

## WILLOUGHBY CITY COUNCIL - CIP

### NOT FIT

Area (km <sup>2</sup> )	23	Population 2011	71,150
OLG Group	3	(2031)	90,300
ILGRP Group	Sydney Metro	Merger 2011	286,867
		(2031)	376,150
Operating revenue (2013-14)	\$111.4m	TCorp assessment	Moderate FSR Neutral Outlook

ILGRP options (preference in bold) **Merge with Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part)** (yellow) or combine as a JO.

Assessment summary	Scale and capacity	<b>Does not satisfy</b>
	Financial criteria:	<b>Satisfies overall</b>
	• Sustainability	Satisfies
	• Infrastructure and service management	Does not satisfy
	• Efficiency	Satisfies

#### Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. Although it does not meet the infrastructure and service management, the council satisfies the sustainability and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must satisfy to be Fit for the Future (FFTF), therefore the council is not fit.

#### Scale and capacity - does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 90,300 by 2031 compared with the forecast merger population of 376,150. Our analysis suggests the council does not have sufficient scale to partner effectively with governments compared to the merger option.
- The City of Ryde Council, Hunter's Hill City Council and Lane Cove City Council submitted a business case which showed that a merger of Lane Cove, Hunter's Hill, Mosman, North Sydney, Willoughby and part of Ryde produces net benefits. Based on this model, our analysis suggests the merger could produce net benefits of \$280 million over 20 years (including the Government grant).
- In addition, our independent consultants Ernst and Young estimated net benefits from the merger of around \$187m over 20 years using publically available data.
- These analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Willoughby to merge with neighbouring councils.

#### Sustainability - satisfies

- The council meets the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, own source revenue ratio and building and infrastructure asset renewal ratio by 2019-20.

#### Infrastructure and service management – does not satisfy

- The council does not meet the criterion for infrastructure and service management.
- It forecasts improvements in the infrastructure backlog ratio and asset maintenance ratios but does not forecast meeting the respective benchmarks.
- The council's infrastructure backlog was 6.3% in 2014-15 and is forecast to reach 3.2% by 2019-20, which does not meet the benchmark. According to the council, its infrastructure spending has not been sufficient to reduce the infrastructure backlog, estimated at \$38m. Nevertheless, the council considers it has improved its understanding of its assets over the last five years and highlights an independent assessment (by Morrison Low) indicating the reported backlog is higher than the actual backlog. However, as the council is reviewing the accuracy of the written down value of its infrastructure, we consider there is a risk the estimated backlog



might increase as a result of this review.

- The asset maintenance ratio was 69.0% in 2014-15 and is forecast to reach 70.0% by 2019-20, which does not meet the benchmark. The council states its asset maintenance expenditure has been below required levels. The council further states its calculation of this ratio is based on an historical methodology. This implies the calculation might not be accurate.
- The debt service ratio was 6.9% in 2014-15 and is forecast to reach 3.0% by 2019-20, which meets the benchmark.

**Efficiency - satisfies**

- The council meets the criterion for efficiency based on a forecast slight decline in real opex per capita over the outlook period.

**Other relevant factors**

Social and community context	A large proportion of survey responses indicate residents consider North Sydney and Willoughby to be similar communities.
Community consultation	Information was provided to the community via media releases, social media, internet and information stalls. The council consulted residents via telephone, online and hard copy survey. Survey results show that 32% of respondents support standing alone, 27% support a merger between Willoughby, North Sydney and Lane Cove and 25% support a merger between Willoughby and North Sydney. The council also established a citizen's panel to evaluate different options. This panel considers standing alone is the best option due to reasons including concerns about democratic representation, the absence of merger benefits and the council's financially sound state.
Water and/or sewer	The council does not have a water/sewer business.
Submissions	We received six submissions relating to Willoughby's proposal (including 2 early submissions). They focus on: the potential for a loss of local focus and identity, a preference to merge with North Sydney (not Ryde or Hunters Hill), a lack of consultation about the council's preference to stand-alone, concern that the benefits from NSROC are overstated, the council's lack of regard for forming a JO, questionable assumptions in the council's CIP, community support for some form of amalgamation, concerns about the council's organisational restructure and concerns that the council is not fit for the future and should not increase rates.