



# Break O'Day Council: Boundary Adjustment Abridged Report

September 2017





## **Important Notice**

### **Inherent Limitations**

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

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the Break O'Day Council and Glamorgan Spring Bay Council consulted as part of the process.

KPMG have indicated within this presentation the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the presentation.

No reliance should be placed by the Councils on additional oral remarks provided during the presentation, unless these are confirmed in writing by KPMG. KPMG is under no obligation in any circumstance to update this presentation, in either oral or written form, for events occurring after the presentation has been issued in final form.

The findings in this presentation have been formed on the above basis.

### **Third Party Reliance**

This presentation has been prepared at the request of Break O'Day Council and Glamorgan Spring Bay Council in accordance with the terms of KPMG's engagement letter/contract dated 12 October 2016. Other than our responsibility to the Councils neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this presentation. Any reliance placed is that party's sole responsibility.

This report is provided solely for the benefit of the parties identified in the engagement letter/contract and are not to be copied, quoted or referred to in whole or in part without KPMG's prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in the engagement letter/contract for the information contained in this report.

# Why is a boundary change being considered?

Councils are exploring opportunities to improve services while strengthening their financial sustainability...

The State Government recently invited councils to consider voluntary amalgamation or resource sharing arrangements with neighbouring councils, as a means of improving their efficiency and effectiveness. Many councils all around the state have undertaken feasibility studies to find ways to improve services, maintain local representation and strengthen their financial position.

As part of this process, a boundary adjustment is being considered, to align with the concept of preserving 'communities of interest' along the East Coast. This stems from informal discussions between Break O'Day Council and Glamorgan Spring Bay Council and their communities in relation to a proposal to 'split' Glamorgan Spring Bay in the vicinity of Cherry Tree Hill. This would transfer the Bicheno/Coles Bay area to Break O'Day Council.

This same area is also important to the sustainability of Glamorgan Spring Bay Council. Therefore, the likelihood of this boundary adjustment going ahead depends largely on the decisions taken by the Glamorgan Spring Bay Council and its communities to amalgamate with the south-east councils.

## Communities of Interest



In 2009, the Local Government Board considered a proposal for a voluntary amalgamation of the Break O'Day Council and the Glamorgan Spring Bay Council. That report found that people felt strongly connected with their townships, as opposed to municipal areas.

Preliminary discussions suggest that communities in and around Coles Bay and Bicheno feel more strongly aligned to the north of Tasmania than those communities to the south, such as Swansea, Orford and Triabunna, given the range of connections which exist through education, sporting and other services.

Cherry Tree Hill also presents a natural divide in water catchments and therefore is a logical split on a geographic basis, given the limited local government services and infrastructure responsibilities around this boundary.

**This would suggest that the major townships of Bicheno and Coles Bay can form part Break O'Day and not feel tied to Glamorgan Spring Bay through any perceived "community of interest".**

## Community Drivers



The population of the Break O'Day municipal area has experienced little to near no growth in the last five years, and is forecast to remain fairly flat. However, the proportion of the population in the over 65 age bracket is projected to increase and the median age is projected to grow from 52 to 60 by 2037.

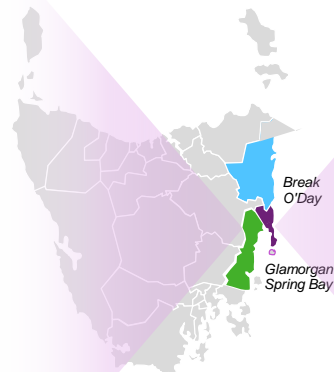
**The ageing of the population and low population growth across Tasmania as a whole presents a challenge to ensuring sustainability of councils into the future. This will have a financial and social impact on communities in the long run and is a key driver for local government reform.**

# What does the change look like?

The Council has developed a clear understanding of the revenue that could be earned in the region...

**Break O’Day Council has undertaken detailed analysis to understand the scale and scope of the region and the additional revenue that the Council could earn. The following key revenue assumptions for the area under consideration were used to assess the financial viability of the Council following the boundary adjustment.**

Population:	1,344
Square Km:	525
Rateable Properties:	1,991
Roads:	61 km
Bridges:	199 m <sup>2</sup>
Total Assets:	\$17.42 million



Revenue	Assumption
<b>Rates</b>	Additional rate income to Break O’Day is based on the rate income currently levied by Glamorgan Spring Bay Council on properties in the area.
<b>User charges</b>	Additional user charges to Break O’Day includes animal registrations, infringement notices, building and planning fees and development applications.
<b>Grants</b>	Additional grant income based on higher population and infrastructure.
<b>Dividends/ distributions</b>	Additional dividends/ distributions to Break O’Day have been assumed to reflect the additional assets acquired. This equates to 19% of the Glamorgan Spring Bay TasWater distributions that transfers to Break O’Day.
<b>Other income</b>	Additional other income to Break O’Day includes Natural Resource Management income, private works and facilities leasing.

Over the 10 year financial projections, it has been assumed that ratepayers in this area will continue to pay rates on the same basis as they do today. Any change to bring ratepayers in this area onto the same rating arrangements as the remainder of Break O’Day will be a decision of the Council in the future. The Break O’Day Council may aim to transition these properties onto the Council’s rating policy over time. A differential rating policy can be adopted for a period of transition.

**The study has assumed no changes to the rating policy in the region as a result of any boundary adjustment**



© 2017 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.

# What does the change look like?

The Council has developed a clear understanding of the infrastructure and services in the region...

**Break O'Day Council has assessed the service levels and expenditure requirements in the area from the ground-up and considered the capacity of the Council to absorb 'back-office' support services. The following key service and expenditure assumptions were used to analyse the financial viability of the Council, following the boundary adjustment.**

<b>Expenditure</b>	<b>Assumption</b>		<b>Additional Operating Revenue</b>	<b>\$3.16 million</b>
<b>Governance</b>	No additional staff resources but an additional expenditure allowance for activities in the area.		<b>Additional Net Operating Expenditure</b>	
<b>Corporate/ Technical Services</b>	1 additional FTE (including 0.4 FTE to cover reception (based in Bicheno).		Governance	\$197,819
<b>Community services</b>	No additional staff resources but an additional expenditure allowance for activities in the area.		Corporate Services	\$165,020
<b>Works</b>	4 crew members on-ground to undertake maintenance functions in the region (based in Bicheno).		Community Services	\$51,254
<b>Development Services</b>	1 additional FTE, plus an expenditure allowance for activities in the area.		Visitor Centre	\$151,450
<b>Customer service</b>	New shop front in Bicheno, mostly likely co-located with the Visitor Information centre.		Medical Centre	\$105,928
			Works	\$1,452,320
		Development Services	\$138,348	
		New Shopfront operating costs	\$25,000	
		<b>Total additional net operating expenditure</b>	<b>\$2.29 million</b>	
		<b>Assets &amp; Capital Expenditure</b>		
		Assets- Roads, bridges, plant & equipment	\$17.42 million	
		Annual Depreciation of Assets	\$389,381	
		New Shopfront	\$10,000	

The projections assume Break O'Day will invest in infrastructure maintenance in this area in line with its depreciation, so there should be no deterioration in assets – roads, bridges, parks, reserves etc. A new shop front will be established in Bicheno and a works crew, comprising four employees will be retained in the area. All additional activity in relation to community services, development/ regulatory services and corporate/ governance services will be absorbed by existing Break O'Day Council staff, with some allowance made for additional costs as required.

**The study has assumed no changes to service levels as a result of any boundary adjustment**



© 2017 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.

# What would the Council look like?

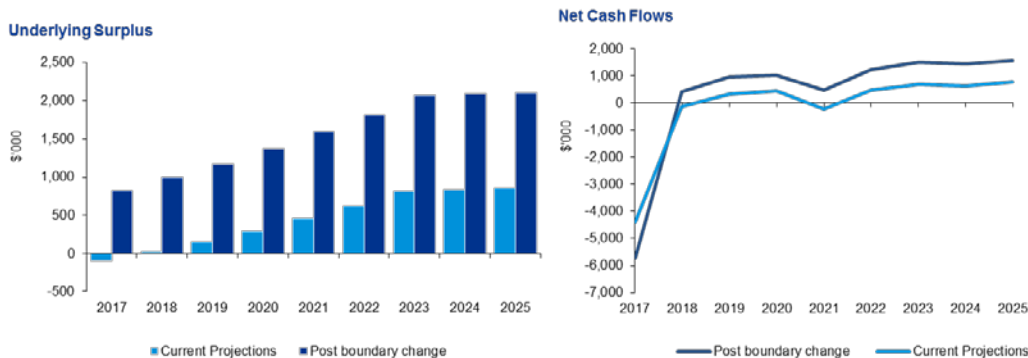
The projections indicate that the Council and its community stand to benefit from this change...

The financial projections indicate that this proposal would benefit Break O'Day Council and the Bicheno/Coles Bay area. However, any boundary adjustment will depend on decisions taken by Glamorgan Spring Bay Council in respect to options to amalgamate with the south-east councils.

The modelling results indicate that the additional area would generate sufficient income for Break O'Day Council to maintain current service levels in the area, and would generate additional surpluses and cash for the Council each year into the future, which could be reinvested into the community at large to improve assets and services.

The results of the financial modelling indicate that Break O'Day's financial position is improved by the boundary adjustment. The impact of the change from a financial perspective would be:

- additional operating revenue of approximately **\$3.2 million per year**, additional operating expenditure of **\$2.3 million per year**, and additional capital works around **\$390,000** per year.
- a potential improvement in the operating result (underlying surplus) in year 1 of approximately **\$0.9 million**, which will grow on average over the next 10 years. This represents an improvement in net cash flows generated by the Council, at a steady state of approximately **\$0.5 million per year**.



25% additional revenue

17% additional expenses

\$0.9 million additional surplus in Year 1

\$0.5 million additional cash flows

12% additional infrastructure

The additional surpluses generated would be reinvested into the community to improve assets and services



[kpmg.com.au](http://kpmg.com.au)

[kpmg.com.au/app](http://kpmg.com.au/app)



© 2017 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).