

Warringah Council

FIT FOR THE FUTURE FINANCIAL CONTEXT

Appendix 2.2



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CONTENTS

<i>Page No.</i>	<i>Section</i>
04	EXECUTIVE SUMMARY
05	CURRENT SITUATION
06	FIT FOR THE FUTURE SELF - ASSESSMENT TOOL
07	FIT FOR THE FUTURE SELF - ASSESSMENT TOOL - OVER FORWARD PROJECTIONS
08	INFRASTRUCTURE AND FINANCIAL SUSTAINABILITY ASSESSMENTS
08	SERVICE COSTS
09	FINANCIAL RESULT - NET SURPLUS / DEFICIT
10	CAPITAL EXPENDITURE AND INFRASTRUCTURE BACKLOGS
12	CASH RESERVES
13	DEBT
13	EMPLOYEE COSTS
14	COUNCILLOR COSTS
14	DWELLING AND POPULATION PROJECTIONS

EXECUTIVE SUMMARY

This financial analysis has been undertaken to understand the financial position and projections of Manly and Pittwater, along with Warringah's own position, to gain the best insight possible with regards to the Fit for the Future program and Council's Option B - Alternate Merge Proposal - One Northern Beaches Council.

Warringah

Warringah Council is in a strong financial position with a history of generating operating surpluses, strong capital works programs and sound liquidity and has the capacity to maintain financial sustainability well into the future. Council's position was assessed as 'sound' by NSW TCorp, stating the Council's outlook as 'positive'. Council's infrastructure management has been assessed as 'very strong' by the Office of Local Government, one of only five councils in NSW to receive the highest rating. Council has a strong result against the Fit for the Future financial, asset and efficiency criteria.

A new Northern Beaches Council

SGS Economics and Planning prepared a 'Local Government Structural Change Options Analysis' for Council in February 2015 which indicated the creation of one new Northern Beaches Council comprised of Manly, Pittwater and Warringah local government areas is the preferred option for a potential merger from a purely financial perspective with total financial saving of \$234 million (in present value) over 10 years which represents around 9 per cent of the combined current expenditure of the three northern beaches councils.

Likewise, the 'Independent review of structural options for Manly and Pittwater Council', prepared by KPMG in April 2015, indicated that a new Northern Beaches Council would meet all of the Fit for the Future benchmarks within two years.

CURRENT SITUATION

This section provides an overview of the revenue and cost structure of each of the three councils and their current and long-term financial sustainability. This high level analysis of the current financial position and projections has been compiled from the most recent public documents published by the three councils.

All three Councils are in a reasonable financial position however, Warringah is in the strongest financial position. Warringah was given a 'positive' outlook for financial sustainability by TCorp whereas our two neighbouring Councils only received a 'neutral' outlook. Similarly, Warringah received a 'very strong' outlook for infrastructure management by the Office of Local Government Infrastructure Audit whereas the other two neighbouring Councils only received a 'strong' outlook.

Warringah's 'population per staff member' ratio is the best of the three and we also have the best (lowest) 'cost per resident of providing services' of the three Councils. Warringah has by far the lowest debt liability and all three Councils have managed their infrastructure backlog and asset renewal and maintenance annual expenditure gap.

Table 1 - Snapshot of the Current Situation

	Manly	Pittwater	Warringah
TCorp Assessment – Current financial sustainability	Sound	Sound	Sound
TCorp Assessment – Financial sustainability outlook	Neutral	Neutral	Positive
OLG Infrastructure Audit – Infrastructure management	Strong	Strong	Very Strong
Staff – 2013/14	359	308	589
Population per staff member – 2013/14	123	202	259
Operational budget 2014/15	\$63m	\$77m	\$161m
Capital expenditure budget 2014/15	\$49m	\$24m	\$39m
Cost per resident of providing services – 2013/14	\$1,364	\$1,167	\$866*
Debt 2013/14	\$30.572m	\$15.295m	\$0.013m
Infrastructure backlog – 2013/14	\$0.400m	\$17.959m	\$17.021m

* Excludes minority shareholders share of Kimbriki Environmental Enterprises Pty Ltd expenses

'Fit for the Future' Self-Assessment Tool

The Office of Local Government has prepared a self-assessment tool, based on the work of NSW Treasury Corporation and reviewed by IPART, to assist each council establish if they are fit for the future against seven benchmarks. The following table is a summary of the results for the three councils.

Table 2 - Current assessment against Fit for the Future Benchmarks – as at 30 June 2014

	Criteria	Benchmark	Manly	Pittwater	Warringah
Sustainability	Operating performance ratio	Greater than or equal to 0	3.41%	0.54%	3.59%
	Own source operating revenue ratio	Greater than 60%	90.02%	91.24%	92.85%
	Building and infrastructure renewals ratio	Greater than 100%	81.96%	129.16%	137.10%
Effective Infrastructure and Service Management	Infrastructure backlog ratio (SS7)	Less than 2%	0.00%	4.73%	2.10%
	Asset maintenance ratio (SS7)	Greater than 100%	113.00%	128.00%	102.32%
	Debt service ratio	Range 0.01% to 20%	6.48%	3.03%	0.22%
Efficiency	Change in real operating expenditure per capita	No upward trend over 5 years	Decreasing	Increasing	Decreasing

NB: None of the three councils currently meet all seven benchmarks.

'Fit for the Future' Self-Assessment Tool - Over Forward Projections

Each council in NSW is required to publish a Resourcing Strategy, including a Long Term Financial Plan and Asset Management Strategy, under Integrated Planning and Reporting requirements. Each council's most recent, publically available plans have been tested against the 'Fit for the Future' self-assessment tool. The plans sourced are listed in the following table.

Table 3 - Council documents - Long Term Financial Planning and Asset Management

Council	Long Term Financial Plan	Asset Management
Manly	Manly Council's Community Strategic Plan Beyond 2025 10 Year Long Term Financial Plan	Asset Management Policy and Strategy
Pittwater	Pittwater 2025 - Our Community Strategic Plan Long Term Financial Plan (LTFP) 2014-2024	Asset Management Strategy (PAMS1) March 2011 Asset Management Plan (PAMP1) (Core Approach) March 2011
Warringah	Community Strategic Plan Long Term Financial Plan 2015-2025	Asset Management Strategy Asset Management Policy Buildings and Tennis Structures Asset Management Plan Parks, Reserves and Foreshores Asset Management Plan Road Infrastructure Asset Management Plan Stormwater Asset Management Plan

Table 4 - Source of information and assumptions

Criteria	Council	Source
Operating performance ratio	Manly, Pittwater and Warringah	Published Financial Statements 2013/14 (Note 13)
Own source operating revenue ratio	Manly, Pittwater and Warringah	Published Financial Statements 2013/14 (Note 13)
Building and infrastructure renewals ratio	Manly, Pittwater and Warringah	Published Financial Statements 2013/14 (Special Schedule 7)
Infrastructure backlog ratio (SS7)	Manly, Pittwater and Warringah	Published Financial Statements 2013/14 (Special Schedule 7)
Asset maintenance ratio (SS7)	Manly, Pittwater and Warringah	Published Financial Statements 2013/14 (Special Schedule 7)
Debt service ratio	Manly, Pittwater and Warringah	Based on information contained in the Published Financial Statements 2013/14
Change in real operating expenditure per capita	Manly, Pittwater and Warringah	Based on information contained in the Published Financial Statements 2013/14

Infrastructure and Financial Sustainability Assessments

In 2013, the Office of Local Government (OLG) engaged NSW Treasury Corporation (TCorp) to undertake an infrastructure audit of and review the financial sustainability of each council. Table 5 shows the results of these reviews.

Table 5 - External Infrastructure and Financial Sustainability Assessments

Assessment	Manly	Pittwater	Warringah
TCorp Assessment – Current financial sustainability	Sound	Sound	Sound
TCorp Assessment – Financial sustainability outlook	Neutral	Neutral	Positive
OLG Audit – Infrastructure management	Strong	Strong	Very Strong

Source: NSW Treasury Corporations, 'Financial Sustainability of New South Wales Local Government Sector' April 2013

Service costs

The following table compares the service costs, broken down by function and activity, for the financial year 2013/14. In this period, Warringah incurred the lowest service cost of \$866 per resident.

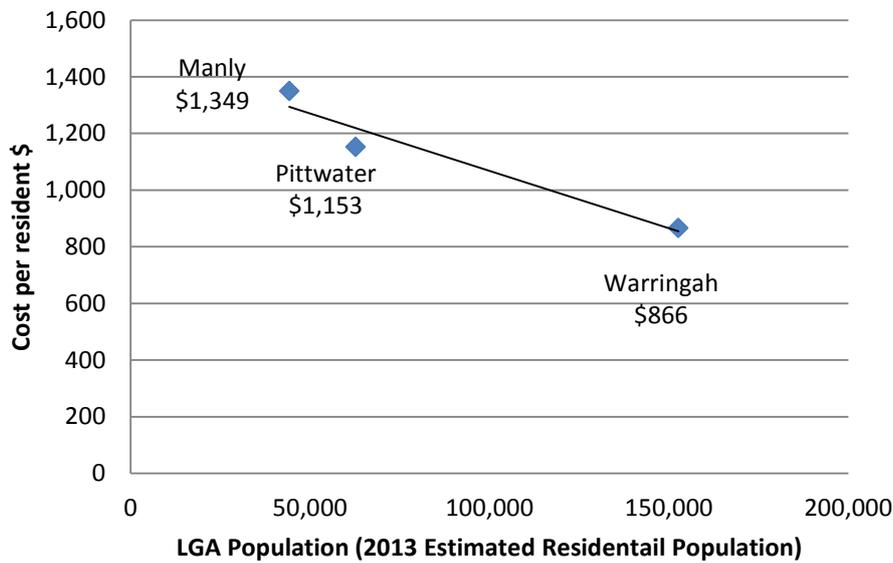
Table 6 - Service costs by function and activity 2013/14

Service Costs \$000	Manly	Pittwater	Warringah
Governance	2,573	10,641	2,635
Administration	14,093	14,702	19,436
Public order and services	4,032	4,621	6,710
Health	796	292	2,079
Environment	13,961	15,654	40,517
Community services and education	6,016	2,382	10,686
Housing and community amenities	2,356	5,986	10,365
Water supplies	-	37	-
Recreation and culture	8,715	9,902	28,335
Construction	2,919	-	2,314
Transport and communication	2,953	3,233	9,037
Economic affairs	1,267	4,889	114
TOTAL \$	59,681	72,339	132,228
Total service costs per resident (\$)	1,349	1,153	866
Population*	44,228	62,740	152,683

Source: 2013/14 Financial Statements and New South Wales State and Local Government Area Population Projections: 2014 Final

Cost of Services 2013/14

Cost of services 2013-14



Financial result - net surplus / deficit

The actual and forecast net operating result for the councils is set out in the following figures, both including and excluding capital grants and contributions (primarily these are s94 or s94A development contributions). All three councils have forecasted surpluses both including and excluding capital grants and contributions over the 10 year period of the Long Term Financial Plan.

Figure 1 - Operating surplus / (deficit) \$'000 - 2012 to 2014 actual result and 2015-2014 forecasts - including grants and contributions received for capital expenditure

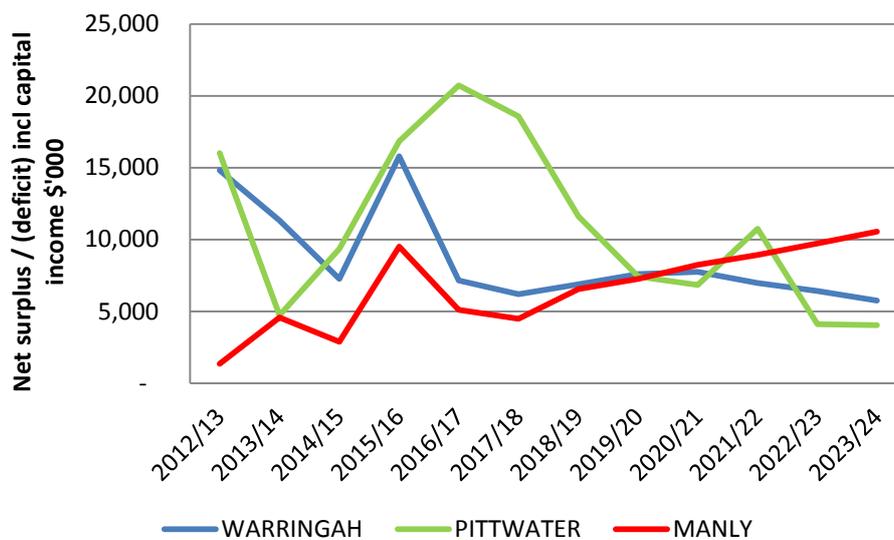
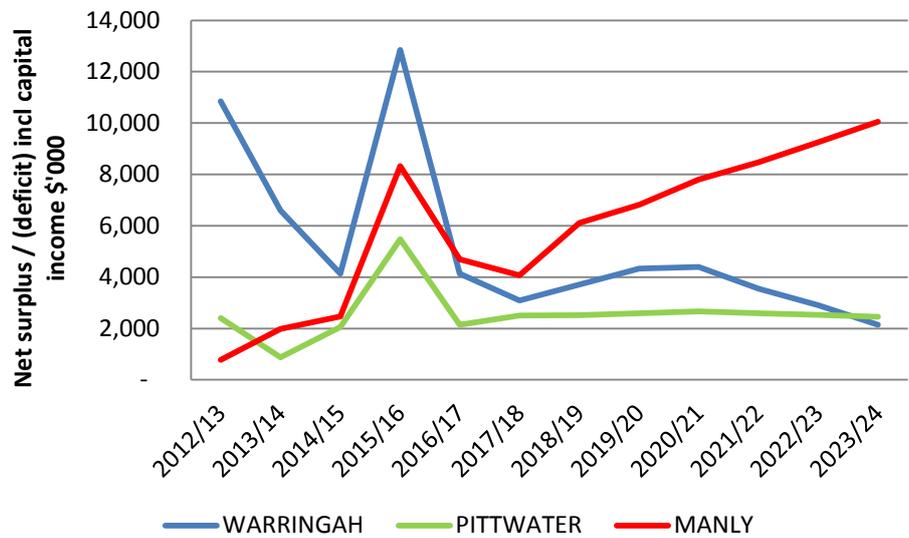


Figure 2 - Operating surplus / (deficit) \$'000 - 2012 to 2014 actual result and 2015-2014 forecasts - excluding grants and contributions received for capital expenditure



Capital expenditure and infrastructure backlogs

The following table compares the capital expenditure and reported infrastructure and building asset expenditure shortfalls for the three councils in 2013/14. Pittwater has the highest capital expenditure as a percentage of operating expenditure at 30% with Manly Council’s expenditure at 1% and Warringah’s at 21%.

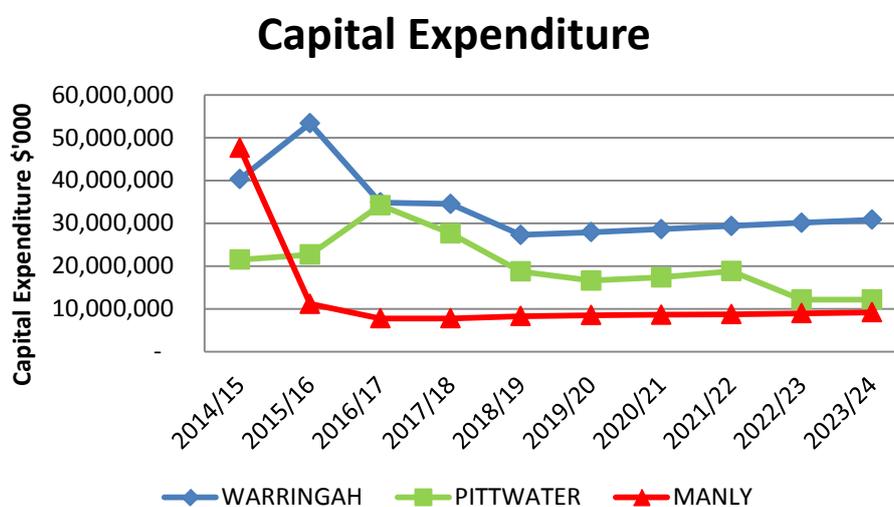
All councils reported infrastructure backlogs, with only Manly Council’s backlog under the IPART recommended threshold of 2% of the value of infrastructure assets. Warringah’s backlog ratio is just over the threshold at 2.1% while Pittwater’s is the largest at 4.8%.

Table 7 - Capital expenditure, asset expenditure gaps and depreciation – 2013/14

'000	Manly	Pittwater	Warringah	Total
Capital expenditure	877	21,470	29,774	52,121
Operating expenditure	59,681	72,339	145,016	277,036
% Capex/Opex	1%	30%	21%	19%
Depreciation of building and infrastructure assets	5,382	4,976	10,110	20,468
Value of building and infrastructure assets (FV)	436,302	514,254	1,057,426	2,007,982
% depreciation/infrastructure assets	1%	1%	1%	1%
Infrastructure backlog (A)	400	17,959	17,021	35,380
Value of infrastructure assets (WDV)	353,575	374,045	811,691	1,539,311
% backlog/infrastructure assets	0%	4.8%	2.1%	2%
Capital expenditure on building and infrastructure renewals	4,411	6,427	13,861	24,699
Depreciation of buildings and infrastructure assets	5,382	4,976	10,110	20,468
Renewal/depreciation of building and infrastructure assets	82%	129%	137%	121%
Annual capital renewal expenditure gap (B)	971	0	0	971
Actual asset maintenance	4,670	8,965	7,409	21,044
Required asset maintenance	4,140	6,995	7,241	18,376
Actual maintenance/required maintenance	113%	128%	102%	115%
Annual maintenance expenditure gap (C)	0	0	0	0
TOTAL ASSET EXPENDITURE GAP IN 2013/14 (A+B+C)	1,371	17,959	17,021	36,351

The following figures compare annual expenditure on capital works.

Figure 3 - Capital expenditure (2014 is actual expenditure and 2015 to 2024 is forecasts)



Cash reserves

The following table outlines the cash held by each council and the reserves for these funds. Externally restricted cash must be spent in accordance with the purpose for which the funds were obtained. Internally restricted cash has been set aside at the council's discretion, usually as a provision for liabilities and to fund future projects.

Table 8 - Cash reserves \$'000 – 2013/14

\$'000	Manly	Pittwater	Warringah	Total
Developer contributions	6,421	8,413	24,347	39,181
Specific purpose unexpended grants	867	1,432	440	2,739
Domestic waste	-	2,731	5,951	8,682
Other externally restricted	720	203	-	923
TOTAL EXTERNALLY RESTRICTED	8,008	12,779	30,738	51,525
Employee leave entitlements	1,528	1,569	2,578	5,675
Deposits, retentions and bonds	1,855	558	4,451	6,864
Infrastructure replacement	2,600	-	-	2,600
Unexpended loans	15,000	-	-	15,000
Special rates variation	-	1,024	-	1,024
Other internally restricted	2,633	8,305	1,916	12,854
TOTAL INTERNALLY RESTRICTED	23,616	11,456	8,945	44,017
Unrestricted cash	1,714	7,086	43,670	52,470
TOTAL CASH	33,338	31,321	83,353	148,012

Source: 2013/14 Financial Statements

Debt

The following table outlines the debt position of each council on 30 June 2014. Manly and Pittwater use an average of 4.55% of their operating income to service debt. Warringah is virtually debt free.

Table 9 - Debt \$'000 2013/14

2013/14 \$'000	Manly	Pittwater	Warringah	Total
Debt on 30 June 2014	30,572	15,295	13	45,880
Interest on loans (A)	1,587	868	75	2,530
Principal paid on loans (B)	2,406	1,335	261	4,002
Total debt servicing (A+B)	3,993	2,203	336	6,532
Income from operating activities	64,273	77,084	156,356	297,713
Debt costs / income	6%	3%	0%	2%

Source: 2013/14 Financial Statements

Employee costs

The following tables compare staff levels and costs across councils. Warringah's employee costs represent only 41% of operating costs compared to Manly at 49%.

Table 10 - Employee costs 2013/14

	Manly	Pittwater	Warringah	Total
Staff (Full-time equivalent)	359	308	589	1,265
Population per staff member (FTE)	120	204	259	583
Staff members per sq km	26	3	4	5
Employee costs \$'000	29,059	28,020	58,989	116,068
% of operating costs	49%	39%	41%	42%

Source: 2013/14 Financial Statements

Table 11 - Employee leave entitlements 2013/14

	Manly	Pittwater	Warringah	Total
Employee leave entitlements \$'000	7,361	7,843	13,468	28,672
Employee leave entitlements in reserve \$'000	1,528	1,569	2,578	5,675
% ELE in reserve	21%	20%	19%	20%
Average ELE per FTE \$'000	21	25	23	69

Source: 2013/14 Financial Statements

Councillor costs

The following table compares the number of councillors and structure between the three councils. In total there are 28 councillors across the three councils.

Table 12 - Mayors and councillors 2013/14

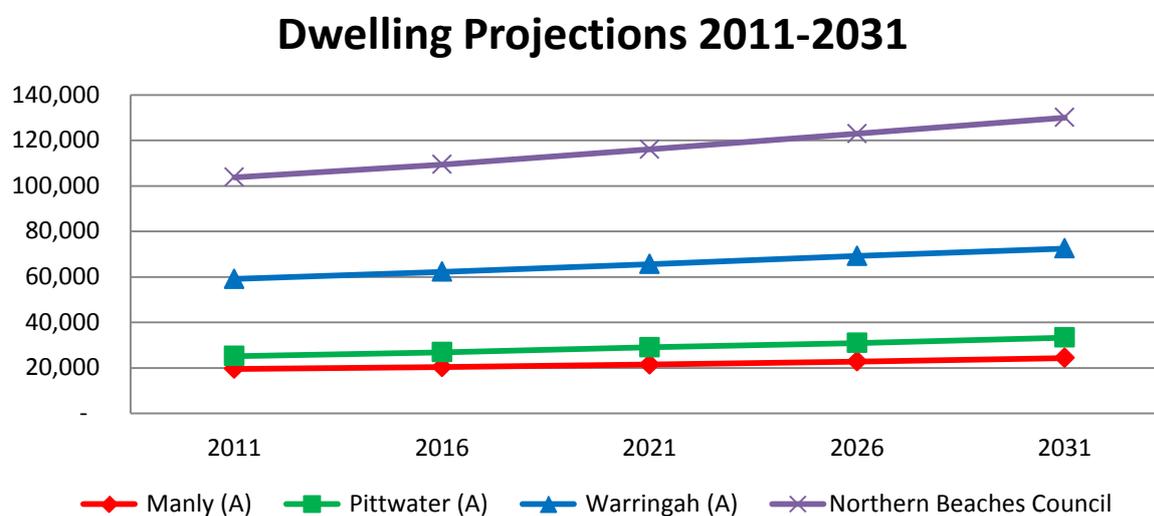
	Manly	Pittwater	Warringah	Total
Mayoral fees \$'000	38	37	59	134
Councillor fees \$'000	158	160	222	540
Mayoral + councillor fees \$'000	196	197	281	674
Number of councillors (including Mayor)	9	9	10	28
Number of wards	1	3	3	n/a
Number of councillors per ward	9	3	3	n/a
Population per councillor	4,915	6,897	15,264	9,273
Sq km per councillor	1.60	10.04	14.94	9.08

Source: 2013/14 Financial Statements and Annual Reports

Dwelling and population projections

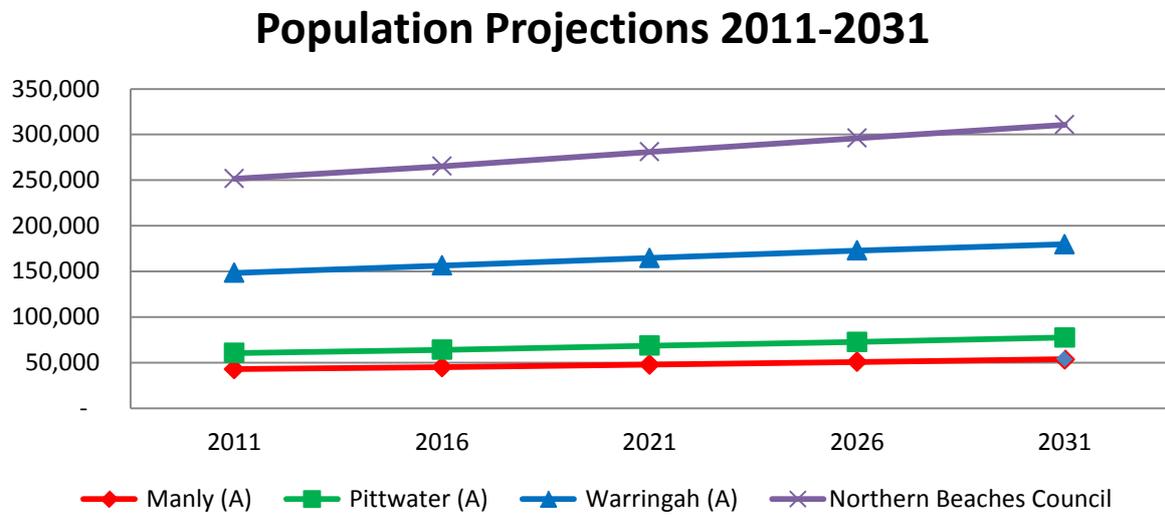
NSW Planning and Environment dwelling projections (2014) are used to calculate the residential rate base and the relevant service cost required.

Figure 4 - Dwelling Projections 2011-2031



Source: New South Wales State and Local Government Area Household and Implied Dwelling Projections: 2014 Final

Figure 5 - Population Projections 2011-2031



Source: New South Wales State and Local Government Area Population Projections: 2014 Final



This document has been produced by Warringah Council