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COOTAMUNDRA-GUNDAGAI REGIONAL COUNCIL

DE-AMALGAMATION FAQ

Frequently Asked Questions

1. **Why do we need to email the Minister – hasn't he already said the plan is going to Boundaries Commission anyway?**

On 10 April 2024 the Minister for Local Government gave public notice of a council Proposal to constitute two new local government areas, under section 204 of the Local Government Act, from the splitting of the Cootamundra-Gundagai Regional Council local government area.

As part of the process that the Minister needs to go through, the Proposal needs to be open to the public. During this time, representations concerning the Proposal may be made to the Minister who will then consider all submissions prior to deciding whether to continue with the Proposal and, if so, refer it to the NSW Local Government Boundaries Commission.

Just because the Minister has laid out a pathway to de-amalgamation, does not mean that the process is final. Minister Hoenig still needs to be sure that the community understands the plan and remains supportive of de-amalgamation.

2. **What exactly are the Interventions required to effect the de-amalgamation?**

There are a number of steps which will need to be taken to effect the de-amalgamation once it is gazetted. These include the councils:

- Achieving a fully funded operating position, covering operational expenses, debt repayment and depreciation.
- Maintaining sufficient cash reserves to meet short-term working capital needs.
- Ensuring a fully funded capital program, with identified and secured funding for capital renewal and new projects.
- Sustaining the asset base by renewing aging infrastructure and setting aside cash reserves for future works.

Councillors have taken considerable time and effort to fully consider the best way in which to achieve de-amalgamation and the various Scenarios that might deliver that goal. They aimed to apply the following high-level interventions to varying extents, when modelling the Scenarios:

- Progress new councils to Moderate rating by FY28, then Sound by FY32.

- Average a balanced budget for new councils (10-year horizon) by FY34.

- Build and maintain working capital (unrestricted cash + de-restrictable internal reserves): to cover shocks, match unscheduled grants and cover project shortfalls.

- Benchmark actual expenditure per asset class against depreciation.

- Explore Special Rate Variation (SRV) options to manage assets and attain OLG financial and asset benchmarks.

- Rates and annual charges growth should be greater than asset depreciation annual growth.

- Build and maintain Utilities Fund balances held in reserve, to buffer future shocks/seasonality and support funding for future augmentation works.

- Focus spend growth on asset operations, maintenance, and renewals (@1% and 2% Write Down Value (WDV) FY23, respectively); compared to 2018 Asset Management Plan (AMP) estimates (indexed to $FY24).

- Reduce new/upgrade capex to value of confirmed grants and contributions.

- Nominate dividend options with applicable Funds.

- Raise debt to fund asset renewals.

- Phase the attainment of some financial and asset ratios.

Specifically, details of the interventions that are proposed include:

i. grow annual yields from regulatory, property, market, and utility services.

- disclose targets for rates of return (RoR) for those services, phased over several years.
- differentiate the revenues, expenses and returns for these services in budgets.

ii. account for the utility (water, sewer, stormwater, waste) services as 'Funds'

- plan and publish funding and relevant programs and projects, the nett costs of which are balanced through respective restricted funds (reserves)

- build reserves to absorb shocks and match external funding for capital works.

iii. grow asset operations, maintenance (and depreciation) expenditure

- recognise recent cost escalations and focus on functionality of assets for benefit of community, economy and environment.

iv. cap non-asset service and support expenditures to the value of associated revenues raised (e.g. rate peg, FAG, CPI)

- rely in part on sharing of resources between the new councils to support services.

v. undertake a detailed review of staffing to align with service levels following consultation with the community.

vi. assume no growth in other grants or service revenues.

- if so, the value of those revenues will be absorbed in the associated increases to related expenditures.

vii. raise debt (Gundagai)

- smooth out the impact of annual asset renewals.

viii. raise rate revenues for both new councils

- enable (with the above measures) a balanced or modest annual surplus to the Operating Account, to attain key ratios.

ix. apply 'best practice' pricing for the utility services.

- following their independent review, which may alter mix of annual charges and user charging.

3. How will the demerger be funded?

Funding the demerger presents a challenge. De restricting some internal reserves will fund the scoping, planning, and implementing a demerger at an estimated cost of $2.5-3m.

A number of interventions will be required to ensure the financial sustainability of the new councils. These are noted in the Financial Sustainability Plan (FSP) which outlines the decisions and discipline required of CGRC councillors to establish, and the new councils' elected members to pursue, to place those councils on a sustainable footing. Council will also continue to pursue the State Government for funding for the demerge. CGRC-Demerger-TP-draft-5_OLG_final.pdf (nsw.gov.au)

4. What are the benefits of de-amalgamation?

The community has advocated for a demerger for several years, since the time of the merger being forced, and the new councils will improve representation, proposing seven councillors form Cootamundra Council and five councillors form Gundagai Council.

Each will develop organisational structures with their respective general managers, and progress the foundational service, asset and financial settings put forward by CGRC councillors. Embedding the sustainability principles proposed with the FSP, into their respective financial plans, will be imperative. It is anticipated the new councils would be reclassified as Group 9 Rural, from CGRC's Group 11 Large Rural.

5. Will rates have to increase to fund the de-amalgamation?

Each council is required to determine the combination of rates, charges, fees and pricing policies needed to fund the services it provides to the community. This is done in accordance with the Local Government Act 1993 and with reference to the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) which determines the rate peg that applies to councils' general income.

This Proposal, specifically the Financial Sustainability Plan, outlines scenarios and steps that the new councils may need to take in order to remain sustainable. This proposal discusses rates and service levels in this context. The Preferred Scenario for each new council over the life of the Plan to FY31 requires a SRV of 7.5% x 2 years (Cootamundra) and 25% x 3 years (Gundagai), above the rate peg (noting CGRC chose to apply for a recent SRV at a level lower than recommended).

In addition, the scenario requires:

- planned fee growth of 2.5% pa for regulatory, commercial, property and contract services and
- planned fee growth of 5% pa (Cootamundra) and 10% pa (Gundagai) for utility services.

It should also be noted that fees may continue to be indexed (CPI or rate peg) in addition to planned fee growth. CGRC-Financial-Sustainability-Plan-final_OLG-Mar-2024.pdf (nsw.gov.au)

6. Why are there different impacts forecast for Gundagai and Cootamundra?

While the merger caused many services to uplift and pricing to harmonise, a review and differentiation of service levels and asset standards between the new councils, as proposed, should be expected. It is anticipated the new councils will need to differentiate their respective scope, roles and criticalities in delivering services, redefining their asset standards and levels of service, and reset their pricing policies.

Both Councils support roughly the same asset base with similar overheads. Gundagai has roughly half the rate revenue to that of Cootamundra. The rate base of the new proposed council areas is different due to population and other factors meaning that the revenue base is also different.

In addition, the service requirements and asset bases are different in each council area which impacts the cost of delivering services. Combined, these factors mean that there could be different impact on rates, revenue charges and service delivery between the councils over time. Notwithstanding the particular circumstances of CRGC, Councils now operate in the context of increasing costs and expanding expectations of local government in terms of delivering services.

7. Why are you proposing shared services – surely this is what we are trying to move away from?

The new councils cannot necessarily return to their former mode of operation – expectations have grown, obligations have changed, asset costs have escalated, and resourcing has diminished. Any former benefits of specialisations and scale will reduce.

The new councils do not have adequate recurrent revenues to fund the duplicated management and specialist staff required for the new councils – appropriate interventions (financial and shared resources) are proposed in the Financial Sustainability Plan. Given the resource constraints on the councils, there is little sense in dividing CGRC into two entities if it means duplicating staff, technology, and technical resources.

8. How will services be affected by the de-amalgamation?

This Proposal, specifically the Financial Sustainability Plan, outlines some scenarios and steps that the new councils may need to take in order to remain sustainable. This proposal discusses rates and service levels in this context. For instance, interventions may be required to cap non-asset service and support expenditures to the value of associated revenues and to reduce new/upgrade capex to value of confirmed grants and contributions. For greater detail on the various scenarios, see the Proposal, specifically the Financial Sustainability Plan. [CGRC-Financial-Sustainability-Plan-final_OLG-Mar-2024.pdf (nsw.gov.au)]

Community consultation will be an important part of determining service levels, especially in the transition to the new councils. The Plan proposes a biennial check of community levels of satisfaction, together with the Community Engagement Strategy (CES) at commencement of council terms, to test appetite to changes to service levels and charging. This process will help to gauge trends and relevant satisfaction-importance ratings for services, support and assets and test community appetite for changes to service levels and charging.

9. What will be the impact on Council reserves?

This Proposal, specifically the Financial Sustainability Plan outlines some scenarios and steps that the new councils may need to take in order to remain sustainable, and this includes maintaining adequate reserves. Ultimately, the 'adequate cash reserves' test applied by OLG to fund working capital and future asset replacement may require innovations to current annual charges and accounting arrangements.

10. What happens if we de-amalgamate and then subsequently find that one, or both, of the Councils is not sustainable?

The Financial Sustainability Plan cautions a demerger may cause a currently ‘moderate’ sustainability rated council (CGRC) to deteriorate into one or two ‘weak’ rated new councils.

Councillors established a suite of sustainability principles and worked through several combinations of interventions and scenarios to raise revenues and cap expenditures to approach the financial and asset ratios required of OLG.

Ultimately, the ‘adequate cash reserves’ test applied by OLG to fund working capital and future asset replacement may require innovations to current annual charges and accounting arrangements. However, if the Financial Sustainability Plan is implemented in full, both Councils can be sustainable.