Local Government Board Review

FINAL REPORT: REVIEW OF VOLUNTARY AMALGAMATION AND SHARED SERVICES OPTIONS

SORELL AND TASMAN COUNCILS

Voluntary Amalgamation
and Shared Services Options

FINAL REPORT: REVIEW OF VOLUNTARY AMALGAMATION AND SHARED SERVICES OPTIONS: SORELL AND TASMAN COUNCILS

Author
Local Government Board
GPO Box 123
Hobart, TAS, 7001

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THE LOCAL GOVERNMENT BOARD

The current Board members are:

Mr Greg Preece (Chairperson) – Mr Preece has extensive experience working in the Tasmanian local government sector. He was the General Manager at Meander Valley Council between 2005 and 2016 and also the General Manager at Dorset Council between 1999 and 2005. Mr Preece was recently appointed to the State Grants Commission (Tas) as a local government representative.

Mr Hadley Sides (nominee of LGAT) – Mr Sides is a Director on the Board of the Macquarie Point Development Corporation and is the former Chief Executive of the Sullivans Cove Waterfront Authority. He worked for 15 years as Chief Executive Officer and Director of Economic Development with Victorian councils. Mr Sides is also a former chairperson of the Local Government Board.

Mr Andrew Wardlaw (nominee of LGPA Tas) – Mr Wardlaw is a former Director, State and National President of the Local Government Professionals Australia (Tasmania). He is currently the General Manager at the Burnie City Council. Mr Wardlaw has 25 years' experience in local government, and has held General Manager positions in two other Tasmanian Councils: King Island and West Coast.

Mr Alex Tay – Mr Tay is the current Director of Local Government in the Department of Premier and Cabinet. As Director of Local Government, Mr Tay or his nominee automatically becomes a member of the Board under the provisions of the *Local Government Act 1993* (the Act).

The Local Government Board is a statutory body established under the Act. The Act provides that the role of the Board is to:

- conduct reviews of councils or reviews that concentrate on a specific topic or topics at the request of the Minister for Local Government;
- carry out reviews of single and joint authorities; and
- provided general advice to the Minister at his or her request.

Under Section 210(2) of the Act, the Board consists of:

- the chairperson;
- one person nominated by the Local Government Association of Tasmania (LGAT);
- one person nominated by the Local Government Managers Australia (Tasmania) (LGMA) [now named the Local Government Professionals Australia (Tasmania)]; and
- the Director of Local Government or his or her nominee.

The Minister for Local Government appoints all Board members, with the exception of the Director of Local Government, which is a statutory position. The Board was supported by a dedicated Secretariat for the Review. The Secretariat received administrative support from the Local Government Division, Department of Premier and Cabinet.

The Board's functions and powers are set out in Part 12A of the Act. The Board is an independent body which has a wide discretion as to how it carries out a review. However, the Act, together with the Terms of Reference, provides directions that the Board must consider in this review and generally. The Act provides that the Board may carry out any review in any manner it thinks appropriate (section 214C(1)) but must provide reasonable opportunity for public consultation and for any affected council to make submissions (section 214C(2)).

ABBREVIATIONS

AAV	Assessed Annual Value
CV	Capital Value
EPA	Environment Protection Agency
FTE	Full Time Equivalent
EMRS	Enterprise Marketing and Research Services
LGAT	Local Government Association of Tasmania
LGD	Local Government Division, Department of Premier and Cabinet
LGPA (Tas)	Local Government Professionals Australia (TAS)
LTC	Local Transition Committees
LTFMP	Long-Term Financial Management Plan
PAHSMA	Port Arthur Historic Site Management Authority
RASM	Rural Agricultural Small and Medium
RAVL	Rural Agricultural Very Large
SERDA	South East Regional Development Association
STCA	Southern Tasmanian Councils Association
TAO	Tasmanian Audit Office
TCCI	Tasmanian Chamber of Commerce and Industry
TEC	Tasmanian Electoral Commission
US	Urban Small
UTS:CLG	University of Technology Sydney Centre for Local Government

DEFINITIONS

Assessed Annual Value	The gross annual rental value of the property excluding GST, municipal rates and land tax (but is not to be less than 4 per cent of the Capital Value of the property).
Asset consumption ratio	Shows the depreciated replacement cost of an asset (e.g. roads, bridges, and infrastructure) divided by the current replacement cost. It therefore shows the average proportion of new condition left in the depreciable assets.
Asset renewal funding ratio	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a useful measure relying on the existence of long-term financial and asset management plans.
Asset sustainability ratio	Provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100 per cent indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
Capital Value	The total value of the property, excluding plant and machinery, and includes the Land Value of the Property.
Land Value	The value of the property excluding all visible improvements such as buildings, structures, fixtures, roads, standings, dams, channels, artificially established trees, artificially established pastures and other like improvements but does include draining, excavation, filling, reclamation, clearing and any other such like invisible improvements to the land.
Net financial liabilities ratio	This ratio is the liquid assets less total liabilities divided by the total operating income.
Shared services	Shared services is where two or more councils join together to provide a service to meet community needs, this can include sharing assets such as people and capital[1]. The key aim of shared services is to reduce costs via economies of scale, economies of scope, improved service quality, organisational development, or increased strategic capacity.
Underlying result (surplus/deficit)	This is the difference between recurrent or day-to-day income and expenses.
Underlying surplus ratio	This ratio is the underlying result expressed as a percentage of recurrent income.

[1] University of Technology Sydney: Centre for Local Government, *Review of Shared services Arrangements – Between Circular Head and Waratah-Wynyard Councils, November 2016*, accessed via https://www.circularhead.tas.gov.au/webdata/resources/files/Review%20of%20Resource%20Sharing%20%20-%20University%20Technology%20Sydney.pdf on 18 April 2018 at p7.

FOREWORD

This Review by the Local Government Board (the Board) into Sorell and Tasman's voluntary amalgamation and shared services options was initiated by the Minister for Local Government at the request of the two Councils. The Review followed a feasibility study (that also included Clarence City and Glamorgan-Spring Bay Councils) that indicated that there may be benefits to reform, compared to continuing into the future with the status quo.

The Review was an objective and evidence-based exercise, which ultimately led the Board to make findings and recommendations in favour of amalgamation of the two Councils.

The Board recognises that there are passionate views within the communities about what is best for the future, and there will be differing views on the Board's findings and recommendations. The Board would like to thank all those who participated in the process, for the time taken to make submissions and/or attend the Board's public hearings. Their input provided valuable insights into the two communities and the two Councils.

The Board also wishes to express its gratitude for the engagement of councillors and council staff with the Board. Council staff clearly have pride in the work they do for the benefit of their communities and have a genuine desire to provide good services that meet community expectations. Where the Board finds in this Review that there are opportunities to improve services into the future, this is in no way a reflection on the commitment and performance of the Councils' staff. Rather, such findings simply reflect the limitations and challenges Council staff work within. Hence, the Board hopes that its recommendations, if implemented, will support Council staff into the future.

The Board also acknowledges the maturity with in which councillors have engaged in this process with an open mind as to what the possibilities may be for their communities. Ultimately, they will now have a say in what they assess from this Review is the best way forward.

Finally, the Board wishes to thank Ms Rachel Nielsen and Mr Michael Barnier, whose commitment and dedication in providing the Board with Secretariat support was critical to the Board fulfilling its Terms of Reference.

EXECUTIVE SUMMARY

Following the South East Feasibility Study (the Feasibility Study) which contained modelling for amalgamation and further shared services options involving four South East Councils, the Sorell and Tasman Councils conducted consultation with their residents to determine the support for amalgamation and shared services.

The result of these consultations led both Councils to write to the Minister for Local Government, the Hon Peter Gutwein MP, to participate in a Local Government Board review. The Minister authorised the Local Government Board to undertake a review into potential voluntary amalgamation and shared services options for Sorell and Tasman Councils (the Review). The Review formally commenced in December 2017.

The Review examined three options for the two Councils:

Option 1: Stand-Alone Councils
(no change from present arrangements)

Option 2: Further Shared Services
(an enhancement of present arrangements)

Option 3: Voluntary Amalgamation

The Board conducted its Review to determine the long-term sustainability of the Councils under the three options. Both existing Councils are currently viable in terms of whether they can currently meet financial obligations arising from the services they deliver. However, this is not the same as understanding whether the Councils will be able to meet expectations over the long-term without significant increases in rates and charges and/or reductions in services, and that the burden is spread evenly between current and future ratepayers.

The Board found that both Councils have challenges and opportunities arising from the characteristics of their municipal areas. Of particular note, Tasman's demographic profile, including low population growth and ageing, is already apparent in terms of the challenges this poses to Council. Sorell, on the other hand, has a fast growing, and relatively younger population, though this creates other challenges for it (such as meeting new infrastructure demands).

In this context, the Board conducted an examination of the present state and arrangements of the Councils and the potential for, and outcomes from, enhanced Shared Services or Voluntary Amalgamation. The Board made the following findings:

FINDINGS

Chapter 2: Local Government Reform Context: Amalgamations and Shared Services

F1 - Various reviews and academic studies indicate that both shared services arrangements and amalgamations have their pros and cons.

F2 - There are some insights from these studies into the success factors for both models, in particular:

- community input and support is critical for amalgamations; and
- enduring political support is critical for shared services.

Chapter 3: Key Features of the Sorell and Tasman Municipal Areas

F3 - There are distinct demographic differences between Sorell and Tasman, with Sorell being a fast-growing and younger population compared with Tasman which has low population growth and a relatively older population.

F4 - Despite this, there are complementary economic and social interests, particularly with the opportunities and challenges that tourism provides for the region as a whole. Because of this, while there are distinct communities within both municipal areas, there is a natural community of interest across the whole region.

Chapter 4: Key Features of the Sorell and Tasman Councils

F5 - Independent financial analysis conducted for the Board of selected measures over the past three years, showed that both Sorell and Tasman Councils are not at imminent risk of being financially unviable, based on historical financial information.

F6 - The Councils are extensively utilising shared service arrangements to deliver financial efficiencies, with Tasman Council having a higher level of reliance on these arrangements. The shared General Manager position between the Councils is critical to the success of these arrangements.

F7 - The number of elected members per Council is around the average for similar sized councils, however, the number of staff in both Councils is below average, more so in Tasman which has just over half the average FTE staff.

Chapter 5: Stand-Alone Councils (Option 1 – No Change)

F8 - The independent analysis conducted for the Board shows that there is no imminent risk of the Councils being financially unviable. When standardised assumptions and realistic variations are applied to the Sorell and Tasman Councils' Long-term Financial Management Plans, their long-term sustainability is not as evident.

F9 - If the Councils remain stand-alone, they will struggle to continue to provide the services that they do now and there will be little prospect for enhanced services to meet the demand from population and tourism-driven growth.

F10 - There is little potential to withstand unexpected events or respond to resident demands for additional services without some additional rate increases beyond the assumed levels.

F11 - The Board's analysis indicates approximately an additional $5 million for Sorell Council and $2 million for Tasman Council in rates revenue over the 20–year period would be required to remain sustainable.

F12 - Tasman Council is viable in the short-term, largely as a result of the favourable shared services arrangements that it benefits from with Sorell Council.

Chapter 5: Stand-Alone Councils (Option 1 – No Change) cont.

F13 – The shared services arrangement is highly vulnerable to change, due to risks built into the arrangement such as key person dependencies and continued political support. There is likely to be increased demand as a result of population growth in the Sorell Municipal Area, which will place pressure on Sorell Council to direct all of its resources to this area rather than share with Tasman Council.

F14 - The Board's analysis indicates that if shared services were to be unwound, approximately an additional $3,500 per rateable property in Tasman over the next 20 years would be required to maintain a sustainable council. This may well be beyond the capacity or will of Tasman ratepayers.

F15 - Local representation under the stand-alone option would not change, however improvements could be made through the introduction of community boards, to address current perceived disadvantaged communities.

F16 - There is little scope for increased capacity, which will challenge the ability of both Councils to satisfactorily meet regulatory obligations and service demands. Similarly, the ability for both Councils to leverage economic opportunities and challenges will be constrained.

Chapter 6: Further Shared Services Options (Option 2)

F17 - There are limited viable options available to Sorell and Tasman Councils for further shared services in new service areas.

F18 - It is likely that any future extended shared services, even if achievable, would create marginal efficiencies at best.

F19 - There could be better arrangements in place for the existing shared services if the Councils continue to stand alone.

F20 - As with Option 1, shared services are highly vulnerable given that they require enduring political and senior management support over the long-term.

F21 - The current shared services arrangements are characterised by key person dependencies, especially in regard to the shared General Manager role, which is dependent upon the particular personal attributes of the current General Manager and it may be hard to replace these with a similar person prepared to undertake the joint position.

Chapter 7: Voluntary Amalgamation Option (Option 3)

F22 - Even with an assumption of only very minor savings from amalgamation of $250,000 per annum the combined entity is sustainable over the next two decades.

F23 - The independent financial analysis demonstrated that the amalgamated council would generate operating surpluses every year over the 20-year period.

F24 - The Board's analysis projects that an amalgamated council would provide a benefit in the form of a reduction in the rating burden on Sorell and Tasman ratepayers of $11.3 million over 20 years compared to the stand-alone Councils. This would be a rate benefit, over the next 20 years, of $920 per rateable property or $660 per resident across the combined municipality.

F25 - An amalgamated council is likely to demonstrate improved sustainability and resilience in the face of potential financial 'shocks' but will still face some challenges.

F26 - An amalgamated council would be unworkable if there was a significant reduction in the existing aggregate staff levels.

F27 - A works depot and service site would continue to be justified at Tasman and has been factored into the financial modelling.

Chapter 7: Voluntary Amalgamation Option (Option 3) cont.

F28 - A new council should have the opportunity to achieve small efficiencies in internal transactional services which would free up resources to be reallocated to customer services. This, together with the removal of duplication between the two Councils, such as reporting requirements, would provide capacity for new and improved services, as well as the ability to meet regulatory obligations. This would be particularly beneficial to Tasman residents and ratepayers.

F29 - The introduction of electoral districts, complemented by community boards, would maintain local representation, albeit in a different form.

F30 - An amalgamated council would allow for a greater strategic regional approach to planning and service delivery and provide outcomes that are likely to be greater than two stand-alone councils, whose understandable interests would be to compete with each other for economic development opportunities.

F31 - The existing Councils have very different rating systems that would need to be integrated over time in an amalgamated council. It is debatable whether the current rating systems are equitable amongst categories of ratepayers.

F32 - Independent analysis, undertaken on behalf of the Board, indicates that a rating alignment over time is possible that would smooth the rating impacts on individual ratepayers, without cross-subsidisation across the existing municipal areas.

RECOMMENDATIONS

As a consequence of the findings above, the Board makes the following recommendations:

R1 - The Sorell and Tasman Councils be voluntarily amalgamated into a new council which incorporates the existing municipal boundaries (Option 3).

R2 - The transitional process as outlined in the supporting recommendations for Option 3 in Chapter 9 be implemented, including that:

- The total number of persons to be elected as councillors of the new amalgamated council be nine.
- That up to three electoral districts be created as a transitional measure for the new amalgamated municipal area, for up to two local government terms.
- Electoral districts be based around, either, the areas of:
  - Tasman Municipality (and adjacent areas of Sorell); Rural Sorell and Southern Beaches; and Sorell and Midway Point; or
  - If only two electoral districts are preferred, these should reflect the former Sorell and Tasman municipal areas.
- An Interim Council be appointed for a period of up to 12 months and comprise either:
  - Three 'Commissioners'; with one an independent Chairperson; and with a member drawn from each of the affected municipal areas of Tasman and Sorell. (*Option A*); or
  - Five members; with an independent Chairperson; the two Mayors of the existing Councils; and a councillor nominated by each of the existing Councils. (*Option B*).
- Current Councillors be appointed to act in the role of 'Interim Community Board' for the transition period until the election no later than October 2019, to conduct community consultation on the establishment of community boards in the new Council area post-transition.
- The General Manager continues on in the role as the General Manager until the expiry of his contract, at which time the new council could appoint its preferred General Manager.
- An amalgamated council be given the interim name of the 'Sorell-Tasman Council'.

R3 - The Tasmanian Government considers providing transitional assistance to support the Interim Council and staff to bring the operations of the existing Councils together.

1. INTRODUCTION

This Chapter provides an overview of the:

- background for the Review;
- the scope of the Review; and
- the process for the Review.

1.1 BACKGROUND TO THE REVIEW

South East Feasibility Study

On 30 September 2016, KPMG delivered the *South East Feasibility Study*[2] (the Feasibility Study) which contained modelling for amalgamation and further shared services options involving four South East Councils: Sorell, Tasman, Clarence City, and Glamorgan-Spring Bay Councils. The Study was jointly funded by the Tasmanian Government and the participating councils.

The Feasibility Study assessed the viability of the following four different merger options and a shared services option involving the South East Councils:

- **Option 0** – Ongoing and incremental shared services
- **Option 1** – Merger of Clarence City, Sorell, Tasman, and Glamorgan-Spring Bay Councils
- **Option 2** – Merger of Clarence City, Sorell, and Tasman Councils
- **Option 3** – Merger of Sorell, Tasman, and Glamorgan-Spring Bay Councils
- **Option 4** – Merger of Sorell and Tasman Councils

The Feasibility Study indicated that all modelled amalgamation and resource-sharing options involving the Councils would provide a positive financial return.

Decision by Councils to Participate in the Review

Sorell and Tasman Councils undertook consultation with their residents and ratepayers to determine the degree of support for the amalgamation and resource-sharing options. The results of the surveys from both Sorell and Tasman Councils showed a clear majority (74 per cent in Tasman and 85 per cent in Sorell) of respondents supported voluntary amalgamations. The number of respondents, 681 respondents in Sorell and 301 in Tasman, is sufficient for the Board to have confidence that the results are indicative of the respective populations' views on this matter. The results of this consultation are set out in Appendix 2.

Both Sorell and Tasman Councils decided to write to the Hon Peter Gutwein MP, Minister for Local Government, to participate in a Local Government Board review. At the formal request of Sorell and Tasman Councils, the Minister authorised the Local Government Board to undertake a review into potential voluntary amalgamation and resource-sharing options for Sorell and Tasman Councils (the Review). The Review formally commenced in December 2017.

Clarence City and Glamorgan-Spring Bay Councils also consulted with their communities but opted not to participate in the Review. For this reason Feasibility Study Options 1-3, set out above, are not within the scope of the Review.

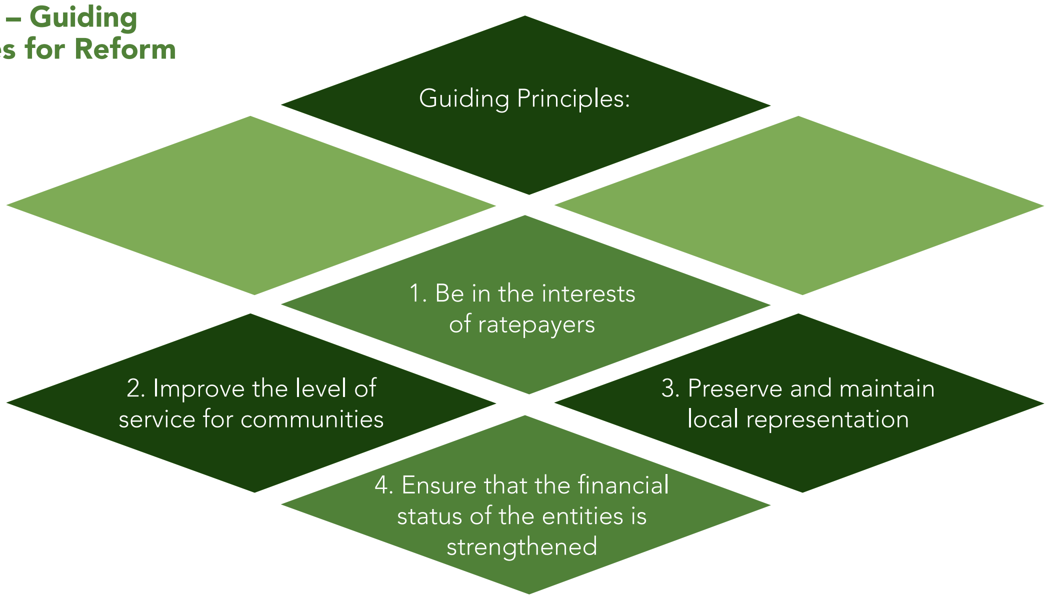
[2] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf

1.2 SCOPE OF THE REVIEW

Terms of Reference and Guiding Principles for Reform

The guiding principles for considering reform as set out in the Terms of Reference are in Figure 1 below:

Figure 1 – Guiding Principles for Reform



The Terms of Reference also provide that 'only those councils which agree to participate in the Review will be considered for voluntary amalgamation. Any council affected by any proposal or option considered by the Board within the scope of the Review will be consulted, consistent with the statutory requirements under Part 12A of the *Local Government Act 1993*' (the Act).

The Terms of Reference provided further specific requirements about what the Board had to consider in the Review. The Board was required to consider and address the following:

1. Financial, economic, social, and strategic benefits and costs for the relevant councils and their communities;
2. Impacts on levels of council accountability, community representation, service delivery and operational performance;
3. Implementation and transition arrangements, including timing, governance, and funding for any options where the Board recommends change; and
4. Any other matter(s) within the Board's statutory remit under section 214A of the Act that the Board considers relevant to the evaluation, optimisation and/or implementation of amalgamations or shared services options.

The Board's Approach

The Local Government Board has a broad remit in respect to the matters for review under the Act and the Terms of Reference. The Board's approach to the due diligence review and the public consultation for the Review has been guided by the requirements of the Act and the direction from the Minister under the Review's Terms of Reference.

The Minister for Local Government directed the Local Government Board to deliver a report providing analysis, findings, and recommendations regarding further shared services between the Councils as well as an amalgamation of the two Councils. To enable the Minister to make a decision between the status quo and the potential options, the Board assessed and analysed the options as an alternative to the current and future sustainability of the Councils continuing as stand-alone councils.

1.2 SCOPE OF THE REVIEW CONT…

The scope of the Review focused on three options:

Option 1. No change to Sorell and Tasman Councils
Current and Future Sustainability (10 and 20 year outlook) of the Sorell and Tasman Councils

Option 2. Further shared services options
Potential to improve sustainability through further shared service arrangements

Option 3. Amalgamation of Sorell and Tasman Councils
Voluntary Amalgamation of Sorell and Tasman Councils into one local council

When carrying out the Review, the Board considered the assumptions, analysis, and findings contained within the Feasibility Study. As the Feasibility Study was completed in September 2016, the Board sought to account for any significant developments or changed circumstances affecting its analysis, findings, and recommendations.

What is a Sustainable Council?

In considering whether Sorell and Tasman Councils are financially viable and sustainable, the Board notes the lack of an agreed sector-wide definition for short-term viability and long-term sustainability of councils.

However, the Board notes the significant contribution of the Local Government Financial and Asset Reform Project (cooperatively delivered by Local Government Association of Tasmania (LGAT) and the Local Government Division in 2012-13 and funded by the Australian Government) in supporting Tasmanian councils to develop and implement long-term financial and asset management planning. One of the stated objectives of this project at the time was to assist councils to undertake the long-term management of assets and services in a sustainable way and at a level acceptable to the community without unplanned rate rises or disruptive service cuts.

The significant improvements in financial and asset management planning and processes in recent years have contributed to councils having a much better foundation on which to make financial decisions for their councils and communities. These financial decisions are balanced with considerations about the service levels expected by their communities and the level of rates that can be sustained by communities in the short and long-term.

The Board considers that the Victorian Rural and Regional Councils Sustainability Reform Program definition of sustainable councils is a sound reference point to assess financial sustainability:

> *'Local governments having the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks into the future'.*[3]

In the Board's view, shocks in this context could include the capacity to withstand a financial shock such as a failed investment or sudden decrease in grant funding, an unplanned event with financial impacts such as a natural disaster (i.e. a flood event or fire).

Independent analysts, Crowe Horwath, were engaged by the Board to undertake an independent financial review of the Councils and the potential for shared services and voluntary amalgamation to improve performance. This financial analysis refers to two further key definitions:

> *'The terms sustainability and viability are often used interchangeably. The question of financial sustainability goes beyond the imminent ability of meeting financial obligations and refers to the financial capacity to provide services both now and into the future. In the context of local government, financial sustainability translates to a budget that is balanced over the medium to long term **without the need for significant increases in rates and charges or cuts to services, while the burden is being shared fairly between current and future ratepayers.**' – Crowe Horwath*[4]

[3] KPMG, "Rural and Regional Councils Sustainability Reform Program – Local Government Victoria, Department of Environment, Land, Water and Planning, Stage 1 Project Report – 19 December 2017" accessed via http://www.ruralcouncilsvictoria.org.au/wp-content/uploads/2018/04/Rural-and-Regional-Councils-Sustainability-Reform-Program_Phase-1-Final-Report.pdf

[4] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, p5

1.2 SCOPE OF THE REVIEW CONT…

> *'It has been generally accepted that to assure long-term financial sustainability, councils should, at a minimum, budget and operate to break-even while managing their assets in a way that maximises service delivery and manages related risks. Surpluses over a longer period disadvantage ratepayers and losses are not sustainable in the long-term.'*
> *– Crowe Horwath*[5]

These definitions address the need to manage council finances in such a way that they do not produce distortions in outcomes for ratepayers (through sudden or burdensome rate increases) or for communities (through reduced service levels) in the short or the long-term.

In the context of interpreting the Terms of Reference, the Board considers that that there are five key areas where a council is required to demonstrate performance, noting that these extend beyond financial sustainability.

1. **Financial sustainability:** Sound financial management and performance and asset management including appropriate levels of rating;
2. **Adequate service delivery:** Delivery of adequate services and governance systems;
3. **Effective local representation:** Provision of effective local representation;
4. **Meeting regulatory obligations:** Compliant with regulatory obligations (such as animal control, planning, environmental requirements etc.); and
5. **Managing municipal opportunities and challenges:** Capacity to manage economic and social opportunities and challenges (such as community development, tourism, emergency services and parks and recreation).

The Board analysed the extent to which the Sorell and Tasman Councils have the capacity to meet these requirements under the three options:

- Under their present structure as stand-alone councils **(Option 1)**.
- Through an extension of shared services arrangements between the Councils **(Option 2)**; or
- Under an amalgamated council structure **(Option 3)**.

The Board considered the underlying assumptions and findings in the Feasibility Study and whether these findings had been impacted by developments since the provision of the report. It also considered lessons that could be applied from existing shared services arrangements and amalgamations locally and inter-jurisdictionally. It also considered whether the options would meet the four principles and other matters for consideration in the Terms of Reference.

[5] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, p7

1.3 PROCESS FOR THE REVIEW

The broad steps in the Review process are as set out in the timeline below:

Milestone	Timeframe
Terms of Reference released by the Minister	20 November 2017
Board notifies Sorell and Tasman Councils of commencement of Review.	22 December 2017
Board undertakes consultation with Councils, Stakeholders and the Community	24 February 2018 – 6 April 2018
Consultation Analysis	Early to Mid-April 2018
Financial Analysis including sensitivity testing and rate modelling	April to May 2018
Drafting of Report including technical analysis	Mid-April to Late May 2018
Settle Report	Mid-June 2018
Board submits Report to Minister (section 214D (1)).	29 June 2018

Financial Analysis and Rates Analysis Advice from Independent Analysts

The Board commenced its work by considering the Feasibility Study and by commissioning financial analysis by independent consultants. Crowe Horwath was engaged to take account of the changes in circumstance in both Councils since the completion of the Feasibility Study in 2016. This included the performance of the Councils against their financial planning and asset management projections over the intervening period, changes in staffing, and updated asset management data at Sorell Council.

Financial Modelling: The Board engaged Crowe Horwath to undertake sensitivity analysis involving financial modelling of the impact of changes in key assumptions for both Councils and their impact on the financial viability and sustainability of both Councils under all three Options. The findings of this modelling are set out in the relevant financial analysis sections of Chapters 5 to 7 below.

Rate Modelling: The Local Government Division was requested by the Board to conduct modelling analysis on the potential scale of rating shifts to be managed in any transition under an Option 3 amalgamation scenario. The Division's analysis indicated that there would be significant shifts for ratepayers in the two Councils, particularly in the commercial, industrial and (Sorell Council only) primary industry categories unless rating tools and approaches are utilised to mitigate these shifts. This is due to the combined impact of the Councils' rating on different valuation bases (AAV and CV) and the disparate rating approaches between the Councils (a single general rate applied by Tasman Council in contrast to 23 differential rates utilised by Sorell Council).

1.3 PROCESS FOR THE REVIEW CONT...

Crowe Horwath were engaged to undertake further modelling and analysis of the ability to successfully mitigate the impacts for ratepayers arising from any potential alignment between the rating policies of the two Councils. The Board requested that this work identify the most effective strategies for managing rating shifts (on a revenue neutral basis) to ideally within 10 per cent annual increase for all categories of ratepayers.

Public Consultation

The Act requires the Board to provide reasonable opportunity for public consultation and for any council affected by the Review to make a submission. The Act also requires the Board to give notice, via publication in a daily newspaper circulated in the relevant municipal area(s), of the existence and specific nature of the Review and to invite public submissions on the Review.

The public consultation phase of the Review commenced on 24 February 2018 and concluded on 6 April 2018. The Board held three public hearings in Hobart, Sorell and Tasman with the following attendance:

- Hobart – two verbal submissions
- Tasman – five public verbal submissions
- Sorell – zero verbal submissions

The Board held seven separate meetings with the councillors, staff, and senior and middle managers of Tasman and Sorell Councils. Over 50 written submissions from interested persons and stakeholders were received, including one written and three verbal submissions from persons requesting that they be kept confidential. The submissions made to the Board, excluding material requested to be kept confidential, are available on the Board's webpage.

The Board also received a copy of a petition from Tasman residents and ratepayers against any potential amalgamation with Sorell or any other council with almost 500 written signatures. This petition was also tabled with the Tasman Council at its meeting of 28 March 2018. It is understood that 95 electronic signatures were collected as an electronic version of the petition on www.change.org.

Issues and information brought to the Board's attention have been addressed in the Board's analysis of the issues relevant to the three options in Chapters 5-7.

Minister for Local Government's Role in the Review

After the Board has provided its report to the Minister for Local Government, section 214D(4) of the Act requires the Minister to invite submissions from the councils subject to the Review (Sorell and Tasman) and any other council the Minister considers may be affected by the recommendations.

After receiving and considering the Councils' (and any other council's) submissions, section 214D(5) of the Act specifies that the Minister may:

(a) Accept any or all of the Board's recommendations; or
(b) Request the Board to reconsider any or all of its recommendations; or
(c) Refer to the Board any alterations to its report requested by a council; or
(d) Reject any or all of the Board's recommendations.

2. LOCAL GOVERNMENT REFORM CONTEXT: AMALGAMATIONS AND SHARED SERVICES

FINDINGS

F1 - Various reviews and academic studies indicate that both shared service arrangements and amalgamations have their pros and cons.

F2 - There are some insights from these studies into the success factors for both models, in particular:

- community input and support is critical for amalgamations; and
- enduring political support is critical for shared services.

This chapter provides:

- insights and lessons learned from shared services;
- insights and lessons learned from local government amalgamations; and
- recent Tasmanian shared services and voluntary amalgamation studies.

Local government reform has occurred over time across Australia, with amalgamations and shared services being key features of reform outcomes. It has been over 20 years since the implementation of amalgamations in Tasmania, where the 1993 reforms led to the number of councils reducing from 46 to 29.

During that period, Tasmanian councils, as well as their interstate counterparts have increasingly pursued shared services as an alternative to amalgamation (see Appendix 3). There has been no comprehensive audit of shared services initiatives in the State. This has, in part, been a response to an increased focus on the sector's ability to remain sustainable in the face of diseconomies of scale.

The Board has undertaken a review of the range of models and approaches to both amalgamations and shared services in Tasmania as well as inter-jurisdictionally, for potential applicability to the Sorell and Tasman Councils (see Appendices 4-6). The Local Government Board was involved in a review of a Tasmanian Government led reform initiative in 1997 to reduce the number of councils from 29 to 11, which was ultimately unsuccessful due to a legal challenge mounted by three of the affected councils.[6] The Board was also involved in a review of a potential voluntary amalgamation between Glamorgan-Spring Bay and Break O'Day Councils in 2009 which found insufficient evidence that the amalgamated entity would be more sustainable[7] than the two stand-alone Councils.

[6] Local Government Board, "Tasmanian Local Government Review – Final Report", 1997 Tasmanian Local Government Review, Volume 3, January 1998, Hobart.
[7] Local Government Board, "Report on a Potential Merger: Break O'Day and Glamorgan-Spring Bay Councils", October 2009, www.dpac.tas.gov.au/__data/assets/pdf_file/0011/112412/Final_Report_on_Potential_East_Coast_Merger_2_November.pdf

2.1 INSIGHTS FROM SHARED SERVICES

Shared services models have been successfully implemented in Tasmania many of which have demonstrated their longevity by operating for over a decade. Shared services have increasingly been presented as an alternative to amalgamation where the benefits of amalgamations may be difficult to quantify or the disruption of an amalgamation (or implications for local representation) is not palatable to communities or councils. As a result, a body of research into local government shared services has developed over recent times which attempts to crystallise what factors make arrangements successful or unsuccessful.

Factors Contributing to Shared Services Success: Tasmanian Case Studies

In their article evaluating shared services in Australia, Valle de Souza and Dollery (2011) examine the Brighton Common Services Model and provide numerous pre-conditions that must be met to enable successful shared services, including:

- Existing "friendly relations" between participating councils at both the councillor and staff levels;
- Neither participating council should "feel threatened" by the other;
- Participating councils with "similar needs and cultures" represent the "best fit"; and
- Services must be provided on commercial terms acceptable to both parties.[8]

The 2011 findings appear indicative that successful shared services arrangements pursuant to the Brighton model is contingent on the prevalence of positive, workable relationships between elected and unelected representatives of the participating councils. However, where successful/commercial shared services relationships exist between councils and there is a change in key personnel, say via a local council election or the departure of senior executives or shared services staff, then those arrangements are susceptible to being altered or concluded if the new representatives hold a different position or opposing view on the existing arrangements.

In 2016, the University of Technology Sydney Centre for Local Government (UTS:CLG) was separately commissioned by Latrobe and Kentish Councils, and Circular Head and Waratah-Wynyard Councils, to appraise their respective shared services regimes and provide recommendations to further establish and build on them into the future. The report included general "lessons for other councils"[9] when considering or working through shared services arrangements, these included:

1. A formal agreement which underpins the arrangement;
2. An evaluation and monitoring framework to formally review and report back on outcomes;
3. High levels of trust, transparency, and accountability and building strong relationships at senior, executive and councillor levels;
4. Highly committed, shared executive and senior staff; and
5. Staff specifically recruited in shared roles must have identified personal attributes to carry out their dual or multi-faceted role as well as the requisite skills.

UTS:CLG also highlighted the importance of relationships and the attributes of key actors in participating councils to achieve a successful shared service arrangement as well as demonstrating the need to provide certainty and value through a formal agreement and ongoing monitoring.

The UTS:CLG report identified two key areas for improvement which were to:

1. implement succession planning of senior management; and
2. ensure the continuity of the arrangements.[10]

[8] Valle de Souza, S, and Dollery, B, "Shared services in Australian Local Government: The Brighton common service model", (2011) 14(2) *Journal of Economic and Social Policy*, accessed via https://epubs.scu.edu.au/cgi/viewcontent.cgi?referer=https://www.google.com.au/&httpsredir=1&article=1194&context=jesp, at pp6-7

[9] University of Technology Sydney: Centre for Local Government, "Resource sharing success stories in Tasmania, accessed on Kentish Council website at https://www.kentish.tas.gov.au/webdata/resources/files/UTS%20CSG%20Resource%20sharing%20summary%20Nov%202016-1.pdf on 16 May 2018

[10] University of Technology: Centre for Local Government, *Review of Shared services Arrangements – Between Kentish and Latrobe Councils*, October 2016, pp26-29

2.1 INSIGHTS FROM SHARED SERVICES CONT…

Succession Planning

Succession planning was particularly highlighted as both Latrobe and Kentish Councils share a General Manager and have done so since 2010. UTS:CLG state that the "shared General Manager position has significantly contributed to the success" of the shared services arrangement. An interviewee excerpt in the report states that "the General Manager is the key to the whole thing working".[11] As the role of the General Manager "has been pivotal in the success of shared services…succession planning will be critical to maintain momentum".[12] UTS:CLG state the importance of exposing the next levels of managers across both councils as well as determine what skills and attributes a potential successor would require. However, a crucial factor remains, which is captured by another interviewee excerpt, it is one thing to determine what is desired in a successor, the other is to "spot someone that can run both".[13]

Reducing the Vulnerability of Shared Services Arrangements

The other major key area identified for improvement was to ensure that the shared services arrangements between Kentish and Latrobe Councils continue. UTS:CLG noted that there is an increasing number of resource-shared staff, projects, and systems, which raised business risks in the event that one council wishes to withdraw from the arrangement. UTS:CLG cites that at the time the Latrobe Council and Kentish Council Shared Services Agreement allowed for either council to withdraw "with provision of three months' notice". As many of the resource-shared positions "are providing critical services to the community", the notice provision did not appear to adequately account for the business risks to both councils. However, it is clear that shared services risks are clearly understood and accepted by the two councils at both the management and governance levels.[14]

[11] University of Technology: Centre for Local Government, *Review of Shared services Arrangements – Between Kentish and Latrobe Councils*, October 2016, p15
[12] Ibid, p26
[13] Ibid, p27
[14] Ibid, p28

2.2 INSIGHTS FROM PREVIOUS AMALGAMATION PROCESSES AND OUTCOMES

The Board considered some of the key experiences (lessons learned) from past amalgamation processes and outcomes to identify potential critical success factors that would be likely to produce successful amalgamation outcomes. The Board considered examples where amalgamations had been widely accepted by the community (and were not characterised by dissent or widespread de-amalgamations).

South Australia's reforms of the mid-1990s were characterised by:

- an open and transparent process;
- responsibility was placed in the hands of the affected councils (self-determination) to collaboratively determine the future governance arrangements with their neighbours;
- high-levels of communication between the South Australian Local Government Board and councils;
- timeliness of the reforms (community support); and
- a collaborative approach between the Board and the councils.[15]

The Board noted similar characteristics in the process for the successful Tasmanian reforms of the early 1990s. The 1993 Tasmanian amalgamations benefited from bi-partisan support. The Government covered the transitional costs and showed a commitment to a communicative and collaborative approach to local government input into the amalgamation process.[16] These reforms have stood the test of time and resulted in a reduction of 46 councils to the current 29.

The Board noted that while the extensive 1990s Victorian reforms (from 210 to 78 councils) were perceived by sections of the Victorian community to have been forced and attracted some criticism and negative media attention[17] that, of the newly created councils, only one council de-amalgamated (and this has been attributed to subsequent rate-increases of between 12-17 per cent).[18] The Victorian reforms otherwise have been enduring and successful.

Other factors contributing to an earlier failed reform process in Victoria in 1980s have been identified as including:

- community resistance;
- an attempt to bypass the councils' governance processes;
- failure to achieve majority support in the legislative council; and
- conflicting aims and an undefined scope[19].

The Queensland reforms of the 2000s, were not voluntary and resulted in four councils de-amalgamating following the reforms[20]. However 69 of the 73 councils remained amalgamated. Those reforms demonstrated that:

- public consultation is critical for the success of amalgamations;
- the process was costlier than anticipated; and
- there are opportunities for significant reform through regional collaboration and shared services.[21]

The Board noted that recent experiences in the NSW amalgamations of 2016 support the findings in academic analysis that 'history shows that a poorly managed reform process is unlikely to deliver the anticipated gains'[22] and that 'reform cannot be implemented without some level of community support'[23]. The Board's observation is that the most successful processes are likely to be those which engender the support of communities.

[15] Tiley, I and Dollery, B, "Historical Evolution of Local Government Amalgamation in Victoria, Tasmania and South Australia", (2010) *Working Paper Series*, Centre for Local Government, University of New England, March 2010.
[16] Ibid
[17] Ibid
[18] Ibid
[19] Ibid
[20] Tiley, I and Dollery, B, "Historical Evolution of Local Government Amalgamation in Queensland, the Northern Territory and Western Australia", (2010), *Working Paper Series*, Centre for Local Government, University of New England, March 2010.
[21] Ibid
[22] Aulich, Chris et. al., *Consolidation in Local Government: A fresh look - Volume 1*, (2011) Australian Centre of Excellence for Local Government, University of Technology Sydney, accessed via https://www.uts.edu.au/sites/default/files/1320885841_Consolidation_Final_Report_Vol_1_web.pdf
[23] Tasmanian Chamber of Commerce and Industry, "The future of local government in Tasmania – Discussion paper", (2012), Hobart, Tasmania, accessed via http://www.tcci.com.au/tcci/media/Media/Economics%20Presentations/tcci_local_government_discussion_paper_final.pdf on 4 April 2018

2.2 INSIGHTS FROM PREVIOUS AMALGAMATION PROCESSES AND OUTCOMES CONT…

Financial Benefits of Amalgamations

After the South Australian reforms of the 1990s, an independent review body sought to quantify the financial benefits of the reforms and identified an annual saving of approximately 3-5 per cent of councils' annual expenditure on a continuing basis.[24] The Auckland 2009 merger of eight councils was considered to yield an annual saving of 3 per cent of annual expenditure. Savings in the Auckland reforms were assessed two years later by the Auditor-General of New Zealand who found that, in most cases, service standards had been maintained or improved. The 1990s Victorian reforms delivered savings of approximately 8-9 per cent (though originally estimated to be higher).

Benefits highlighted from the 1993 Tasmanian reforms include:

- Economies of scale (administration costs);
- A greater capacity to provide better services to the community; and
- A greater range of professional staff employed.[25]

The Tasmanian Local Government Review Board subsequently found: 'that considerable benefits arose… evidenced by reductions in the levels of indebtedness, an increase in the level of reserve funds held and by reductions in the level of administrative expenses, despite the broadening of managerial and other professional skills available to councils.'[26]

Arguably, the benefits being sought by communities in favour of amalgamation reform includes not only cost savings but also 'enhancements to strategy, planning, infrastructure, human capital and streamlined regulations that will boost productivity and wellbeing'.[27] Other benefits highlighted from amalgamations have included: a standardisation of services and a lowering of fees and charges to the minimum rate'[28]; 'increased employment and service delivery capacity generally, including improved purchasing power…and capacity to employ more specialist staff'.[29]

Proponents of resource-sharing argue that resource-sharing offers the financial benefits of an amalgamation without the potential loss of representation or impacts on staff:

> *"Shared services allows for councils to cooperate and achieve the cost-savings in the particular municipal functions where scale exists, while retaining their decision-making autonomy, maintain their local democratic voice, and avoid the disruptive and expensive amalgamation process, while still extracting scale benefits. Moreover, in the case of back-office functions, the use of shared services allows councils to select from a wider range of partner entities than merely their geographical neighbours"*[30]

Alternatively, analysis by the Australian Centre for Excellence in Local Government (now known as UTS:CLG) notes that 'newer evidence about the value of strategic capacity, and that it may be strongly linked to larger units of local government, means that amalgamations should not be ruled out as an option simply because other forms of consolidation can yield economies of scale or scope, or because amalgamations have not been shown to generate significant cost savings or rate reductions.'[31]

Strategic capacity refers to 'the ability of local governments to identify and respond to the influences and pressures affecting the communities' future, set key directions and priorities and develop strategies to achieve the outcomes the community wants. In other words, an enhanced capacity to do and deliver those things expected of local government.[32]

[24] Ibid. Although 26 out of 68 councils appeared unsustainable over the medium to short term, the Financial Sustainability Review Board found that amalgamation would not resolve this issue. Instead the Local Government Association delivered a financial sustainability program to help ensure the financial sustainability of South Australian councils.

[25] Tilley, I and Dollery, B, "Historical Evolution of Local Government Amalgamation in Victoria, Tasmania and South Australia", (2010), *Working Paper Series*, Centre for Local Government, University of New England, March 2010.

[26] Tasmanians for Reform, "Briefing on structural reform of local government in Tasmania", (2011), as cited in Tasmanian Chamber of Commerce and Industry, "The future of local government in Tasmania – Discussion paper", (2012), Hobart, Tasmania, accessed via www.tcci.com.au/tcci/media/Media/Economics%20Presentations/tcci_local_government_discussion_paper_final.pdf on 4 April 2018

[27] Ibid, p2

[28] KPMG, "Independent review of structural options for Manly Council and Pittwater Council, Part A Summary Report 1 April 2015", New South Wales, accessed via yoursay.northernbeaches.nsw.gov.au/4397/documents/29303

[29] Local Government NSW, "Amalgamations: To Merge or not to Merge?", February 2015, accessed at www.lgnsw.org.au/files/imce-uploads/90/To%20Merge%20or%20not%20to%20Merge%20-%20LGNSW%20Background%20Paper%20%28Feb%202015%29.pdf

[30] Jones and Walker, 2007 cited in Fahey G, Drew J, and Dollery, B, "Merger Myths: A functional analysis in New South Wales local government, (2016), *Public Finance and Management*, Volume 16, Number 4, pp 362-382.

[31] Aulich, Chris et. al., Consolidation in Local Government: A fresh look - Volume 1, (2011) Australian Centre of Excellence for Local Government, University of Technology Sydney accessed via www.uts.edu.au/sites/default/files/1320885841_Consolidation_Final_Report_Vol_1_web.pdf

[32] Ibid p18

2.3 OTHER RECENT TASMANIAN SHARED SERVICES AND VOLUNTARY AMALGAMATION STUDIES

Recently the Tasmanian Government has worked with and supported the local government sector in Tasmania to have feasibility studies completed on the potential benefits for Tasmanian Councils from voluntary amalgamation and/or shared services. In addition to the Feasibility Study, the status of these reports is as follows:

Table 2.1 Recent Tasmanian shared services and voluntary amalgamation proposals

Greater Hobart Councils *(amalgamation and shared services)*	**Northern Tasmania Councils** *(shared services)*	**Cradle Coast Authority** *(shared services)*	**Tamar Valley Councils** *(amalgamation)*
Hobart, Glenorchy, Clarence and Kingborough	Launceston City, Break O'Day, Dorset, Flinders, George Town, Meander Valley, Northern Midlands, and West Tamar Councils	Burnie, Central Coast, Circular Head, Devonport. Kentish, King Island, Latrobe, Waratah-Wynyard and West Coast Councils	West Tamar and George Town Councils
The Greater Hobart Councils' study was released by SGS Economics and Planning on 1 March 2017.The study concluded that all reform options would be more beneficial than 'business as usual' and would deliver a range of direct and indirect cost/benefits projected at between $134 million and $393 million over 20 years, the study found that the most benefits (and risks) would be delivered by a four-council merger. The report suggested that a strategic alliance of the Greater Hobart Councils could deliver significant benefits, regardless of which merger option may proceed (or not). A key assumption in the study was the introduction of a Capital Cities Act to, amongst other things, integrate whole-of-community planning for Greater Hobart, including land use, economic, recreation and transport strategies. The Greater Hobart Councils have prioritised their focus on a developing a strategic alliance.	In July 2017, eight northern Tasmania Councils received a report from KPMG. In conjunction with the Steering Committee of General Managers, KPMG identified suitable areas of council services to further explore, including corporate services, engineering, and civil works. The Study identified potential savings across all councils of $3.39 million. The councils adopted the findings and recommendations of KPMG and to investigate further optimisation and extension of current arrangements as well as exploring integration of IT systems and further sub-regional partnerships.[33]	The Cradle Coast Authority received a feasibility study report in late 2017 from consultants Third Horizon. The study identified potential quantitative benefits of $9 million +. General managers from 7 of the 9 councils have begun exploring a variety of shared service options. Latrobe and Kentish have well established shared services between them and have advised that their priority is to focus on their own arrangements.	The Tamar Valley Council study, prepared by KPMG, examined the benefits and costs of a potential voluntary amalgamation between the George Town and West Tamar Councils. The study showed potential recurrent savings of $1.3 million per annum. Both the West Tamar and George Town Councils held Special Council Meetings on 2 May 2018 to consider the Tamar Valley Council Feasibility Study. The West Tamar Council voted to release the Study and consult with its community on voluntary amalgamation, subject to agreement by the George Town Council to do the same. However, the George Town Council voted to end its involvement in the process and not consult its residents and ratepayers. Without the support of the George Town Council the process could not progress further.

[33] KPMG Tasmania, "Northern Tasmanian Councils Shared services Study – Condensed Report, July 2017", Tasmania, www.dpac.tas.gov.au/__data/assets/pdf_file/0016/340702/KPMG_Northern_Councils_Shared_Services_Study_Condensed_Report_July_2017.pdf

2.3 OTHER RECENT TASMANIAN SHARED SERVICES AND VOLUNTARY AMALGAMATION STUDIES CONT…

Several common themes have emerged across these Tasmanian shared services and amalgamation studies with respect to barriers and opportunities for reform, in particular that:

- Amalgamation and shared services arrangements depend on individual councils being prepared, at least to some extent, to relinquish their own local interests in favour of a more strategic ‘whole of region’ vision for efficient and high quality services.
- The lack of common shared IT systems inhibits the realisation of potential amalgamation and shared services benefits. The development of common technology platforms will be beneficial if the combined scale of councils at a regional level is to be efficiently leveraged.
- The significant potential efficiencies and savings that can be achieved in non-customer facing or ‘transactional services’ present opportunities for councils to reinvest in new or improved ‘front line’ services.

3. KEY FEATURES OF THE SORELL AND TASMAN MUNICIPAL AREAS

FINDINGS

F3 - There are distinct demographic differences between Sorell and Tasman, with Sorell being a fast-growing and younger population compared with Tasman which has low population growth and a relatively older population.

F4 - Despite this, there are complementary economic and social interests, particularly with the opportunities and challenges that tourism provides for the region as a whole. Because of this, while there are distinct communities within both municipal areas, there is a natural community of interest across the whole region.

3.1 INTRODUCTION

This chapter identifies demographic, economic, and social trends in the municipal areas. Table 3.1 below provides a snapshot of key indicators for both Councils.

Table 3.1: Demographic Indicators for Sorell and Tasman Councils

Indicator (2016/17)	Sorell Council	Tasman Council
Population	14,648	2,389
No. of councillors	9	7
No. of rateable properties	9,341	3,392
Classification	Rural Agricultural, Very Large	Rural Agricultural, Small and Medium
Municipal Area	584 km^2	661 km^2
Total Revenue	$20.756 million	$7.361 million
Total Expenditure	$17.128 million	$5.482 million
Council-owned Roads	351.5 km	199.6 km
Average Rates	$1,293	$1,295
FTE Staff	62	19

3.2 DEMOGRAPHY

Table 3.2: Population growth and projections

Indicator/Statistic	Sorell	Tasman
Population 1997 (Treasury/ABS)[34]	10,970	2,226
Population 2007 (Treasury/ABS)[35]	12,049	2,332
Population 2017 (Treasury/ABS)[36]	14,648	2,389
Population 2027 (Treasury – medium projection) including age group breakdown[37]	16,799 0 – 14 years: 3,082 15 – 64 years: 9,921 65+ years: 3,796	2,606 0 – 14 years: 313 15 – 64 years: 1,384 65+ years: 909
Population 2037 (Treasury – medium projection) including age group breakdown[38]	18,841 0 – 14 years: 3,272 15 – 64 years: 10,646 65+ years: 4,923	2,677 0 – 14 years: 355 15 – 64 years: 1,311 65+ years: 1,011

Sorell

The Sorell municipality is a multifaceted local government area containing "suburban, beachside, semi-rural, and rural living options" and is in commuting distance from the Hobart CBD. Sorell is "both a hub and a gateway for residents and visitors."[39] Sorell shares municipal boundaries with Clarence City, Southern Midlands, Glamorgan-Spring Bay and Tasman Councils.

Sorell has a population of 14,648 residents[40] but a considerably lower number of rateable properties/ valuations of 9,341.[41] The major population centres in Sorell municipality include Sorell township (2,907 people), Midway Point (2,859) and Dodges Ferry, Carlton, and Primrose Sands in the southern beaches (2,467, 1,119, and 1,050 respectively).[42]

Sorell is categorised as a Rural Agricultural Very Large (RAVL) council (between 10,000 and 20,000 at a density of fewer than 30 residents per square kilometre). Other RAVL councils include Derwent Valley, Huon Valley, Meander Valley, Northern Midlands, and Waratah-Wynyard Councils. When compared with other RAVL council areas, Sorell has the:

- Least area in square kilometres – 584km^2 (RAVL average area is 3,700 km^2);
- Highest population density – 24.7 persons per square kilometre (RAVL average population density is 3.9 persons per square kilometre); and the
- Highest number of rateable valuations per square kilometre – 16 valuations per square kilometre (RAVL average is 2.2 valuations per square kilometre).

[34] Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018
[35] Ibid
[36] Ibid
[37] Tasmanian Government Department of Treasury and Finance, 2014, Population Projections for Tasmania and its Local Government Areas, Tasmania, as at 14 February 2018 <http://www.treasury.tas.gov.au/economy/economic-data/2014-population-projections-for-tasmania-and-its-local-government-areas>
[38] Ibid
[39] Sorell Council Website, 2018, Tasmania, as at 14 February 2018 www.sorell.tas.gov.au
[40] Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018
[41] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.
[42] Australian Bureau of Statistics, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument

3.2 DEMOGRAPHY CONT…

The Sorell municipality has experienced significant, sustained long-term population growth. Sorell municipality has experienced population growth of approximately 33 per cent in the last 20 years (1997 to 2017) and approximately 21 per cent in the last 10 years (2007 to 2017). More recently, from 2016 to 2017, population growth was 1.8 per cent which followed on from the previous year's growth of 1.8 per cent.[43] Accordingly, the Sorell municipality's growth rate for 2016-17 is equal highest amongst local councils (tied with Flinders Council which has the smallest population) and was three times the growth rate of Tasmania.[44] The median age of the Sorell municipality is currently 42 years,[45] which is the same as the State's average,[46] and has a working age population proportion (15-64 years) of 63.6 per cent (which is above the State's average of 62.9 per cent).[47]

Comparative RAVL analysis displays the dichotomy emerging in the Sorell municipality. Sorell and Midway Point have become suburban commuter hubs to Hobart. However, the Sorell municipality also has significant rural and regional populations with well-established towns located in the southern beaches as well as rural centres, such as Dunalley.

On medium projections, the Sorell municipality is estimated to have a population of 16,799 in 2027 (approximately a 14.7 per cent increase from the 2017 population) and 18,841 in 2037 (approximately a 28.6 per cent increase from the 2017 population).[48] The median age of the Sorell municipality will only increase to 44 years by 2037.[49] The projected significant and ongoing population growth presents the Sorell municipality with an opportunity for an ongoing, solid residential rating base as well as enjoying the potential associated economic growth associated with a growing, relatively young population.

Along with the benefits and opportunities of the Sorell municipality's continued population growth rate comes the increasing community need and desire for new and/or improved services and infrastructure. The Council has stated that the sustained population growth in fact places pressure on the Council in terms of increasing maintenance and depreciation costs. The Sorell municipality's transition from a rural to increasingly urban council area brings with it expectations and pressures from newly arrived residents.[50] As the Sorell municipality grows, the community may start to demand or increase its demands for further facilities and services, particularly regarding community and recreational facilities.[51]

Tasman

The Tasman municipality is located on Tasmania's South East coast approximately 60-90 minutes from Hobart. The peninsula's many tourist attractions result in the small rural and coastal townships experiencing a significant influx of tourists and visitors during the summer months.[52] Due to its geographic isolation, located on a peninsula, it shares its boundaries with Sorell Council only.

The Tasman municipality has a population of 2,389 residents[53] but a considerably higher number of rateable properties/valuations of 3,392.[54] Tasman has a decentralised population with the major population centres being Nubeena (481 people), Eaglehawk Neck (385), Murdunna (309), White Beach (276), Port Arthur (251), Taranna (156) and Koonya (134).[55]

43 Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018

44 Ibid

45 Australian Bureau of Statistics, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument

46 Australian Bureau of Statistics, 3235.0 - Population by Age and Sex, Regions of Australia, 2016 – Tasmania (Median Age), accessed via http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3235.0Main%20Features452016?opendocument&tabname=Summary&prodno=3235.0&issue=2016&num=&view on 1 June 2018

47 Australian Bureau of Statistics, ABS Census 2016 Quick Stats – Tasmania, accessed on ABS website at http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/6?opendocument on 4 June 2018

48 Tasmanian Government Department of Treasury and Finance, 2014, Population Projections for Tasmania and its Local Government Areas, Tasmania, as at 14 February 2018 <http://www.treasury.tas.gov.au/economy/economic-data/2014-population-projections-for-tasmania-and-its-local-government-areas>

49 KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf, p106

50 Meetings with Sorell councillors and staff, 28 March 2018.

51 Ibid

52 Tasman Council Website, 2018, Tasmania, as at 14 February 2018 www.tasman.tas.gov.au

53 Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018

54 Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.

55 ABS, 2016, Census – QuickStats Data by geography for Tasman (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA65210?opendocument

3.2 DEMOGRAPHY CONT...

The Tasman municipality is classified as a Rural Agricultural Small and Medium (RASM) council with a population under 5,000 people at a density of fewer than 30 residents per square kilometre. Other RASM councils include West Coast, Glamorgan-Spring Bay, King Island, Flinders, and Central Highlands Councils. When compared with other RASM council areas, the Tasman municipality has the:

- Least area in square kilometres – 661km^2 (RASM average area is 3,985 km^2);
- Highest population density – 3.6 persons per square kilometre (RASM average population density is 0.7 persons per square kilometre); and the
- Highest number of rateable valuations per square kilometre – 5.1 valuations per square kilometre (RASM average is 0.8 valuations per square kilometre).

The Tasman municipality has relatively unique demographics when compared with other RASM councils. However, the Tasman municipality has the fourth lowest population of Tasmanian local government areas and experienced negative population growth between 2016 and 2017.[56] The population in the Tasman municipality has only grown approximately 7 per cent since 1997.

The Tasman municipality has a relatively high level of absentee (holiday/shack) property owners. The Board considers that, while population levels are critically important to considerations of services level efficiencies and service costs, the number of rateable properties is a better measure for the purposes of considering the financial viability of the Council. As noted above, the Tasman municipality has a higher number of rateable properties/valuations (3,392) than it does population having an average rateable valuations per head of population of 1.4.[57] The area may continue to attract further holiday home ownership potentially leveraging the growth in tourism in the area and short-stay accommodation options.

Table 3.3: Trend in growth in rateable properties over 5 years[58]

Year	Sorell	Tasman
2012-13	8,623	3,386
2013-14	8,614	3,391
2014-15	8,670	3,481
2015-16	8,798	3,480
2016-17	9,341	3,392

The major demographic challenges for the Tasman municipality are low or stagnant population growth and an aging population, which can have flow on implications for services such as shops. The municipality has experienced negative population growth in recent years and it currently has the second highest median age in Tasmania – 55.1 years.[59] The projected significant level of growth in the Sorell municipality is not matched in the Tasman municipality. Using medium projections, the Tasman municipality is estimated to have a population of 2,606 in 2027 (approximately a 9.1 per cent increase from 2017 population) and 2,677 in 2037 (approximately a 12.1 per cent increase from 2017 population). The Tasman municipality will maintain a relatively high proportion of population aged 65+ years with a median age of 56 years in 2037.[60]

[56] Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018
[57] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.
[58] Ibid (see Tasmania Audit Office data 2013/14 to 2017/18)
[59] Australian Bureau of Statistics, "3235.0 - Population by Age and Sex, Regions of Australia, 2016 – Tasmania (Median Age)", accessed via http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3235.0Main%20Features452016?opendocument&tabname=Summary&prodno=3235.0&issue=2016&num=&view on 1 June 2018
[60] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf, at p106

3.3 ECONOMY

The local economies of the Sorell and Tasman municipalities differ in many respects, but in others share many similarities. As shown in Table 3.4, Sorell residents are employed in an array of industries with no dominant industry. This may be indicative of the increasing urbanisation of Sorell and its growth as a commuter hub. In the Tasman municipality, the importance of the tourism industry or the visitor economy as an employer is apparent with a total of 20 per cent of residents employed in museum operation (likely at the Port Arthur Historic Site) and accommodation. Another point of interest is the relatively high proportion of Tasman residents employed in local government administration (3.1 per cent).

Table 3.4: Major industries of employment

Sorell[61]	Tasman[62]
Supermarket and Grocery Stores (3.3%)	Museum Operation (10.6%)
Aged Care Residential Services (2.9%)	Accommodation (9.3%)
State Government Administration (2.8%)	Aged Care Residential Services (4.7%)
Hospitals (except Psychiatric Hospitals) (2.5%)	Primary/Secondary Education (4.2%)
Central Government Administration (2.3%)	Local Government Administration (3.1%)

Sorell and Tasman Councils will be faced with similar economic opportunities and challenges but will experience them in different ways. Generally, both local economies see the tourism industry as an avenue of economic growth, more so in Tasman, and both will look to grow the agricultural and/or aquaculture industries.

Tourism

The visitor economy is a substantial contributor to the economies of both Sorell and Tasman municipalities[63] and represents a key area of growth for the south east region.[64] However, tourism benefits the two local government areas in differing ways. Generally, the Sorell municipality is perceived to be a gateway to the Tasman peninsula (and the East Coast)[65] whereas Tasman offers visitors tourist destinations, such as the Port Arthur Historic Site.

Sorell Council estimates more than 300,000 tourists travel through Sorell to destinations. The Council has identified "passing through" tourists as an opportunity for tourism growth and is working on encouraging them to stay and/or explore destinations in the municipality. The Sorell municipality does draw thousands of tourists to events such as the annual Falls Festival at Marion Bay, community festivals such as the Bream Creek Show, and operations such as expanding fruit farm experiences.[66]

Over recent years, the fastest-growing destination for interstate and international visitors has been the 'other Southern' region – particularly Port Arthur and the Tasman Peninsula.[67] The Tasman municipality has a number of key attractions in addition to the Port Arthur Historic Site and Coal Mines Historic Site[68], namely Tasman Island, Eaglehawk Neck (Tessellated Pavement, Tasman Arch, and Devil's Kitchen), the growing attraction of Shipstern's Bluff, and the recently developed Three Capes Track.[69]

61 Australian Bureau of Statistics, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument
62 Australian Bureau of Statistics, 2016, Census – QuickStats Data by geography for Tasman (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA65210?opendocument
63 Eslake S, *The Tasmania Report 2017*, http://www.utas.edu.au/__data/assets/pdf_file/0011/1055693/Tasmania-Report-Saul-Eslake-2017.pdf, at p87
64 KPMG Tasmania, "SERDA: Economic Infrastructure Development Study, 14 August 2015", accessed via https://www.rdatasmania.org.au/client-assets/documents/documents-and-reports/SERDA_Economic_infrastructure_Plan_WebFINAL_2015.pdf on 5 April 2018, at p26
65 Sorell Council Website, 2018, Tasmania, as at 14 February 2018 www.sorell.tas.gov.au
66 See example, Sorell Fruit Farm http://www.sorellfruitfarm.com/Know%20our%20operators.htm
67 Eslake S, *The Tasmania Report 2017*, http://www.utas.edu.au/__data/assets/pdf_file/0011/1055693/Tasmania-Report-Saul-Eslake-2017.pdf, at p87
68 Tasman Council Website, 2018, Tasmania, as at 14 February 2018 www.tasman.tas.gov.au
69 Destination Southern Tasmania, "Tasman Destination Action Plan 2016-2018", July 2016, accessed via https://www.sorell.tas.gov.au/wpfb-file/tasman-destination-action-plan-2016-pdf/ on 12 April 2018

3.3 ECONOMY CONT…

However, both Councils have identified the challenge of encouraging more overnight stays and increasing accommodation options. Increasing tourist numbers visiting or passing through the Sorell/Tasman area has highlighted infrastructure and other related issues, particularly transport infrastructure. In its 10 Year Strategic Plan 2015-2025, the Tasman Council notes the impact of increasing tourism as a key issue and states that Council needs to ensure "adequate infrastructure and services, including public transport, to cater for recreational and other visitors".[70] Moreover, the report of the General Manager of Tasman Council in the 2016/17 Annual Report states that:

> *"with the benefits that tourism activity bring to our local economy, there is not a strong return on investment for Council with greater use and impact on our assets transport and facilities and particularly on key tourist roads such as Blowhole Road and Stormlea Road."*[71]

The increasing volume of traffic in and around towns and tourist attractions as well as the increasing demand for, and use of, council facilities and services, such as rubbish collection and public toilets, are tangible challenges for both Councils.

> *"Three Capes and other tourism developments proposed down the peninsula…are adding enormous pressure because it all comes through our township."*[72]

Other economic drivers

The population growth experienced by the Sorell municipality has attracted the type of economic growth associated with a growing urbanised community, which has required significant planning by Sorell Council to cope with future industrial and commercial demands.

South East Regional Development Association (SERDA) found that only 27 per cent of Sorell residents work within the municipality, with the remainder of the working population working elsewhere. In recent times, Sorell has seen significant commercial development, including the construction of a second shopping centre, Sorell Plaza, which included a major supermarket as a tenant.[74] The Sorell municipality was also one of the first local government areas to receive the roll-out of the National Broadband Network (NBN).[75]

Agriculture and aquaculture are also significant economic drivers in the region and will be likely to continue to be so into the future. Fish farming is a significant commercial presence in the Tasman municipality. The Sorell municipality has over 40 per cent of its local government area held for agriculture and has a wide range of agricultural production.[76] Recently, the Sorell area has benefitted from the extension of the South East irrigation scheme which will assist the continued production, and possible expansion, of cherries, salad vegetables, and other crops into the future.[77]

The Sorell Council faces a challenge to attract and increase commercial and industrial ratepayers. It is arguable that Sorell's proximity to the industrial areas of Mornington and Cambridge in Clarence municipal area is a factor in trying to attract further investment, which would be beneficial to the Sorell municipality but potentially not the best outcome strategically from a regional perspective until sufficient infrastructure is in place. The Tasman Council will face challenges in carefully balancing economic development with heritage and environmental concerns. The Tasman municipality may also face labour supply challenges given its ageing demographic, isolation and the availability of skills to match job requirements.

[70] Tasman Council, "Tasman Council Ten-Year Strategic Plan 2015-2025", accessed via https://www.tasman.tas.gov.au/download/strategic_plans/Tasman-Council-10-Year-Strategic-Plan-final.pdf on 12 April 2018
[71] Tasman Council, "Tasman Council Annual Report 2016/17", accessed via https://www.tasman.tas.gov.au/download/annual_reports/Draft-Annual-Report-2016-2017-incl-Financials.pdf on 12 April 2018
[72] ABC News, "Tasmanian election: Fast-growing Sorell has locals calling for action on congestion, education", 22 February 2018, http://www.abc.net.au/news/2018-02-13/abc-grassroots-election-forum-in-sorell/9443114 per Councillor Kerry Vincent, the Mayor of Sorell
[73] See example: Echelon Planning, "Sorell Land Supply Strategy, Stage 3 – Masterplans", accessed via http://www.sorell.tas.gov.au/download/publications_-_all/planning_scheme_-_e&d/Sorell-Land-Supply-Strategy-Stage-3-Masterplans.pdf on 16 April 2018
[74] Sorell Council, "Sorell Council Annual Report 2010/11", accessed via https://www.sorell.tas.gov.au/download/publications_-_all/annual_reports_-_fi/sorell_council_annual_report_2010-2011.pdf on 11 May 2018
[75] Ibid
[76] KPMG Tasmania, "SERDA: Economic Infrastructure Development Study, 14 August 2015", accessed via https://www.rdatasmania.org.au/client-assets/documents/documents-and-reports/SERDA_Economic_infrastructure_Plan_WebFINAL_2015.pdf on 5 April 2018, at p25
[77] Tasmanian Irrigation, "South East Stage 3 (Sorell)" accessed via, http://www.tasmanianirrigation.com.au/index.php/schemes/south-east-stage-3 on 1 June 2018

3.4 SOCIAL

Income and Employment

The two municipalities fare quite differently on prevailing employment and income indicators. As detailed in Table 3.5 below, the Sorell municipality has a significantly greater labour force (7,532) and a lower unemployment rate (5.4 per cent) than the Tasman municipality's labour force of 1,061 and unemployment rate of 6.3 per cent.[78] Over the last five years, the Sorell municipality's labour force has increased by 9.2 per cent while the Tasman municipality's labour force has increased by 4.9 per cent. However, in the past 12 months between March 2017 and March 2018, the Sorell municipality's labour force has considerably increased by 6 per cent, whereas the Tasman municipality's labour force has decreased by 1.7 per cent.[79] These figures indicate that the significant population growth occurring in the Sorell municipality includes a considerable proportion of growth in the employed working age category.

Table 3.5: Labour force, unemployment rates, household incomes[80] and most common occupations

Sorell		**Tasman**	
Labour Force	7,532	Labour Force	1,061
Unemployment rate (%) March 2018	5.4 (404 people)	Unemployment rate (%) March 2018	6.3 (67 people)
Weekly median household income ($)	1,132	Weekly median household income ($)	788
Most common occupations[81] - Technicians and Trades (16.5%) - Clerical and Administrative (15.2%) - Professionals (13.2%) - Community and Personal Services (12.9%) - Labourers (11.6%)		Most common occupations[82] - Managers (18.7%) - Labourers (18.7%) - Community and Personal Services (15.4%) - Professionals (13.4%) - Technicians and Trades (13.2%)	

The Sorell municipality population's weekly median household income is significantly higher than in the Tasman municipality. In the Sorell municipality, the median household weekly income is $1,132 per week compared with the Tasman municipality median income of $788 per week. The median household weekly income of Tasmania is $1,100 per week.[83] Residents of the Tasman municipality also have a relatively higher dependency on income and government support allowance, for example, there is a higher proportion of population on the aged pension in the Tasman municipality (approximately 20 per cent) than in Sorell municipality (approximately 13 per cent).[84]

[78] Australian Government Department of Jobs and Small Business, 2018, LGA Data tables March 2018, Canberra, as at 16 June 2018 <https://docs.jobs.gov.au/documents/lga-data-tables-small-area-labour-markets-march-quarter-2018>
[79] Ibid
[80] Ibid
[81] Australian Bureau of Statistics, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument
[82] Australian Bureau of Statistics, 2016, Census – QuickStats Data by geography for Tasman (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA65210?opendocument
[83] Australian Bureau of Statistics, 2016 Census – Quick Stats Data by geography for Tasmania, Canberra, as at 14 February 2018 http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/6?opendocument
[84] Australian Bureau of Statistics, 2017 Data by Region – Local Government Areas (Sorell and Tasman) Canberra, as at 14 June 2018 http://stat.abs.gov.au/itt/r.jsp?databyregion#/

3.4 SOCIAL CONT…

Socio-Economic Indexes for Areas

The Tasman municipality also ranks lower than the Sorell municipality on a number of Socio-Economic Indexes for Areas (SEIFA) indices. SEIFA indices aim to summarise a range of socio-economic conditions for areas and then attribute a rank for an area in the state and nationally.[85] The Index of Relative Socio-economic Advantage and Disadvantage is a key indicator of socio-economic conditions. In 2016, for local government areas in Tasmania, the Sorell municipality was scored and ranked higher than the Tasman municipality on this index. Sorell scored 934 and was ranked 20th in the State whereas Tasman scored 907 and was ranked 12th. The lower score and rank in this index indicates a relatively greater disadvantage. The highest score and best ranking in Tasmania is Hobart (1,054 and 29th).

Communities of Interest

Another aspect of the Board's consideration is the existence of a variety of communities of interest. The phrase "communities of interest" commonly appears in local government reform discourse but it is often difficult to translate it into a particular methodology to assess communities in local government areas. The Board has considered a wide-range of sources regarding communities of interest and this has been a key observation throughout the Review. The Board has identified both Sorell and Tasman municipalities contain many distinct communities within their individual boundaries.

The Board identified as many as six different and distinct communities within Tasman (Nubeena, Premaydena, Taranna, Eaglehawk Neck, Murdunna, and Port Arthur). The Board accepts there may be more that Tasman locals would identify. The Board heard evidence from community members themselves on the differing geographical identities in Tasman throughout its meetings as well as within submissions to the Board.[86] Sorell also has distinct communities stemming from its urban/rural dichotomy. There are distinct communities in Sorell township and Midway Point, the Southern Beaches, rural townships of Copping and Bream Creek, and south in Dunalley.

Across the two municipalities, the Board notes significant communities of interest. There is a natural community of interest given the shared geography of Tasman municipality with Sorell. Tasman residents drive to and through Sorell to access services (for example, health appointments or access to supermarkets or other retail). The communities, through their Councils and other bodies, have and continue to work together, most notably in recent times to rebuild and restore affected communities from the 2013 bushfires.[87]

[85] Australian Bureau of Statistics, "2033.0.55.001 - Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, 2016 by Local Government Area", Canberra, as at 14 June 2018 http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/2033.0.55.0012016?OpenDocument
[86] For example, meetings with Tasman councillors and staff on 27 March 2018, and in submissions from Peter Wilson, Jan and Andrew Barwick and Kelly Spaulding
[87] See example: Sorell/Tasman Affected Area Recovery Committee, Department of Premier and Cabinet Website, at 14 June 2018 http://www.dpac.tas.gov.au/divisions/osem/transition_report/appendix_one_committee_details/sorelltasman_affected_area_recovery_committee_staarc_-_terms_of_reference

4. KEY FEATURES OF THE SORELL AND TASMAN COUNCILS

FINDINGS

F5 - Independent financial analysis conducted for the Board of selected measures over the past three years, showed that both Sorell and Tasman Councils are not at imminent risk of being financially unviable, based on historical financial information.

F6 - The Councils are extensively utilising shared service arrangements to deliver financial efficiencies, with Tasman Council having a higher level of reliance on these arrangements. The shared General Manager position between the Councils is critical to the success of these arrangements.

F7 - The number of elected members per Council is around the average for similar sized councils, however, the number of staff in both Councils is below average, more so in Tasman which has just over half the average FTE staff.

4.1 INTRODUCTION

This chapter provides a snapshot of the key features and current performance of both Sorell and Tasman Councils.[88] The comparative data in this section provides a context in terms of the Councils positions within the sector, but also provides a foundation for the modelling, projections, findings, and recommendations when assessing the reform Options later in the Report.

[88] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.

4.2 CURRENT FINANCIAL VIABILITY/PERFORMANCE

The Feasibility Study noted that Sorell and Tasman Councils have "come a long way" over the past 10 years regarding long-term financial (and asset) management.[89] The Auditor-General's report noted that the two councils were projecting an underlying surplus (operating revenue exceeding operating costs).[90] Indicators of financial performance and management for both Sorell and Tasman Councils for the 2016-17 financial year display a continuing sound performance. In Table 4.1, both Councils achieved an underlying surplus for 2016-17 and also show sound 10-year averages.

Table 4.1: Financial viability and management indicators[91]

Indicator/Statistic (2016-17)	Sorell	RAVL Ave	Tasman	RASM Ave
Underlying surplus/deficit ($'000s)	49 865 10 yr Ave	516	904 652 10 yr Ave	11
Underlying surplus ratio (%)	0.3	2.9	14.2	(2.5)
Total revenue ($'000s)	20,756	21,729	7,361	10,111
Rate revenue ($'000s)	12,079	10,484	4,392	4,213
Average rates/charges per rateable valuation ($)	1,293	1,282	1,295	1,264
Cash reserves ($'000s)	7,388	11,928	6,825	6,931
Total expenditure ($'000s)	17,128	17,858	5,482	7,870
Operating cost per rateable valuation ($)	1,834	2,153	1,616	2,775
Capital expenditure ($'000s)	8,368	7,810	2,703	2,913
Asset sustainability ratio (%)[92]	113 93 10yr Ave	127	119 91 10 yr Ave	97

Crowe Horwath's Analysis

The independent financial analysis conducted by Crowe Horwath includes an updated assessment of the financial sustainability of both Sorell and Tasman Councils, analysing trends over the past three years since the publication of the Feasibility Study and observations about their long-term projections.

Crowe Horwath's analysis of selected measures over the past three years showed that both Sorell and Tasman Councils are not at imminent risk of being financially unviable,[93] based on historical financial information:

- Both Councils reported underlying surpluses in each of the past three years as operating revenue exceeded operating expenditure;
- They had sufficient operating income to meet their existing obligations and their current assets, primarily cash, exceed their total liabilities; and
- The usable level of transportation assets was adequate and capital expenditure on replacing them as they reached the end of their useful lives was reasonable.

[89] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf, p15.

[90] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.

[91] Ibid

[92] Provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than l00 per cent indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.

[93] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, p3

4.2 CURRENT FINANCIAL VIABILITY/ PERFORMANCE CONT...

The Crowe Horwath Report makes the following findings in respect to the current viability of the councils:

Underlying Result[94]

Both Tasman and Sorell Councils reported positive operating surplus ratios[95] in all three years since 2014-15, which is consistent with other rural councils. Published data showed that Tasman Council recorded a higher average underlying surplus ratio than Sorell Council. Sorell Council's underlying surplus ratio was 0.3 per cent in 2016-17[96]. This was a significant decrease from the underlying surplus ratio of 15.4 per cent in 2014-15 caused largely by an increase in employee costs and depreciation expense.

Tasman Council's underlying surplus ratio was 14.2 per cent in 2016-17[97] compared to 12.4 per cent in 2014-15. Tasman Council did not experience the same increases in operating costs as Sorell Council did. Its FTEs reduced from 23 in 2015 to 19 in 2017[98] and depreciation remained constant because Tasman Council has not revalued any of the major asset classes during the three-year period.

Cash management

The net financial liabilities ratio[99] was positive for both Councils. The positive ratio indicates that both Sorell and Tasman had sufficient operating income to meet their existing obligations.

Tasman Council's net financial liabilities ratio was significantly higher when compared to Sorell Council because of lower borrowings and a comparatively higher cash balance. Nevertheless, both Sorell and Tasman had current assets, primarily cash, that exceed their total liabilities and they both appeared to have the capacity to increase borrowings if required.

The Board heard from Sorell Council that in 2014, the then newly appointed General Manager implemented an asset revaluation at Sorell which consequently revealed the true budget challenge facing the Council. A significant staff restructure was implemented, resulting in $1 million in employee savings. The drive for financial efficiencies at Sorell, together with the need to address skill shortages and recruitment problems at Tasman, saw the increase in shared services arrangements.

Asset management

The accuracy of asset management data is critical in any assessment of the financial short and long term health of both Councils. Generally, transportation assets (roads primarily) represent the majority of councils' infrastructure assets. For this reason, Crowe Horwath has indicated that its focus was on those assets. The asset consumption ratio for transportation assets, which measures the levels of service potential remaining in the assets, was just above the generally accepted benchmark of 60 per cent[100] for both Sorell and Tasman Councils in 2016-17. Sorell Council has maintained its transportation assets at this level for several years. Tasman Council has shown a reduction in this ratio following the revaluation of its road assets in 2016-17, indicating that the value left in roads is less than previously estimated.

Also relevant is the asset sustainability ratio, which measures the rate at which assets are being replaced compared to the rate they are deteriorating. Underspending on the renewal and replacement of assets has the potential to undermine financial sustainability because of additional maintenance and the need to renew and replace failed assets in the future, which would likely lead to sudden large rate increases.

While the asset sustainability ratio results may vary between years because of operational reasons, it is important that the target of 100 per cent is achieved over the medium term.

- **Sorell Council:** Over the past three years, Sorell Council's capital expenditure on renewing or upgrading its existing transportation assets totalled $8 million, which represented 96 per cent of the amount of depreciation during the same period.
- **Tasman Council:** Over the period of three years, the Council spent $1.9 million on renewing or upgrading its existing transportation assets, which represented 88 per cent of depreciation on those assets. However, when compared to the expected rate of depreciation following the 30 June 2017 revaluation, the assets sustainability ratio is significantly lower at around 50 per cent.

94 Underlying result is the difference between recurrent or day-to-day income and expenses.
95 The underlying surplus ratio is the underlying result expressed as a percentage of recurrent income.
96 Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.
97 Ibid.
98 Ibid.
99 The net financial liabilities ratio measures the extent to which net financial liabilities (the amount of money owed by councils to others, including leave provisions, less money held, invested or owed to councils) could be met by operating revenue.
100 Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, p7

4.3 COUNCILLORS AND STAFF

Tasman Council currently has seven elected members which equates to a representative for every 342 residents[101] (this measure does not account for non-residential ratepayers receiving representation from their elected members) which is a slightly higher ratio than the RASM category average. By comparison, Sorell's nine elected members each represent 1,599 residents which is a lower average number per councillor than other councils in the RAVL category[102].

Table 4.2: Governance and human resource management[103]

Indicator/Statistic (2016-17)	Sorell	RAVL Ave	Tasman	RASM Ave
Number of elected members	9	8.7	7	8.2
Population per elected member	1,599	1,686	342	324
Full Time Equivalent (FTE) staff	62	78	19	35
FTE staff per 1,000 population	4.3	5.4	7.9	14.9
Staff costs to operating expense (%)	31.7	34.6	25	32.3

Both councils employ fewer staff than other councils in their respective categories. Sorell Council has 62 FTE staff, which is well below the RAVL average of 78 FTEs and equates to 4.3 FTEs per 1,000 population. Sorell's staff costs are equal to 31.7 per cent of operating expenditure. Tasman Council only has 19 FTEs which is almost half the RASM average of 35 FTEs.This equates to 7.9 FTEs per 1,000 population and accounts for 25 per cent of Tasman Council's operating expenditure.

[101] Data provided by the Local Government Division, Department of Premier and Cabinet, Tasmania, 2018
[102] Data provided by the Local Government Division, Department of Premier and Cabinet, Tasmania, 2018
[103] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania

4.4 CURRENT SHARED SERVICES ARRANGEMENTS BETWEEN SORELL AND TASMAN COUNCILS

Tasman and Sorell Councils have engaged in shared services arrangements for around 10 years. These arrangements sometimes involve other neighbouring councils like Brighton and Glamorgan-Spring Bay under the structure of the Brighton Common Services Model[104] which is a shared services alliance between councils aimed at reducing costs and enhancing services to ratepayers and the community.

The shared services under the Brighton Model include a range of common services such as planning, administration, engineering, records storage and information technology[105] These arrangements have evolved from ad hoc arrangements arising from the need to address recruitment and skills challenges, to becoming an integrated part of both Councils' approach to delivering services.

Since the initiation of formal shared services, and partly as result of these arrangements, both Sorell and Tasman Council have experienced significant organisational change aimed at increasing the efficiency of the organisation. Shared services within the two Council is far more extensive now than it has been in the last 25 years. The flow of service provision is primarily uni-directional, with Sorell Council providing a relatively high number of services to Tasman Council (see Table 4.3 below).

Sorell and Tasman Councils are already extensively utilising shared services arrangements to deliver financial efficiencies and to address recruitment difficulties in Tasman Council as a result of its size and geographically isolated position. Each of the two Councils are generating revenue and saving money directly as a result of the shared services provision arrangements.

The shared services arrangement covers a number of areas from the traditional back office functions such as finance, ICT and human resources to functions covering key statutory responsibilities of local government such as land use planning and environmental health.[106]

The only resource provided by Tasman Council is the position of General Manager, who is employed by Tasman Council and shared with Sorell Council on a 40:60 basis. Currently, the only other councils to share a General Manager position are Kentish and Latrobe Councils, which also share the cost of other skilled staff, some plant and equipment and some procurement. Their arrangement is different to the more common fee-for service arrangement used by most councils in Tasmania, including Tasman and Sorell Councils.[107]

104 Valle de Souza, S, and Dollery, B, "Shared services in Australian Local Government: The Brighton common service model", (2011) 14(2) *Journal of Economic and Social Policy*, accessed via https://epubs.scu.edu.au/cgi/viewcontent.cgi?referer=https://www.google.com.au/&httpsredir=1&article=1194&context=jesp

105 Brighton Community News, "Shared services alliance to benefit ratepayers", 4 February 2015, accessed via http://brightoncommunitynews.com.au/shared-services-alliance-to-benefit-ratepayers/1949/

106 Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p22

107 Ibid at p22

4.4 CURRENT SHARED SERVICES ARRANGEMENTS BETWEEN SORELL AND TASMAN COUNCILS CONT...

Table 4.3: Detailed summary of shared services provided and received by Sorell Council in 2017/18

Services Provided by Sorell to other councils	Summary of Services Provided
Sorell to Tasman	
Administration (as required)	Development Services Support
Building Surveying (0.05 FTE)	Building Surveying Compliance
Development Engineering (0.10 FTE)	Development and Subdivision Advice
EHO (0.30 FTE)	Environmental Health Services
GIS (0.10 FTE)	GIS Mapping Services
Human Resources (0.20 FTE)	HR Support
IT (0.10 FTE)	IT Strategy and Support
Works Services (0.40 FTE)	Works Manager Services
Facility Asset Management (0.40 FTE)	Facilities Management
Plumbing Permit Authority (0.20 FTE)	Permit Authority - Plumbing
Financial Services (0.40 FTE)	Financial Support Services
Sorell to Brighton	
Building Surveying (<0.05 FTE)	Building Surveying Compliance
GIS (as required)	GIS Mapping Services
Sorell to Glamorgan Spring-Bay	
GIS (as required)	GIS Mapping Services
IT (0.15 FTE)	IT Strategy and Support
Financial Services (0.60 FTE)	Financial Support Services
Services received by Sorell from other councils	**Summary of Services Received**
Southern Midlands to Sorell	
WHS / Risk Management (as required)	WHS Advice and Services
Tasman to Sorell	
General Management (0.60 FTE)	General Manager Services

In addition to shared services received from Sorell Council, Tasman Council receives civil works capital delivery (0.40 FTE) and statutory planning (0.20 FTE) services from Brighton Council, strategic planning (project work) services from Glamorgan-Spring Bay Council, as well as asset management services from a private consultant (approximately six months of work per annum). The Board noted that the Tasman Council identified the total annual value of shared services to Sorell Council as $156,000 and the total annual value of shared services from Sorell as $178,000 in 2016/17.[108]

[108] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p22; and data provided by Sorell and Tasman Councils

4.5 ROLE OF SHARED GENERAL MANAGER OF SORELL AND TASMAN COUNCILS

The shared General Manager role was implemented in 2014 and was one of the first shared service positions between the Councils. The current General Manager, Robert Higgins, commenced in the role at the Tasman Council in 2011 and brought extensive experience operating in shared services environments, including experience managing Brighton Council's common service outsourcing business. He has also provided Acting General Manager, Development Services Manager, and Contract Planner functions to a number of rural councils concurrently.

The views expressed to the Board by Councillors and staff of both Councils, made it evident that the General Manager was held in high regard across the two organisations. The shared role of General Manager appears to have largely been successful and delivered cost-savings and other benefits to the two Councils.

The Board considers that the General Manager's experience in shared services, and in negotiating the related challenges, has directly contributed to the successful implementation of these arrangements by both Councils.

5. STAND-ALONE COUNCILS (OPTION 1 – NO CHANGE)

FINDINGS

F8 - The independent analysis conducted for the Board shows that there is no imminent risk of the Councils being financially unviable. When standardised assumptions and realistic variations are applied to the Sorell and Tasman Councils' Long-term Financial Management Plans, their long-term sustainability is not as evident.

F9 - If the Councils remain stand-alone, they will struggle to continue to provide the services that they do now and there will be little prospect for enhanced services to meet the demand from population and tourism-driven growth.

F10 - There is little potential to withstand unexpected events or respond to resident demands for additional services without some additional rate increases beyond the assumed levels.

F11 - The Board's analysis indicates approximately an additional $5 million for Sorell Council and $2 million for Tasman Council in rates revenue over the 20–year period would be required to remain sustainable.

F12 - Tasman Council is viable in the short-term, largely as a result of the favourable shared services arrangements that it benefits from with Sorell Council.

F13 – The shared services arrangement is highly vulnerable to change, due to risks built into the arrangement such as key person dependencies and continued political support. There is likely to be increased demand as a result of population growth in the Sorell Municipal Area, which will place pressure on Sorell Council to direct all of its resources to this area rather than share with Tasman Council.

F14 - The Board's analysis indicates that if shared services were to be unwound, approximately an additional $3,500 per rateable property in Tasman over the next 20 years would be required to maintain a sustainable council. This may well be beyond the capacity or will of Tasman ratepayers.

F15 - Local representation under the stand-alone option would not change, however improvements could be made through the introduction of community boards, to address current perceived disadvantaged communities.

F16 - There is little scope for increased capacity, which will challenge the ability of both Councils to satisfactorily meet regulatory obligations and service demands. Similarly, the ability for both Councils to leverage economic opportunities and challenges will be constrained.

5.1 INTRODUCTION

The Board's due diligence review of the Sorell and Tasman Councils has provided evidence that both councils are currently viable. The Board notes the proactive approach of the Councils to managing financial pressures by seeking efficiencies through shared services of staff and the General Manager.

The Board's focus in this chapter is on assessing the Councils' potential to be sustainable over time in their current structure as two stand-alone councils. The Board's assessment provides a basis for comparative assessment of how the Councils' situation might be improved, if at all, under the other two options that the Board has been requested to review.

In this chapter, the Board analyses the extent to which the Sorell and Tasman Councils have the capacity to meet the requirements of a sustainable council in the long-term under their present stand-alone structure with reference to:

1. Financial sustainability
2. Adequate service delivery
3. Effective local representation
4. Meeting regulatory obligations
5. Managing municipal opportunities and challenges.

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK)

In this section, the Board's approach to examining the financial sustainability of the two Councils is outlined as follows:

- A review of the Councils' long term financial projections, as outlined in the Feasibility Study and in the Councils' own Long-Term Financial Management Plans (LTFMP).
- Normalisation of the LTFMPs, which made adjustments following a review (conducted by consultants Crowe Horwath).
- The Board's own analysis, based on the work of Crowe Horwath, to determine what would be required to ensure the Councils are sustainable.

5.2.1 Councils' Long-Term Financial Management Plans

In the Board's view, the question of financial sustainability goes beyond the immediate ability of meeting existing financial obligations. To determine the level of financial sustainability of each Council under the current structure for a 10-20 year outlook, the Board reviewed the independent analysis in the Feasibility Study and an updated analysis by Crowe Horwath of the two Councils' financial positions.

The Feasibility Study did not provide a 20-year forecast for the financial viability of the two Councils under the current structure. The Feasibility Study's key observations on Tasman and Sorell Councils' financial forecast to 2025 is shown in Table 5.1 below:

Table 5.1: Key Observations from the Feasibility Study on Tasman and Sorell's financial forecasts

Tasman Council	Sorell Council
- Minimal movement in operating revenue and expenses, resulting in a fairly flat operating surplus, after FY16 and FY17 forecast losses. - Falling asset sustainability ratio from FY20 onwards, well below the Auditor General benchmark of 100 per cent. - An increasing cash surplus in later years, as a result of limited capital spending over the period.	- A minimal underlying surplus is forecast over the period with operating expenses to be between 93 to 98 per cent of operating revenue. - Falling cash balance, as a result of capital spending and maintaining a healthy asset sustainability ratio. No new debt has been assumed, and the equity balance is forecast to increase across the period. - The asset sustainability ratio is expected to remain around 100 per cent, as per the Auditor General's benchmark.

The Feasibility Study found that, amongst the South East Councils reviewed, generally current assets exceeded current liabilities in the long-term. In respect to the cost savings identified in the Feasibility Study, Crowe Horwath found:

> *'The Feasibility Study identified that amalgamating Sorell and Tasman Councils into one south east council would result in a greater operating surplus on average, mainly from employee cost savings, amounting to $0.9m in year one. In our view, those savings are optimistic, especially when considering that there was an increase in employee numbers since the Feasibility Study was completed.'*[109]

> *'The Feasibility Study estimated the cost of the amalgamation to be $1.1m. Apart from potential redundancy costs, we do not believe that the cost of amalgamation will be significant, because both Councils are already working together in many areas and the relatively small size of Tasman Council's operations will mean that a potential integration will not be overly complicated or costly.'*[110]

The Board also commissioned independent analysis from Crowe Horwath into whether or not the assumptions in Councils' long-term plans were appropriate. This analysis was effectively a critical financial audit of the Councils' approved plans.[111]

[109] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p4
[110] Ibid at p4
[111] LTFMP used in the analysis: Sorell Council: Long Term Financial Plan June 2017, Tasman Council: Long Term Financial Plan January 2018

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

The Board conducted its analysis on the approved long-term financial management plans of both Councils. Near the time that the Board concluded its report, both Councils approved revised LTFMP's. These revised projections are for materially lower surpluses than in the Councils previous plans. The Board's assessment is that the revisions in some part reflect changes in assumptions that the Board has made in its analysis. However, if the full assumptions that the Board has used were applied to the new LTFMPs, the Board is confident that the fundamental underlying structural issues identified by the Board in its analysis of all three options in this Report would remain unchanged.

Sorell Council's LTFMP (2019-2036) forecasts underlying surpluses in each of the 18 years. The key assumptions impacting the improvement in projected results were:

- 4 per cent growth in self-generated income in 2019 followed by 2.5 per cent each year after 2019;
- 2 per cent indexation of Financial Assistance Grants.

Capital expenditure on renewing or replacing existing assets is set to equal the annual depreciation expense. The LTFMP projects capital expenditure on new assets to be $14.4 million, with the majority funded from underlying surpluses generated over the period and $5.1 million subsidised by Roads to Recovery grants.

However, Crowe Horwath found that Sorell Council's LTFMP did not reflect a new Long-term Asset Management Plan.[112] The new Long-term Asset Management Plan could have a material impact on the LTFMP and should be considered in assessing Sorell Council's long-term financial sustainability as part of the Review.

Tasman Council's LTFMP (2019-2038) forecasts operating surpluses in each of the 20 years. Tasman's 10-year plan (2016-2025) forecasted deficits in the first two years and surpluses in every year after that.

However, Crowe Horwath found that Tasman Council's LTFMP appeared incomplete in respect to funding for new assets, which means that there may be insufficient reserves to fund future capital expenditure[113]. It is not possible to quantify the potential shortfall in the absence of the latest asset management plan data. In 2016-17, Tasman Council paid $2.7 million for plant, property and equipment, with $1.9 million relating to roads. Tasman Council budgeted to spend $2.2 million on capital expenditure in 2017-18 with the majority relating to roads.

Other findings by Crowe Horwath included:

- *For a council to be financially sustainable, it needs to not only budget and operate to break-even, it also needs to be able to maintain the condition of its infrastructure assets to deliver services to the community.*

- *Linking a long term strategic asset management plan with the LTFMP is critical when considering future asset management costs in order to achieve financial sustainability. Sorell and Tasman Council's LTFMPs do not provide that linkage to make a reasonable assessment.*

- *Considering the significance of asset management to councils' overall service delivery and financial sustainability, the long-term projections for both Sorell and Tasman Councils should be re-assessed using the most recent asset management data.*

Crowe Horwath's general findings in the report included:

Sorell Council addressed the key observations made in the Feasibility Study on long-term projections and its current long-term financial management plan forecasts underlying surpluses which are used to fund capital spending.[114]

Tasman Council's long-term financial management plan also forecasts operating surpluses but does not appear to address capital spending. We were unable to comment on the projected long-term financial sustainability of both Councils based on their current long-term financial management plans because key assumptions used in projecting future revenue and expenses varied between the two Councils, some we deemed unrealistic or otherwise questionable and the plans did not adequately address long-term funding for key infrastructure assets.[115]

[112] Even though the plan is still in a draft form, it was noted that the plan projects an increased spending on roads, which is to be partly offset by a reduction in capital expenditure in other asset categories.
[113] Currently, the plan covers only roads and does not appear to include capital expenditure on other major asset categories such as bridges, storm water, buildings and plant and equipment.
[114] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p3
[115] Ibid at p3

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

5.2.2 Normalised Long-Term Financial Management Plans Projections

Crowe Horwath provided a preliminary assessment of the plans and the underpinning assumptions and proposed the use of 'standardised assumptions' to enable comparative analysis between the two Councils' LTFMPs and adjustments to reflect 'recent financial and asset management data, adjusted for non-recurring items to establish a base for projections' (with underlying reasoning). Modelling was undertaken of the long-term projected impacts of these adjustments on the Councils' LTFMPs.

The Board notes that the modelling is not intended to reflect precisely what the financial outcomes would be for the Councils in each year, but rather to provide a 'stress test' on the current plans. Crowe Horwath identified a number of issues that required adjustment and normalisation in the Sorell and Tasman LTFMPs before it could undertake its modelling. These are as follows:

- *'A recent revaluation of Tasman Council's road assets would have a significant impact on its financial sustainability going forward, unless the Council implements appropriate measures and observations, including:*
    - *An increase in operating revenue or decrease in expenditure (or the increased depreciation will reduce the underlying surplus)*
    - *A decline in the asset consumption ratio for transportation assets indicates that the aged condition of roads was less than previously thought;*
    - *The asset sustainability ratio will deteriorate to a level which will put Council at a risk of underinvesting in its transportation assets. Unless there is an increase in capital spending, this is likely to result in additional maintenance cost in the future and undermine Tasman Council's financial sustainability.*
    - *The recent revaluation of road assets by Tasman Council should be taken into consideration when comparing its financial performance with that of Sorell Council.*
    - *At face value, Tasman Council may have 'outperformed' Sorell Council in terms of operating results, but this was largely due to comparatively low depreciation expenses.'*[116]

Similarly, asset management indicators were impacted by asset values which did not reflect the most current replacement costs of transportation assets and their remaining values.

[116] Ibid at p3

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

Crowe Horwath applied the following normalised assumptions to the data from the two Councils LTFMPs.

Table 5.2: Crowe Horwath's assumption and explanations

Assumption applied	Impact areas	Our explanation
CPI 2.25% for years 1 to 5 CPI 2.50% for years 6 to 20	Rates User charges and fees Other revenue Other expense	The Consumer Price Index (CPI) provides a reasonable indication of changes in prices. The CPI data in our modelling was based on: - Projections over the period 2018-19 to 2020-21 contained in the Department of Treasury and *Finance's Revised Estimates Report 2017-18* (Table 3.1) for years 1 to 5. - Estimates used in Councils' LTFMPs for years 6 to 20.The estimates are not unreasonable when compared to an average CPI of 2.11% based on 10-year historical ABS data.
Revenue growth factor: 1% for Sorell for years 1 to 5 0.5% for Sorell for years 6 to 20 Nil for Tasman	Rates User charges and fees	The growth factor reflects recent population and rateable properties data. We used this data conservatively because population growth is only one of many factors impacting Council's revenue raising capacity.
CCI 2.31% for years 1 to 5 CCI 2.80% for years 6 to 20	Materials and services	The Council Cost Index (CPI) combines the wage price index, road and bridge construction index and the CPI and is therefore a reasonable indication of changes in the cost of delivering services in the local government. The CCI data in our modelling was based on either a 5-year or 10-year historical data published by the Local Government Association of Tasmania. The average chosen reflected the forecasting period. We used the 10-year average for long-term forecasting but opted to use the 5-year average for short and medium term projections.
Expenses growth factor: Sorell – as revenue growth factor 0.5% for Tasman for years 6 to 20	Materials and services	We applied the growth rate factor to material and services because development and population growth and growth in visitor numbers lead to an increased demand on existing infrastructure and services.
Wage Price Index 3.0%	Employee benefits	Even though the current enterprise agreements provide of an annual increase of 2.5% or CPI (whichever is greater), we decided to apply a 3% index to reflect movements between levels within the same band or promotions and is based on a 10-year average Tasmanian Public Sector Wage Price Index.
2.0% increase annually	Financial Assistance Grants Revenue	The allocation of funds between states and territories for the Financial Assistance Grant is increased annually in real per capita terms and includes a CPI adjustment based on the difference between the estimated and actual CPI from the previous year's grant, as well as a population adjustment. The Australian Government budget indicates an increase in Tasmanian's share of the funding pool in 2018-19 and the forward estimates.

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

When standardised assumptions and realistic variations are applied to the Sorell and Tasman Councils' LTFMPs, their long-term sustainability is not as evident as in these plans, as discussed below.

Sorell Council: Normalised Results

The normalised projections show close to a break-even operating performance over the next 10 years. Expenses are projected to exceed revenue in the second part of the projections period, although the average operating deficit would be less than 1 per cent of income. Sorell Council's current LTFMP (2019-2036) forecasts underlying surpluses in each of the 18 years.

Figure 5.1: Sorell Council – Normalised Projected Underlying Result (Base Scenario)

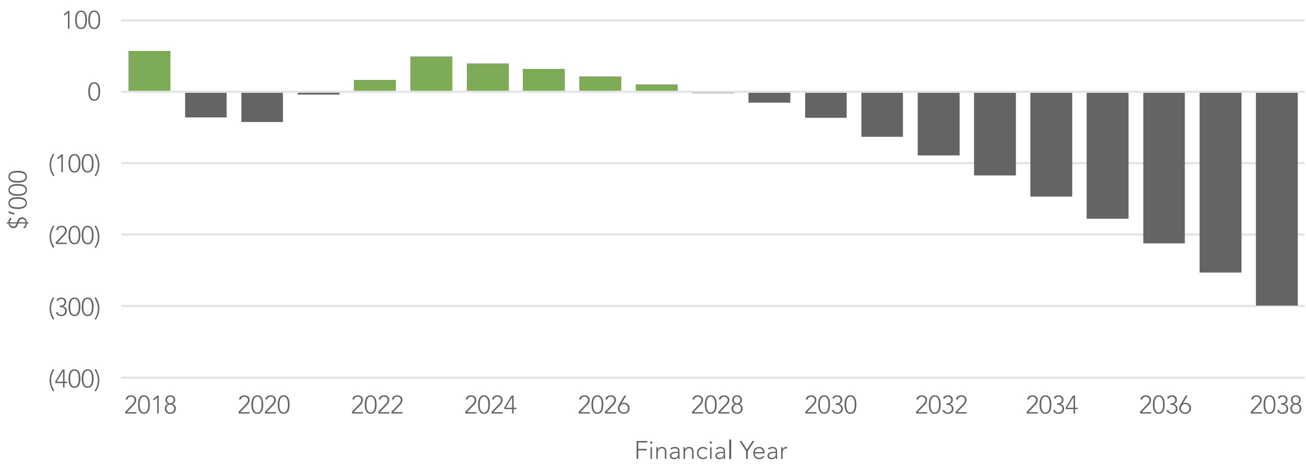


Table 5.3: Sorell Council Normalised 20-year Projections

	Budget FY 2018 $'000	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000
General rates only	10,517	10,861	11,217	11,584	11,963	12,354	67,583	169,331	294,892
Other fees and charges	2,767	2,858	2,951	3,048	3,147	3,250	17,781	44,551	77,586
Financial Assistance Grants	2,075	2,117	2,159	2,202	2,246	2,291	12,161	28,250	51,425
Distributions from TasWater	485	324	324	324	324	324	1,620	3,240	6,480
Bank interest on cash	126	119	111	106	102	98	440	661	1,636
Other	849	868	888	908	928	949	5,114	12,333	21,989
Total Operating Revenue	**16,819**	**17,147**	**17,649**	**18,171**	**18,710**	**19,267**	**104,699**	**258,365**	**454,008**
Employee benefits	5,690	5,861	6,037	6,218	6,404	6,596	36,071	90,293	157,479
Materials and services	4,845	5,006	5,173	5,345	5,523	5,707	31,498	80,694	138,946
Depreciation	5,204	5,284	5,442	5,565	5,711	5,850	31,525	76,020	135,396
Bank interest on loans	146	135	123	110	97	84	225	32	806
Other	877	897	917	938	959	980	5,281	12,735	22,706
Total Operating Expenses	**16,762**	**17,183**	**17,691**	**18,175**	**18,694**	**19,217**	**104,599**	**259,775**	**455,334**
Operating Surplus/(Deficit)	**57**	**(36)**	**(42)**	**(4)**	**17**	**49**	**100**	**(1,410)**	**(1,326)**

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

Tasman Council: Normalised Results

The normalised projections show that Tasman Council would generate sufficient revenue to cover its operating expenses until 2030. After that, Tasman Council would start incurring operating deficits. Overall, while Tasman Council's net result over the 20-year period would be a surplus of $0.5m, the rate of increasing deficits from 2030 would be relatively large compared with Sorell Council.

Tasman Council's LTFMP (2019-2038) forecasts operating surpluses in each of the 20 years.

Figure 5.2: Tasman Council – Normalised Projected Underlying Result (Base Scenario)

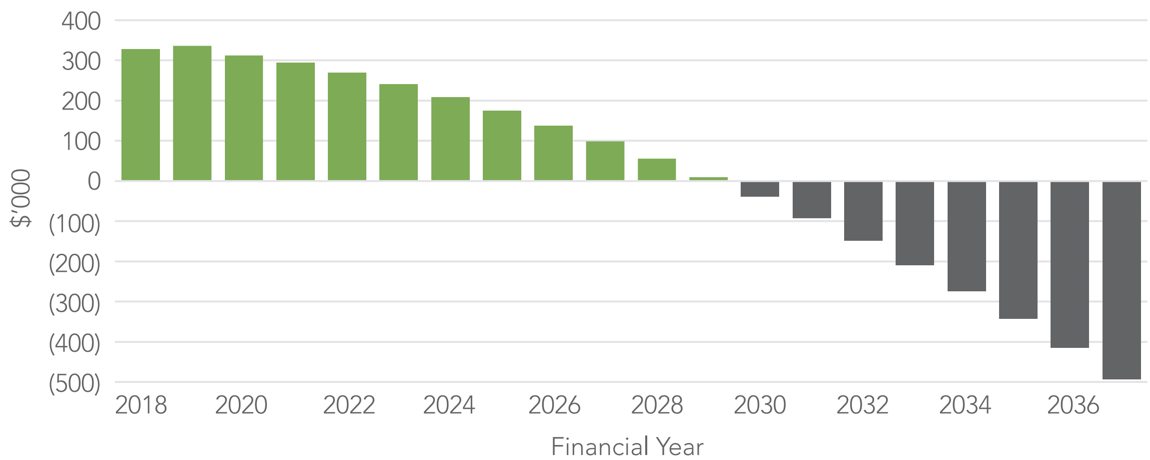


Table 5.4: Tasman Council Normalised 20-year Projections

	Budget FY 2018 $'000	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000
General rates only	3,941	4,030	4,120	4,213	4,308	4,405	23,732	57,229	102,036
Other fees and charges	812	830	849	868	888	908	4,890	11,791	21,023
Financial Assistance Grants	955	974	994	1,013	1,034	1,054	5,597	13,002	23,668
Distributions from TasWater	15	10	10	10	10	10	50	100	200
Bank interest on cash	100	120	141	146	151	155	839	1,721	3,272
Other	394	403	412	421	431	440	2,373	5,721	10,201
Total Operating Revenue	**6,217**	**6,367**	**6,525**	**6,671**	**6,820**	**6,972**	**37,480**	**89,565**	**160,401**
Employee benefits	1,084	1,117	1,150	1,185	1,220	1,257	6,872	17,202	30,001
Materials and services	2,701	2,777	2,855	2,936	3,019	3,104	17,129	43,883	75,702
Depreciation	1,658	1,721	1,753	1,802	1,844	1,892	10,191	24,575	43,778
Bank interest on loans	21	13	10	6	2	(0)	(0)	(0)	30
Other	403	412	421	431	441	450	2,427	5,852	10,434
Total Operating Expenses	**5,867**	**6,039**	**6,189**	**6,359**	**6,525**	**6,703**	**36,618**	**91,512**	**159,946**
Operating Surplus/(Deficit)	**350**	**328**	**336**	**312**	**295**	**270**	**861**	**(1,947)**	**455**

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

5.2.3 The Board's Financial Analysis

The normalised results for the two Councils' LTFMPs indicate that both Councils would not be sustainable over the long term. However, the Board considered that while this was a legitimate scenario to model, in practice the Councils would make policy decisions to avoid achieving such results. The Board, therefore, has undertaken its own analysis, using the Crowe Horwath model, to determine what would be required to ensure both Councils are sustainable into the future, if they remain stand alone.

The primary financial sustainability indicator is the underlying surplus ratio (also known as the operating surplus ratio) and the Board has used this indicator to remodel the work undertaken by Crowe Horwath.

The Auditor-General[117] suggests a benchmark of greater than one. A ratio greater than one indicates a surplus, with the larger the surplus the stronger the assessment of sustainability. However, too strong a result could disadvantage ratepayers. A result less than one indicates a deficit which cannot be sustained in the long-term.

A council generally has two key areas of influence when making strategic financial decisions. The council can modify the level of service provided to the community and the other is to set the rates at a level acceptable to the community.

The Board has remodelled the work of Crowe Horwath maintaining a benchmark greater than one however aiming for 1.01 (or 1 per cent of total operating revenue) for Sorell and Tasman (and then for an amalgamated council in Chapter 7). The service level will be maintained under the same assumptions that have been made by Crowe Horwath.

The rationale for aiming for 1 per cent of revenue is to assist in cushioning any one-off shocks that may occur in any one or more years over the 20 year period.

Sorell Council

The Crowe Horwath report projected that Sorell Council would have an underlying operating deficit of less than 1 per cent, however, as highlighted in the Figure 5.1 above, there is a negative trend from year 2023.

The Board has remodelled this by changing the rating assumption to achieve an underlying surplus ratio of greater than one, aiming for 1.01 or 1 per cent of operating revenue. The following table shows the changes that have been made to the rates indexation in the model and the rating assumption for Sorell Council:

Table 5.5: Changes in rates indexation in the model for Sorell Council

	Sorell Council	Crowe Horwath	Board
Y1	4.00%	2.25%	3.25%
Y2-Y5	2.50%	2.25%	2.25%
Y6-Y20	2.50%	2.50%	2.60%

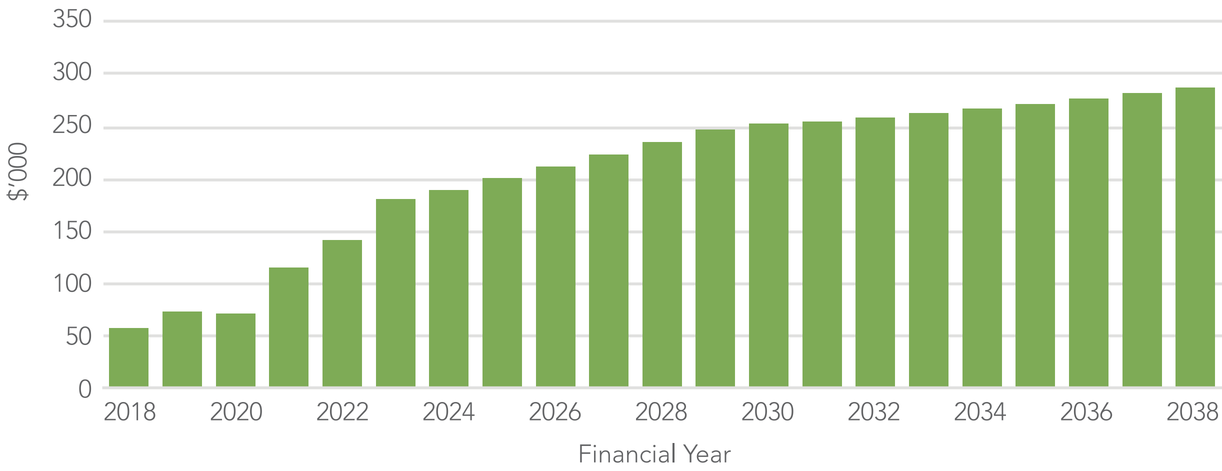
Note: No changes have been made, by the Board, to the growth rate percentages.

[117] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT…

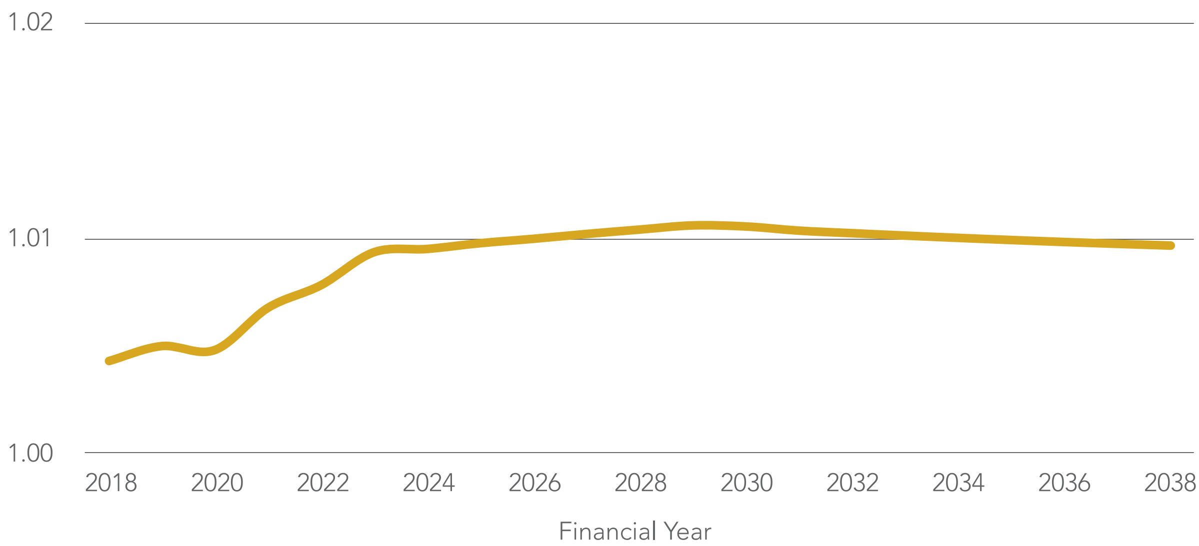
Compared with Crowe Horwath's projections, the remodelling lifts the rate increase in Year 1 by 1 percentage point and in Years 6-10 by 0.1 percentage point, allowing Sorell to maintain an underlying surplus greater than 1 from 2018 and around 1.01 from 2023. This is demonstrated in Figure 5.3 below:

Figure 5.3: Projected Underlying Result with Board Remodelling for Sorell Council



The following graph (Figure 5.4) shows the underlying surplus ratio with the revised modelling:

Figure 5.4 – Underlying Surplus Ratio for Sorell Council



5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

Table 5.6: Revised Financial Outlook for Sorell Council

	Budget FY 2018 $'000	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000	Crowe Horwath	
General rates only	10,517	10,970	11,329	11,700	12,082	12,478	68,463	172,826	299,847	294,892	(4,955)*
Other fees and charges	2,767	2,858	2,951	3,048	3,147	3,250	17,781	44,551	77,586	77,586	0
Financial Assistance Grants	2,075	2,117	2,159	2,202	2,246	2,291	12,161	28,250	51,425	51,425	(0)
Distributions from TasWater	485	324	324	324	324	324	1,620	3,240	6,480	6,480	0
Bank interest on cash	126	119	112	109	107	106	521	1,210	2,284	1,636	(648)#
Other	849	868	888	908	928	949	5,114	12,333	21,989	21,989	0
Total Operating Revenue	**16,819**	**17,255**	**17,762**	**18,290**	**18,835**	**19,398**	**105,659**	**262,410**	**459,611**	**454,008**	**(5,603)**
Employee benefits	5,690	5,861	6,037	6,218	6,404	6,596	36,071	90,293	157,479	157,479	(0)
Materials and services	4,845	5,006	5,173	5,345	5,523	5,707	31,498	80,694	138,946	138,946	(0)
Depreciation	5,204	5,284	5,442	5,565	5,711	5,850	31,525	76,020	135,396	135,396	(0)
Bank interest on loans	146	135	123	110	97	84	225	6	780	806	26
Other	877	897	917	938	959	980	5,281	12,735	22,706	22,706	(0)
Total Operating Expenses	**16,762**	**17,183**	**17,691**	**18,175**	**18,694**	**19,217**	**104,599**	**259,749**	**455,308**	**455,333**	**25**
Operating Surplus/(Deficit)	**57**	**73**	**71**	**115**	**142**	**180**	**1,060**	**2,661**	**4,303**	**(1,325)**	**(5,628)**

*Rate reduction. #More Interest as more rates collected.

Note: The modelling shows that with more rates there will be additional interest revenue and a modest change in loan interest.

The remodelling shows that Sorell Council, in standing alone, will need to consider its financial sustainability over the long-term to ensure it can maintain an underlying surplus. Table 5.6 reveals that in the scenario modelled, Sorell Council would need to collect an additional $5 million in rates revenue over the period. This is the equivalent of approximately an additional $570 per rateable property or $340 per resident.

There is little potential to withstand unexpected events or respond to resident demands for additional services without some additional rate increases beyond the assumed levels. Additionally, as the Sorell municipality becomes more urban it will have more community demands for urban services.

Tasman Council

The Crowe Horwath report projected that Tasman Council would incur underlying operating deficits from 2030, however, as highlighted in Figure 5.2 above, a negative trend emerges from year 2019.

The Board, as for Sorell Council, has remodelled this by changing the rating assumption to achieve an underlying surplus ratio of greater than one, aiming for 1.01 or 1 per cent of operating revenue. The following table shows the changes that have been made to the rates indexation in the model and the rating assumption by Tasman Council:

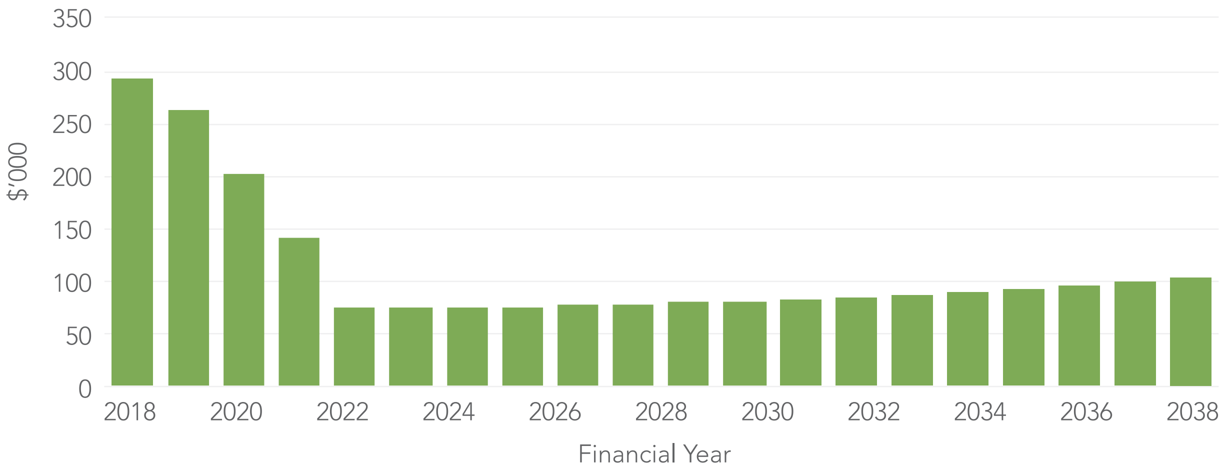
Table 5.7: Changes to rates indexation in the model for Tasman Council

	Tasman Council	Crowe Horwath	Board
Y1-Y5	2.50%	2.25%	1.35%
Y6-Y20	2.50%	2.50%	3.40%

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

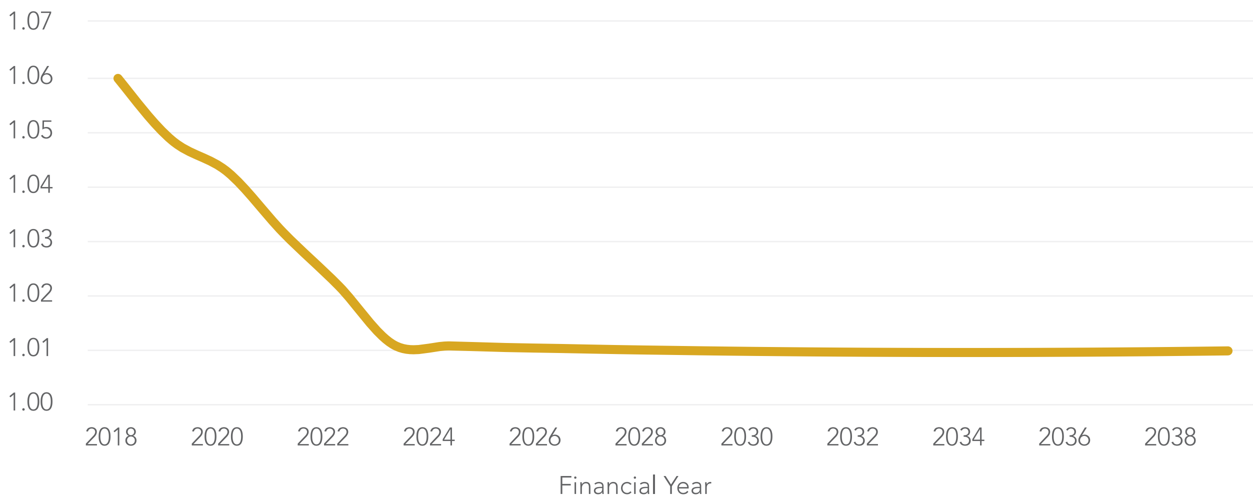
Compared with Crowe Horwath's projections, the remodelling reduces the rate increase in Years 1-5 by 0.9 percentage points but increases in Years 6-20 by 0.9 percentage points, allowing Tasman to maintain an underlying surplus greater than one, reducing from 1.06 in 2018 to around 1.01 from 2023. This is demonstrated in the Figure 5.5 below:

Figure 5.5: Projected underlying result with Board's Remodelling for Tasman Council



The following graph (Figure 5.6) shows the underlying surplus ratio with the revised modelling:

Figure 5.6 – Underlying Surplus Ratio for Tasman Council



5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

Table 5.8: Revised Financial Outlook for Tasman Council

	Budget FY 2018 $'000	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000	Crowe Horwath	
General rates only	3,941	3,994	4,048	4,103	4,158	4,214	23,321	60,144	103,982	102,036	(1,946)*
Other fees and charges	812	830	849	868	888	908	4,890	11,791	21,023	21,023	(0)
Financial Assistance Grants	955	974	994	1,013	1,034	1,054	5,597	13,002	23,668	23,668	(0)
Distributions from TasWater	15	10	10	10	10	10	50	100	200	200	0
Bank interest on cash	100	120	140	144	148	150	769	1,648	3,120	3,272	152#
Other	394	403	412	421	431	440	2,373	5,721	10,201	10,201	(0)**
Total Operating Revenue	**6,217**	**6,332**	**6,453**	**6,560**	**6,668**	**6,776**	**36,999**	**92,407**	**162,195**	**160,400**	**(1,795)**
Employee benefits	1,084	1,117	1,150	1,185	1,220	1,257	6,872	17,202	30,001	30,001	(0)
Materials and services	2,701	2,777	2,855	2,936	3,019	3,104	17,129	43,883	75,702	75,702	(0)
Depreciation	1,658	1,721	1,753	1,802	1,844	1,892	10,191	24,575	43,778	43,778	(0)
Bank interest on loans	21	13	10	6	2	(0)	(0)	(0)	30	30	(0)
Other	403	412	421	431	441	450	2,427	5,852	10,434	10,434	(0)
Total Operating Expenses	**5,867**	**6,039**	**6,189**	**6,359**	**6,525**	**6,703**	**36,618**	**91,512**	**159,946**	**159,945**	**(1)**
Operating Surplus/(Deficit)	**350**	**292**	**264**	**201**	**142**	**74**	**381**	**895**	**2,248**	**455**	**(1,793)**

*Rate reduction. #More Interest as more rates collected. **Issue with model.

Note: The modelling shows that with more rates there will be additional interest revenue.

The remodelling shows that Tasman Council, in standing alone, will need to consider its financial sustainability over the long-term to ensure it can maintain an underlying surplus. In this scenario, as shown in Table 5.8, Tasman Council would need to collect an additional $2 million in rates revenue to achieve an operating surplus ratio of 1 per cent of operating revenue. This is the equivalent of approximately an additional $560 per rateable property or $815 per resident.

Whether this would be achievable depends on the capacity of the community to pay. While this is the case for communities in both Councils, the sensitivity to higher rates in likely to be greater in Tasman, relative to Sorell, given lower incomes, greater dependency on government income support payments and historically higher unemployment levels.

5.2.4 Critical risk of shared services to Tasman Council

As noted in Chapter 4, shared services arrangements between the two Councils deliver substantial efficiencies and cost savings to Tasman Council together with ancillary benefits like resolving skill shortages and recruitment challenges. Staff and senior management raised concerns about the long-term sustainability of the arrangements. The Board shares these concerns for the following reasons.

Changes in service demands in the municipal area: The Board considers that there is a potential risk to the capacity to effectively share the load of the arrangements between the two Councils from sudden changes in growth or demand, legislative changes and unplanned events like natural disasters and bushfires.

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT...

The vulnerability of the arrangement: Shared services arrangements are notoriously vulnerable to changes in leadership, particularly as they tend to be governed by agreements from which non-supportive leadership can later withdraw.

From this perspective shared services arrangements can be viewed as a product of the mutual convenience of the two parties. They can deliver benefits in the short-term and they can contribute to the strategic growth of an organisation, but they cannot be relied upon to deliver long-term improvements without such a supporting and enduring formal framework.

Key person dependency: Feedback to the Board indicates that the success of the arrangement to date has been a result of the commitment of the current General Manager and his willingness to work to support the arrangement. On the basis of the feedback received by the Board from the two Councils, the council staff, and the General Manager himself, the ongoing success of the shared services role is dependent on the following factors:

1. That the continued growth at Sorell Council does not require a shift to a dedicated full-time General Manager supporting that Council alone;
2. The General Manager's ongoing capacity and willingness to work hours necessary to sustain the arrangements;
3. That another person could be recruited to the shared role, as it is currently structured, if the current General Manager were to leave the role.

Recruitment and retention: The Board notes the considerable difficulty that rural and regional councils can and do experience in attracting and retaining skilled professionals. The shared services aspects of the role, may be attractive to some potential candidates, but equally may dissuade others from applying. Should the role become vacant, the Board notes the recent history of transition and change in the role of General Manager at Tasman prior to the present General Manager taking the role.

The Board notes that the Sorell Council may be growing to a point where the organisation's capacity to commit resources to shared services has changed, especially for the General Manager's role.

This would be a factor that the organisation should consider in terms of the demands on staff, especially in terms of the need to align the resource demands of each council with the allocation of specific roles.

However, the Board notes that in some cases the alternative to the delivery of a shared service is an unqualified service or no service.

5.2 FINANCIAL SUSTAINABILITY AS STAND-ALONE COUNCILS: (10-20 YEAR OUTLOOK) CONT…

Financial impacts for Tasman Council (if Sorell to Tasman Shared Services Ceased)

Crowe Horwath also assessed Tasman Council's financial exposure if the Sorell Council were to withdraw from the current shared services arrangements and the long-term financial impacts for Tasman Council. Table 5.9 below outlines the results of this modelling of a projected total deficit of $12.1 million over the period to 2038.

Table 5.9: Modelled impacts for Tasman if shared services ceased

	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000
General rates only	4,030	4,120	4,213	4,308	4,405	23,732	57,229	102,036
Other fees and charges	830	849	868	888	908	4,890	11,791	21,023
Financial Assistance Grants	974	994	1,013	1,034	1,054	5,597	13,002	23,668
Distributions from TasWater	10	10	10	10	10	50	100	200
Bank interest on cash	120	141	146	151	155	839	1,721	3,272
Other	403	412	421	431	440	2,373	5,721	10,201
Less GM reimbursement	(138)	(141)	(144)	(148)	(151)	(813)	(1,960)	(3,495)
Total Operating Revenue	**6,229**	**6,384**	**6,527**	**6,673**	**6,821**	**36,667**	**87,605**	**156,906**
Employee benefits	1,117	1,150	1,185	1,220	1,257	6,872	17,202	30,001
Add est. senior staff salaries	(138)	(141)	(144)	(148)	(151)	(813)	(1,960)	(3,495)
Materials and services	2,777	2,855	2,936	3,019	3,104	17,129	43,883	75,702
Depreciation	1,721	1,753	1,802	1,844	1,892	10,191	24,575	43,778
Bank interest on loans	13	10	6	2	(0)	(0)	(0)	30
Other	412	421	431	441	450	2,427	5,852	10,434
Total Operating Expenses	**6,378**	**6,538**	**6,719**	**6,896**	**7,084**	**38,704**	**96,733**	**169,052**
Operating Surplus/(Deficit)	**(149)**	**(154)**	**(192)**	**(223)**	**(263)**	**(2,037)**	**(9,129)**	**(12,146)**

This is a cumulative deficit approximately six times greater than projected for the normalised model under the present resource sharing arrangements. This would call for approximately an additional $3500 per rateable property in Tasman over the next 20 years to maintain a sustainable Council. This may well be beyond the capacity or will of Tasman ratepayers.

The Board notes that while Sorell Council would also have a degree of financial exposure as a result of any potential withdrawal by Tasman Council from shared services, the Board considers that the Sorell Council's level of exposure is greatly reduced due to its potential capacity to outsource its extra capacity to another council through the Brighton Common Services Model (reducing its exposure in terms of superfluous employee costs). The additional costs to Sorell Council would be likely to be a decision to appoint a full-time General Manager.

The Board concludes that the future sustainability of Tasman is dependent upon the continuation of a significant level of resource sharing and this continuance is not guaranteed or without considerable risk.

5.3 EFFECTIVE LOCAL REPRESENTATION

Consultation responses on the matter of local representation

The Board understands that maintaining the current levels of local representation is a key issue for many community members who support maintenance of the present stand-alone structure of the Councils, particularly in the more geographically isolated Tasman Peninsula. The Board received six submissions expressly in favour of retaining the status quo – the stand-alone structure of the Councils.[118] Four of these submissions were from Tasman residents (as were the bulk of the consultation responses). The consultation responses identified a number of reasons for preferring to retain the current stand-alone structure of the Councils:

i. sustainable financial position of the Councils;
ii. preserving local representation;
iii. preserving shop front and access to council staff and councillors;
iv. preserving local works crew and depot;
v. preserving current shared services arrangements;
vi. local economy and population is growing; and
vii. other options are not currently justified/viable.

During the Board's hearings, the Board heard some strong views about fair representation of areas from residents in Tasman, expressing the view that there were essentially deficiencies in the current representative arrangements in respect to the provision of a voice for local townships and that there was a perceived 'Nubeena-oriented' focus for the provision of facilities and services. The Board heard that some townships felt they lacked a voice or were overlooked in Council decisions and consultation.

Option 1 would not deliver any change to the current structure or status of representation within Tasman or Sorell. However, the Board considers that the Councils would have the capacity to increase the level of community representation and input, even under the present stand-alone council structures.

Representation of local communities can, and does take many forms and is not necessarily reflected solely through the election of councillors. Local communities, which are part of a broader council area, are able to have their views heard through formal and informal mechanisms. For example, the use of Community Board in particular towns or geographic areas is one way in which specific local issues are raised with a council.

Community Boards

The Board considers that local Community Boards would be a strong additional approach to complement representation of communities. The primary purpose of a local Community Board is to actively represent the views of its local community enabling outlying communities to have a voice and the ability to influence decisions that affect their communities. A local Community Board provides an avenue to advocate the interests and voice of these smaller areas and ensure that their views are received directly to the council that governs them through a structured, resourced system of representation. Community Boards promote a consultation model and ethos.

The Feasibility Study proposed 'Community Boards' as a transitional option noting that 'Boards are responsible for community engagement, shaping and monitoring local service and bringing local perspectives to region-wide policies and plans.'[119] However, the Board considers that these measures would not necessarily have to be limited to any transition period. The establishment of Community Boards and community consultation frameworks was also one of the performance improvement ideas supported by a Tasmanian Chamber of Commerce and Industry (TCCI) Discussion Paper.[120] Representative roles are generally unpaid but a council could make an appropriate contribution to adequately fund the running expenses of Community Boards. Governance support could be provided through the provision of an office base, preparation of agendas and minutes for each meeting.

[118] These submissions were in addition to submissions expressing opposition to the shared services and voluntary amalgamation options.
[119] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf p93
[120] Tasmanian Chamber of Commerce and Industry, "The future of local government in Tasmania – Discussion paper", (2012), Hobart, Tasmania, accessed via http://www.tcci.com.au/tcci/media/Media/Economics%20Presentations/tcci_local_government_discussion_paper_final.pdf on 4 April 2018 at p6

5.3 EFFECTIVE LOCAL REPRESENTATION CONT...

CASE STUDY: WARATAH-WYNYARD COMMUNITY BOARD

The Waratah-Wynyard Council has recently established a 'Community (Representative) Board' to improve the level of formal engagement between the Waratah Community and the Waratah-Wynyard Council (from which the community is geographically isolated). The two communities of Waratah and Wynyard were brought together in the 1993 amalgamations. The Community Board has recently been formed and held its first Board meeting on 2 June 2018. The focus of the Community Board is to achieve the outcomes of the Waratah Community Plan 2018-21, develop and deliver on community priorities, provide local representation and leadership for the Waratah Community, engage effectively with the local community and organisations, and provide advice and undertake liaison with the Council and other relevant authorities.[121]

5.4 MEETING REGULATORY OBLIGATIONS

In assessing the Councils' ability to meet their respective regulatory obligations into the long-term under the existing stand-alone structure, the Board considered:

- the evidence available to it as to whether or not the Councils were currently meeting their regulatory obligations; and
- factors that may assist or impede their future capacity to continue meeting their obligations.

The Board noted that there are a number of gaps in terms of the available performance data for councils in respect to regulatory requirements. The Board did not undertake its own internal auditing of processes.

However, the Board did review the available performance reporting data for any indications that the Councils were not currently meeting their regulatory obligations as stand-alone Councils. The Board considered: the Councils' Audit Panel compliance reports, regulatory compliance issues within the remit of the Environment Protection Agency (EPA), the Tasmanian Audit Office's Financial Audit Reports on the Councils, information collated in the Local Government Division's Consolidated Data Collection and a recent closed council meeting regulatory compliance audit. The Board noted that the two Councils appeared to have generally met the compliance requirements involved in each of these processes. The Board undertook a review of the Councils' reporting on planning application and development approval timeframes which did not indicate any irregularities, although neither Council had the capacity to receive online applications.

The Board heard anecdotal evidence from staff and some managers during its hearings with the Councils that staffing to support compliance and regulatory activities is challenging, with potential implications for the Councils' capacity to meet all regulatory requirements to the standard that they had previously been met. It also heard anecdotal evidence about different compliance cultures within the two Councils as a result of different expectations and pressures from Tasman residents. The current growth in the Sorell municipal area and the continuation of growth in regulatory requirements and increased scrutiny on Councils' compliance, means that this pressure is likely to continue to increase.

In the Board's view, this pressure would certainly be exacerbated by any withdrawal from the extensive shared service arrangements with Sorell. The Board notes the issues of key person dependencies, skills and capacity issues at Tasman may also contribute to challenges in meeting regulatory obligations. In summary, the Board sees continued pressure on regulatory compliance under the current structure.

[121] Local Government Association Tasmania, "Waratah Community Board", *LG Tas April 2018*, Hobart, Tasmania, at p1; Waratah-Wynyard Council Website, 2018, at 14 June 2018 http://www.warwyn.tas.gov.au/page.aspx

5.5 ADEQUATE SERVICE DELIVERY

> *"Rural councils can face difficulties in providing and maintaining services because they do not have access to the higher ratepayer base of larger councils and in some cases they manage large road networks. This is highlighted in the number of rateable valuations per sq km ratio which reflects the population and area disparity between the [urban and rural] councils …"*[122]

The Board considered the existing pressures for the two Councils to deliver services that align with community expectations and regulatory requirements. Most services provided by the Councils are common to all councils. Few services are specific or tailored to the local community. Specific services provided by the Councils include hard rubbish collection on an annual basis by Tasman Council and green waste collection and the operation of a dog pound in Sorell Council.[123]

Along with the benefits and opportunities of Sorell's continued population growth rate comes the increasing community needs and desires for new and/or improved services and infrastructure. Additionally, growth, expansion and new infrastructure places pressure on the Council in terms of increasing maintenance and depreciation costs. The Sorell municipality's transition from a rural to increasingly urban council area brings with it expectations and pressures from newly arrived residents.[124] As Sorell grows, the Council has indicated that community expectations are becoming increasingly aligned to other urban areas, particularly regarding community and recreational facilities.

Tasman municipality faces a different set of challenges which are driven not by growth in resident numbers, which is negligible, but rather increased demands driven by transient tourist and visitor populations. Despite efficiencies delivered by shared services, the arrangements do not provide for full-time onsite service provision to Tasman residents.[125] The current shared services arrangements provide access to the majority of services expected by residents; but on a part-time and remote delivery basis (for example, see section 4.4 and Table 4.3 above regarding FTE staff allocation of shared services in Tasman Council). In the Board's view, this has had implications for the delivery of some customer-facing services including front-office and regulatory services.

Long-term Pressures

The Board notes that levels of service provision in Tasman, and possibly also at Sorell, may be at least partially under-resourced. While this could be addressed through increased expenditure on staff resources, this would place further pressure on the Council's long-term financial outlook, which the Board has already identified as being highly challenging and vulnerable.

The Board heard in submissions from Sorell and Tasman councillors that both Councils' capital expenditure programs are not always meeting the expectations of the community (including the expectations of the tourist community at Tasman). It also received submissions from some Tasman ratepayers that the roads are being maintained less frequently than had previously been the case. However, the Board noted that the General Manager has indicated that this latter issue was attributable to a change in maintenance policy to maintain roads to the level of requirement rather than maintenance conducted to a specific timeframe.

It is the Board's observation that the level of expectation in terms of services differs between the two Councils. While both are defined as rural councils, Sorell Council is becoming increasingly urbanised and this has implications in terms of the community expectations of service standards becoming more aligned to those delivered by urban councils. The Board heard that the maintenance and depreciation of new roads may place additional pressures on Tasman Council. The Board also heard concerns in some submissions about the equity of service distribution between Tasman townships. It was indicated by some members of the public that they felt services like kerbs and footpaths were better in Nubeena than in other towns.

[122] Tasmanian Audit Office, Report of the Auditor-General No.8 of 2016-17, Volume 3, Local Government Authorities and Tasmanian Water and Sewerage Corporation 2015-16, Tasmanian Audit Office, www.audit.tas.gov.au/wp-content/uploads/AGR-Volume-3-Local-Government-Authorities-and-TasWater-2015-16-Web-Book.pdf at p18
[123] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf pp 100, 104
[124] Meetings with Sorell councillors and staff, 28 March 2018.
[125] Ibid

5.5 ADEQUATE SERVICE DELIVERY CONT...

The Board noted some areas where Tasman ratepayers seemingly received lower standards of service provision for example:

- Location, condition and availability of services (e.g. public toilets); and
- Visitor car parking, kerbing, footpaths, and channeling in built-up areas.

However, the Board also heard that there were disparities in community expectations between Sorell and Tasman. Staff indicated that Tasman residents expected a higher level of service in the areas of maintenance and works services as this was a source of community pride. Some staff indicated that residents were not hesitant to express their dissatisfaction to Works staff when expectations were not met and that at times these were at variance with the (Sorell-coordinated) policy.[126]

Staff identified transactional service gaps that, in the Board's view, would impact on efficiencies in those areas for example:

- IT services and systems (also linked to telecommunications issues outside the control of the councils);
- in Tasman, a lack of electronic records and finance systems (noting that much needed implementation of some of these systems has been put on hold pending the outcomes of the Review; and
- differences in transactional service systems limiting the capacity to explore some aspects of shared services.[127]

[126] Meetings with Tasman councillors and staff, 27 March 2018
[127] Ibid, and meetings with Sorell councillors and staff, 28 March 2018

5.6 MANAGING MUNICIPAL OPPORTUNITIES AND CHALLENGES

In addition to information provided by each Council during its meeting with the Board and in its submissions, the Board undertook a review of the Councils' Annual Plans. The Board assessed the current activities undertaken by the Councils and considered plans in the areas of community development and other social programs, environmental programs, and economic development initiatives involving the Councils to manage existing municipal opportunities and challenges to inform its analysis of the long-term outlook for the Councils under the current structure.

Sorell Council has a full-time Community Development/ Liaison Officer (0.6 FTE) but Tasman Council has no current specific community development officer position in 2018/19. The Board noted that both Councils appeared to have fairly well-established programs providing support to community groups and initiatives and provision of funding allocations and donations. These included: school bursaries[128] and donations.[129] Both councils were engaging in strategic alliances and advocacy with community groups[130] and were attempting to explore opportunities[131] with Tasmanian Government Agencies.

The Tasman Council was providing housing and associated costs for locum doctors[132] and was engaging in partnerships[133] with community and Government stakeholders in respect to Landcare. Sorell Council was:

- engaging with Sport and Recreation Tasmania (for example on the sustainable growth of sporting and recreation clubs);
- advocating for the provision of Government and non-government youth services within the municipal area; and
- progressing initiatives for the Sorell Youth Centre and the utilisation of Council Community Facilities.[134]

Both Councils were progressing regional outcomes through SERDA and pursuing project commitments with partner stakeholders and agencies[135] on economic development. Tasman Council engaging with industry and business stakeholders[136] to explore continued economic growth and development opportunities.[137] While Sorell Council was engaging with relevant proponents and owners of key development sites to realise the benefits for the South East Region regarding employment, retention and growth of commercial, social and educational activity and to reduce pressure on transport infrastructure.[138]

The current stand-alone Councils structure does not strongly facilitate strategic decision-making for the whole region. The structure places the Councils in competition with each other, rather than enabling them to leverage opportunities for each Council's complementary advantages. They are currently devoting limited resource to economic development and this is unlikely to change as stand-alone Councils. Additionally, the Tasman municipal areas' demographic challenges are likely to impede its development if it has to manage them on its own.

Emergency Management: Onsite Presence

The Board heard, though its hearings and in submissions, the important role that the Councils played in providing a first response to the 2013 bushfires community recovery. The Board notes the importance of local representation and local recovery assistance was recognised in the findings of the 2013 Tasmanian Bushfires Inquiry. The Board noted commentary by the Taskforce that feedback from the Peninsula fires suggested that certain functions could occur in a central office in Hobart but that a regional base for planning and coordination would need to be established, drawing on local expertise and relocating staff from Hobart to key positions if needed. This was seen as a benefit of the present stand-alone structure.

128 Tasman Council provided $180 in school bursaries and Sorell Council provided $900 in school bursaries.

129 Tasman provided $200 donation to a Sports Club and Sorell provided $13,790 in donations, Larger donations include Tasman Council's provision of $20K to the Tasman Youth Worker Program, Tasman Council, "Tasman Council Annual Report 2016/17", accessed via https://www.tasman.tas.gov.au/download/annual_reports/Draft-Annual-Report-2016-2017-incl-Financials.pdf on 12 April 2018 at p11, "Sorell Annual Report 2016/17", accessed via http://www.sorell.tas.gov.au/download/publications_-_all/annual_reports_-_fi/Sorell-Council-Annual-Report-2016-2017.pdf

130 The Tasman Community Development Officer has been building alliances with numerous community groups and organisations (EHN Fair, Koonya Garlic Festival, Nubeena Regatta & Feast) in addition to 2018 Commonwealth Games.

131 For example, Tasman is attempting to access health, housing and aged care development opportunities through engagement and advocacy with TCHS service providers and DHHS.

132 Tasman Council, "Tasman Council Annual Report 2016/17", accessed via https://www.tasman.tas.gov.au/download/annual_reports/Draft-Annual-Report-2016-2017-incl-Financials.pdf on 12 April 2018 at p11

133 For example, NRM South, Sorell Council, Tasman Landcare Group and State and Federal Government agencies to improve delivery of NRM programs and enhance NRM outcomes for the Tasman Catchment.

134 Sorell Council, "Sorell Council Annual Report 2016/17", accessed via http://www.sorell.tas.gov.au/download/publications_-_all/annual_reports_-_fi/Sorell-Council-Annual-Report-2016-2017.pdf at p22

135 Tasman Council, "Tasman Council Annual Report 2016/17", accessed via https://www.tasman.tas.gov.au/download/annual_reports/Draft-Annual-Report-2016-2017-incl-Financials.pdf on 12 April 2018 at p17

136 For example, Destination Southern Tasmania (DST), Port Arthur Historic Site Management Authority (PAHSMA), agriculture and aquaculture industries and Hobart Airport Corporation.

137 For example, DST, PAHSMA, HAC, Tassal, Norske Skog and Forico, Tasman Council, "Tasman Council Annual Report 2016/17", accessed via https://www.tasman.tas.gov.au/download/annual_reports/Draft-Annual-Report-2016-2017-incl-Financials.pdf on 12 April 2018, at p17

138 Such as the exploration of the utilisation of vacant balance land in progress with Inghams Processing Plant and Community Administration Centre surplus land, addressing a residential growth corridor to the east of Sorell – as per 20-year Land Supply Strategy and developing and developing a 20-year residential, commercial and industrial land supply strategy to be implemented into the Single Statewide Planning Scheme.

6. FURTHER SHARED SERVICES OPTIONS (OPTION 2)

FINDINGS

F17 - There are limited viable options available to Sorell and Tasman Councils for further shared services in new service areas.

F18 - It is likely that any future extended shared services, even if achievable, would create marginal efficiencies at best.

F19 - There could be better arrangements in place for the existing shared services if the Councils continue to stand alone.

F20 - As with Option 1, shared services are highly vulnerable given that they require enduring political and senior management support over the long-term.

F21 - The current shared services arrangements are characterised by key person dependencies, especially in regard to the shared General Manager role, which is dependent upon the particular personal attributes of the current General Manager and it may be hard to replace these with a similar person prepared to undertake the joint position.

6.1 INTRODUCTION

As canvassed in the Board's discussion in Chapters 4 and 5, Sorell and Tasman Councils currently share a considerable number of services, with Tasman Council receiving the vast majority of the services from Sorell Council (see Table 4.3). The Board has assessed the areas of opportunity for increasing shared services between Sorell and Tasman Councils. The Board has found that the shared services arrangements are very important to service provision for Tasman Council as well as its financial sustainability in the short and long term. The Board's findings regarding the interrelationship of shared services and Tasman Council's financial sustainability is echoed by the finding in the Feasibility Study that the current shared services arrangements with Sorell Council have "shored up [Tasman Council's] financial position."[139]

The Board has considered documents and information demonstrating the extent of the current shared services arrangements provided by both Councils. The Board conducted meetings with councillors from both Sorell and Tasman Councils, as well as meeting with Councils' staff and managers directly involved in the current shared services arrangements. The Board also sought the view of its independent experts, Crowe Horwath.

Given the importance of continued shared services to the stand-alone Councils, particularly the reliance of Tasman Council, the Board's assessment of this Option included:

- considering the potential to extend shared services to further support the sustainability of both Councils;
- evaluating the potential capacity of any further shared services to improve the stand-alone Councils' sustainability; and
- assessing how the Councils, should they remain as stand-alone councils could improve or maximize the sustainability of their current shared services arrangements and address various issues or limitations.

[139] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf at p75

6.2 EXTENSION OF SHARED SERVICES

The Feasibility Study examined an incremental shared services model for the four South East Councils which identified areas where savings could be made and quantified those savings. Findings in respect to the shared services option were that it:

- 'provides limited additional financial capacity for efficiency savings to be reinvested into improved services';
- 'maintains the current level of local governance/ representation';
- 'delivers a combined additional surplus of $0.9m p.a.'; and
- 'provides limited positive outcomes, but is still preferable to no reform at all.'[140]

It was evident to the Board, following its assessment of the number and type of current shared services and the staffing structures of the Councils, as well as from its discussions with Council staff and management, that there is very limited scope to further extend shared services between the two Councils.

The Board's assessment was supported by Crowe Horwath's analysis of the existing shared services arrangement. At page 23 of its analysis, Crowe Horwath state that:

> *"The level of cooperation between Sorell and Tasman Councils is relatively high. The shared services arrangement covers a number of areas from the traditional back office functions such as finance, ICT and human resources to functions covering key statutory responsibilities of local government such as land use planning and environmental health.*
>
> *There is little scope for a further increase apart from potentially Sorell Council providing the services that Tasman Council procures from other councils and from an external consultant…"*[141]

At page 22 of its report, Crowe Horwath lists the shared services areas provided and received by both Councils. As previously stated Tasman Council receives and relies on multiple services from Sorell Council employees. Services not being shared between the two councils are, in some cases, being provided to, or received from other councils like Brighton and Glamorgan-Spring Bay Councils.

The Board has considered the potential extension of shared services, including the suggested options listed by Crowe Horwath. It is the Board's assessment that any extension of shared services is limited by the Councils' relative capacities and, as a result, limited in financial impact.[142] The Board's assessment is that there is little 'fat' in the current staff structures to find material efficiencies, as staff appear to be acting at close to, or at, full capacity.

Moreover, the Board's assessment is that, even if the Councils increase their shared services arrangements, it would not result in the Councils being sustainable in the long-term. Instead, further shared services would at best lead to short-term financial efficiencies as well as a higher dependency by Tasman Council on receiving services, most likely from Sorell Council.

The Board also considers that its discussion and findings for Option 1 in Chapter 5, relating to the critical risks and potential instability of current shared service arrangements between the Councils, are relevant assessing the option of increasing shared services between the Councils. Risks include:

- key person dependencies (particularly the heavy reliance on the shared General Manager);
- the "brittleness" of current shared services pro forma agreements (supply of service contracts) between the Councils (particularly the termination clause of four weeks' notice for termination of arrangements as well as the non-exclusivity clause);
- relationship/personality dependency (particularly the working relationships between elected representatives and senior management of both Councils);
- the demands on shared services staff to balance workloads for both Councils, particularly in relation to a desire or perceived need for some staff to have a physical presence at each Council; and
- the different pressures on both Councils to either limit (Sorell) or promote (Tasman) long-term shared services arrangements with the other:
    - Sorell Council faces pressures to limit or cease shared services from a growing community for increased services; while
    - Tasman Council faces pressures to maintain or increase the current arrangements from its considerable reliance on services provided by Sorell and in order to provide services into the future, that it cannot sustain on its own.

The Board considered there was possible scope for improvement in meeting future compliance obligations and managing future municipal opportunities and challenges via an extension of shared services. However, by virtue of the limited scope for extension of shared services between the Councils, there were only limited opportunities for improvement against meeting these key areas.

[140] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf at p71
[141] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p22
[142] See submission of Cr Carmel Torenius

6.3 POTENTIAL SUSTAINABILITY IMPROVEMENTS

Notwithstanding the Board's findings regarding the Councils shared services arrangements, in the event the Councils remain stand-alone, the Board strongly urges the Councils to review their management of shared services as a matter of priority in order to create a more robust arrangement (noting that political support by both Councils would be required over the long term).

Crowe Horwath provide possible considerations or options for enhancing the existing shared services arrangement of the Councils at page 23 of its analysis:

- "changing the model from a fee for service to sharing actual staff positions (similar to the current arrangement of sharing the position of General Manager between Sorell and Tasman Councils or the model adopted by some other councils, for example Circular Head and Waratah-Wynyard Councils);
- sharing governance arrangements, for example audit panels (two of the three independent members, including the chair, are already shared between the two Councils);
- integrating IT systems;
- integrating asset management planning and capital works program;
- establishing centres of excellence which set best practice and standards across participating councils;
- setting-up service hubs to provide ratepayers access to local government services regardless of where they reside, similar to Service Tasmania; and
- outsourcing."[143]

The Board has identified a number of areas where the Councils could improve the efficiency and effectiveness of their current shared services arrangement as well as identifying areas of risk to be managed.

Shared General Manager Succession Planning

Both Sorell and Tasman Councils should, together or separately, commence a succession plan for their shared General Manager as soon as possible, if they have not already commenced the process. From its meetings with the staff, managers, and councillors of both councils, the Board identified succession planning for the current General Manager as a key concern for the operation of both Councils. The feedback from staff, managers, and councillors of the General Manager's performance, availability, and reforms was overwhelmingly positive. However, the Board's view is that a key person dependency on the shared General Manager has developed, particularly in relation to facilitating shared services arrangements and at Tasman Council where there is minimal senior management presence outside of the General Manager.

The Board considers the General Manager a significant actor driving efficiencies in service levels for both Councils and key to the continuing and developing shared services relationship. In the event that the current General Manager leaves one or both Councils, the Board considers that it may have a significant effect on the stability of current and future shared services arrangements.

The General Manager has developed competent day-to-day administrative managers at Tasman Council. However, the Board considers that should the General Manager depart Tasman Council it would leave a significant vacuum at the senior management level as well as a significant challenge to fill the vacancy full-time, or arrange another shared or part-time General Manager. The Board was advised that prior to the current General Manager, Tasman Council had difficulty appointing a General Manager. Should the General Manager leave Sorell Council, it is a distinct possibility that Sorell Council would decide to return to a full time General Manager dedicated to it alone.

Making shared services agreements/ supply of services contract stronger

Given the importance of the current shared services arrangements to the Councils' financial sustainability, service provision, and service levels, particularly for Tasman Council, a stronger, more robust shared services agreement(s) is necessary to provide the Councils with certainty of continued access to skilled staff. The current pro forma contact for supply of services for shared services[144] between the two Councils enables either party to terminate services on just four weeks' notice. Additionally, the agreement includes provisions which, if enforced, provide for the termination immediately in the event of, amongst other things:

- a material breach of the agreement (by either party); or
- the failure to comply with *any* relevant statutory or regulatory requirements.

[143] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p23
[144] For example, the Supply of Services Contract for GIS services between Sorell and Tasman Councils.

6.3 POTENTIAL SUSTAINABILITY IMPROVEMENTS CONT…

The Board considers that, given the extent of shared services between the Councils across many service areas, the Councils ought to renegotiate the termination clauses of pro forma agreements (assuming they are all the same) to extend the notice period to a longer period to provide greater certainty for both provider and client Councils. Even a longer timeframe creates risk, particularly for Tasman, and a change in political direction by Sorell could leave Tasman 'stranded'.

Capacity concerns and a shared services manager

The Sorell Council is growing at a relatively fast rate and therefore may be growing beyond the point where the level of internal resources available to commit to shared services is changing for both staff and the shared General Manager. The Board considers that the current demands on staff of shared services work across the two Councils also has implications for the sustainability for the arrangement.

Further specific areas of concern are the potential misalignment of the resource demands of each Council with the allocation of specific roles. For example, allocation and payment for a set number of days work for Tasman Council may not align with the actual demands for that council area or the demand may fluctuate above and below the set number of days according to seasons and incidents.

Moreover, travel requirements demanded of certain shared services roles, for example the shared Works Manager role, as well as the real or perceived need for face-to-face service provision by shared services staff, creates further unproductive travel time between the two Councils.

A theme distilled by the Board from its meetings with staff, managers, and councillors was the apparent or perceived lack of direct management and evaluation of current shared services. The Board considers that a dedicated shared services manager could ensure coordination of the current arrangements between the Councils. This could result in a more transparent identification of how staffing hours are being divided between the two Councils which may consequently enable a more cost-reflective attribution of shared services.

Senior Management Support

The Board considers that if the role of shared General Manager is to continue that some additional support in senior management would be required in both Councils, particularly at Tasman Council. The Board supports the creation of an executive support structure (for example the creation of a deputy-general manager role or given that in Tasman many of the key issues are works-related potentially the appointment of a full-time onsite Works Manager) may be warranted. However, the cost of a deputy-general manager or similar alternative and the requisite travel time may be impediments to attracting and retaining someone in such a role.

The Board notes Crowe Horwath's finding that "if the shared services arrangement between Sorell and Tasman Councils were to continue or expand, it should be independently reviewed to ensure that costs and risks are equally shared, it is operating effectively and to identify areas for improvement and further opportunities.[145] The Councils should review the arrangement with a view to ensuring that the cost-allocation is reflective of the risk being borne by the respective councils.

[145] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p22

7. VOLUNTARY AMALGAMATION OPTION (OPTION 3)

FINDINGS

F22 - Even with an assumption of only very minor savings from amalgamation of $250,000 per annum the combined entity is sustainable over the next two decades.

F23 - The independent financial analysis demonstrated that the amalgamated council would generate operating surpluses every year over the 20-year period.

F24 - The Board's analysis projects that an amalgamated council would provide a benefit in the form of a reduction in the rating burden on Sorell and Tasman ratepayers of $11.3 million over 20 years compared to the stand-alone Councils. This would be a rate benefit, over the next 20 years, of $920 per rateable property or $660 per resident across the combined municipality.

F25 - An amalgamated council is likely to demonstrate improved sustainability and resilience in the face of potential financial 'shocks' but will still face some challenges.

F26 - An amalgamated council would be unworkable if there was a significant reduction in the existing aggregate staff levels.

F27 - A works depot and service site would continue to be justified at Tasman and has been factored into the financial modelling.

F28 - A new council should have the opportunity to achieve small efficiencies in internal transactional services which would free up resources to be reallocated to customer services. This, together with the removal of duplication between the two Councils, such as reporting requirements, would provide capacity for new and improved services, as well as the ability to meet regulatory obligations. This would be particularly beneficial to Tasman residents and ratepayers.

F29 - The introduction of electoral districts, complemented by community boards, would maintain local representation, albeit in a different form.

F30 - An amalgamated council would allow for a greater strategic regional approach to planning and service delivery and provide outcomes that are likely to be greater than two stand-alone councils, whose understandable interests would be to compete with each other for economic development opportunities.

F31 - The existing Councils have very different rating systems that would need to be integrated over time in an amalgamated council. It is debatable whether the current rating systems are equitable amongst categories of ratepayers.

F32 - Independent analysis, undertaken on behalf of the Board, indicates that a rating alignment over time is possible that would smooth the rating impacts on individual ratepayers, without cross-subsidisation across the existing municipal areas.

7.1 INTRODUCTION

In this chapter, the Board analyses how an amalgamated Sorell/Tasman council would have the capacity to meet the requirements of a sustainable council with reference to:

1.Financial sustainability

2.Adequate service delivery

3.Effective local representation

4.Meeting regulatory obligations

5.Managing municipal opportunities and challenges.

The Board has also reviewed other relevant data and information including:

- the independent financial analysis of Crowe Horwath;
- submissions from stakeholders including the Councils and the Community;
- analysis of previous merger processes in Tasmania and inter-jurisdictionally; and
- information provided by the Councils.

The Board notes the potential benefits and 'dis-benefits' of amalgamations highlighted by the Councils as part of their submissions and has given them consideration. These are summarised in Table 7.1 below.

Table 7.1: Potential benefits and 'dis-benefits' of mergers' – Sorell and Tasman Councils Submissions

Potential benefits of a merger	Potential 'dis-benefits' of a merger
Financial sustainability including borrowing/ gearing capacity	Loss of local representation and identity
Political influence/lobbying	Inadequate and unequal distribution of operational and capital expenditure
Reduced duplication (council meetings, agenda, workshops, strategic and statutory reporting, policies, procedures, audit panels, compliance, Enterprise Bargaining Agreement)	Loss of local employment and population
Efficiencies in asset management and capital project delivery	Loss of control/influence on operational matters and strategic direction
Increased capacity to provide wider spread of functions/services(including coordinated and strategic grant writing, economic development, community development	Risk of increased costs through rates adjustments
Economies of scale through processing and procurement efficiencies including information management, Information and Communications Technology, finance, asset management, and Customer Relations Management software	Large distances and travel times between population/ administrative centres serviced by poorer quality state tourist roads.
Strategic capacity in innovation and economic direction	
Employee career progression and skill attraction/ retention through improved employment conditions (including leave coverage) and conversion of common services providers to employees	
Improved risk management and plant utilisation	
Timing opportunity for State to meet transitional costs and regional infrastructure project funding priorities	

7.2 FINANCIAL SUSTAINABILITY (10-20 YEARS)

A major consideration for the Board when undertaking due diligence of Option 3 was the long-term financial sustainability of an amalgamated council. In this section, the Board's approach to assessing the sustainability of an amalgamated council is outlined as follows:

- A review of the findings in the Feasibility Study relating to an amalgamation of Tasman and Sorell Councils (conducted by consultants Crowe Horwath).
- The conducting of financial projections and modelling for an amalgamated council for the period to 2038 (conducted by Crowe Horwath), including an analysis of the impact of combining the Councils' different rating systems.
- The Board's own analysis, based on the work of Crowe Horwath, to determine what would be required to ensure the sustainability of an amalgamated council.

Review of Feasibility Study Findings

Crowe Horwath was engaged to review the ongoing savings from an amalgamation and one-off transition costs identified in the Feasibility Study, given changes in circumstances since the Feasibility Study was completed.

The Feasibility Study suggests that if an amalgamation option were adopted by the Councils, it would result in a combined notional financial benefit of $1.3 million per annum.[146] The Feasibility Study notes that any projected savings identified as arising from an amalgamation may be used to improve service levels, invest in infrastructure, or build cash reserves. The Feasibility Study projected that the financial benefit for Sorell in year one would be $913,191 and for Tasman $370,210.[147]

Savings and Transition Costs of an Amalgamation

The Feasibility Study states that "where duplication exists, or synergies can be found, those savings should be realised [but] in order to yield such financial benefits, costs will need to be incurred including payment of redundancies, reduced FAGS, ICT integration and start-up costs such as rebranding".[148] The Feasibility Study estimated that the transitional costs for the amalgamation option are a one off approximately $1.1 million.[149] Crowe Horwath's analysis, based on up to date information, found that an amalgamation of Sorell and Tasman Councils would not result in the estimated ongoing savings found in the Feasibility Study. The difference between the Feasibility Study and Crowe Horwath's findings is summarised in the below Table 7.2.

Table 7.2: Savings and transition costs identified by Crowe Horwath

Item	Feasibility Study	Crowe Horwath
Employee costs (ongoing savings)	$944,423	Unable to quantify
Materials and contracts (ongoing savings)	$67,052	$36,000
Councillor expenditure (ongoing savings)	$185,226	$100,433
Total Savings (ongoing)	**$1,196,701**	**$136,433**
Costs of Amalgamation in Year 1	**($1,112,659)**	**($600,000)**
Net Benefit/(Cost) in Year 1	$84,042	($463,567)

[146] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf at p57
[147] Ibid at pp74-75
[148] Ibid at p45
[149] Ibid at p17

7.2 FINANCIAL SUSTAINABILITY (10-20 YEARS) CONT…

Crowe Horwath evaluated the changes in FTEs since the Feasibility Study. Crowe Horwath found that:

> *"…both Sorell and Tasman Councils employ 82.3 FTEs (20 in Tasman and 62.3 in Sorell), which is an increase of 6.7 FTEs on the figures used in the Feasibility Study, excluding childcare. The increase in FTEs partly reflects an increased level of services provided by Sorell Council to other councils, namely Brighton and Glamorgan Spring Bay Councils. Considering the existing level of sharing staff between Sorell and Tasman councils, we believe that it is unlikely that the proposed amalgamation would lead to the significant savings in employment costs as identified in the Feasibility Study."*[150]

Opportunities to achieve employee savings often results from a removal of duplicate positions. However in the case of Sorell and Tasman Councils, there is no duplication of executive or senior roles. These positions are already shared between the two councils. In practice, any actual savings will depend on the structure decided by management of an amalgamated council. Savings could also be achieved "by increasing the level of services provided to other Councils".[151] Moreover, Crowe Horwath believe that "much of the downsizing associated with restructuring could be absorbed into ordinary levels of staff turnover".[152]

In relation to the difference in materials and contracts, Crowe Horwath found that:

> *"given the level of cooperation between Sorell and Tasman Councils that exists already and their present access to common use arrangements… we are sceptical whether the amalgamated council will be able to realise the savings outlined in the Feasibility Study."*[153]

Crowe Horwath also notes potential indirect savings in terms of the staff time dedicated to annual reports and financial reporting.[154] Crowe Horwath found an annualised saving of $36,000 compared with $67,052 in the Feasibility Study. In terms of a reduction in councillor expenditure, Crowe Horwath estimate that ongoing savings will be approximately $85,000 per annum less than recorded in the Feasibility Study, based on a reduction to nine councillors.[155]

Crowe Horwath estimate transition costs of an amalgamation at approximately $600,000. The costs identified by Crowe Horwath include "bringing both Councils onto a single IT platform, merging data into common applications, setting-up reporting systems, developing a new website and other typical transformation costs". Crowe Horwath noted that the costs are moderated by the fact that the two Councils are already collaborating in several areas and that "the relatively small size of Tasman Council's operations will mean that the integration will not be overly complicated or costly."[156]

The Board notes that some of these costs for IT systems would also be incurred regardless by the Tasman Council under the existing stand-alone structure because the systems at Tasman are outdated or require replacement. Similarly, the introduction of an adequate records management system at Tasman Council appears necessary and the Board considers that this is not truly a transitional cost, as it would need to be addressed under any option, including if the Councils remain stand-alone.

The lower transition costs also are accounted for by the fact that Crowe Horwath does not consider redundancy costs are likely.

While Crowe Horwath's and the Feasibility Studies' projections are different, they reflect differing assumptions and the information available to both consultants at the time they conducted their work was different. Crowe Horwath's projections reflect a more conservative (less optimistic) assessment of amalgamation savings and are based on up to date information.

The Board has relied more closely on the Crowe Horwath analysis to ensure its assessments are conservative. In particular, Crowe Horwath's findings regarding reduction in employee costs and redundancies accords with the Board's view that no redundancies are likely on the basis of current FTEs and organisational structures. The Board considers that the figures identified in the Feasibility Study should be treated as possible savings that may be achievable, but not relied upon.

[150] Crowe Horwath, "Review of South East Councils Feasibility Study: Financial Analysis, June 2018", Hobart, at p16
[151] Ibid p17
[152] Ibid p18
[153] Ibid p16
[154] Ibid p16
[155] Ibid p16
[156] Ibid p18

However, in the Board's view there are a number of other small but credible savings that, when combined with the savings already identified by Crowe Horwath, would result in annual savings totalling $250,000. These savings would result from procurement, removing systems licencing duplication, administration of single shared IT systems, savings from the Councils' contributions to LGAT, insurance premiums, advertising costs/notices (which can be significant for example Tasman's 2017-18 budgeted advertising costs are approximately $52,000), elected member support, and savings from administrative efficiencies through the administration of single finance, rating, payroll, and human resources, and removal of duplicated regulatory reporting requirements and reporting to two separate governance bodies.

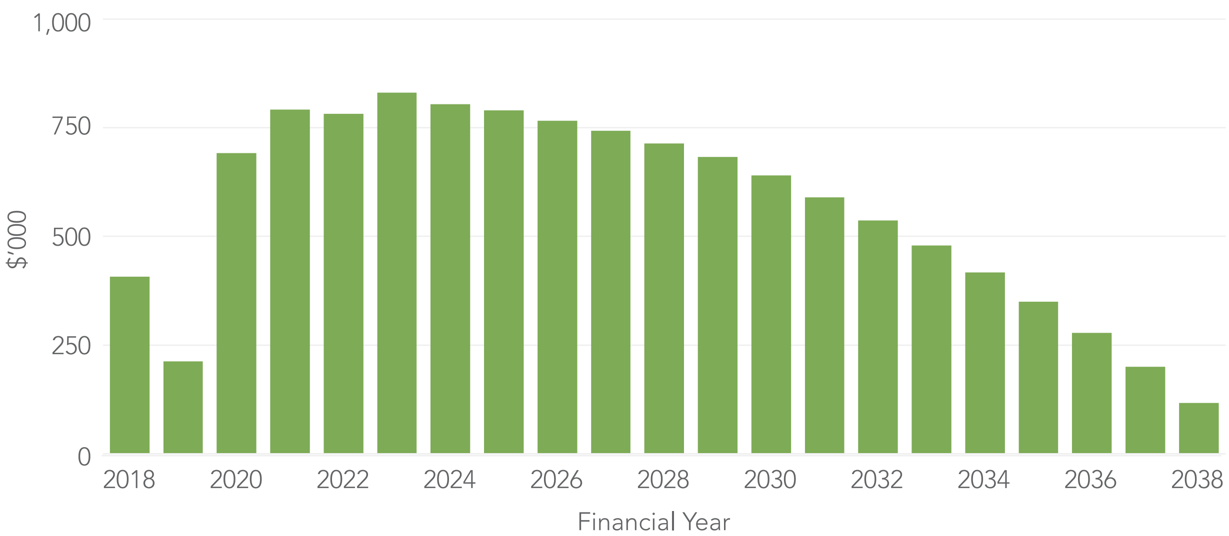
Furthermore, the Board understands that the Tasmanian Government has stated, as part of its policy position, that it would consider making a contribution toward transition costs. Any assistance that reduces or spreads the $600,000 impact in year one would, at least, improve the short term financial position of an amalgamated council. However, the Board has not factored any support into its considerations.

Financial Projection Outcomes for an Amalgamated Council

The assumptions outlined in the previous section are the basis for Crowe Horwath's modelling projections for an amalgamated council. The modelling showed that the amalgamated council would generate operating surpluses over the period. However, operating surpluses in this scenario would progressively decline as expenses are projected to grow at a faster rate than revenue[157]

Crowe Horwath's projections are shown in Figure 7.1 and Table 7.3 below:

Figure 7.1: Amalgamated Council: Projections: Projected Underlying Result[158]



[157] Ibid p37
[158] Ibid p36

7.2 FINANCIAL SUSTAINABILITY (10-20 YEARS) CONT…

Table 7.3: Amalgamated Council 20 year Projections[159]

	Budget FY 2018 $'000	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000
General rates only	14,458	14,891	15,337	15,797	16,271	16,759	91,315	226,560	396,929
Other fees and charges	3,579	3,688	3,800	3,916	4,035	4,158	22,671	56,342	98,609
Financial Assistance Grants	3,030	3,091	3,152	3,215	3,280	3,345	17,758	41,252	75,093
Distributions from TasWater	500	334	334	334	334	334	1,670	3,340	6,680
Bank interest on cash	226	244	256	260	269	279	1,557	3,856	6,720
Other	1,243	1,271	1,300	1,329	1,359	1,389	7,430	17,585	31,662
Total Operating Revenue	**23,036**	**23,518**	**24,179**	**24,850**	**25,547**	**26,264**	**142,399**	**348,935**	**615,692**
Employee benefits	6,774	6,977	7,187	7,402	7,624	7,853	42,943	107,495	187,481
Materials and services	7,546	7,533	7,770	8,014	8,266	8,526	47,054	120,548	207,710
Depreciation	6,862	6,734	7,056	7,154	7,373	7,537	40,645	98,009	174,508
Bank interest on loans	167	152	137	120	103	87	234	6	839
Other	1,280	1,909	1,338	1,368	1,399	1,431	7,708	18,587	33,740
Total Operating Expenses	**22,629**	**23,306**	**23,487**	**24,058**	**24,765**	**25,433**	**138,583**	**344,645**	**604,278**
Operating Surplus/(Deficit)	**407**	**212**	**691**	**792**	**782**	**831**	**3,816**	**4,290**	**11,415**

Other expenses in FY 2019 include the one-off transition costs estimate of $0.6 million.

The Board's Analysis

Crowe Horwath's long-term projections for an amalgamation of the Councils show an **operating surplus for every year of the projected 20 years**. Projected operating surpluses peak around 2023 and are trending toward deficit within a few years of 2038.

As it did in Chapter 5 for the stand-alone Councils' projections, the Board considers that practically a council would make policy decisions to ensure sustainability. Applying the same methodology from Chapter 5, the Board has remodelled the Crowe Horwath projections by changing the rating assumption to achieve an underlying surplus ratio of greater than one, aiming for 1.01 or 1 per cent of operating revenue. Table 7.4 shows the changes that have been made to the rates indexation in the model and the current rating assumption by Sorell and Tasman.

Table 7.4: Comparison of rates indexation

	Sorell	Tasman	Crowe Horwath (amalgamated)	Board (amalgamated)
Y1	4.00%	2.50%	2.25%	1.63%
Y2-Y5	2.50%	2.50%	2.25%	1.63%
Y6-10	2.50%	2.50%	2.50%	2.75%
Y11-Y20	2.50%	2.50%	2.50%	2.85%

[159] Ibid at p37

7.2 FINANCIAL SUSTAINABILITY (10-20 YEARS) CONT...

Compared with Crowe Horwath's projections, the Board's remodelling reduces the rate increase in Year 1 by 0.62 per cent and increases in Year 6-10 by 0.25 per cent and in Year 11-20 by 0.35 per cent, allowing an amalgamated council to maintain an underlying surplus greater than one reducing from a peak around 1.02 in 2020 to around 1.01 from 2023. This is demonstrated in Figure 7.2 below.

Figure 7.2: Projected underlying result for amalgamated council

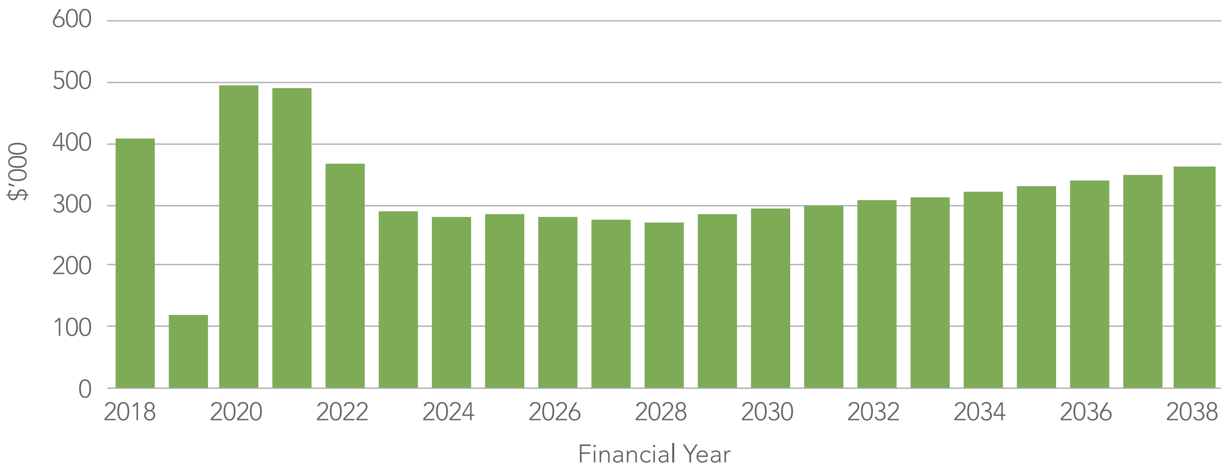
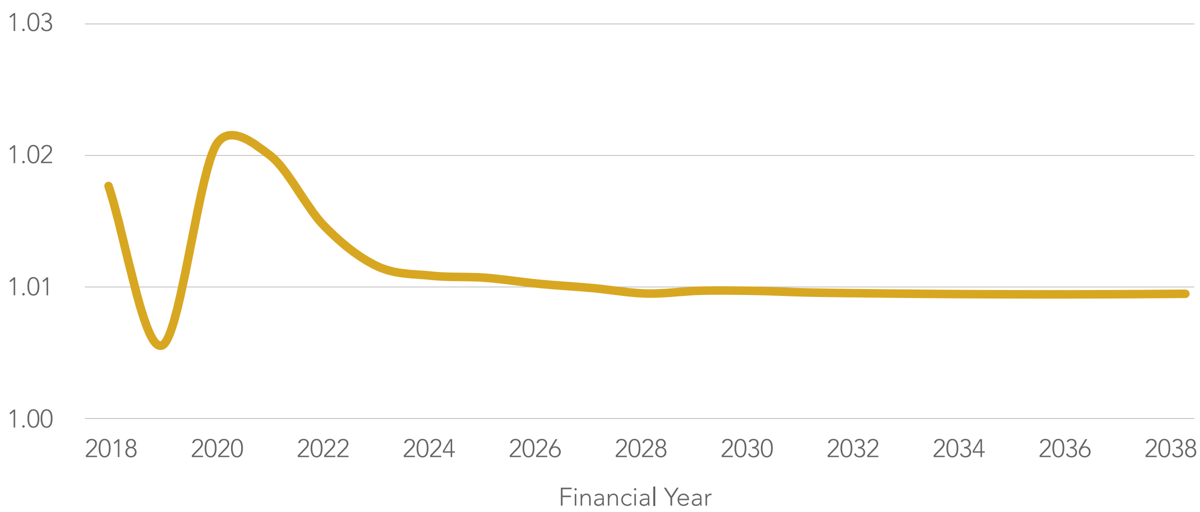


Figure 7.3 shows the underlying (operating) surplus ratio for the amalgamated council.

Figure 7.3: Operating surplus ratio for the amalgamated council



7.2 FINANCIAL SUSTAINABILITY (10-20 YEARS) CONT…

The remodelling scenario shows that an amalgamated council can maintain an underlying surplus with rate increases being reasonable at no more than 2.85 per cent with an early benefit of 1.63 per cent for the first five years. Table 7.5 below shows the projected outcomes for an amalgamated council (and compares this with the stand-alone Councils).

Table 7.5: Projected outcome of amalgamated council

	Budget FY 2018 $'000	FY 2019 $'000	FY 2020 $'000	FY 2021 $'000	FY 2022 $'000	FY 2023 $'000	Year 6-10 $'000	Year 11-20 $'000	Total $'000	**Comparison to Board Standalone**	
General rates only	14,458	14,797	15,144	15,499	15,862	16,234	89,049	225,937	392,523	403,830	11,306
Other fees and charges	3,579	3,688	3,800	3,916	4,035	4,158	22,671	56,342	98,609	98,609	(0)
Financial Assistance Grants	3,030	3,091	3,152	3,215	3,280	3,345	17,758	41,252	75,093	75,093	0
Distributions from TasWater	500	334	334	334	334	334	1,670	3,340	6,680	6,680	(0)
Bank interest on cash	226	244	255	256	260	264	1,340	2,924	5,542	5,404	(139)
Other	1,243	1,271	1,300	1,329	1,359	1,390	7,487	18,054	32,190	32,190	0
Total Operating Revenue	**23,036**	**23,425**	**23,985**	**24,549**	**25,131**	**25,725**	**139,974**	**347,849**	**610,638**	**621,806**	**11,168**
Employee benefits	6,774	6,977	7,187	7,402	7,624	7,853	42,943	107,495	187,481	187,481	0
Materials and services	7,546	7,533	7,770	8,014	8,266	8,526	47,054	120,548	207,710	214,649	6,939
Depreciation	6,862	6,734	7,056	7,154	7,373	7,537	40,645	98,009	174,508	179,175	4,667
Bank interest on loans	167	152	137	120	103	87	234	6	839	810	(29)
Other	1,280	1,309	1,338	1,368	1,399	1,431	7,708	18,587	33,140	33,140	0
Total Operating Expenses	**22,629**	**22,706**	**23,487**	**24,058**	**24,765**	**25,433**	**138,583**	**344,645**	**603,678**	**615,254**	**11,577**
Operating Surplus/(Deficit)	**407**	**719**	**498**	**491**	**366**	**292**	**1,391**	**3,204**	**6,960**	**6,551**	**(409)**

Note: The modelling shows that with less rate revenue over the period there will be a small reduction in bank interest, with offsets with the savings in materials and services along with depreciation as modelled by Crowe Horwath.

The Board finds that an amalgamated council would provide a benefit of $11.3m over 20 years compared to the remodelling of the stand-alone Councils. This is equivalent to a saving over the next 20 years of $920 per rateable property or $660 per resident.

The amalgamated council's projected financial positions is stronger than either stand-alone council projected financial performance over the same period. The projections show the amalgamated council is financially sustainable over the next two decades displaying a more stable, sustainable financial position than the respective stand-alone councils' projections.

As discussed in Chapter 5, Tasman Council is projected to experience a sharp decline into underlying deficits by 2030 (and Sorell Council into relatively more moderate deficits by 2029). Rate increases above inflation would be required to rectify this. It is clear to the Board that the projected long-term outcome for the amalgamated entity is better and more sustainable than the projected long-term outcomes for the Councils as stand-alone councils.

The Board also considers that there are other benefits reinforcing the financial sustainability of the amalgamated council. The Board's view is that the amalgamated entity would mitigate or reduce exposure to financial risks because of its greater collective size. However, the Board also recognises that the combined entity may also face challenges to its financial sustainability if there were sizeable unforeseen events or a prolonged period of unfavourable economic conditions.

An amalgamation would effectively end the questionable sustainability of the current shared services arrangements and provide ratepayers with certainty of service provision, particularly in Tasman. To the extent that shared service integration has not been maximised because each existing Council maintains an element of its own interests, this would be overcome if decision making was on behalf of the entire Sorell and Tasman region, as to where resources are most required to be deployed.

7.3 RATING ALIGNMENT: IMPLICATIONS FOR RATEPAYERS

The Board is cognisant that in any amalgamation, a key consideration is whether two rate approaches can be merged into one without creating impacts that are unmanageable.

As shown in Table 7.6, Sorell Council rates on a Capital Value (CV) basis whereas Tasman Council rates on an Assessed Annual Value (AAV) basis. The Board undertook due diligence on the potential implications of the amalgamation option on ratepayers in the Tasman and Sorell municipalities. The Board's analysis sought to identify:

- the scale of the potential shifts;
- the adequacy of available tools to mitigate them; and
- the most effective tools for any rating alignment between Tasman and Sorell Councils.

The Board requested that the Local Government Division undertake a broad analysis of the impacts of rating changes. The Local Government Division identified that alignment of the disparate rating approaches of the two Councils was likely to result in significant increases and decreases in rates that would require mitigation, particularly for the commercial and industrial categories.

Further, given that both Councils are already rating at the top of their relevant local government categories, there are limitations on Sorell and Tasman's capacity to increase rates revenues from their commercial and industrial sectors due to their small commercial and industrial ratebase.

Table 7.6: Comparative Analysis of the Valuation and Rating characteristics of the Sorell and Tasman Councils

	Sorell	Tasman
Valuation Base (Year Introduced)	Capital Value (CV) (2011-12)	Assessed Annual Value (AAV) (1800s)
Differential Rates	Yes – 23	No
Fixed Charge	Yes – up to 50%	Yes – up to 50%
Ave. Rate per rateable valuation	$1,293 (2016-17)	$1,295 (2016-17)

The scale of these potential rate increases and decreases in the commercial and industrial classes particularly, result from several significant alignment issues:

- the need to align the two Councils onto a single valuation base or alternatively to make legislative provision for different bases;
- the need to align the disparate rating approaches of the two Councils (Tasman Council applies a single rate in the dollar, while Sorell Council applies 23 differential rates);
- the need to align the Councils onto a single fixed charge or alternatively to make legislative provision for different fixed charges; and
- the need to consider revenue neutrality to prevent one municipal area or rate class substantially cross-subsidising another.

The Board noted that a potential amalgamated council might require transitional advice on how to manage such shifts (and that this advice and modelling could assist the two Councils even in the event they remain stand-alone councils).

The Board engaged independent consultants, Crowe Horwath[160], to model a variety of scenarios for a potential rating alignment. Crowe Horwath's findings in respect to the potential to address (mitigate) rating shifts is set out in Crowe Horwath's 'Property Rate Modelling Analysis Report'.

[160] Crowe Horwath, "Property Rate Modelling Analysis Report, 31 May 2018", Hobart

7.3 RATING ALIGNMENT: IMPLICATIONS FOR RATEPAYERS CONT...

Crowe Horwath: Rate Analysis Findings

In summary, Crowe Horwath found that rating alignment is possible, however it would be a process that would require ongoing management by the amalgamated council over the medium to long-term. Crowe Horwath modelled four primary scenarios to assess the impacts of a potential amalgamated council:[161]

- Scenario 1 – alignment of rates between Sorell and Tasman across the eight broad rating categories (8 differential rates);
- Scenario 2 – different variable rates by locality and broad rating category (16 differential rates);
- Scenario 3 – alignment of rates using rate decrease collars/caps (8 differential rates); and
- Scenario 4 – averaged area rating (flat-rating) model (residential only).

Crowe Horwath concluded that firstly, it would be possible for an amalgamated council to manage rating increases during a rating alignment so that no ratepayer would be required to pay more than a 10 per cent annual increase. This was possible for all categories of rating and across both Councils whilst maintaining revenue neutrality – which means that no ratepayer class would be subsidising another during the transition nor would one council area be subsidising another.

However, the Board notes that while the consultant's work has illustrated that shifts for ratepayers in all classes can be mitigated to within a 10 per cent increase annually over a five-year period, due to the significant scale of some of the shifts, particularly in the commercial and industrial categories (and primary industry in Sorell), it is likely that the Councils would need to:

- Utilise rate increase caps for at least 5 years (and in some categories for more than 5 years).
- Utilise differential rating to create at least 16 differential rates (one for each broad rating class in each former municipal area i.e. Sorell and Tasman) (Scenario 2 above).[162]
- Adjust these differential rates year-on-year to align the models.

While the impact of rates increases can be contained annually, rate increases of 30 per cent, 50 per cent and greater would significantly impact affected ratepayers. The analysis showed that such larger scale shifts were likely to be experienced in the commercial and industrial (and primary industry in Sorell) categories, not in residential rates. The Board also notes that these shifts are not transitional but would continue to apply into the long-term.

However, these shifts are likely to reflect the redistribution of rates to be more closely aligned to a property value based measure of capacity-to-pay, and reflect the presence of existing inequities in the rating structure (i.e. targeted differential rating for some classes of ratepayers at the expense of other ratepayers).

Additionally, some of the resultant increases and decreases would also be likely to be incurred by Sorell ratepayers regardless of an amalgamation due to the need to remove differential rating applied by the Sorell Council when in 2014 it moved from AAV to CV.

The most effective mitigation strategies appear to be the application of differential rating by locality and broad rating category (16 differential rates), a fixed charge and a rate increase cap (limiting rates increase to within a maximum of 10 per cent rate change for any ratepayer from year-to-year) and has the additional benefit of requiring no legislative amendments.

However, it is important to note that the Board is not making a recommendation as to exactly how a amalgamated council should manage bringing the two rating bases together, but rather has sought to assure itself as part of its due diligence that it could be done. The actual approach adopted to manage the transition would be a matter for the amalgamated council, including over what period of time it occurs and the tolerance for annual increases for some ratepayers during a transition. The Board has made some observations aimed at limiting the impacts on ratepayers including ratepayers in the Commercial, Industrial and Primary Industry classes.

[161] Ibid at p3
[162] Crowe Horwath, "Property Rate Modelling Analysis Report, 31 May 2018", Hobart, at p26

7.4 ADEQUATE SERVICE DELIVERY

Potential for increased services and service levels

The Board's assessment is that, as a result of a voluntary amalgamation, the ratepayers of both council areas, particularly Tasman, will potentially receive increased services and/or service levels. Moreover, a voluntary amalgamation will better place and prepare both Councils for future community expectations and demands on facilities and services by a growing residential base in Sorell and increasing tourist demand in Tasman as well as, modernise systems and processes.

Amalgamations have historically resulted in service levels being delivered to the higher standard delivered by former councils. This has often been the result rather than returning savings to ratepayers in the form of rate reductions. An amalgamated entity would enable ratepayers in both current council areas, particularly Tasman, to have increased access to more or all services provided by the current Councils. Currently, as the recipient of the majority of the shared services between the Councils, Tasman ratepayers would no longer be restricted to accessing services, especially professional staff and services, on particular days of week/fortnight. This is because service provision would be co-ordinated and integrated to meet needs with given resources, and residents in like circumstances should expect the same service offerings regardless of where they live. This does not mean all residents receive the same services to the same quality, but rather a service to a rural resident in the current Sorell municipality would expect to be similar to the service that a resident in the current Tasman municipality receives.

Only one General Manager will be required for the council area. Currently, both stand-alone Councils share the one General Manager. An overwhelming theme identified by the Board from meeting with both Councils' staff and elected representatives during consultation was the desire for a full-time General Manager. An amalgamated council will deliver this outcome as well as eliminating the duplication of responsibilities of a shared General Manager (i.e. supporting two sets of councillors and council meetings). Moreover, Tasman will be likely to have increased and equitable access to senior management which it currently lacks (apart from the part-time services of the General Manager).

The amalgamated council would gain some staffing efficiencies as a result of a voluntary amalgamation, particularly in the area of transaction type services.[163] In the Board's view, as efficiencies are identified by the new council, there may be a requirement for a small number of transactional staff to be reskilled/ upskilled, retrained, or possibly redeployed. The new council could redirect staff efficiencies gained from transactional services either into the resource-gaps currently being experienced or into increasing customer-facing services. Tasman residents potentially have the most to gain from converting office administration staff to customer facing services.

Lastly, an amalgamated council will be better placed and prepared for future advancements in service delivery as well as meet the increasing demands on facilities and services. Further integration or uptake of virtual technologies for service delivery where less reliance is placed on the physical presence of some professional staff is likely over time. An amalgamated entity would provide greater, combined human resources and plant and equipment to create a more robust critical mass of resources that has the capacity to meet increasing community expectations and demands.

Location of services centres

The Board has heard views from staff at both participating councils and from the General Manager that an on-site Works Depot, including on-site management, would continue to be essential for both areas even under an amalgamated Council option. The Board agrees that both an office/service presence and an onsite works depot will need to be maintained at Tasman.

Onsite works depot: An onsite works depot would be required due to the high number of roads currently maintained by the Tasman Council and due to its remote location. The Board notes that the sharing of some plant and outdoor staff is not likely to be a practical or efficient option given the distance between parts of Sorell and Tasman. In amalgamations, with similar distance issues between population centres and work sites depots have been maintained. The West Coast Council with has had works depots in Zeehan, Rosebery, Tullah, Queenstown and Strahan since the 1993 amalgamations, the Rosebery depot has, however, serviced Tullah since 2016 (it is 14km or 15 minutes away).

[163] Transactional services: rates, payroll, accounts payable, accounts receivable, receipting, application processing, information management etc.

7.4 ADEQUATE SERVICE DELIVERY CONT…

Office/Services Presence: Similarly, in the Board's view there would be a need to maintain an office in Tasman municipality with a services presence. As noted above, the types of roles provided out of such a centre could focus more on customer facing services rather than internal transactional services. Records management, payroll, and accounting type services for example could be centrally administered, freeing up resources toward customer-facing services. Other relevant factors for maintaining an office in Tasman include the relative unreliability of internet and power in the Tasman municipal area as well as the specific demographic needs of the population in terms of access to transport, income, computers and literacy. The Board points to amalgamations in similar rural and remote areas, for example, the West Coast Council amalgamation where an office was maintained in Zeehan for 20 years after the amalgamation and has only recently been phased out. Queenstown, Strahan and Zeehan amalgamated in 1993 and originally established their main office in Zeehan, with a service centre and Council Chamber in Queenstown. Strahan service centre was originally established and closed around 1999. In 2010 the West Coast Council constructed a new Council Chamber and Office in Queenstown, closing their Zeehan office and relocating all administration staff. To provide services to other areas, the West Coast Council has arrangements with an Australia Post Agency in Rosebery, Zeehan and Strahan. The Board also notes that West Tamar Council continues to have a presence at Riverside and Beaconsfield.

Integration of systems

A significant upgrade of information technology and other systems in Tasman is needed, regardless of any option. The Board considers it very likely that Tasman Council would be upgraded to the systems used at Sorell Council which are more advanced. Generally, the software and systems in Tasman Council are older than, or not as advanced as, those run in Sorell Council. An amalgamation would likely remove duplication in systems and licenses. Table 7.7 shows the current software systems for the Councils.

Table 7.7: Software Systems by Council and Service

Service	Sorell	Tasman
Property Rates and applications	PropertyWise	PropertyWise
Vaccinations	VaciWise	VaciWise
Backup Server	Veeam	Veeam
Mapping	Spectrum/Konect/FME	Exponare/MapInfo
Finance, Payroll	Xero	Microsoft NAV 2013R2
Document Management	None	MagiqDocs (Ex infoxpert)
AntiVirus	Webroot AV	Webroot AV
Asset Management	MyData	Assetic Cloud/MyData
Email Server	Exchange 2010	Exchange 2016
Office Suite	Office 2016	Office 2016
Database Server	MS SQL 2012	MS SQL 2016
Server Operating Systems	Windows 2012 R2	Windows 2016
Desktop Operating Systems	Windows 10	Windows 10

7.4 ADEQUATE SERVICE DELIVERY CONT...

The Board was made aware that Tasman Council currently does not have an electronic document management system, instead the Council maintains a paper-based system. The Board understands that the paper files are then stored in a container on council property. The introduction of an electronic records management system that a Tasman-based office can access, would reduce the risk of human error in meeting statutory, financial, and other obligations and potential loss or destruction of paper records. It would also provide transactional services staff with easier, streamlined and more secure records management and provide ratepayers with more efficient service.

The amalgamated council would also have the opportunity to build on the current sharing of corporate knowledge, policies, plans, and registers. Both Councils' staff would benefit from the consistent application of policies, plans, and procedures which is presently an issue for staff, particularly shared services staff. A uniform set of policies would promote clarity of process and also assist in reducing risks associated with carrying out functions and responsibilities under differing corporate frameworks. Residents should be able to expect to receive services to the same standard, if policies and their application are unified.

However, it was brought to the Board's attention that there are ongoing issues with maintaining communication links between Sorell and Tasman Councils. Sorell Council currently provides IT services for Tasman Council on a shared services basis. Communication link problems include relatively unreliable power supply with Tasman municipality experiencing intermittent power cuts and subsequent generator issues. Also, fixed Wi-Fi services to Tasman municipality are also relatively unreliable. However, the Board does not consider that these intermittent issues as fatal to prospective IT integration and should be expected to improve over time.

7.5 EFFECTIVE LOCAL REPRESENTATION

In the Board's view, maintaining the representation of all ratepayers and local interests in an amalgamation, particularly those of the smaller community, is a valid and key concern. In a discussion paper about local government reform in Tasmania, the Tasmanian Chamber of Commerce and Industry (TCCI) evaluates the importance of communities of interest to reform in the sector. The TCCI states that the "retention of strong communities of interest and effective representation, so that Tasmania's unique sense of community can be maintained and enhanced into the future."[164] The strong connection that regional Tasmanians hold with their local area means that it is critical to consider 'communities of interest' when assessing potential structural changes to local government.

The TCCI paper refers to an often-quoted, three-part definition by Fulcher for communities of interest:

- Perceptual – a defined sense of belonging to an area or region;
- Functional – the community's physical and human services are met with reasonable economy; and
- Political – a democratically elected body represents the interests of all its constituents.[165]

'Communities of interest' is a fluid concept and it is inevitable that the existence of different communities, or where the boundaries of communities of interest lie, will always be arguable. The TCCI notes that there is real "concern among regional communities in particular that their sense of identity will be weakened if council amalgamations are undertaken," with residents of regional communities identifying with the name of their township as their 'community'.[166] Therefore the 'political' consideration raised by Fulcher is a fundamental consideration for the Board.

The Board received numerous submissions, primarily from Tasman residents, which identified the importance of local representation and the specific and different interests of townships within the broader municipal areas which, it was submitted, represented distinct communities of interest. The maintenance of local representation was also the subject of the electronic petition against the amalgamation of Tasman Council which included a statement that the 'proposed wards' deemed to represent the Tasman Municipality at the onset of the proposed voluntary amalgamation, would not provide a long-term representation of the municipality, negatively impacting the level of local representation[167].

The Board was also informed of the views of some residents in Tasman municipal area that the interests of their townships are not receiving equal or adequate representation under the current stand-alone council structure, including perceptions that the distribution of expenditure by the Tasman Council is Nubeena-focused. Indeed current community tensions regarding the legitimacy of the current council and area is evident in other council areas around the State, and demonstrates the fact that no matter how a council area is defined, there may always be some within that boundary who feel disadvantaged.

However, creating more councils down to the very local (town-based) level is not the answer, as past reforms have shifted once town-based councils to regional ones, and a stand-alone, small town council could not be financially viable and meet today's expectations and obligations. The answer instead is to ensure communities are listened to and have input into the services they receive. The Board has considered a range of approaches for providing local representation under an amalgamated council option, including:

- **Number of councillors:** The two municipal areas are presently represented by a combined total of 16 councillors – nine in Sorell Council and seven in Tasman. Sorell Council's population per elected member is slightly lower than the RAVL category average indicating that there could be scope for reduction. However, Tasman Councils population per elected member (342) is slightly higher than the RASM category average (324).
- **Election-at-large:** This approach would be comparable to the existing electoral processes for the two municipal areas but involve representation by fewer councillors than the existing 16 councillors who would represent the entire merged council area.
- **Election through electoral districts (wards):** Electoral districts (or wards) are the division of the municipal area into sectors, each sector then electing a specified number of councillors to represent it, thus maintaining an element of local representation for individual areas within the amalgamated council area. For example, electoral districts could be single-member or multi-member districts.

164 Tasmanian Chamber of Commerce and Industry, "The future of local government in Tasmania – Discussion paper", (2012), Hobart, Tasmania, accessed via http://www.tcci.com.au/tcci/media/Media/Economics%20Presentations/tcci_local_government_discussion_paper_final.pdf on 4 April 2018 at p13
165 Fulcher, Helen, South Australian Department of Local Government, The concept of community of interest (1991), accessed via http://www.lgc.govt.nz/assets/Uploads/The-Concept-of-Community-of-Interest-Discussion-Paper.pdf on 7 June 2018 at p7
166 Tasmanian Chamber of Commerce and Industry, "The future of local government in Tasmania – Discussion paper", (2012), Hobart, Tasmania, accessed via http://www.tcci.com.au/tcci/media/Media/Economics%20Presentations/tcci_local_government_discussion_paper_final.pdf on 4 April 2018 at p13
167 https://www.change.org/p/tasman-council-stop-the-amalgamation-of-tasman-and-sorell-councils-save-your-local-council

At the turn of the last century, Sorell had four electoral districts and Tasman had three electoral districts. The Feasibility Study notes that "local government legislation in Tasmania and other jurisdictions permit the formation of wards [however] they remain relatively uncommon across Australia and were last seen in Tasmania in 1996".[168] Communities would be identified across both municipal areas to become electoral districts.

In the Board's view, it would not be practical to maintain the existing number of councillors (16) for an amalgamated council, as it would not support efficient governance and decision-making. The Board had regard to the methodology framework utilised for the Board's reviews of councillor numbers (2012-13)[169] which took a three-stage approach that included consideration of:

- representational efficiency – the number of people per councillor;
- local conditions – six indicators[170] that compare like councils and account for variation within categories; and
- other issues – consideration of any other issues or factors, including the views of the council.

The Board considered a reduction to a combined total of either seven or nine councillors. The Feasibility Study proposed nine councillors. A reduction to seven councillors would be in line with other RAVL Councils such as Derwent Valley and Northern Midlands. However, the Board notes that the long-term population projections would place an amalgamated council in the Urban Small (US) category by 2030.[171] This category includes councils like Brighton and Devonport that have nine councillors.

Table 7.8: Number of elected members per population

	Number of elected members	Population per elected members	Category Average	Tasmanian Average
Sorell Council	9	1,599	1,686 (RAVL)	1,968
Tasman Council	7	342	324 (RASM)	1,968
Merged Council	If 7 members	2398	1,686 (RAVL)	1,968
Merged Council	If 9 members	1865	1,686 (RAVL)	14.9

For this reason, the Board recommends that an amalgamated council should have nine councillors appointed. As displayed in Table 7.8, even under the higher number of councillors, an amalgamated council would still be at the top of the range for population per elected member for its category. The Board notes that any number higher than nine councillors would substantially reduce the amount of ongoing savings set out earlier in this Chapter.

The Board see opportunities to improve or increase the level of local representation under an amalgamated council structure through the provision of electoral districts as a medium to long-term transitional measure,[172] and through the provision of input from local Community Board(s). The Board considers that this would enable input at the locality or township level that is currently not occurring, and where a community has a desire to have a Community Board.

Chapter 9: Transitional Process provides further discussion of relevant approaches to preserving and maintaining local representation.

[168] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf at p19

[169] Local Government Board, "Review of Councillor Numbers", July 2012, accessed via http://www.dpac.tas.gov.au/__data/assets/pdf_file/0009/168714/LGB_Final_Report_PDF_Nov_2012.pdf

[170] Population per kilometre of council road; socio-economic status of the municipal area; number of planning and building approvals granted by the council; total commercial, industrial and primary production AAV; total value of the council's assets; and the total expenditure.

[171] Sorell and Tasman would have a population of 20,077 by 2030 (medium projection) - Tasmanian Government Department of Treasury and Finance, 2014, "Population Projections for Tasmania and its Local Government Areas", Tasmania, as at 14 February 2018 <http://www.treasury.tas.gov.au/economy/economic-data/2014-population-projections-for-tasmania-and-its-local-government-areas>

[172] See generally submissions of Carol and Bert Dorgelo, and Beverley Ewins

7.6 MEETING REGULATORY OBLIGATIONS

For Option 1 in Chapter 5, the Board identified increased pressures on both Councils, particularly Tasman, on their capacity to meet compliance requirements over the long-term.

The Board considers that an amalgamation could contribute to easing those pressures in the following ways:

- creating consistency between the Councils' different compliance cultures and processes;
- reduced exposure in terms of a reliance on the provision of regulatory services from other councils through shared service arrangements that may be at risk of either party withdrawing; and
- increased efficiencies gained from an amalgamation from eliminating duplication in statutory compliance services and functions.

The Board agrees with the Councils' in their respective submissions that removing duplication is a potential benefit of an amalgamation, such as reduced duplication of obligations for council meetings (workshops, agendas, and minutes), strategic and statutory reporting and planning, as well as effectively half the policies, procedures, and other requirements (such as facilitating audit panels). Removal of duplication of regulatory obligations is a tangible benefit of an amalgamation for the Councils and council staff.

7.7 MANAGING MUNICIPAL OPPORTUNITIES AND CHALLENGES

As discussed in Chapter 4, the two areas face both similar and unique demographic, economic, and social issues. The Board considers that an amalgamated council will be better resourced, more financially sustainability, and ultimately better placed to maximise the opportunities, and address the challenges facing the Sorell and Tasman municipalities.

Demography of a combined municipal area

The Feasibility Study stated that if amalgamated in 2019, the new council, on existing boundaries, would have a combined population of approximately 16,360[173] and 12,278 rateable properties in year one. Updated statistics indicate that the combined population would be higher than the Feasibility Study estimate as the current (2017) combined population of Sorell and Tasman municipalities is 17,037.

Over the coming decades population growth in Sorell municipality will continue to be driver of overall population increase in an amalgamated council area. The Feasibility Study highlighted the contrast between Sorell municipality, as the fastest growing council in the region, and Tasman, as having "older and more disadvantaged communities [with] comparatively leaner service profiles" when consider the voluntary amalgamation option. Critically, however, the Feasibility Study did find that an amalgamated municipality:

> *"...will experience the largest growth in population out of the four amalgamation options [considered by KPMG]. The population is projected to increase from 15,847 to 21,518 at a growth rate of 28 per cent from 2016 to 2037"*[174]

Projections show that the population of the amalgamated entity would exceed 20,000 in 2030.[175] This would place an amalgamated council in the 'Urban Small' council category with comparable size to Brighton, Burnie City, Central Coast, Devonport City, and West Tamar Councils. The median age of the population would increase from 43 to 46 years of age from 2016 to 2037 however the 65+ bracket will increase from 19 per cent to 28 per cent.[176] The increased population will drive the continued growth of the residential rating base for the amalgamated council but will also drive the demand for increased services and better facilities. Nevertheless, the amalgamated council area will benefit from an expanded working age population who generally have greater capacity to manage increases in rates and charges that are required to meet increased demands.

Economy

Economic Development

An amalgamated council would allow for a greater strategic regional approach to planning and service delivery. At present, Tasman municipal area is a significant tourist destination and Sorell municipal area is a gateway to the Tasman Peninsula (and the East Coast northwards). Leveraging complementary opportunities through decision-making that takes into account the relative advantages and disadvantages within the combined area would deliver outcomes that are likely to be greater than two stand-alone councils, whose interests would be, understandably, to compete with each other for economic development opportunities.

Both Councils have flagged that they have a resource gap in terms of availability of staff with skills and a dedicated role in economic development. There may also be greater capacity to apply for development grants that would deliver on well considered, strategic business cases. The Board heard that, currently, in both Councils, particularly in Tasman Council, staff are unable to devote the necessary time outside of the demands of their roles to even lodge grant applications.

[173] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf at p43
[174] KPMG Tasmania, South East Councils Feasibility Study: Final Report, 30 September 2016, Tasmania; www.dpac.tas.gov.au/__data/assets/pdf_file/0008/319490/KPMG_South_East_CouncilsFeasibility_Study_-_Final_Report_30_September_2016.pdf at p110
[175] Sorell and Tasman would have a population of 20,077 by 2030 (medium projection) - Tasmanian Government Department of Treasury and Finance, 2014, "Population Projections for Tasmania and its Local Government Areas", Tasmania, as at 14 February 2018 <http://www.treasury.tas.gov.au/economy/economic-data/2014-population-projections-for-tasmania-and-its-local-government-areas>
[176] KPMG Tasmania, "South East Councils Feasibility Study Addendum #2: Options Analysis, 30 September 2016", accessed via http://www.tasman.tas.gov.au/download/voluntary_amalgamations/KPMG-South-East-Councils-Feasibility-Study-Addeddum-2-Options-Analysis.pdf on 22 February 2018 at p48

7.7 MANAGING MUNICIPAL OPPORTUNITIES AND CHALLENGES CONT…

Greater strategic capacity

In the Board's view, an amalgamated council would have a greater strategic capacity to lobby state and federal governments. As discussed in Chapter 4, the current Sorell and Tasman areas draw significant tourist numbers to and through the municipalities and are strategically positioned near the State's largest airport. Therefore, the amalgamated council could leverage this and use its larger voice in terms of advocacy for matters such as:

- Improved internet and communication infrastructure in the Municipal Area and opportunities arising from the NBN rollout.
- Industry and business opportunities from continued engagement with Destination Southern Tasmania (DST), Port Arthur Historic Site Management Authority (PAHSMA), agriculture and aquaculture industries and Hobart Airport Corporation.
- Explore tourism, business and residential growth opportunities associated with the proposed Hobart airport extension including transport linkages to and within the current Sorell/Tasman region.
- Investigate approaches to attracting/collecting revenue for the municipal area in order to assist in funding the provision of local supporting infrastructure that caters for the increasing visitor numbers.
- Solutions and continued actions that address transport corridor limitations regarding bottlenecks and capacity issues of the Tasman Highway, Sorell by-pass, overtaking opportunities with the Arthur Highway and road conditions of Fortescue Road and other heavily used unsealed/sealed roads.
- Greater leverage in:
  - partnerships and initiatives to raise the profile of the Tasman region through continued engagement and advocacy with, for example, the Local Government Association of Tasmania (LGAT), Southern Tasmanian Councils Authority (STCA) and SERDA.
  - sustainable grant funding applications to State and Federal Governments.

Reinforce local employment and economy in Tasman

The Board was made aware of concerns from multiple submissions from Tasman community members[177] about the possible negative affect an amalgamation would have on Tasman's local economy. The general concern was based on Tasman council administration and outside workforces being made redundant or relocated to Sorell and the flow on effect to schools and local businesses of families leaving the municipality. However, as stated earlier, the Board does not consider an amalgamation would be successful without the retention of a works crew and a service centre. The Board expects that the local economy of the Tasman area will not be negatively affected by an amalgamation, but rather that improved services could indirectly create economic opportunities.

Social

Positive impacts on communities

Overall, the Board considers that there will be positive social and community impacts flowing from an amalgamated council. However, the Board does recognise the views from some members of the communities, particularly from some Tasman residents, that fear loss of identity and community as a part of a wider, regional council with Sorell. Some submissions received by the Board conveyed a hostility towards the idea of an amalgamation and fear of a takeover by Sorell Council.

It is the Board's observation that there are far more similarities between the communities of the current municipal areas than differences. Geographically, Sorell and Tasman share a natural community of interest as well as a similar composition of rural areas. Residents from the peninsula shop in Sorell and use services there. Both Tasman and Sorell residents spend time and money in Hobart (often in Clarence given the proximity). While there are distinct sub-communities within the Council areas, the municipalities' shared history and cooperation create a natural alignment.

[177] For example see submissions of Jan and Andrew Barwick, and John Cooley.

7.7 MANAGING MUNICIPAL OPPORTUNITIES AND CHALLENGES CONT…

Local community services

It is clear that the community, especially in Tasman, found it important to have locally-delivered support services and that the Council plays a strong role in this. The 2013 bushfires are cited as a key example.

In the Board's view the capacity to deliver an on-site response to emergency management and natural disasters is a strength of the stand-alone council structure. However, the Board is of the view that due to the need to retain a strong Council presence under an amalgamated structure, together with local representation with a knowledge of the area through electoral districts, this capacity would be retained.

Preserving local community

The increased uncertainty around ongoing employment has had implications for council staff, particularly in Tasman, where staff have perceived their roles as more likely to be under threat than at Sorell. Some Tasman staff, as well as a portion of the community, believed they were more likely to experience the need to deal with a shift in job location even in the event that their role is maintained after an amalgamation.

Staff flagged concerns to the Board about the potential implications of travel if their role were required to be located in Sorell. These concerns also included the perceived need to relocate their home and families and the flow-on implications of this for the local community, schools, and businesses in Tasman. It was clear to the Board that this uncertainty has been continuing since the Feasibility Study in 2015 began. The Board does not consider that an amalgamation will diminish the sense of communities on the Tasman Peninsula. Conversely, continued representation through electoral districts and Community Boards, together with improved services, would support communities in the area.

Improve community development capacity

The service needs of communities within the amalgamated area will evolve over time. There will be a need for services to support particular groups such as children, youth, and increasingly aged residents. The level of services required to meet an emerging demand, particularly in Tasman with its demographic profile, is more likely to be able to be met by an amalgamated council. It is very doubtful that a stand-alone Tasman Council could meet this demand.

7.8 WIDER STRATEGIC OPTIONS

The Board has a wide remit to undertake the Review and is empowered under section 214A of the Act to review and make recommendations in respect to boundaries of municipal areas, combining municipal areas, the creation of municipal areas, and the election of councillors of a municipal area. The Board noted in its consultation paper in section 3.4, the Board would only consider an alternative relating to a boundary adjustment if:

> *"during its analysis of the proposal it became clear that none of the three options presented a long-term solution in terms of viability for Sorell and Tasman Councils, but that a merger option which included part of another municipal area outside of the existing boundary (i.e. through a boundary adjustment) would potentially present a viable option, it should highlight this in its findings and recommendations to the Minister."*

The circumstances outlined above are not applicable in this Review as the Board has identified that Option 3: Voluntary Amalgamation Option would provide a long-term solution for the two Councils. Accordingly, the Board does not propose to review options that will 'optimise' the amalgamation option.

However, the Board makes the following observations in response to the submission of Clarence City Council. In its submission, Clarence City Council states that "there is strong evidence that both Sorell and Tasman Councils will be viable into the long term" and that:

> *"the concept of annexing any of Clarence as part of the review or a follow-up review should be dismissed immediately as a bad idea. It would be detrimental to the ratepayers of the communities involved, it would be outside of the spirit of voluntary mergers promised as an article of faith by the Minister, and it would risk existing regional ties that benefit the whole of SE Tasmania."*[178]

The Board does not agree that Sorell and Tasman Councils as stand-alone councils would be sustainable into the long-term. However, the Board's analysis has found that the Councils could be sustainable in the long-term through the implementation of an amalgamation.

The review scope did not encompass the option identified by the Feasibility Study as the most optimal reform option for the South East region – an amalgamation between the four South East Councils - given the decision of two of the four South East Councils not to participate. While the Board has found that an amalgamation between Sorell and Tasman Councils is sustainable and to the benefit of ratepayers, the Board was unable to assess the potential for benefits to all councils that the Feasibility Study indicated.

While Clarence's submission is noted, a strategic view would consider whether all or part of existing South- East councils being part of an amalgamation, would have merit. A larger amalgamated council could have a substantially greater capacity to withstand unforeseen events and the financial analysis of the two Councils in the long-term demonstrates that they would not be imposing a 'burden' on the ratepayers of a larger Council because the projections show that the combined entity has a cumulative positive operating result over 20 years.

The Board observes that while the question is unanswered as to whether an amalgamated Sorell/ Tasman Council delivers the optimal outcome for its communities (and communities in surrounding municipalities) nonetheless an amalgamation is substantially better than the status quo. In the Board's view, if there was a willingness by other Councils, a broader amalgamation may be worth examining in the future. However, equally it should not impede the implementation of the recommended voluntary amalgamation option which would deliver tangible benefits to the communities involved in the short and long-term.

The Board, in previous reviews, has recommended that a strategic review of the structure of councils in Tasmania is needed to determine the best outcome for all Tasmanians. Since that time the Government has supported feasibility studies into shared services and voluntary amalgamations. The Board considers that it is important that the discussion and examination of what is best for communities continues.

[178] Submission of Clarence City Council.

8. CONCLUSIONS AND RECOMMENDATIONS

8.1 ASSESSMENT OF THE OPTIONS AGAINST THE GUIDING PRINCIPLES FOR REFORM: SHORT-TERM AND LONG-TERM OUTCOMES

The Board's Terms of Reference require it to assess the Options within the scope of the Review against the guiding principles. The table below provides a summary of the matters and findings considered in the preceding three chapters. The assessment in the table below supports the Board's recommendations which are made at the end of this chapter.

The Board has used a 'traffic light' system to visually present its assessment. The meaning of each colour used in the assessment is described in the Key to the table below. Where the word benefit or detriment is used in the key it is an assessment of both financial and non-financial factors. The assessment is conducted over the short-term (1-5 years) and long-term (6-20 years).

OPTIONS	Stand-Alone Councils (Option 1)	Further Shared Services (Option 2)	Amalgamated Council (Option 3)
1. Be in the interests of ratepayers	**Short-term:** (Amber) Councils are financially viable in the short-term. However, service expectations may not always be met given increasing demands from residents and visitors. No impacts/changes for ratepayers and residents. However, nor would it deliver any improvements to the status quo.	**Short-term:** (Amber) Could deliver small improvements at best to the financial position or service provision of both Councils. No impacts/changes for ratepayers and residents. May deliver limited improvements in the status quo.	**Short-term:** (Green) Some impacts/changes for ratepayers and residents: - rating increases and decreases (but more closely aligned to capacity to pay) - fewer councillors per capita - some minor disruption to operations expected during implementation phase. While there may be some organisational disruption in operational matters at the beginning there would be improvement in services to ratepayers. Financial modelling has shown an amalgamated council would be in increasing surplus over the short-term. This should facilitate potential improvements in the range and availability of services. Greater service accessibility might be achieved through improved IT and transactional service enhancements.

Key to the Board's Conclusions in the Table:

Green: Material benefit Amber: Neutral (small benefit or detriment) Red: Material detriment

8.1 ASSESSMENT OF THE OPTIONS AGAINST THE GUIDING PRINCIPLES FOR REFORM: SHORT-TERM AND LONG-TERM OUTCOMES CONT…

OPTIONS	Stand-Alone Councils (Option 1)	Further Shared Services (Option 2)	Amalgamated Council (Option 3)
1. Be in the interests of ratepayers cont…	**Long-term:** Is not in the long-term interest of ratepayers. Serious concerns about the Councils' sustainability in the medium to long-term, particularly Tasman's reliance on shared services and risks to the sustainability of this arrangement. Review of financial and asset management reporting and LTFMPs reveals sustainability issues especially in Tasman.	**Long-term:** Is not in the long-term interest of ratepayers. Any enhanced shared services arrangements between Sorell and Tasman Councils would only deliver marginal improvements at best in service levels and service delivery, and negligible impact on the long-term financial sustainability for the Councils.	**Long-term:** Is in the interest of ratepayers of both Council areas in the long-term. This is the most likely option to provide long-term financial sustainability. Will deliver financial efficiencies for the Councils including ongoing cost savings as a result of a reduction in councillor numbers, potential to deliver service improvements, and economies of scale/scope. Reduces the risk presented by reliance on current shared services arrangements. Rating impacts could be managed to smooth rate increases. Maintain local representation in local areas through electoral districts and local community boards. Greater political/strategic voice to lobby for funding and policy. Improved capacity to engage in economic development at crucial time for municipalities (Tasman particularly).
2. Improve the level of service for communities	**Short-term:** Current service levels to community continue. In the short term, if the current shared services arrangements are abandoned, Tasman would be required to consider other arrangements, to fill multiple service gaps and this presents a risk towards a material detriment.	**Short-term:** Extended shared services is likely at best to deliver small improvements through cost efficiencies channelled back into services and access to greater skill base across both Councils. As with Option 1, the risk of abandoning shared services presents risk, particularly to Tasman.	**Short-term:** Financial modelling has shown the amalgamated council would be in increasing surplus over the short-term. This should facilitate potential improvement in the range and availability of services. Greater service accessibility might be achieved through improved IT and transactional service enhancements.

Key to the Board's Conclusions in the Table:

Green: Material benefit Amber: Neutral (small benefit or detriment) Red: Material detriment

8.1 ASSESSMENT OF THE OPTIONS AGAINST THE GUIDING PRINCIPLES FOR REFORM: SHORT-TERM AND LONG-TERM OUTCOMES CONT…

OPTIONS	Stand-Alone Councils (Option 1)	Further Shared Services (Option 2)	Amalgamated Council (Option 3)
2. Improve the level of service for communities cont…	**Long-term:** Will not improve service levels long-term. Service levels are expected to be under pressure in both Councils under the financial projections. In Tasman this is due to the limited ratepayer base and the demographic of ratepayers and residents as well as the demand created by the tourist market. Tasman remains highly dependent on continuation of shared services arrangements. The vulnerability of shared services arrangements is a high risk over the long-term as it requires continuity of political and management will to support it, which is questionable given the increasing demand for services in Sorell.	**Long-term:** Will not materially improve service levels l ong-term. The capacity of the two Councils to resource-share under the current structure may be almost exhausted. Service levels could be marginally improved at best by enhancements to the way shared services arrangements are conducted and contracted. The same risk regarding the susceptibility of shared services in Option 1 is relevant to Option 2.	**Long-term:** Will deliver improved levels of service for communities in the long-term. There is capacity for new and/or improved services to be introduced. An office/services presence along with on-site works depot should be retained within the Tasman municipality. Ratepayers in both municipal areas would have full access to services, particularly professional staff and services. Only one, full-time General Manager will be required for the amalgamated council area. Increased capacity to attract and retain skilled staff. Efficiencies in back office processes/systems may lead to possible increased customer-facing staff, in Tasman particularly. Reduction in costs of purchased shared services channelled back into improved services. Reduction in duplicated policies, standards, systems, and approaches for current shared service staff.

Key to the Board's Conclusions in the Table:
Green: Material benefit Amber: Neutral (small benefit or detriment) Red: Material detriment

8.1 ASSESSMENT OF THE OPTIONS AGAINST THE GUIDING PRINCIPLES FOR REFORM: SHORT-TERM AND LONG-TERM OUTCOMES CONT…

OPTIONS	Stand-Alone Councils (Option 1)	Further Shared Services (Option 2)	Amalgamated Council (Option 3)
3. Preserve and maintain local representation	**Short and long-term:** (Amber) No change to levels of local representation. All Sorell and Tasman councillors represent the whole of their respective areas. Councils could consider introduced community forums, like community boards, to address current perceived disadvantaged communities.	**Short and long-term:** (Amber) No change to the level of local representation. All Sorell and Tasman councillors represent the whole of their respective areas. Councils could consider introduced community forums, like community boards, to address current perceived disadvantaged communities.	**Short and long-term:** (Amber) Local representation can be preserved and maintained under this option. Likely to result in a reduction in councillor numbers for the merged municipal area (recommended reduction from combined 16 councillors to nine councillors). Any reduction in the number of local councillors could be addressed through the provision of new mechanisms to maintain representation at a local level for the short to long-term by the following: - **Electoral districts** (recommended up to three multi-member electoral districts); and - **Local Community Board(s)**. At a locality level, the introduction of these mechanisms have the potential to improve the capacity to have local issues considered by the amalgamated council. The Board considers that electoral districts could be reviewed after one or two electoral cycles.

Key to the Board's Conclusions in the Table:
Green: Material benefit   Amber: Neutral (small benefit or detriment)   Red: Material detriment

8.1 ASSESSMENT OF THE OPTIONS AGAINST THE GUIDING PRINCIPLES FOR REFORM: SHORT-TERM AND LONG-TERM OUTCOMES CONT…

OPTIONS	Stand-Alone Councils (Option 1)	Further Shared Services (Option 2)	Amalgamated Council (Option 3)
4. Ensure that the financial status of the entities is strengthened	**Short-term:** No change to the financial outlook of entities. The Councils are not at imminent risk of being unviable. However Tasman's viability and sustainability is highly dependent upon the current shared services arrangements and there is a real financial risk to it should the arrangements cease.	**Short-term:** Only minor improvement at best to the financial status of the Councils is likely in the short-term because of the limited opportunities to further expand the range and scope of shared services. However, given the reliance by Tasman on the current shared services arrangements, and there is a real financial risk to it should the arrangements cease.	**Short-term:** The merged council's financial outlook in the first year would need to allow for estimated $600,000 in transition costs, however, its financial outlook should strengthen soon thereafter. This level of transition costs is much lower than assumed in the Feasibility Study because the Board does not think there would be any significant loss of staff numbers as a consequence of amalgamation. A move to an amalgamated council would improve on current shared services and genuinely creates one operational entity. This would significantly reduce financial risks associated with the vulnerability of shared services between the two Councils. Financial modelling suggest the amalgamated council financial status would be in an enhanced position in the short-term when compared to the positions of the stand-alone Councils.

Key to the Board's Conclusions in the Table:

Green: Material benefit Amber: Neutral (small benefit or detriment) Red: Material detriment

8.1 ASSESSMENT OF THE OPTIONS AGAINST THE GUIDING PRINCIPLES FOR REFORM: SHORT-TERM AND LONG-TERM OUTCOMES CONT…

OPTIONS	Stand-Alone Councils (Option 1)	Further Shared Services (Option 2)	Amalgamated Council (Option 3)
4. Ensure that the financial status of the entities is strengthened cont…	**Long-term:** Would not ensure long-term financial sustainability. Independent analysis has revealed that when standardised assumptions and realistic variations are applied to the Long-term Financial Management Plans of Sorell and Tasman Councils, their long-term sustainability is less evident than is indicated in the Councils' plans. Modelling suggests Sorell is sustainable for the first decade, although there is little potential to withstand unexpected events or respond to resident demands for additional services. Tasman is in a better position in the first decade and would have a reasonable ability to cope with unexpected events or a minor expansion in services but is totally dependent upon the continuance of shared services on a significant scale with Sorell (or another council), which is a major risk. The Board's own analysis suggests the Councils will have to raise additional rating revenue to what is assumed in their Long-Term Financial Management Plans over the next 20 years to be necessary to achieve sustainability barring unforeseen events. If the shared services arrangements were to be discontinued, the greatest impact would be on Tasman where an approximately an additional $3500 per rateable property would have to be raised over the next 20 years.	**Long-term:** Would not ensure long-term financial sustainability. Further shared services between the Councils would have limited effect on their long-term financial sustainability. However, the significant financial risk remains for Tasman should the current shared services arrangement with Sorell cease. The Board has doubts as to whether such a high degree of service sharing as presently exists is realistically guaranteed into the future.	**Long-term:** Financial outlook of entities is significantly improved. Modelling projections for the amalgamated council show surpluses for all years of a 20 year projections. Conservative assessment by the Board using advice from independent consultants Crowe Horwath indicates ongoing savings in the region of $250,000 per annum should be possible as a result of amalgamation (1.2 per cent saving) which, while on face value does not appear significant, the compounding affect over time relative to the status quo is significant in the context of the combined Councils' finances. The Boards own financial analysis suggests that the amalgamated council would have to raise $11.3 million less in rates to remain sustainable over the next 20 years compared to what the separate Councils would have to raise. This is a saving of approximately $920 per rateable property over the period. Resolves long-term sustainability issues with resource-shared positions especially that of the General Manager.

Key to the Board's Conclusions in the Table:

Green: Material benefit Amber: Neutral (small benefit or detriment) Red: Material detriment

8.2 RECOMMENDATIONS

The Board has identified evidence that supports a recommendation for change to the present stand-alone council structure. Based on the assessment of the options against the four guiding principles and the findings in chapters 5-7, the Board's preferred recommendations are that:

R1 - The Sorell and Tasman Councils be voluntarily amalgamated into a new council which incorporates the existing municipal boundaries (Option 3).

R2 - The transitional process as outlined in the supporting recommendations for Option 3 in Chapter 9 be implemented, including that:

- The total number of persons to be elected as councillors of the new amalgamated council be nine.

- That up to three electoral districts be created as a transitional measure for the new amalgamated municipal area, for up to two local government terms.

- Electoral districts be based around, either, the areas of:

• Tasman Municipality (and adjacent areas of Sorell);
• Rural Sorell and Southern Beaches; and
• Sorell and Midway Point; or

- If only two electoral districts are preferred, these should reflect the former Sorell and Tasman municipal areas.

- An Interim Council be appointed for a period of up to 12 months and comprise either:

- Three 'Commissioners'; with one an independent Chairperson; and with a member drawn from each of the affected municipal areas of Tasman and Sorell. (Option A); or

- Five members; with an independent Chairperson; the two Mayors of the existing Councils; and a councillor nominated by each of the existing Councils. (Option B).

- Current Councillors be appointed to act in the role of 'Interim Community Board' for the transition period until the election no later than October 2019, to conduct community consultation on the establishment of community boards in the new Council area post-transition.

- The General Manager continues on in the role as the General Manager until the expiry of his contract, at which time the new council could appoint its preferred General Manager.

- An amalgamated council be given the interim name of the 'Sorell-Tasman Council'.

R3 - The Tasmanian Government considers providing transitional assistance to support the Interim Council and staff to bring the operations of the existing Councils together.

ALTERNATIVE RECOMMENDATION

R4 - Should an amalgamation not proceed, the Councils should resource the coordination of shared services management to better integrate and coordinate shared services between the two Councils; and undertake a review of cost allocation of the services to ensure accurate costing.

9. TRANSITIONAL PROCESS

SUPPORTING RECOMMENDATIONS FOR OPTION 3

Subject to a decision to progress a voluntary amalgamation (as recommended by the Board), the Board recommends the following transitional governance arrangements:

SR1 - The making of an Order(s) under the Act to:

- Abolish the existing councils;
- Create the new council;
- Create the new municipal area;
- Create an Interim Council
- The fixing of a day for an election for a new council;
- Provide for nine persons to be elected as councillors of the municipal area;
- Transfer and vest with the new Council all staff, assets and liabilities, contracts, and all other things belonging to, or owed by, the existing Councils; and
- Continue the recognition and operation of existing plans, policies, schemes (including the Planning schemes), rating systems, enterprise bargain agreements, etc. from the existing Councils under the new council, until such time as the new council makes new ones.

SR2 - An Interim Council be appointed for a period of up to 12 months and comprise either:

- Three 'Commissioners'; with one an independent Chairperson; and with a member drawn from each of the affected municipal areas of Tasman and Sorell. (Option A); or
- Five members; with an independent Chairperson; the two Mayors of the existing Councils; and a councillor nominated by each of the existing Councils. (Option B).

SR3 - That up to three electoral districts be created as a transitional measure for the newly amalgamated Council for up to two local government terms, at which time they could be reviewed by the Board in consultation with the council and community.

SR4 - To ensure fair representation of the affected communities, there should be either:

- three councillors per electoral district and be based around the areas of Tasman Municipality (and adjacent areas of Sorell); Rural Sorell and Southern Beaches; and Sorell and Midway Point; or
- two electoral districts and these should reflect the former Sorell and Tasman municipal areas.

SR5 - The detail of exact boundaries of the electoral districts should be the subject of a separate Board Review to be informed by expert advice (the Board regards the Tasmanian Electoral Commission as the logical experts to assist).

SR6 - Current Councillors be appointed to act in the role of 'Interim Community Board' for the transition period until the election no later than October 2019, to conduct community consultation on the establishment of community boards in the new Council area post-transition.

SR7 - That the Tasmanian Government considers providing transitional assistance to support the Interim Council and staff to bring the operations of the existing Councils together, so that there are sufficient resources to meet business-as-usual service delivery demands and project manage implementation of the organisational amalgamation.

SR8 - The General Manager continue on in the role as the General Manager until the expiry of his contract, at which time the new Council could appoint its preferred General Manager.

SR9 - An amalgamated council should be given the interim name of the 'Sorell-Tasman Council'.

SR10 - An early priority for the new elected Council would be to conduct consultation as to whether another name would be preferred.

9.1 INTRODUCTION

The Board has considered options for ensuring continuity and stability during any transition to an amalgamated council, balanced with the need to maintain local representation (in the short and long-term). The Board has considered a range of options with the objective of enabling the new amalgamated council to be established as an effective operational entity as early as possible.

In determining its supporting recommendations, the Board has had regard to:

- The Feasibility Study;
- The 1997 Tasmanian Local Government Board Review Final Report on potential merger reforms and the supporting review of transitional arrangements by KPMG; and
- The *Local Government Act 1993*, particularly Part 12A.

9.2 RELEVANT LEGISLATIVE CONSIDERATIONS

The legislative framework to support an amalgamation is sufficiently broad to ensure all transitional matters that need to occur can occur. Section 45C of the *Constitution Act 1934* provides:

> *'Municipal areas*
>
> *Any division of Tasmania into municipal areas is not to be altered without the recommendation of the Local Government Board established under the Local Government Act 1993.'*

Section 45B of the Constitution Act 1934 Act also provides for the operation of laws that may prescribe circumstances in which the offices of members of a municipal Council shall become and remain vacant and for the conferring of power relating to local government on a person other than a municipal Council.

The *Local Government Act 1993* (the Act) sets out a high level framework for Local Government Board Reviews, the powers and obligations of the Local Government Board, the role of the Governor, Minister and transitional processes associated with an amalgamation.

Part 12A of the Act provides a number of broad powers around Ministerial Orders to implement transitional arrangements. These are discussed in more detail below.

Orders under s214E of the Act

Under section 214E, the Governor, on the recommendation of the Minister, may do any one or more of the following:

(a) **create a municipal area**;

(b) **abolish a municipal area**;

(c) alter and define the boundaries of a municipal area;

(d) **combine 2 or more municipal areas or parts of such areas to form one municipal area**;

(e) divide a municipal area into 2 or more municipal areas or parts of 2 or more municipal areas;

(f) **name or change the name of a municipal area**;

(g) declare a municipal area or part of a municipal area to be a city;

(h) name or change the name of a city;

(i) **create a council**;

(j) **abolish a council**;

(k) **dismiss all the councillors of a council**;

(l) **name or change the name of a council**;

(m) **determine the total number of persons to be elected as councillors of a municipal area**;

(n) **determine the number of persons to be elected in respect of each electoral district**;

(o) **divide a municipal area into 2 or more electoral districts**;

(p) abolish the division of a municipal area into electoral districts;

(q) alter the boundaries of an electoral district;

(r) combine 2 or more electoral districts in a municipal area to form one electoral district;

(s) **name or change the name of an electoral district**;

(t) **declare that an election is to be held**.

Supporting Orders under 214(5) of the Act

Section 214 (5) provides that in addition (and in relation) to orders under 214(1):

The Governor, on the recommendation of the Minister may make –

(a) **an order in respect of any appropriate savings and transitional matters; and**

(b) **an order in respect of employees of a council that is affected by an order under subsection (1); and**

(c) **an order relating to the requirements of the first meeting of a council of a proposed municipal area; and**

(d) **any other order necessary or expedient.**

9.2 RELEVANT LEGISLATIVE CONSIDERATIONS CONT...

The Act also states that an order made under subsection (5) that is inconsistent with any provision of this Act or any other Act, other than section 45C of the *Constitution Act 1934*, **prevails over that provision to the extent of that inconsistency**.

Electoral Districts

The Act provides in section 17 (Electoral Districts):

> *(1) A municipal area may be divided into 2 or more electoral districts.*
>
> *(2) The name of each electoral district of a municipal area is specified in column 4 of Schedule 3.*
>
> *(3) The Governor, on the recommendation of the Minister, may amend, substitute or delete any item in column 4 or 5 of Schedule 3 in an order made under section 214E relating to electoral districts to give effect to that order.*

Section 214D (Report of review) provides:

> *(1) The Board is to submit to the Minister a written report of any review it carries out together with its recommendations.*
>
> *(2) The Board must not make any recommendation relating to an electoral district unless satisfied that –*
>
> *(a) it is in the best interests of the municipal area concerned; and*
>
> *(b) it would lead to a fair representation of the community in the municipal area.*

The Board finds that electoral districts are an important mechanism at least in the interim to ensure that confidence in the levels of local representation is achieved.

The Board received the following relevant advice from the Electoral Commission in its submission:

The Hare-Clark counting system is used to elect Members of the Tasmanian House of Assembly and Councillors to all 29 Tasmanian local government councils. Hare-Clark is designed so that the proportion of seats/councillors elected to the House/Council is in close proportion of the support that exists within the electorate/ municipal area. In other words, smaller groups can still be represented under Hare-Clark.

At the 2014 local government elections the enrolment figures for the two councils were:

- *Sorell Council 10,164 81.29% enrolment of the amalgamated council;*
- *Tasman Council 2,340 18.71% enrolment of the amalgamated council.*

If the new Council were to elect 10 councillors, and the electors were to largely vote for candidates from within their old municipal boundaries it would be reasonable to see the election of eight Sorell based councillors and two Tasman based councillors. Further, in general small councils have higher participation rates at local government elections.

Further, in general small councils have higher participation rates at local government elections. Over the last five local government elections (2005-2014) the participation rates for each of the councils have been:

Sorell Council	55.98%	77.21 % of votes returned if councils were amalgamated
Tasman Council	71.74%	22.78% of votes returned if councils were amalgamated

Alternatively, local representation could be protected through having a proportion of councillors elected directly from Sorell and Tasman districts or wards. Following the establishment of the Local Government Act 1993, 46 councils were amalgamated into 29 councils. Two of the seventeen councils going to election in 1994 (Launceston City and Sorell) decided to elect its councillors from three districts each electing four representatives.

In the case of Launceston City, these districts (East, North and South West) were the three former municipal areas of St Leonards, Lilydale and Launceston (respectively). Sorell was divided into three districts (Dodges Ferry, Dunalley and Sorell). Sorell Council reduced to one district (electing seven members) at the next election (1996) and Launceston City Council reduced to one district (electing 12 members) at the subsequent election (1999).

A model with a ratio of councillors to electors could be dependent on the number of electors but could form a compilation similar to seven from Sorell and two councillors from the Tasman.

9.2 RELEVANT LEGISLATIVE CONSIDERATIONS CONT...

The Board's view is that, when considering population, the number of rateable properties and the relative share of assets, together with the Board's assessment that nine councillors are justified, optimally there should be three electoral districts each containing three councillors. The below table provides the indicative towns/areas which the electoral districts could be based around:

Table 9.1 Proposed electoral districts for an amalgamated council

Indicative Towns/Areas	Number of Councillors
Tasman Municipal Area and adjacent areas of Sorell	3 councillors
Rural Sorell and Southern Beaches	3 councillors
Sorell and Midway Point	3 councillors

However, if there is a preference for fewer electoral districts the Board considers that this would not materially diminish representation particularly when considered in conjunction of community boards. The Board considers that the precise boundaries of electoral districts should be the subject of a separate Board Review (in which it would seek expert advice most likely from the Tasmanian Electoral Commission).

9.3 TRANSITIONAL PROCESS

The following describes the bodies and timing that the Board considers are necessary to ensure a successful transition to a fully amalgamated council that is ready and able to support a newly elected set of councillors.

Interim Council

In other jurisdictions, during the transition to an amalgamated council, Commissioners have been appointed to take the place of elected representatives for a period. Models utilised include the appointment of Commissioners who are independent to the councils participating in the merger, or alternatively, the appointment of the mayors of the participating councils.

The Board supports the appointment of an Interim Council for precise the transition phase of the amalgamation. This would only be for a short period of up to 12 months, with the Interim Council being responsible for ensuring that the governance and operations of the new Council are sufficiently in a suitable position to hand over to a newly elected Council.

In the 1993 reforms, the use of Local Transition Committees (LTCs) were used to oversee amalgamations. The Board in 1997 raised issues with the LTCs model, in particular that they had no legislative standing or authority. The Board considers the appointment of an Interim Council would effectively overcome this issue because it would have clear authority, but be able to carry out the intent that LTCs were designed for.

The Board has proposed an option of three Commissioners to be the Interim Council as, in other jurisdictions implementing large-scale reforms, a period of commissioner-governed council was seen as an effective method of managing the transition. The term 'Commissioner' is used within the Act for a person who is appointed in place of an elected Council and has all the functions and powers of Councillors. While the use of Commissioners in recent times has followed a period of dysfunction in two Councils in Tasmania, Commissioners can be used in other circumstances. In this case, the Board's suggestion for Commissioners is no reflection on the performance and functionality of the current Councillors at both Councils.

If the potential lack of elected representation associated with the Commissioner option is of high concern, then the Board considers an alternative option is to have an independent Chair, the two Mayors of the existing Councils and one councillor from each of the existing councils (nominated by the current councillors). These five Interim Council members would have the powers of Councillors until the election which should be held no later than October 2019, (as would the three Commissioner model in the alternative option).

Existing Councillors would be appointed to act as members of an Interim Community Board for the transition period until the election in 2019. The role of the Interim Community Board would be to consult with the community on the establishment of community

9.3 TRANSITIONAL PROCESS CONT…

boards, post the transition. This would include testing which communities have a strong desire to have their own community board.

Advisory and Project Management Support

The Board recognises the need for the interim Council to have sufficient project management and advisory support during the transitional process. The Board considers that the Interim Council and General Manager will be likely to require support and advice from a project manager and a small project team, but that the precise source and configuration of that support is a matter that should be determined by the new council.

The Board considers that it is unlikely that the staff within the two Councils would have the capacity to provide this support, in addition to their existing duties, and that this may be an area where transitional assistance from the Tasmanian Government would be of value. Such support could come in the form of funding to support time-limited project resources and/or the provision of specific project staff with expertise in organisational change (particularly organisational mergers). However, the exact requirements should be something that the Interim Council identifies and negotiates with the Tasmanian Government.

Interim General Manager and Staff

On the basis that the two Councils already share a General Manager, the Board considers that it is logical for the current general manager to continue on in the role of interim General Manager during the transitional governance period. This would provide significant stability during a transition phase, and ensure that the corporate knowledge from the existing Councils is carried over and considered, where appropriate, in the transition process.

The Board recommends that an order be made under s214E(5)(b) of the Act that provides for all the employees to carry over to the new Council created under that order, including the General Manager.

The Election

The Board considers that up to a 12 month period is necessary before an election is held, to allow the Interim Council and staff time to ensure the new Council is ready and able to support newly elected councillors, noting that considerable work will be required in this period. The Board also notes that it is likely that the election would not be synchronised with the State-wide elections, and ordinarily this would impose an additional cost to the new Council relative to the cost if it were included in the State-wide elections (noting that the additional cost would be net of the avoided cost of not participating in the October 2018 State-wide elections). This additional cost may be another area where State transitional assistance is appropriate.

Necessary Procedural Steps

The Board notes that, by virtue of the decision to create a new combined Council, it will be necessary under section 214 for certain things to occur at specific points in the transitional process. The first order should include the items in the following table:

Table 9.2: Proposed procedural steps – First Order

S214E(1)(j)	Abolish the existing Councils	Through an Order under s214E(1)
S214E(5)	Create interim governance arrangements (Interim Council)	Through an Order under s214A(5)
S214E(1)(i)	Create a new amalgamated Council	Through an Order under s214E(1)
S214E(1)(a)	Create a municipal area	Through an Order under s214E(1)
S214E(1)(b)	Abolish the two existing municipal areas	Through an Order under s214E(1)
S214(5)	Provide for Transitional and Savings measures[179]	Through an Order under s214A(5)
s214E(1).	Naming of the new Council Area	Through an order under s214E(1).

[179] Transfer and vest all staff, assets and liabilities, contracts and all other things belonging to, or owed by the existing Councils and continue the recognition and operation of existing plans, policies, schemes (including the Planning Schemes), rating systems, enterprise bargaining agreements, etc. from the existing councils under the new Council.

9.3 TRANSITIONAL PROCESS CONT...

At least one more order, and possibly others, would be required subsequent to the first one to complete the transition. At a minimum, following the Board review to determine the precise electoral districts, an order(s) would be required to determine the following items in the table below.

Table 9.3: Proposed procedural steps – Subsequent Order(s)		
S214E(1)(m)	Determine the number of persons to be elected as councillors of the municipal area to be nine.	Through an order under s214E(1).
S214E(1)(o)	Divide a municipal area into (up to three) electoral districts.	Through an order under s214E(1).
S214E(1)(n)	Determine that the number of persons to be elected in respect of each electoral district	Through an order under s214E(1).
S214E(1)(t)	Declare that an election is to be held up to 12 months from the creation of the new council.	Through an order made under s214E(1)

APPENDIX 1: DATA TABLES

Table 1. Demographic and municipal area statistics

Sorell Council (2016-17)		**Tasman Council (2016-17)**	
Population (2017 Treasury/ABS)[180]	14,648	Population (2017 Treasury/ABS)[181]	2,389
Municipal area (km^2)	584	Municipal area (km2)	661
Population density (per km^2)	24.7	Population density (per km2)	3.6
Major Population Centres[182]	Sorell (2,907) Midway Point (2,859) Dodges Ferry (2,467)	Major Population Centres[183]	Nubeena (481) Eaglehawk Neck (385) Murdunna (309)
Rateable properties[184]	9,341	Rateable properties[185]	3,392
Council owned roads (km)[186]	351.5	Council owned roads (km)[187]	199.6
Labour Force[188]	7,532	Labour Force[189]	1,061
Unemployment rate (%) March 2018[190]	5.4 (404 people)	Unemployment rate (%) March 2018[191]	6.3 (67 people)
Weekly median household income ($)[192]	1,132	Weekly median household income ($)[193]	788
Major industries of employment[194] - Supermarket and Grocery Stores (3.3%) - Aged Care Residential Services (2.9%) - State Government Administration (2.8%) - Hospitals (except Psychiatric Hospitals) (2.5%) - Central Government Administration (2.3%)		Major industries of employment[195] - Museum Operation (10.6%) - Accommodation (9.3%) - Aged Care Residential Services (4.7%) - Primary/Secondary Education (4.2%) - Local Government Administration (3.1%)	
Most common occupations[196] - Technicians and Trades (16.5%) - Clerical and Administrative (15.2%) - Professionals (13.2%) - Community and Personal Services (12.9%) - Labourers (11.6%)		Most common occupations[197] - Managers (18.7%) - Labourers (18.7%) - Community and Personal Services (15.4%) - Professionals (13.4%) - Technicians and Trades (13.2%)	

180 Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018
181 Ibid
182 ABS, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument
183 ABS, 2016, Census – QuickStats Data by geography for Tasman (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA65210?opendocument
184 Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.
185 Ibid
186 Tasmanian Government Department of Primary Industries, Parks, Water and Environment, 2017, Open Data – Tasmanian Local Government Consolidated Data Collection, Tasmania, as at 14 February 2018 <http://listdata.thelist.tas.gov.au/opendata/index.html#Tasmanian_local_government_Consolidated_Data_Collection_(CDC)>
187 Ibid
188 Australian Government Department of Jobs and Small Business, 2018, LGA Data tables March 2018, Canberra, as at 16 June 2018 <https://docs.jobs.gov.au/documents/lga-data-tables-small-area-labour-markets-march-quarter-2018>
189 Ibid
190 Ibid
191 Ibid
192 Ibid
193 Ibid
194 ABS, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument
195 ABS, 2016, Census – QuickStats Data by geography for Tasman (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA65210?opendocument
196 ABS, 2016, Census – QuickStats Data by geography for Sorell (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA64810?opendocument
197 ABS, 2016, Census – QuickStats Data by geography for Tasman (local government area), Canberra, as at 14 February 2018 www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA65210?opendocument

APPENDIX 1: DATA TABLES

CONT...

Table 2. Population and projections		
Indicator/Statistic	**Sorell**	**Tasman**
Population 1997 (Treasury/ABS)[198]	10,970	2,226
Population 2007 (Treasury/ABS)[199]	12,049	2,332
Population 2017 (Treasury/ABS)[200]	14,648	2,389
Population 2027 (Treasury – medium projection) including age group breakdown[201]	16,799 0 – 14 years: 3,082 15 – 64 years: 9,921 65+ years: 3,796	2,606 0 – 14 years: 313 15 – 64 years: 1,384 65+ years: 909
Population 2037 (Treasury – medium projection) including age group breakdown[202]	18,841 0 – 14 years: 3,272 15 – 64 years: 10,646 65+ years: 4,923	2,677 0 – 14 years: 355 15 – 64 years: 1,311 65+ years: 1,011

Table 3. Financial management indicators[203]					
Indicator/Statistic (2016-17)	**Sorell**	**Sorell Ave**	**Tasman**	**Tasman Ave**	**Benchmark**
Underlying surplus/deficit ($'000s)	49	865 10 yr Ave	904	652 10 yr Ave	> 0
Net financial liabilities ratio (%)[204]	13	11 10 yr Ave	87	40 10 yr Ave	0 - (50)[205]

Table 4. Revenue and rates[206]				
Indicator/Statistic (2016-17)	**Sorell**	**RAVL Ave**	**Tasman**	**RASM Ave**
Total revenue ($'000s)	20,756	21,729	7,361	10,111
Cash reserves ($'000s)	7,388	11,928	6,825	6,931
Operating Government grants ($'000s)	2,343	3,489	924	1,734
Operating grants to operating revenue (%)	13.6	19.8	14.5	24.9
Rate revenue ($'000s)	12,079	10,484	4,392	4,213
Average rates/charges per rateable valuation ($)	1,293	1,282	1,295	1,264

198 Tasmanian Government Department of Treasury and Finance/Australian Bureau of Statistics, "2018 population projections, Local Government Area Population, Regional Population Growth – 3218.0", last updated on 24 April 2018
199 Ibid
200 Ibid
201 Tasmanian Government Department of Treasury and Finance, 2014, Population Projections for Tasmania and its Local Government Areas, Tasmania, as at 14 February 2018 <http://www.treasury.tas.gov.au/economy/economic-data/2014-population-projections-for-tasmania-and-its-local-government-areas>
202 Ibid
203 Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.
204 Net financial liabilities ratio – is the liquid assets less total liabilities divided by the total operating income.
205 Number inside brackets is a negative value.
206 Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.

APPENDIX 1: DATA TABLES CONT...

Table 5. Expenses[207]

Indicator/Statistic (2016-17)	Sorell	RAVL Ave	Tasman	RASM Ave
Total expenditure ($'000s)	17,128	17,858	5,482	7,870
Operating cost per rateable valuation ($)	1,834	2,153	1,616	2,775

Table 6. Asset management[208]

Indicator/Statistic (2016-17)	Sorell	RAVL Ave	Tasman	RASM Ave
Non-current assets ($'000s)	257,955	228,358	65,282	85,534
Capital expenditure ($'000s)	8,368	7,810	2,703	2,913
Depreciation expenses ($'000s)	4,982	4,688	1,177	1,841
Capital expenditure to depreciation ratio (%)	113	127	119	97

Table 7. Asset management indicators[209]

Indicator/Statistic (2016-17)	Sorell	Sorell Ave	Tasman	Tasman Ave
Asset sustainability ratio (%)[210]	113	93 10 yr Ave	119	91 10 yr Ave
Asset renewal funding ratio (%)[211]	116	121 4 yr Ave	100	122 6 yr Ave
Asset consumption ratio (roads) (%)[212]	61	74 10 yr Ave	62	58 10 yr Ave

207 Ibid

208 Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.

209 Ibid

210 Provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than I 00 per cent indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.

211 Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a useful measure relying on the existence of long-term financial and asset management plans.

212 Shows the depreciated replacement cost of an asset (e.g. roads, bridges, and infrastructure) divided by the current replacement cost. It therefore shows the average proportion of new condition left in the depreciable assets.

APPENDIX 1: DATA TABLES

CONT...

Table 8. Governance and human resource management[213]				
Indicator/Statistic (2015-16)	**Sorell**	**RAVL Ave**	**Tasman**	**RASM Ave**
Number of elected members	9	8.7	7	8.2
Population per elected member	1,599	1,686	342	324
Full Time Equivalent (FTE) staff	62	78	19	35
FTE staff per 1,000 population	4.3	5.4	7.9	14.9
Staff costs to operating expense (%)	31.7	34.6	25	32.3

Table 9. Australian classification of local governments					
	Rural Agricultural Small and Medium	**Rural Agricultural Large**	**Rural Agricultural Very Large**	**Urban Small**	**Urban Medium**
Abbreviation	**RASM**	**RAL**	**RAVL**	**US**	**UM**
Definition	Population of up to 5,000 at a density of <30 per km^2	Population of 5,000-10,000 at a density of <30 per km^2	Population of 10,000-20,000 at a density of <30 per km^2	Population of up to 30,000	Population of 30,000 – 70,000
Councils	- Central Highlands - Flinders - Glamorgan-Spring Bay - King Island - **Tasman** - West Coast	- Break O'Day - Circular Head - Dorset - George Town - Kentish - Latrobe - Southern Midlands	- Derwent Valley - Huon Valley - Meander Valley - Northern Midlands - **Sorell** - Waratah-Wynyard	- Brighton - Burnie - Central Coast - Devonport - West Tamar	- Clarence - Glenorchy - Hobart - Kingborough - Launceston

[213] Tasmanian Audit Office, 2017, Report of the Auditor-General No. 6 of 2017-18: Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17, Hobart, including spreadsheets "AGR Volume 3 Summary Tables: Local Government Comparative Analysis" with permission of the Auditor-General of Tasmania.

APPENDIX 2: CONSULTATION RESULTS - TASMAN AND SORELL COUNCILS

Both Sorell and Tasman Councils undertook community surveys to obtain feedback on the options provided by the Feasibility Study between March and May 2017.

The online surveys of both Councils, which were undertaken via Survey Monkey, consisted of three similarly worded questions. The results from both surveys demonstrated that an overwhelming majority of respondents voted in support of voluntary amalgamations.

Summary of Sorell and Tasman Councils 2017 Community Survey Results		
Survey Question	**Tasman Council Results**[214]	**Sorell Council Results**[215]
Response rate	301 electors	681 electors
1. Do you support voluntary Council Amalgamations? (Yes or No)	Yes 74.25% No 25.75%	Yes 84.86% No 15.14%
2. If a voluntary amalgamation (or other change) is to occur, please rank in order 1-5 your preferred option (with 1 being your most preferred options).	*Top overall ranking:* Option 4 – Amalgamation of Sorell & Tasman Councils *Highest first preference:* Option 0 – Extension of shared services *Highest last preference* Option 0 – Extension of shared services was also the least preferred option by a considerable margin	*Top overall ranking:* Option 2 – Amalgamation of Clarence, Sorell, & Tasman Councils *Highest first preference:* Option 1 – Amalgamation of all four councils *Highest last preference* Option 0 – Extension of shared services was the least preferred option by a significant margin.
3. Are you: **a) a resident;** **b) a ratepayer,** **c) a resident/ratepayer;** **d) other.**	- Just over 68% were resident/ratepayers. - Almost 23% were non-resident ratepayers.	- Just over 69% were resident/ratepayers. - Over 20% were non-resident ratepayers.

214 Agenda for Tasman Council meeting on 28 June 2017
215 Agenda for Sorell Council Meeting on 20 June 2017

APPENDIX 3: CASE STUDIES SHARED SERVICES (TAS)

Councils/ Entities	Kentish and Latrobe Councils	Circular Head and Waratah-Wynyard Councils	Northern Midlands Council	Brighton Common Services Model[216]	Cradle Coast Authority[217]
Year	1992-2018	2008-2018	2013-2016	2007-2018	2000
Model	Formal Agreement - Joint (Venture/Alliance, Shared General Manager, Shared Staff, Shared Policies)	Formal Agreement (Shared General Manager (now ceased), Shared Staff)	Memorandum of Understanding	Formal Agreement Shared staff (tailored to needs of each regional councils) Shared policies (informal)	Formal Joint Authorities formed to further projects in the strategic interests of the member councils/region
Description	The relationship has included a more formal arrangement through the Kentish/Latrobe Joint Venture (1997-2001) and formal Shared services from 2008 through to the formation of the Kentish and Latrobe Council Municipal Alliance Committee[218]. In 2010, the Councils agreed to share a General Manager and in 2015 appointed a shared Works Manager. Since then the arrangements have been reinforced through advice from expert consultancies, with a view to strengthen ties and gain efficiencies. In 2017, the Councils undertook a project named *Embedding Shared Resources* which aims to expand the number and type of shared systems, policies, projects, and staff in both outdoor and indoor workforces, information technology and business systems, and workforce development and succession planning.	In 2008, the Councils commenced sharing a General Manager with Waratah-Wynyard Council appointing Circular Head Council's General Manager. Since then, the Councils have expanded arrangements to a range of roles, projects, and procurement via a formal agreement. The shared arrangements have a focus on shared staff. In 2016, the Councils were sharing 17 staff, predominantly across infrastructure and development and corporate and community services However, the Councils now have separate General Managers.[219] UTS:CLG commissioned to carry out a review and provide recommendations about continuing and strengthening their shared services arrangements.	Extensive Shared services partnerships with a number of councils within the regional area including Launceston City Council, Break O'Day Council, Meander Valley Council, West Tamar, George Town Council, Kentish Council and Flinders Council as well as external organisations. To establish a commercial basis for charging of these services, Council have signed a Memorandum of Understanding that sets out the nature of the commitments and responsibilities to be observed between the parties including how hourly rates for services will be determined.	This model promotes local government based fee-for-service arrangements between provider council and receiver council. It is designed to remedy access to skilled local government expertise issues experienced by small to medium regional, rural and remote councils. A number of Tasmanian councils, predominantly in the State's south, have adopted the model, including Sorell and Tasman Councils. The services provided vary from council to council depending on the receiver council's requirements.[220]	The Cradle Coast Authority is a joint authority created by nine (9) north-west councils. The Authority has a regional focus and facilitates wide-ranging initiatives including north-west tourism, natural resource management, and regional development. Recently, the Cradle Coast councils participated in a review undertaken by Third Horizon to explore further shared services opportunities for the region. As a result, there was broad agreement amongst the Cradle Coast councils to pursue further collaboration on a regional, sub-regional, and council-to-council level.[221]

[216] Brighton, Sorell, Tasman, Glamorgan Spring Bay, Glenorchy City, Central Highlands, and other inter-jurisdictional councils
[217] Burnie City; Central Coast; Circular Head, Devonport City; Kentish; King Island; Latrobe; Waratah-Wynyard; and West Coast Councils
[218] University of Technology Sydney: Centre for Local Government, Review of Shared services Arrangements – Between Kentish and Latrobe Councils, October 2016, accessed via https://www.uts.edu.au/sites/default/files/Review+of+Resource+Sharing+-+Kentish+and+Latrobe+Council+final+version_9+November+2016_0.pdf on 18 April 2018, at p1
[219] University of Technology Sydney: Centre for Local Government, *Review of Shared services Arrangements – Between Circular Head and Waratah-Wynyard Councils*, November 2016, accessed via https://www.circularhead.tas.gov.au/webdata/resources/files/Review%20of%20Resource%20Sharing%20%20-%20University%20Technology%20Sydney.pdf on 18 April 2018, at pp1-9
[220] Valle de Souza, S, and Dollery, B, "Shared services in Australian Local Government: The Brighton common service model", (2011) 14(2) Journal of Economic and Social Policy, accessed via https://epubs.scu.edu.au/cgi/viewcontent.cgi?referer=https://www.google.com.au/&httpsredir=1&article=1194&context=jesp at pp5-6
[221] Cradle Coast Authority, "Shared services Project: Final Report", 8 September 2017, accessed via http://www.dpac.tas.gov.au/__data/assets/pdf_file/0005/353237/CCA_Shared_Services_Project_Report_-_Final.pdf on ?? May/June 2018

APPENDIX 3: CASE STUDIES SHARED SERVICES (TAS)

CONT...

Councils/ Entities	Southern Tasmanian Councils Authority	Northern Tasmanian Development[222]	Dulverton Regional Waste Management Authority[223]	Copping Refuse Disposal Site Joint Authority[224]	Southern Waste Strategy Authority
Year	2001-2018	Prior to 2008-2018	Prior to 2008-2018	2008-2018	2001-(now defunct)
Model	Joint Authority formally established by the 12 southern Tasmanian councils. The Board of the Authority comprises the Mayor of each member council or an elected member of that member council as the Mayor's nominee.	NTDC is funded by seven Council Members, City of Launceston, Northern Midlands, Meander Valley, Flinders, Break O'Day, George Town and West Tamar to facilitate significant improvement in prosperity in the North and North-East Tasmania.	Formal Joint Authority focused on delivering waste services efficiently to member councils (and in some cases user councils).	Formal Joint Authority focused on delivering waste services efficiently to member councils (and in some cases user councils). The Joint Authority brings together four Participating Councils: - Clarence City Council - Kingborough Council - Sorell Council - Tasman Council.	Formal Joint Authority established by the 12 southern Tasmanian councils.
Description	The focus of the Authority is local government sustainability and representation and the collaboration of local government (at a regional level) with other stakeholders.	The seven Council Members established the newly reformed regional economic development agency (NTDC) in February 2017 to achieve the targets set out in the Northern Regional Futures Framework and are committed to move to a new era of collaborative, innovative and sustainable economic growth in the region.	Dulverton Regional Waste Management Authority, now trading as Dulverton Waste Management (DWM), was established for the management and disposal of waste generated predominately by its owners and the wider North West community when the need arose. DWM operates as a Joint Authority under s30-39 of the Local Government Act of the Central Coast, Devonport City, Kentish and Latrobe Councils.		The Authority aimed to implement a comprehensive Waste Management Strategy for Southern Tasmania with a focus on waste avoidance, resource recovery, responsible waste disposal, community awareness and performance monitoring with respect to waste management activities.

222 Northern Tasmanian Development Corporation Website, 2018, as at 14 June 2018 http://ntdc.org.au/
223 Dulverton Waste Management Website, 2018, as at 14 June 2018 http://dulverton.com.au/
224 Southern Waste Solutions Website, 2018, as at 14 June 2018 http://swstas.com.au/

APPENDIX 4: RECENT INTER-JURISDICTIONAL SHARED SERVICE STRUCTURES

Grants to support trial shared service innovations (Vic)	**Regional Joint Organisations (NSW)**
The Victorian Government has attempted to encourage increased shared services in the local government sector through its *Collaborating Councils – Sustainability Fund Partnerships* program. The Government encourages councils to collaborate and apply for grants to investigate, amongst other things, shared services delivery. The program allows for councils to investigate the scope for shared service by undertaking a trial before full implementation. An example is the City of Greater Bendigo (CGB) and Central Goldfields Shire Council (CGSC) trial of shared procurement services. The program was able to be carried out over two stages. The first stage was co-locating CGSCs procurement manager with CGBs contract and project coordination unit to work on end-to-end major procurement processes and supplier management. Secondly, upon a successful six month co-location trial period, the councils were to then consider pursuing further integration of procurement services.[225]	Shared services through regional collaboration has developed in New South Wales via the establishment of Regional Joint Organisations (JOs)[226]. JOs aim to improve opportunities for local councils to work strategically to identify priorities, enable formal collaboration between local and state government at a regional scale, provide shared services, and fund works. An example of good practice in this space is the Hunter Councils group (Hunter JO).[227] Hunter JO is made up of ten member councils[228] and undertakes numerous, regional level functions including strategic planning, intergovernmental collaboration, and regional procurement. The Hunter JO has also diversified by providing training, document management, and legal services, and has recently, along with other JOs, been proclaimed under the *Local Government Act 1993* (NSW) in May 2018.

[225] Victorian Government, "Collaborating councils: Sustainability Fund Partnerships Program", 2018, as at 18 May 2018 https://www.localgovernment.vic.gov.au/grants/collaborating-councils
[226] SGS Economics & Planning, "Achieving greater strategic capacity in the local government sector", 30 September 2014, as at 18 May 2018 https://www.sgsep.com.au/publications/achieving-greater-strategic-capacity-local-government-sector
[227] Local Government NSW, "Regional Collaboration and Shared services - Background Paper, 29-30 April 2015", Sydney, at p3
[228] Cessnock City; Dungog Shire; Lake Macquarie City; Maitland City; Midcoast; Muswellbrook Shire; City of Newcastle; Port Stephens, Singleton; and Upper Hunter Shire Councils

APPENDIX 5: INTER-JURISDICTIONAL AMALGAMATIONS

Victoria	South Australia	Queensland	Western Australia (Perth)	New South Wales	New Zealand (Auckland and Wellington)
Mid 1990s	Mid 1990s	Mid 2000s	2014/15	Mid 2010s	2010s
The Kennett Liberal Government's reform program fundamentally altered the Victorian local government landscape and set the scene for later local government reforms in the other Australian jurisdictions in the early to mid-1990s.[229] The reforms reduced the number of local councils in Victoria from 210 to 78. The Government appointed a Board responsible for implementing the reform program which included the dismissal of existing councils and the appointment of Commissioner(s) to administer each new council area for an 18-month transition.	South Australia also saw a significant reduction of the number of councils in the 1990s via amalgamations. Through a highly consultative and voluntary process, the number of South Australian local councils reduced from 118 to 68 councils[230]. Similar to the 1993 Tasmanian reforms, the South Australian boundary reforms were a part of a wider modernisation reform. The Local Government Boundary Reform Board (LGBRB) encouraged local councils to develop amalgamation proposals using knowledge derived from their localities.	There was major local government reform undertaken by the Queensland Government in 2007. The Government forced amalgamations after a period of the Size, Shape and Sustainability (SSS) program promoting voluntary reform. However, the SSS program brought few reform initiatives and a financial sustainability review of 105 councils showed approximately 40 per cent of them to be, at least, financially "weak". At this time, the Local Government Reform Commission recommended that amalgamations be pursued and reduce the number of councils from 157 to 73. The Queensland Government accepted the recommendations. In 2013, there was de-amalgamation of four councils, caused by a citizen vote, back to eight councils.	In 2015, the WA Government decided not to proceed with boundary reform in metropolitan Perth after a six year reform process[231]. After receiving recommendations from the Local Government Advisory Board to reduce the number of metropolitan councils from 30 to 16, the Government experienced significant resistance from the subject councils and communities. The first three prospective mergers were voted down by the respective electors (via Dadour polls – Schedule 2.1 Local Government Act 1995 (WA)) effectively pressuring the Government to abandon the reforms.	The Fit for the Future Program saw boundary reform[231], 35 merger proposals put forward by the Government as well as 10 council-initiated merger proposals. In 2016, 20 new amalgamated were created as a result of amalgamations. The remaining proposals were not pursued. In 2017, the creation of five further new councils in Sydney was also proposed. However, on 27 July 2017 the Government announced that these five mergers would not proceed. The end result was a reduction from 152 councils to 128 councils (33 Sydney and 95 regional). The reforms faced considerable resistance from the sector resulting in 20 councils taking legal action.	New Zealand has a recent history of attempting to amalgamate city councils into single "super cities". After a 2009 Royal Commission into the governance structure of Auckland, the city's eight city, regional, and district councils were amalgamated into one authority – Auckland Council. Local boards provide governance at the local level and are charged with decision-making on local issues, activities and service's as well as provide input into regional strategies, policies, plans and decisions. A governing body comprises of a mayor and 20 ward councillors supported by 21 local boards (with 149 local board members). However, in 2015, a Wellington super council proposal was abandoned due to lack of public support. The Wellington super council would have seen nine councils merged into one with a mayor and 21 councillors together with eight local boards. A total of 9,142 submission were received with 89 per cent opposed to the super city. A new Wairarapa merger proposal involving three of regional councils in the Wellington proposal was also recently voted down by the public in late 2017.

[229] Dollery B and Tiley I (eds.), Perspectives on Australian Local Government Reform, (2015), Sydney: Federation Press.
[230] Ibid
[231] ABC News, "Perth council amalgamation process 'on hold' as Premier concedes reform agenda failed", 10 February 2015, http://www.abc.net.au/news/2015-02-10/council-mergers-on-hold-as-premier-concedes-reform-bid-failed/6083804 accessed on 23 April 2018
[232] NSW Government website, (2018), Stronger Councils/Stronger Communities, https://www.strongercouncils.nsw.gov.au/ accessed on 14 March 2018

APPENDIX 6: TASMANIAN AMALGAMATIONS HISTORY

Major reforms of local government in Tasmania	Further attempted major local government reform	Waratah-Wynyard and Burnie City Councils	Break O'Day and Glamorgan-Spring Bay Councils	Local Government Board Review: Principles of a voluntary merger
1993	1997/98	2002	2009	2010
It was not until the early 1990s that attempts to restructure local government areas in Tasmania gained significant success. Between 1990 and 1993, the 'modernisation' of local government saw a reduction in the number of councils from 46 to 29 as a result of the Local Government Advisory Board's report. The high number of amalgamations was a part of greater modernisation process which included the preparation of a new local government Act and increased powers for local councils. Haward and Zwart state that these amalgamations were successful due to the level of involvement and general support of local government in the lengthy and thorough process as well as wide consultation with sector and the community (a bottom-up process).[233]	The then Government, "Directions for Tasmania", sought to significantly reduce the 29 councils to no more than 15"[234]. Initially, the Government gave the Local Government Board six months to carry out the review. The review ended up taking 14 months. The Government specified the number of councils but also dictated the creation of a Greater Hobart Council and a Greater Launceston Council. The review was punctuated with a number of issues. In its exposure (draft) report, the Board's proposal was a reduction to 11 councils which brought much contention from the sector. Ultimately, a reduction to 14 councils was recommended after the Board was directed to reconsider its recommendation. Ultimately, a Supreme Court challenge by Devonport City, Central Highlands, and Southern Midlands Councils was successful. The challenge related to the legality of regulations for elections of the new council areas and not directly related to the Board's recommendations[235].	In 2002 the Waratah-Wynyard and Burnie City Councils received a $100,000 Commonwealth grant to investigate shared services of the two councils' outdoor workforces. After receiving a recommendation for a merger, the Councils decided to run a plebiscite and obtained a report from KPMG to further evaluate amalgamation. However, prior to the plebiscite, Burnie carried out an EMRS telephone survey across both municipalities which found majority support for amalgamation in Burnie and not in Waratah-Wynyard. Waratah-Wynyard made a decision not to proceed[236].	In 2009, following a Local Government Board review at the formal request of both Break O'Day Council and Glamorgan-Spring Bay Council, the Board recommended against a merger between the two councils. The Board made a recommendation against a merger of the Councils stating that "the imposition of costs and impacts of the proposed merger [could not] be justified" and it did not consider that there was "any compelling and long term rationale for the merger"[236]. The Board identified no significant community benefits of potential economic, social, and environmental benefits. Also, the Board noted the large size of the proposed municipal area and the low, dispersed population base. Significantly, the Board had no confidence that the two councils were committed to a merger process. There appeared to have been no joint discussion between the two councils as to what would be achieved from the merger in terms of strategic advancement of the area and its communities.	In 2010, the Local Government Board produced a report setting out guiding principles for voluntary mergers. The Board proposed five guiding principles for successful voluntary mergers: collaborative assessment of reform options; commitment to the outcome of the process; provide adequate resourcing; emphasis on communication and consultation with the councils and communities; and that mergers should only go ahead when it lead to long-term financial sustainability and improved benefits for the community including improved governance, management practices, and service delivery. The Board also noted limitations with the [still] current voluntary approach to local government reform. These limitations include: not allowing for broader systemic issues that may require resolution at the state-wide level; vested interests within the sector may contribute to the likelihood of failure; and a council wishing to explore merger options may be unable to find a willing partner.

233 Haward M and Zwart I, "Local Government in Tasmania: Reform and Restructuring", (2000), 59(3), *Australian Journal of Public Administration*, 34-48.
234 Local Government Board, "Tasmanian Local Government Review – Final Report", 1997 *Tasmanian Local Government Review*, Volume 3, January 1998
235 Burnie City Council Minutes – Ordinary meeting of council, 9 December 2014.
236 Local Government Board, "Report on a potential merger: Break O'Day and Glamorgan-Spring Bay Councils", October 2009, p10
237 Haward M and Zwart I, "Local Government in Tasmania: Reform and Restructuring", (2000), 59(3), *Australian Journal of Public Administration*, 34-48

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SORELL AND TASMAN COUNCILS

Voluntary Amalgamation and Shared Services Options

29 June 2018