowed for, arising in the long term after the systems are implemented.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
ICT Benefits (from 2021)	$0.38M	$1.27M	$1.28M

3.4 Materials and contracts

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 may currently engage in some collective procurement.

[12] Tasmanian Local Government Workforce Report 2014

The increased scale and size of the infrastructure networks managed by the merged council could, 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 in the short term at 1% of procurement costs for the first three years.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Materials and contracts savings	$0.49M	$0.98M	$0.98M

3.5 Properties

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. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (refer to Section 3.6).

Under the merged council scenarios are assumed that the councils would dispose of 5% of the building assets in the medium term. In the longer term, savings in properties are achievable but should be carried out in a more strategic manner across the combined entity. We note, however, that the addition of the larger more dispersed geographic of Kingsborough is unlikely to generate further savings through property rationalisation.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Property savings	$0.48M	$1.30M	$1.30M

3.6 Works units

Staff

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 across the depots. Again we note, however, that the addition of Kingsborough is unlikely to generate further savings through rationalisation of works units.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Works Unit staff savings	$1.82M	$2.25M	$2.25M

Redundancy costs have been modelled for all works staff based on an average of 26 weeks, although we note that employment contract provisions in each council may provide for higher redundancy payments.

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

Plant and Fleet

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than is reasonably required to undertake their day to day functions. As such, it is reasonable to assume that a reduction in plant and fleet in the order of 5% would be achievable should there be an amalgamation of councils. The addition of the larger more dispersed geographic of Kingsborough is unlikely to generate further over and above the two and three council mergers.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Plant and Fleet one off savings	$0.47M	$0.91M	$0.91M

4 Services and service levels

Typically, merged councils see an increase in staff associated with rises in services, service levels and the formation of larger more complex organisations. 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[13] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 1.5% increase in staff from year 4 onwards (i.e. after the period of natural attrition) for a period of five years.

5 Transition costs

The formation of the new entity from the current state of the 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.[14] for the proposed Wellington reorganisation.

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 following table.

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

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

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 are filled
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 Day 1 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 below 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.

5.1 Transition body

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[4] and, on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the merger scenarios is shown below. 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.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Transition Costs	$5.1M	$6.60M	$7.75M

5.2 ICT

The costs associated with ICT for the new entity relate to rationalising the two existing Councils ICT infrastructure, business applications, security and end user support for the single entity. The full 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. With the limited time to undertake this report, the ICT costs have thus been based on the proposed Wellington reorganisation. A number of ICT scenarios were explored by Deloitte[15] for Wellington. The ICT cost estimate has been tested with Port Stephens' current ICT provider and it is considered to be a reasonable reflection of likely costs. The estimated cost is split between those costs incurred during the transition and the implementation costs post Day 1 that would be the responsibility of the new entity, giving rise to a range of $5 - $10m for the two council merger and $21 - $30m for the three and four council merger options. The mid-range has been used for modelling purposes.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
ICT Costs	$7.5M	$25.5M	$25.5M

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 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 Accommodation and Branding

The benefits of any merger in the main arise from the co-location of staff and work teams removing inefficiencies such as travelling between offices. The new entity will require to develop or modify its current accommodation as well as develop its own branding. As part of this, a new logo will need to be designed. Once agreed, there will be a need to replace some existing signage of the Councils for Day 1 of the new entity on entry points, streets, buildings, facilities and vehicles. In addition, it will be necessary to replace the existing website, staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is based on other amalgamation experience.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Accommodation and Branding	$0.75M	$1.5M	$2.0M

5.5 Redundancy Costs

A reduction in general managers to one for a merged council and reduction of senior contracted staff using a redundancy period of 26 weeks, and based on the councils' respective Annual Reports 2014/15, has been used to calculate the following redundancy costs.

15 Wellington Local Government Reorganisation Options – Transition Costs and Benefits for Technology Changes, Deloitte, September 2014

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Tier 1 and 2 redundancies	$1.33M	$1.87M	$2.36M

5.6 Remuneration Harmonisation

The remuneration and 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 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 highest council. It is assumed that employee costs will be equalised at the highest level. It may be possible to adopt a harmonisation approach based on the average staff costs across the merging councils and effectively freeze wages where they are above average costs until everyone reaches parity.

This latter option has been difficult for merging councils to adopt and has other potential negative organisational consequences. For these reasons, we have adopted the highest average staff cost as the likely outcome for each scenario.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Remuneration Harmonisation	$1.29M	$6.03M	$9.27M

5.7 Elections

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 where 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 each of the councils.

6.4 Appendix – Assumptions and Calculations Wider Costs and Benefits

Accommodation resources

Accommodation resources effectively include the difference in benefits conferred by the mix of dwellings delivered and the value of land, capital and labour resources required to house the population under each of the alternative development scenarios. It encapsulates the overall area of land consumed by each development scenario for urban purposes, as well as the changing value of this land footprint given the development enabled and the relative amenity levels conferred.

Accommodation resources:

- Account for the relative cost of land acquisition, development and construction required to deliver the housing forms envisaged under each development scenario, as well as the
- Housing prices that are likely to be yielded in different locations, reflecting demonstrated home buyer preferences.

The accommodation resources are calculated as the difference between the total revenue and total costs (including land) required to deliver the housing needs. In summary, SGS used the following equation to estimate the total resources arising from housing consumption in Option 2 merger of 4 councils against Option 1 BAU.

$$change\ in\ surplus_{i,h} = (price_{i,h} - dwelling\ cost_{i,h} - land\ value_{i}) \times (project\ case_{t,i,h} - base\ case_{t,i,h})$$

Where, t = year, h = dwelling type, i = LGA

Sales price

Using data from the Real Estate Institute of Tasmania (REIT) SGS estimated the median sale price for detached houses, semi-attached townhouses or villas, and attached units and apartments by LGA for infill and greenfield areas. These estimates were benchmarked to the typical Gross Floor Area (GFA) of a dwelling that sold at the median price in the data. SGS derived sales price per sqm estimates for all LGAs in both infill and greenfield locations.

Construction Costs

Construction costs by dwelling type were sourced from Rawlinsons (2016).

Land values

SGS used REIT suburb reports and market research to create a data set of typical land values for all LGAs. Using ABS data and market research, SGS also estimated typical GFA and land area for each dwelling type. Given the variability in GFA between infill and greenfield locations, SGS used market research to produce assumptions for both infill and greenfield LGAs.

Results

The dwelling forecasts (by dwelling type) under both the business as usual and reform options, were used to estimate total sales revenue and total costs (including land) for each LGA, resulting in the impact on accommodation resources generated by local government reform.

In line with the dwelling forecasts for the business as usual and the reform options, all four LGAs experience an increase in total surplus due to increased development arising from more consolidated urban growth. Table 37 shows that the greatest proportion of benefits will be generated in the Hobart City LGA.

TABLE 37 TOTAL SURPLUS FROM DWELLING CONSUMPTION UNDER OPTION 2 MERGER OF FOUR COUNCILS (PV$ MILLIONS)

	Hobart City	Clarence City	Kingborough	Glenorchy City	TOTAL
Infill	$86	$42	$67	$25	$220
Greenfield	-	-$6	-$13	-$2	-$22
TOTAL	$86	$35	$54	$22	$198

Source: SGS Economics and Planning 2016

Infrastructure costs

The merger of four councils (Option 2) effectively enables a significant proportion of future development to be accommodated in the infill areas of Greater Hobart. Given that there is likely to be available capacity in the infrastructure networks that serve the existing urban areas of Greater Hobart, this transfer of development may generate infrastructure servicing cost savings.

To estimate these savings SGS has undertaken a detailed review of literature that compares infrastructure servicing costs for residential developments in infill vs. greenfield locations within Australasian cities. This review found that:

- Notwithstanding the likelihood of local, case specific, variations, there is strong and consistent evidence that infrastructure can be provided at comparatively lower costs in infill locations than in greenfield locations.
- From the costs that could be compared across studies, infrastructure provision in Greenfield areas locations was found to cost approximately 2-4 times more than infill locations, depending on the capacity of the existing infrastructure to support additional development.

Having said this, precisely estimating the scale of infrastructure cost savings that will be generated by the project scenario is fraught without detailed investigation, given the range of infrastructure networks that act to serve the regional population:

- Transport
- Water & sewerage
- Energy & telecommunications
- Open space
- Health
- Education
- Emergency services

Earlier case studies, shown in Table 38, highlight that per dwelling savings can range considerably.

TABLE 38 INFILL INFRASTRUCTURE COST SAVINGS

Author	Location	Infrastructure cost savings per dw
Hamilton and Kellet (2015)	Adelaide	$55,000
Centre for International Economics (2015)[19]	Auckland	$15,000
InfraPlan (2013)	Adelaide	$60,000
Trubka, Newman and Bilsborough (2010)	Perth	$85,000
Newman & Kenworthy (1999)	Perth	$140,000

In the interests of conservatism, SGS has assumed that each dwelling that is transferred to infill locations under the project scenario generates a savings of $20,000.

These savings are assumed to accrue in line with future population and dwelling projections in Option 1 BAU, and in line with the forecast denser urban form under Option 2 merger of four councils.

[19] Excludes utilities, emergency services, health and education.

Transport functionality

Transport functionality outcomes include travel time (and congestion), travel distance (e.g. vehicle operating) costs, and accident costs.

Option 2 merger of four councils effectively enables a significant proportion of future development to be accommodated in the infill areas of Greater Hobart. This higher concentration of development in infill areas allows population and jobs to be situated in closer proximity. This reduces the length and time of transport trips, decreases congestion, and reduces the prevalence of car accidents.

To estimate transport functionality outcomes of these impacts the Greater Hobart Urban Travel Demand Model (GHUTDM) was used to model travel demand of Option 1 BAU and Option 2 merger four councils.

The transport demand modelling demonstrates that a greater concentration of population and jobs in infill areas under Option 2 results in the average trip distance by car decreasing by 0.1 km, average travel time reducing by 0.8 minutes, and the average travel speed increasing by 2.1 km per hour. Overall, daily kilometres travelled in cars is reduced by 99,000 and total time spent in cars commuting falls by 3,039 hours per day[20]. These results are shown in Table 39.

TABLE 39 DAILY CAR TRIPS 2037

Daily car trips	BAU scenario	Project scenario	Daily Change
Total distance travelled by car	5,579,646 km	5,480,303 km	-99,343 km
Total time commuting by car	124,706 hours	121,667 hours	-3,039 hours
Average trip distance	10.7 km	10.6 km	-0.01 km
Average trip travel time	14.4 minutes	13.6 minutes	-0.8 minutes
Average travel speed	44.7 km/h	46.8 km/h	+2.1 km/h

Source: SGS Economics and Planning 2016, GHUTDM 2016

Changes in vehicle kilometres and hours travelled by truck and buses were also modelled with:

- Daily truck movements increasing by 338 kilometres compared to Option 1. However daily hours spent driving fell by 50, demonstrating that there is less congestion in the road network.
- Daily bus kilometres travelled fell by 2,700 and hours spent commuting on public transport fell by 133 even though total daily boardings increased by 259. This indicates that there are more passengers using bus transport than under BAU, but average journey times and distances are reduced due to the more concentrated urban form.

Benefit estimation

These modelled reductions in overall kilometres travelled and hours spent commuting represent improved transport functionality and are converted to quantifiable benefits via avoided travel time costs, avoided vehicle operating costs, and avoided accident costs as outlined by the Australian Transport Assessment and Planning (ATAP) Guidelines, as shown in Table 40. Vehicle operating costs refer to the costs borne by the operator to the cover expenses that vary by kilometres travelled including fuel, tires, maintenance, fees and charges, and depreciation. Travel time costs refer to the opportunity cost of the time the traveller spends on their journey. Accident costs refer to the cost to society of motor vehicle accidents.

[20] Per weekday. For weekends it was assumed distance travelled and hours commuting are 80% of total weekday based on Commonwealth of Australia, 2015. Traffic and congestion cost trends for Australian capital cities

TABLE 40 TRANSPORT FUNCTIONALITY ASSUMPTIONS

	Value	Source
Commuter travel time costs	$15.84 per hour	ATAP 2013
Car operating costs – Option 1	40.9c per vehicle km	ATAP 2013
Car operating costs – Option2*	39.6c per vehicle km	ATAP 2013
Accident costs	24.8c per vehicle km	ATAP 2013

*Car operating costs are lower in Option 2 due to the increase in average travel speed.
Source: SGS Economics and Planning 2016, Transport and Infrastructure Council 2016, Australian Transport Assessment and Planning Guidelines, PV2 Road Parameter Values, from 2013 with prices escalated to 2016 prices using relevant ABS Consumer Price Indices.

Health benefits of active transport

Option 2 allows Greater Hobart to develop in a more compact form with jobs and population being closer together than under Option 1 BAU. This allows more residents to use active transport methods to commute to work. This hypothesis was tested using the GHUTDM to see the impacts on traffic flow across Greater Hobart via different modes.

A comparison of Option 1 BAU and Option 2 daily trips by mode modelling results is outlined in Table 41.

TABLE 41 DAILY TRIPS BY TRANSPORT MODE 2037

Daily trips by mode	Option 1 BAU	Option 2 merger 4 councils	Daily Change
Car	519,731	516,519	-3,212
Public transport	28,131	28,380	+249
Bicycle	7,209	7,296	+87
Walk	94,703	97,156	+2,453

Source: SGS Economics and Planning 2016, GHUTDM 2016

The GHUTDM results show that with a more compact urban form under Option 2, daily car trips are reduced by 3,212. This is accompanied by more commuters shifting to active modes of transport, with an additional 2,453 daily walking trips, 249 more trips on public transport and an additional 87 daily bicycle trips.

Commuters who use active travel methods tend to be healthier than people who are relatively inactive or sedentary and suffer less from medical conditions that reduce their life expectancy. This reduces demand on the health system for diagnosis, surgery and recovery.

Benefit estimation

According to the Australian Transport Assessment and Planning (ATAP) Guidelines[21], active travel, including walking and cycling, can contribute to minimising risks of cardiovascular disease, Type 2 diabetes, some cancers and osteoporosis. It can also assist with managing obesity, high blood pressure and high cholesterol. There are also mental health benefits as physical activity can improve self-esteem and confidence, and reduce stress, anxiety, fatigue and depression. Active modes of transport also allow people to feel more connected to the environment around them.

The ATAP assessment parameters state that shifting a commuter to an active transport method results in a weighted active health benefits of $1,526 per annum per person.

An important factor to note is that the GHUTDM did not introduce any new public transport networks or services when modelling Option 2. This means that there are no additional costs associated with

[21] Australian Transport Assessment and Planning Guidelines, 2013, with prices escalated to 2016 prices using relevant ABS Consumer Price Indices.

changes to public transport vehicle kilometres travelled, and that the additional daily boardings are assumed to be absorbed into the existing network.

Environmental performance

Research shows that rates of household energy and water consumption are influenced by dwelling type[22]. Dwellings of different types will achieve different outcomes in terms of environmental performance, influencing the overall performance of the different options.

Variation in transport usage and demand associated with differing built form outcomes can also have an environmental impact, with changes to pollution, emissions and landscape damage.

Using the differences in mix of dwelling types and location of jobs and population projected in the business and usual and the reform options to 2037, the difference in environmental performance between the options has been quantified. Two key factors were assessed:

1. Household resource consumption, and
2. Environmental externalities associated with car use.

Environmental externalities of car use include:

- **Air pollution.** Fossil fuel powered transport creates air pollution in the surrounding environment. Air pollution impacts of vehicles are considered to cause adverse effects on human health, damage to buildings, and/or crop losses.
- **Greenhouse gas emissions.** Greenhouse gas emissions are global in nature and are captured in the earth's atmosphere, they are therefore treated separately from air pollution which is a localised impact.
- **Noise pollution.** Noise pollution is a localised externality of car transport impacting upon the community and the amenity of places.
- **Nature and landscape.** Nature and landscape externality costs are applied if there is a change in land use to allow for car transport such as the construction of roads to allow for further greenfield expansion. Nature and landscape impacts include habitat loss and fragmentation.
- **Urban separation.** Urban separation is caused by roads and car traffic creating urban barrier effects restricting pedestrians' ability to freely move around the urban landscape.

Benefit estimation

Levels of resource consumption by current and future dwellings across Greater Hobart were estimated using benchmarks established by the Independent Pricing and Regulatory Tribunal (IPART), and a report produced by PwC for the International Emissions Trading Association (Table).

The environmental performance of the transport system under both scenarios was estimated using results from the GHUTDM, with the cost of the environmental externalities of car use calculated using the Australian Transport Council (ATC) National Guidelines (Table).

[22] See IPART 2011, 'Determinants of residential energy and water consumption in Sydney and surrounds – regression analysis of the 2008 and 2010 IPART household survey data', Electricity, Gas and Water – Research Report.

TABLE 40 VALUES FOR MONETISING ENVIRONMENTAL OUTCOMES

	Value	Source
Household energy consumption	1.59c per kg CO2	PwC 2015
Household water consumption	$2.28 per kL	IPART 2015
Car GHG Emissions	0.39 per vehicle km	ATC 2006
Air pollution	3.22c per vehicle km	ATC 2006
Noise	1.03c per vehicle km	ATC 2006
Water pollution	0.49 per vehicle km	ATC 2006
Nature and landscape	0.43 per vehicle km	ATC 2006
Urban separation	0.74 per vehicle km	ATC 2006

Source: SGS Economics and Planning, 2015; PwC 2015, 'GHG Market Sentiment Survey 2015', for the International Emissions Trading Association (IETA); Independent Pricing and Regulatory Tribunal (IPART) 2015, 'Fact Sheet: Water and sewerage charges and typical customer bills from 1 July 2015'; Australian Transport Council 2006, National Guidelines for Transport System Management in Australia, Volume 3, Canberra; Australian Bureau of Statistics 2016, 6401.0 Consumer Price Index, Australia

Agglomeration economies

Agglomeration economies relate to the productivity enhancements that firms gain from locating in an area of relatively dense economic activity. These benefits stem from a variety of factors including:

- The ability to achieve economies of scale and scope through specialisation given the large numbers of potential customers that are readily accessible
- The availability of numerous supply sources and potentially specialised infrastructure, and the competitive environment that stems from this, and
- Access to a deep and diverse pool of skilled labour, often complemented by high levels of technological/ knowledge transfer between firms, which helps bolster innovation.

When attempting to measure agglomeration economies two drivers are relevant. The first is the scale of the urban region, i.e. the larger the urban region, the higher the productivity. The second is related to the actual spatial organisation of the urban region, i.e. the ease at which firms can interact with each other. This second element of agglomeration is relevant when assessing the impacts associated with a denser urban form for Greater Hobart.

To measure the generation of agglomeration economies, SGS has utilised the effective job density (EJD) conferred by the alternative scenarios. In essence EJD is an indexed measure of each location's actual accommodation of jobs combined with its relative (travel time based) access to all other jobs in the region. That is, the higher an area's EJD, the more jobs that can be effectively reached from its location.

Experience elsewhere has shown that there is a predictable relationship between EJD and labour force productivity. SGS has applied these established relationships by industry, i.e. as is evident in Sydney, Melbourne and Adelaide, to Grater Hobart's on an industry by industry basis.

This change in EJD resulted in gross value add uplifts (or decreases) for the five industry types analysed, as shown in Table 421.

TABLE 42 GROSS VALUE ADD UPLIFT BY INDUSTRY GROUP - OPTION 2

	Services	Industry	Education	Entertainment	Retail
GVA Uplift	+$680,000	+140,000	+$70,000	-$160,000	-$970,000

Source: SGS Economics and Planning 2016

The EJD analysis revealed that due to the denser urban form in Option 2, the GVA uplift for service industries, which includes professional and scientific services and health care, through to hairdressers and gardeners, was the most significant. Industry, including manufacturing, and education also experienced GVA uplifts from a denser urban form.

These uplifts were however cancelled out by reductions in GVA in the entertainment and retail industry groups. In the business-as-usual case (Option 1) much of the jobs growth for these industries is centred at the Hobart airport and at Cambridge. Under Option 2, a portion these new jobs were redistributed to the Hobart waterfront and CBD, central Kingston, Rosny and the infill corridor in Glenorchy. Due to the higher dispersal of these jobs in Option 2, their respective EJDs decreased.

Tourist yield improvements

Tourism plays an important role as a major driver of economic activity in the Greater Hobart economy. Management and promotion of the tourism industry are expected to be more integrated and effective at the regional level under the local reform options.

Under Option 1, the business as usual case, it is assumed visitor nights to Hobart will increase in line with Tourism Research Australia forecasts for Hobart. For Option 2, it has been assumed that due to the enhanced management and promotion of Hobart as an internationally significant tourist destination, visitor tourist nights in Hobart will increase in-line with the growth rate of tourist nights across Australia[23]. This represents the enhanced ability of the City to market itself in a competitive market place and attract tourists in line with the rest of the country. It also represents the metropolitan wide management of the tourist industry being better placed to manage the increase in tourist arrivals.

Benefit estimation

The economic benefit of tourism on the Hobart economy is estimated using the daily average spending by domestic and international visitors[24], and the cost of servicing tourists, as outlined in Table 43.

TABLE 43 TOURISM YIELD VALUE OF ASSUMPTIONS

	Option 1 BAU	Option 2 merger four counc
Total visitor nights (2016)	6.1 million	6.1 million
Total visitor nights (2037)	13.2 million	13.6 million
Average spend per night (domestic visitor)	$229	$229
Average spend per night (international visitor)	$127	$127
Cost of servicing tourists	80%	80%

Source: SGS Economics and Planning, Tourism Research Australia forecasts (2016) and regional profile (2015)

The cost of servicing tourists is assumed to be equal to 80% of total spending. This reflects that when visitors spend money, they expect goods and services in return. These goods and services use resources that need to be redirected from elsewhere and cost money to provide; the resources required to service this additional demand represents an opportunity cost to the Greater Hobart economy.

The benefit to Greater Hobart is not the amount visitors spend, but the difference between what visitors pay and the opportunity costs of providing those goods and services. SGS estimates that the opportunity costs are close to 80% of total visitor expenditures.

By subtracting the cost of servicing tourists from the total tourism spending the tourism yield is calculated.

[23] As forecast by Tourism Research Australia, 2016

[24] Tourism Research Australia, 2015. Tourism Region Profile - Hobart and the South, Tasmania.

6.5 Appendix – Risk register

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
BAU	1. Inability to meet the changing and increasing community needs.	Inability to meet the changing and increasing community needs. All councils generally agree community needs are becoming more complex. Typical drivers are ageing of population, socio-economic issues, reduced (external, or non-rates) income sources and climate change mitigation and adaptation. Without significant opportunities for efficiencies and service improvements, Councils are at risk of not being able to meet the changing needs of the community.	2	D	Decreasing service levels. Financial sustainability at risk.	H	Effective strategy and culture to improve efficiencies. Initiate additional shared service arrangements	U	Councils
BAU	2. Inability to continuously improve efficiencies and service delivery.	Inability to continuously improve efficiencies and service delivery.	2	D	Stagnating or decreasing service levels	H	Initiate additional shared service arrangements	U	Councils
all 4	3. Escalation of transitioning process costs and time	Escalation of transitioning process costs and time. The transitioning process of a merger can be costly time and consuming and is of risk of escalating.	2	D	Higher costs than anticipated, lower levels of community satisfaction, vulnerability to anti-merger campaigns	H	A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA) have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).	U	Merged entity
3	3. Escalation of transitioning process costs and time	Escalation of transitioning process costs and time. The transitioning process of a merger can be costly and it also takes time and is of risk of escalating.	2	D	Higher costs than anticipated, lower levels of community satisfaction, vulnerability to anti-merger campaigns	H	A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA)	U	Merged entity

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							have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).		
2	3. Escalation of transitioning process costs and time	Escalation of transitioning process costs and time. The transitioning process of a merger can be costly and it also takes time and is of risk of escalating.	3	D	Higher costs than anticipated, lower levels of community satisfaction, vulnerability to anti-merger campaigns	H	A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA) have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).	U	Merged entity
all 4	4. Loss of local representation	Loss of local representation. The merged entity will have a lower per capita number of Elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the Elected Members is likely to increase, resulting in potentially better outcomes in terms of local representation.	2	C	Mismatching service needs and delivery. Community dissatisfaction	H	Temporary wards and/or creating new opportunities for community engagement and empowerment	A	Merged entity
3	4. Loss of local representation	Loss of local representation. The merged entity will have a lower per capita number of Elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the Elected Members is likely to increase, resulting in potentially better outcomes in terms of local representation.	3	C	Mismatching service needs and delivery. Community dissatisfaction	M	Temporary wards and/or creating new opportunities for community engagement and empowerment	A	Merged entity
2	4. Loss of local representation	Loss of local representation. The merged entity will have a lower per capita number of Elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the Elected Members is likely to increase, resulting in potentially better outcomes in terms of local representation.	4	C	Mismatching service needs and delivery. Community dissatisfaction	M	Temporary wards and/or creating new opportunities for community engagement and empowerment	A	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owne
all 4	5. Inability to meet the needs of communities of interest (deterioration of service levels)	An inability to meet the needs of communities of interest may result in deterioration of service levels. The merged entity will represent a larger and more diverse community and the risk exists that understanding of and connections with communities of interest start to attenuate.	3	C	Decreasing levels of service satisfaction rates	M	Ensure existing service levels are at least retained. Wards as a means to ensure connectedness with and understanding of the local community.	A	Merged entity
3	5. Inability to meet the needs of communities of interest (deterioration of service levels)	An inability to meet the needs of communities of interest may result in deterioration of service levels. The merged entity will represent a larger and more diverse community and the risk exists that understanding of and connections with communities of interest start to attenuate.	4	C	Decreasing levels of service satisfaction rates	M	Ensure existing service levels are at least retained. Wards as a means to ensure connectedness with and understanding of the local community.	A	Merged entity
2	5. Inability to meet the needs of communities of interest (deterioration of service levels)	An inability to meet the needs of communities of interest may result in deterioration of service levels. The merged entity will represent a larger and more diverse community and the risk exists that understanding of and connections with communities of interest start to attenuate.	5	C	Decreasing levels of service satisfaction rates	M	Ensure existing service levels are at least retained. Wards as a means to ensure connectedness with and understanding of the local community.	A	Merged entity
all 4	6. Legacy issues undermining the financial performance of the new entity	Legacy issues undermining the financial performance of the new entity. The merged entity will consolidate the previous entities. If there are any hidden financial, risk or asset management issues, the merged entity may 'inherit' these issues which can undermine the expected returns of the merger process.	3	C	Unexpected expenditures and lower than anticipated merger savings.	M	Rigorous due diligence assessment and incorporation of results in merger plan, KPI and expectations	U	Merged entity
3	6. Legacy issues undermining the financial performance of the new entity	Legacy issues undermining the financial performance of the new entity. The merged entity will consolidate the previous entities. If there are any hidden financial, risk or asset management issues, the merged entity may 'inherit' these issues which can undermine the expected returns of the merger process.	3	C	Unexpected expenditures and lower than anticipated merger savings.	M	Rigorous due diligence assessment and incorporation of results in merger plan, KPI and expectations	U	Merged entity
2	6. Legacy issues undermining the financial	Legacy issues undermining the financial performance of the new entity. The merged entity will consolidate the previous	3	C	Unexpected expenditures and lower than	M	Rigorous due diligence assessment and incorporation of results in merger plan, KPI and expectations	U	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
	performance of the new entity	entities. If there are any hidden financial, risk or asset management issues, the merged entity may 'inherit' these issues which can undermine the expected returns of the merger process.			anticipated merger savings.				
all 4	7. Different organisational cultures	Different organisational cultures. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.	2	D	Synergies and efficiencies are not optimised. Delay in transitioning process and related costs.	H	A thoroughly mapped and planned process of transition, which considers cultural differences.	I	Merged entity
3	7. Different organisational cultures	Different organisational cultures. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.	2	D	Synergies and efficiencies are not optimised. Delay in transitioning process and related costs.	H	A thoroughly mapped and planned process of transition, which considers cultural differences.	I	Merged entity
2	7. Different organisational cultures	Different organisational cultures. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.	2	D	Synergies and efficiencies are not optimised. Delay in transitioning process and related costs.	H	A thoroughly mapped and planned process of transition, which considers cultural differences.	I	Merged entity
all 4	8. Unrealistic expectations about outcomes, especially in regards to efficiency savings	Unrealistic expectations about outcomes, especially in regards to efficiency savings. Unrealised expectations may result in dissatisfaction, low morale and political turmoil, potentially even in attempts to rollback the merger which would be accompanied by additional costs (financial and other).	3	B	Unmet expectations and consequential need to adjust strategic plans and budgets.	M	Set realistic KPIs and communicate these frequently		Merged entity
3	8. Unrealistic expectations about outcomes, especially in regards to efficiency savings	Unrealistic expectations about outcomes, especially in regards to efficiency savings. Unrealised expectations may result in dissatisfaction, low morale and political turmoil, potentially even in attempts to rollback the merger which would be	3	B	Unmet expectations and consequential need to adjust strategic plans and budgets.	M	Set realistic KPIs and communicate these frequently		Merged entity

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		accompanied by additional costs (financial and other).							
2	8. Unrealistic expectations about outcomes, especially in regards to efficiency savings	Unrealistic expectations about outcomes, especially in regards to efficiency savings. Unrealised expectations may result in dissatisfaction, low morale and political turmoil, potentially even in attempts to rollback the merger which would be accompanied by additional costs (financial and other).	3	B	Unmet expectations and consequential need to adjust strategic plans and budgets.	M	Set realistic KPIs and communicate these frequently		Merged entity
SA	9. Failure of a Capital City Act to be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	E	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	E	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	I	State
all 4	9. Failure of a Capital City Act be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	C	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	M	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	U	Councils / State
3	9. Failure of a Capital City Act to be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	D	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	H	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	I	State

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owne
2	9. Failure of a Capital City Act to be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	D	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	H	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	I	State
SA	10. Inability to agree on common directions in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas)	Inability to agree on common directions in regards for strategic initiatives. This is especially true in case of a strategic alliance and mergers that does not involve all four councils.	2	D	Inability to deliver on strategic initiatives	H	Establishing an early MoU, fostering a culture that aims to look at the greater good, carefully designed process for plan making, engaging independent advice where applicable	I	Councils
3	10. Inability to agree on common directions in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas)	Inability to agree on common directions in regards for strategic initiatives. This is especially true in case of a strategic alliance and mergers that does not involve all four councils.	4	D	Inability to deliver on strategic initiatives	H	Establishing an early MoU, fostering a culture that aims to look at the greater good, carefully designed process for plan making, engaging independent advice where applicable	I	Merged entity and individual Council
2	10. Inability to agree on common directions in regards for strategic initiatives for the	Inability to agree on common directions in regards for strategic initiatives. This is especially true in case of a strategic alliance and mergers that does not involve all four councils.	3	D	Inability to deliver on strategic initiatives	H	Establishing an early MoU, fostering a culture that aims to look at the greater good, carefully designed process for plan making, engaging independent advice where applicable	I	Merged entity and individual Councils

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
	entire Greater Hobart area (encompassing the existing four Council areas)								
all 4, 3, 2	11. Important decisions to achieve efficiency savings are not implemented by the new entity Council	"Important decisions to achieve efficiency savings are not implemented by the new entity Council. The expected savings and service improvements depend on the extent to which the new entity is willing and able to make decisions that enable savings and improvement. In NSW, State legislation puts stringent limitations on staff reductions / redundancies and place of work. In Tasmania there are no set limitations. The Governor has the power, as a result of any review, by order and on the recommendation of the Minister, to make an order in relation to appropriate savings and transitional matters; and employees of a council involved/established as a result of a merger.	1	D	Lower or negative financial savings due to reform than initially anticipated. Severity of impact depends on the extent to which decisions are not made.	E	Effective transitional arrangements	I	Merged entity
all 4, 3, 2	12. Council is unable to dispose of excess assets	Council is unable to dispose of excess assets. As part of a merger, there will likely be efficiencies in relation to assets held, such as the number of graders and depots. There is a risk the assets may not be sold at the asset value.	3	B	Lower or negative financial savings due to reform than initially anticipated. Severity of impact depends on the extent to which assets are not sold	M	Sell assets at lower value than anticipated		Merged entity
all 4, 3, 2	13. Rates equalisation and the risk to rates revenue	Rates equalisation and the risk to rates revenue. Under the merged entity there may be a drive to equalise rates levels across the new entity's geographic area. There is a risk this may result in lower Council revenue, assuming no rate payers will be made worse off.	2	C		H	Effective transitioning strategy for rates equalisation (stages approach)	A	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
all 4, 3, 2	14. Service levels and costs skew towards the highest service levels	Service levels and costs skew towards the highest service levels. As part of a merger, there is often a drive to equalise service levels. Experience elsewhere shows, the tendency is for service levels to skew to the highest level (of the pre-existing councils), and so will the costs of service delivery.	2	D	Efficiency savings are not achieved	H	Effective transitioning strategy	U	Merged entity
all 4	15. Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other	Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other. As part of the merged entity, operations would be assumed to over time merge into one location from an efficiency point of view. There are often impediments of this occurring, either legislative or community driven. For instance, West Tamar Council continues to operate at least some of its services from a number of locations.	1	D	Synergies and efficiencies savings are not optimised	E	Roll out and implementation of ICT infrastructure, implement strategy for the consolidation of work locations	A	Merged entity

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