



Woollahra Municipal Council

Submission to IPART – 30 June 2015

*Fit for the Future Proposal
Existing Structure Business Case*

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Annexure 1

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Overview

Along with every other council identified for inclusion in the proposed Global City, Woollahra rejects the recommendation of forced amalgamation into a mega-council. An overwhelming majority of Woollahra residents would prefer the council to stand alone.

Woollahra's population size is adequate for a municipal council seeking to optimise efficiency, and scale economies are already captured through joint purchasing arrangements with other councils. The council already meets five of the seven criteria of financial fitness, and will comply with the others within two years.

When it comes to infrastructure and land-use planning, the significant geographic unit is the greater metropolitan region. Woollahra strongly supports the Greater Sydney Commission, which has been ignored by IPART.

Woollahra has outstanding political and executive leadership, and it is staffed for its role as a municipal council. Strategic and specialist capabilities are procured through contract and joint-purchasing at a regional level as and when required.

Key Findings

Scale: Woollahra LGA is large by international standards, in spite of local authorities overseas having a broader range of responsibilities. There is no evidence of an association between population size and efficiency, and Woollahra has collaborated with other councils in the region to capture the benefits of scale where they exist.

Capacity: Woollahra has an exceptionally strong revenue base, occupying a much stronger position than any other council in the Sydney region, with the resources required to respond to unexpected change.

Management and staff have been recruited and trained to deliver the core functions of a municipal council. Specialist skills and strategic planning capabilities are acquired on a contractual basis or through regional collaboration as and when required.

The council attracts exceptionally well qualified professional and business leaders to serve as mayors and councillors, and amalgamation would result in the loss of a significant amount of this capability.

Woollahra has a long history of regional collaboration in joint purchasing, policy development and land use planning. Forced amalgamation into a mega-council would weaken the well-established collaborative arrangements that have developed across the city over many years.

The council takes the view that metropolitan-wide collaboration is much more important than the sub-regional groupings identified by the ILGRP, and supports the Greater Sydney Commission.

Local Attitudes: An overwhelming majority of local residents want the council to stand alone, and most are opposed to the proposed Global City. The council gives significant weight to these concerns.

Opposition by all affected councils: All of the proposed member councils and a majority of residents within most of those councils are opposed to the Global City. This would make it most unwise to proceed with this recommendation.

Attributes of the Global City: With the exception of Sydney Harbour (significant for a large number of Sydney councils, but only two in the proposed Global City), the inclusion of Woollahra would bring no iconic locations to the proposed mega-council.

None of the significant economic or social infrastructure of the proposed Global City falls within in Woollahra.

Adding the municipal councils of eastern Sydney would do little to improve the status of Sydney City Council as 'first among equals' in NSW local government.

The majority of strategic linkages to and from Sydney's CBD lie to the north, south and west. This provides a very weak case for a mega-council that extends into the eastern suburbs, and no case for including Woollahra in the merger.

The proposed mega-council would not be recognised internationally as a Global City in the way that New York, London or Toronto are recognised. The Premier and not the mayor of the so-called Global City would take centre stage at the Sydney Olympics.

Because of the high quality of the mayors and councillors which Woollahra has attracted over the years, and the demands that the Global City would make on their time, the proposed amalgamation would significantly weaken the quality of municipal governance for Woollahra residents.

Impact on Financial Fitness: Grant Thornton concluded that the creation of the Global City would contribute nothing to Woollahra's financial fitness.

Equity: There are much more effective ways of addressing any concerns about equity among the municipalities of New South Wales than the creation of mega-councils.

Alternative Merger Proposals: We have considered a number of merger proposals involving the five councils identified for membership within the Global City. Woollahra is not central to any of these merger options, and there are no tangible benefits for the council or its residents from any of them.

In particular, amalgamation with Randwick and Waverley is not favoured by a large majority of residents, nor would it contribute to the financial fitness of the councils in question. Amalgamation on the terms suggested by Randwick might well result in a reduction in service levels to the residents of Woollahra.

Such a merger would not be beneficial to Woollahra residents, since without legislative amendment, it would result in an increase in rates, with a particularly adverse impact on pensioners and small businesses.

Financial Fitness: Grant Thornton has confirmed that Woollahra is currently financially fit on 5 of the 7 benchmarks, and will comply with the other two within two years. The Treasury Corporation has rated the council as having moderate financial sustainability at present, and will be sound within three years.

1. Brief Profile of Woollahra LGA

Located in Sydney's eastern suburbs, Woollahra is bounded by Sydney Harbour in the north, the Waverley Council area primarily in the east, marginally Randwick City in the south and the City of Sydney in the west. It includes the suburbs of Bellevue Hill, Darling Point, Double Bay, Edgecliff, Paddington (part), Point Piper, Rose Bay (part), Vaucluse (part), Watsons Bay and Woollahra.

The estimated resident population of the Woollahra LGA in 2013 was 57,677, with a population density of 46.99 persons per hectare. The population is estimated to rise to 67,250 in 2031.

Woollahra is fortunate to be a well-resourced community with an educated, creative, giving and connected population, a skilled business community, caring families and a wealth of local knowledge and culture. We also have an active range of community groups working hard to improve the well-being of our entire community.

Woollahra LGA has strong local identity and operates well as a community, as evidenced by the independent Community Capacity Surveys of 2007 and 2012. Community capacity measures the connectedness of local communities and provides indicators of social outcomes, quality of life, and community well-being. Communities where residents feel safe, feel connected to their local community, that have strong community networks and high levels of social participation are more vibrant and enjoyable places to live, experience fewer social problems and are more resilient in times of difficulty.

The following survey results demonstrate that the Woollahra LGA has high levels of community capacity:

- Over 77% of residents participate in at least one organised club or group.
- 84% participate in non-organised activities.
- 80% of residents rate their health as 'good or 'excellent'.
- Residents have high levels of agreement that their area is safe and a friendly place to live
- 94% of residents say that they would recommend the area to friends.

Residents are regularly consulted on satisfaction levels with the provision of Council services. The 2012 survey found a positive result for Woollahra with 26 of the 40 services/facilities/criteria rated as being of 'moderate' to 'high' satisfaction. Council's annual budget strategy seeks to address areas rated at lower levels of satisfaction.

Key challenges articulated in our Community Strategic Plan include:

- Continuing to meet the high and rising expectations of one of Australia's wealthiest communities
- Protecting our area from high rise and oversized development while balancing the pressure for new housing and jobs
- Protecting our urban character of low rise, mixed form villages, architecture & heritage
- Providing sufficient support services for an aging population
- Addressing traffic congestion and providing parking in high density areas

- Promoting improved public and community transport
- Boosting local business and tourism whilst protecting neighbourhood amenity
- Minimising impacts of development and land use on the environment.

2. Scale and Capacity – The Proposed Global City

The IPART methodology states that:

All councils must demonstrate that they either currently have, or will have, sufficient scale and capacity with their proposed approach, consistent with the scale and capacity related objectives identified by the ILGRP for their region, and the features of strategic capacity in Box 3.1. We will consider first the ILGRP's preferred option for each council regarding scale and capacity and whether the council's proposed option is broadly consistent with this option.¹

In this section, we respond to the ILGRP's argument for a proposed Global City.

The Population Threshold

The IPART methodology states:

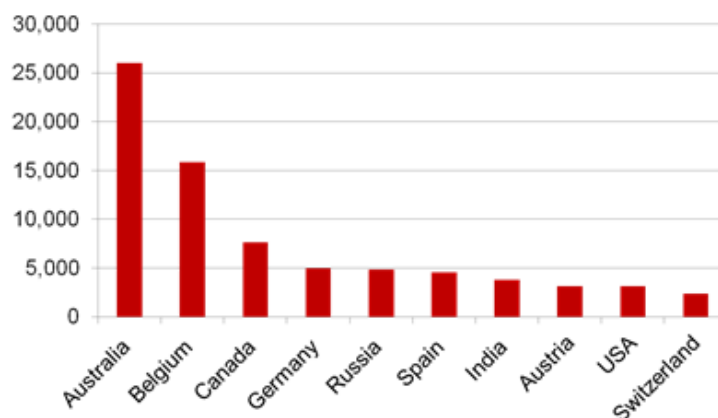
In reviewing scale objectives, we will be guided by the population estimates for the particular LGA included with the ILGRP's recommended options, which supports the view that 'one size does not fit all' for LGAs.²

However, in its press release, IPART did acknowledge that:

Scale and capacity are about more than population. We are interested in how high capacity councils are able to deliver quality services and infrastructure while keeping rates and charges affordable, and representing the diverse needs of their communities.³

Australia's local councils are big by world standards. A 2007 study found the average population size of local government units in other countries was generally much smaller than in Australia.⁴ This is in spite of them generally having wider responsibilities than is the case in Australia.

Figure 1: Average Size of Local Government Bodies by Population in Federal Systems, 2000

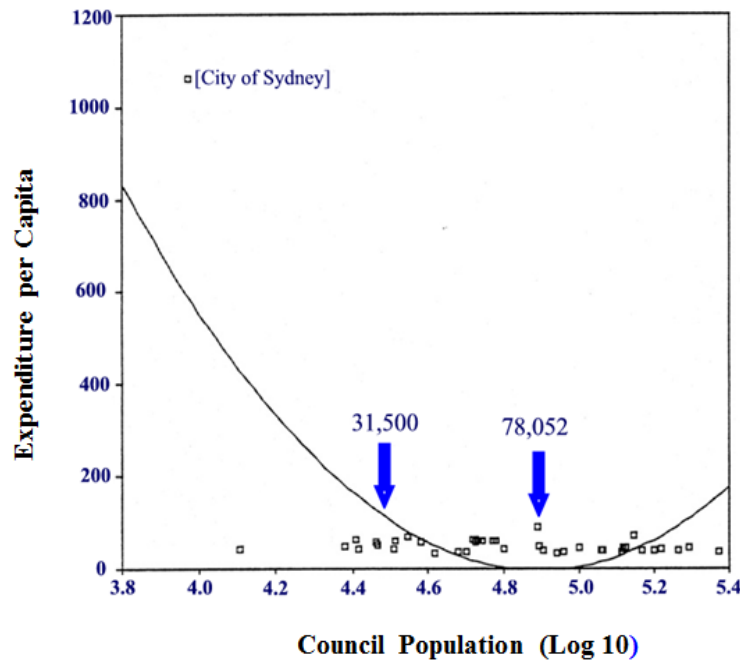


Source: Dr Mark Drummond.

Woollahra Council with around 58,000 residents is almost 50% larger than the average Australian local council and around eight times larger than the average sized local government body in Europe and the United States of America.

Research by Dr Stephen Saul on the optimal size of a Sydney metropolitan council would suggest that Woollahra's projected population of 67,800 by 2031 is adequate for this purpose (see below).⁵

Figure 2: Average Costs and Council Size



According to Dr Soul:

Increasing population yields a lower level of gross expenditure per capita, however, once this reaches a point between 31,500 and 100,000, increasing population size results in higher levels of gross expenditure per capita.⁶

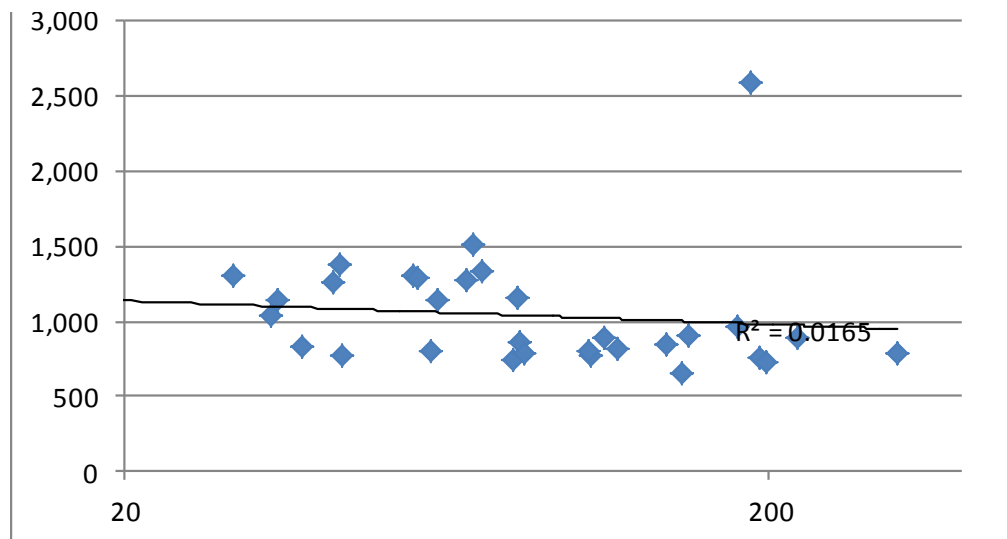
As IPART has recognised, there is no 'one size fits all' approach to population numbers in the ILGRP report. In large part, that is because the panel provided no evidence as to what population size might be relevant when it comes to the efficiency and effectiveness of government – the published evidence is mixed, to say the least.

A recent study comparing Brisbane City Council (with a population of more than a million) with much smaller local authorities in south-east Queensland and in New South Wales, including the Sydney City Council, concluded:

. . . our financial analysis of BCC casts considerable doubts over the continuing mantra that 'bigger is better' in the context of contemporary Australian local government. Employing standard measures of financial sustainability, we found that between 2008 and 2011, the three comparison groups consistently 'outperformed' the BCC in the key areas of financial flexibility, liquidity, and debt serving ability. Moreover, these findings lend further support to the growing corpus of research that suggests that 'bigger is not always best'.⁷

An analysis of the relationship between a NSW metropolitan councils average expense per resident and its population size shows only a weak relationship between unit costs and scale. As can be seen in the following chart the correlation coefficient (R^2) is miniscule at 0.0165. There are several smaller to medium sized councils whose average cost per resident equals that of larger councils, and some larger councils have higher costs than smaller ones.

Figure 3: Per Capita Expense and Council Size, 2012-13
(NSW Metropolitan Councils Only)



Source: DLG, Comparative Information on NSW Councils

The ILGRP applied its scale and capacity criteria to different parts of the metropolitan area, and recommended the establishment (or retention) of councils with very different population sizes, with no explanation as to how it arrived at these conclusions. Significantly, from Woollahra's perspective, some councils with a population of less than 100,000 (Blue Mountains and Hawkesbury Councils) have been accepted as having sufficient scale and capacity, from which it must follow, in principle, that a small council is capable of standing alone. There is definitely no 'one-size-fits-all' when it comes to population numbers, and the ILGRP has provided no robust and detailed methodology to support its recommendations.

If IPART were to regard the population number associated with the proposed Global City as paramount, and not subject to challenge based on the scale and capacity criteria, then of course, there could be no response. We assume that this is not what IPART intended (since there would be no point in calling for submissions), and that (as suggested by the press release) the question of population size is only one of a number of factors that will be taken into account when considering the case for the Global City and alternative merger proposals.

Population Threshold: Woollahra Municipal Council is large by international standards, in spite of local authorities overseas having a broader range of responsibilities. There is no evidence of an association between population size and efficiency.

The Global City

Given the impact of the Global City proposal on its survival as a municipality, Woollahra Municipal Council has given serious consideration to the ILGRP's recommended Global City merger and the following alternate merger options:

- Woollahra, Waverley and Randwick Councils
- Woollahra, Waverley,
- Woollahra, City of Sydney

Council conducted a community awareness campaign through mail-outs to ratepayers, distribution of a mergers options information brochure to all households and businesses in the municipality, mayoral press releases, columns in the local press, interviews on local radio stations and meetings with local community organisations. It organised a community leaders' forum and has provided regular updates on the council's website, presenting our various reports, research papers and submissions.

Council also conducted an online community survey through its website and commissioned Micromex Research to undertake an independent and statistically valid telephone survey. A chronology of the Council's community engagement activities are presented in Annexure 7 to Council's Fit for the Future (Template 2) Proposal.

What the People Want

In the most recent survey of Woollahra residents, 79% of respondents reported that they were aware of the proposed amalgamations and 54% had some prior awareness of the proposed Global City. Of those surveyed, 91% reported that local identity was at least somewhat important to them, 81% were supportive of the municipality standing alone, and 60% were opposed to the Global City. When forced to express a preference for amalgamation, the Global City received the least support, with 71% listing this as their fourth preference. The highest ranked alternate merger proposal was Woollahra & Waverley (56% first preference). The Woollahra, Waverley, Randwick option ranked second having only received a 21% response as the first preference alternate option.⁸

Social science surveys over many years have consistently shown that Australians feel more satisfied with and warmer about local government than state or federal governments. They feel closer to national and local governments than they do to state governments. Nationhood matters. Localness matters. But Australians have no real affection for or trust in functional layers of administration in between. In our submission, the design principles of effective metropolitan governance should not be based on vague assertions that 'bigger is better', but a clear understanding of the

responsibilities of municipal government in the Australian context, and respect for the public's confidence in localness. The ILGRP recommendation for the establishment of a Global City paid no attention to these issues.

Local Attitudes: Woollahra is opposed to the Global City because this reform is opposed by a clear majority of its residents.

Opposition of All Affected Councils

None of the five councils that would fall within the boundaries of the proposed Global City supports the concept. Randwick and Waverley have proposed amalgamation only as a way of staving off forced inclusion in the Global City (and even that solution is contested internally within those councils).

Opposition by all councils: Where all proposed member councils and a majority of residents within most of those councils are opposed to the Global City, it would be most unwise to proceed with this recommendation.

The Attributes of the Global City

IPART placed some emphasis on a set of so-called attributes of the Global City listed by the ILGRP:

The Panel argued strongly against a small 'CBD council', and opted for a greatly enhanced city that takes in nearly all iconic location and features that contribute to Sydney's global identity, as well as much of the supporting infrastructure. The ILGRP supported its view by considering key attributes of a Global Capital City, including that it should:

- Physical size – encompass a broad area including iconic locations of global significance
- Hierarchy – include major infrastructure and facilities at the peak of the hierarchy for that function (government, transport, health, education, culture, etc)
- Leadership – it should be the first among equals due to the importance of its decisions, geographic scale, budget and responsibilities, and relationship to political, business and civic leaders
- Strategic capacity – have the ability to manage major regional facilities and undertake or facilitate major economic and infrastructure development
- Global credibility – be able to be a leader in the Asia Pacific and to maximise opportunities to partner or compete with other global cities for capital investment and reputation
- Governability – attract the best candidates for political leadership with a broad, diverse and balanced constituency to facilitate good governance
- Partnership with the State – have the stature, maturity and skills to be a respected partner and to develop productive working relationships with State and Federal agencies.⁹

With all due respect, these 'attributes' are nonsense, and IPART should give them very little weight. But in any case, they have limited application to Woollahra.

- Physical size – it is difficult to comprehend what global icons outside of the City of Sydney the ILGRP was referring to, other than Sydney Harbour and (perhaps) Bondi Beach and Sydney Airport. A great number of councils lie on the shores of Sydney Harbour, and only two of the five councils listed for inclusion in the Global City are among them.

While Woollahra is a beautiful part of Sydney in which to live, work and play, it is difficult to think of other 'iconic locations of global significance'. There is no case in this for the inclusion of the municipality of Woollahra.

We note that a number of iconic cultural institutions already fall within the boundaries of the City of Sydney – the Sydney Opera House, the Sydney Botanical Gardens, the Museum of Contemporary Art, the Australian Museum – and the state government has not involved Sydney City Council in their governance in any significant way.

It seems likely that 'physical size' is the government's only real argument here for creating the so-called Global City – bigger is simply assumed to be better, in terms of creating a 'global city' that would be recognised on the world stage.

- Hierarchy – it is unclear what this sentence means, but it seems to be saying that the mega-council should include examples of the very best economic and social infrastructure in the greater Sydney area. This is a rather strange principle upon which to design a functional unit of government.

There are major transportation, education and health facilities that would fall within the boundaries of the proposed mega-council, but it is unclear what benefits amalgamation would provide. The state government has shown itself reluctant to intervene in the management and planning issues associated with Sydney's airports, the state exercises very little control over the universities and it seems unlikely that the proposed Global City council would be given any significant role in the management of the city's major hospitals. This so-called 'attribute' seems to be nothing more than a token gesture to justify the recommended boundaries.

None of these facilities – Sydney Airport, the Port of Botany, the University of New South Wales, the Prince of Wales Hospital, the Royal Hospital for Women, or the Sydney Children's Hospital – fall within the boundaries of the municipality of Woollahra or either of its adjoining councils.

The target infrastructure works for the Sydney Central Region in the state government's *'Plan for Growing Sydney – December 2014'* are not in the Woollahra LGA.

- Leadership – Sydney City Council is already ‘first among equals’ in the municipal government of Sydney, and it is difficult to see what would change if the municipal councils of eastern Sydney were added. Its standing as the leading City Council is recognised through it having its own ‘*City of Sydney Act*’, retention of which was a recent recommendation from the Local Government Acts Taskforce, as well as its own electoral provisions which provide business two votes in council elections. Bulking up the population numbers and calling it a ‘global city’ will not give it greater standing with political, business and civic leaders.

The ILGRP report and the IPART methodology make no reference to the governance of the greater metropolitan area, which is a much more important question when it comes to good governance. Woollahra strongly supports the establishment of stronger governance at the metropolitan level, notably in the Greater Sydney Commission, which is currently under construction. It is difficult to understand how to make sense of this ‘attribute’ in the absence of discussion about the role and function of Greater Sydney Commission.

It is possible that this ‘attribute’ is actually a coded reference to the government’s difficult relationship with the political leadership of Sydney City Council over recent decades, and that the enthusiasm for the proposed new mega-council is in large part driven by a desire to change the political composition of the electorate that elects the Lord Mayor of Sydney. If so, then we would argue that this should be spelled out and debated, and we submit that it is not an acceptable reason for a forced amalgamation affecting the residents of Woollahra.

- Strategic capacity – this ‘attribute’ assumes that major economic and infrastructure development will conveniently fall within the boundaries of the proposed new mega-council. In fact, the majority of strategic linkages – the North-West Rail Link; Sydney Metro, which will connect the former to the Bankstown Line; Sydney’s existing Light Rail; and WestConnex – are to the north, south and west.

The south-east Light Rail is the only significant infrastructure project within the boundaries of the proposal mega-council, and it has been pursued without the need for amalgamation. And it is a project that has been successfully pursued without the need to involve the municipality of Woollahra.

The establishment of a strong Global City heavily-influenced by the eastern councils would probably weaken the capacity to act strategically in relation to economic and infrastructure development to the north, south or west.

There is a dire need for strategic capacity with regard to the management of regional facilities, and the planning, construction and operation of major infrastructure facilities – at the metropolitan level. Once again, there no intelligent way of debating this ‘attribute’ in the absence of the Greater Sydney Commission.

- Global credibility – it is nonsense to suggest that the mayor of the proposed mega-council would have the status and authority to win serious respect on the international stage. The Greater London Authority had the standing (and the financial weight) to host the 2012 Olympic Games. Boris Johnson was understandably recognised as the Mayor of London. The mayor of the ILGRP’s proposed Global City would not have had that standing when it came to the Sydney Olympics, in part because the Olympic facilities did not fall within the council’s boundaries, and in part because the NSW Premier would have insisted on assuming the dominant role.
- Governability – forcing Woollahra to become part of the proposed Global City would have precisely the opposite effect to the one intended. Woollahra Council has a long history of attracting extremely high calibre mayors and councillors from a variety of professional backgrounds, including lawyers, company directors, investment bankers and traders, accountants, doctors, urban planners, policy advisers and others of large and small businesses. These people give up their time for very modest compensation to make a contribution to their local community and the people of Woollahra are fortunate to have the benefit of their contribution.

This quality of candidate could not be improved under a mega-council – to the contrary, it is likely that the additional demands upon their time and the kind of salary that could be paid would not compensate them for the opportunity cost. Nor would such candidates be attracted to the role of mayor on a full-time basis, given the significance of their own business interests.

- Partnership with the State – this argument is no different to the one addressed in the ILGRP’s list of scale and capacity criteria, and it is dealt with below.

The Global City: With the exception of Sydney Harbour (significant for a large number of Sydney councils, but only two in the proposed Global City), the inclusion of Woollahra would bring no iconic locations to the proposed mega-council.

None of the significant economic or social infrastructure of the proposed Global City falls within in Woollahra.

Adding the municipal councils of eastern Sydney would do little to improve the status of Sydney City Council as ‘first among equals’.

The majority of strategic linkages to and from Sydney's CBD lie to the north, south and west. This provides a very weak case for a mega-council that extends into the eastern suburbs, and no case for including Woollahra in the merger.

The proposed mega-council, which would combine Sydney City Council and four municipal councils to the east would not be recognised internationally as a Global City in the way that New York, London or Toronto are recognised.

From Woollahra's perspective, the Global City would significantly weaken the quality of municipal governance.

Impact on Financial Fitness

Woollahra commissioned Independent Consultant's Grant Thornton to report what impact of a forced amalgamation with the other councils of the Global City would have on financial fitness (Refer Annexure 3 pages 21 to 22). The Global City would only meet four of the seven FFTF benchmarks at the current time:

Operating Performance (OP)

This measures how a council generates revenue and allocates expenditure, and indicates its capacity to meet its expenditure requirements over time.

The OP ratio average for the Global City merger option is 2.24%, which meets the FFTF benchmark of >0%. However, the ratio fell from 5.40% in FY12 to 1.35% in FY13 and 0.18% in FY14. The sharp decline is primarily driven by the relatively poor OP ratios of the individual councils of Waverley, Woollahra and Botany Bay, (despite Waverley and Botany Bay managing to increase their OP ratio into positive figures in FY14). Woollahra would need to consider the risks of a decreasing trend in this ratio even though its OP ratio would benefit from a c.5.72% increase.

Own Source Revenue (OSR)

This measures the council's reliance on external funding. Greater reliance on its own revenue suggests that the council has greater flexibility and is better positioned to absorb shocks.

OSR ratio average for the Global City exceeds the FFTF requirement of >60% with a result of 85.13%. All five councils exhibited current statistics that exceeded the benchmark, with Botany Bay's average of 71.8% being the lowest current total, but still in a comfortable position. Woollahra's OSR ratio is the strongest of all councils but the GS option has a slightly negative impact on current data.

Building and Infrastructure Asset Renewal (BIAR)

The compares spending on infrastructure renewal to the deterioration of the assets.

BIAR ratio for the Global City has increased from 74.0% in FY12 to 85.2% in FY14 to an average of c.78%. This does not meet the FFTF benchmark of >100% despite the upward trend. The upward trend is driven by all councils except Greater Sydney improving their ratio over the past three years. Randwick is the stand-out contributing council with an average BIAR of 111.8% that has peaked at 122.6% in FY14. The rising trend is similar to Woollahra's as a stand-alone and illustrates a general cross-

council consensus to ensure renewal of existing assets, but also means that further investment would be required by all except Randwick.

Infrastructure Backlog (IB)

This ratio compares the maintenance backlog with the total value of infrastructure assets.

IB ratio for the Global City is 1.83% for FY14 which meets the FFTF benchmark of <2% (albeit immaterially). Botany Bay, and to a lesser extent, Waverley are significant contributors to the ratio being close to failure with their respective ratios of 6.93% and 2.62%, for FY14, which end up increasing the ratio for the combined option to 1.83% compared to 1.36% for Woollahra.

Asset Management (AM)

Compares actual to required expenditure on asset maintenance.

The Global City AM ratio average is 99.61%, which does not meet the FFTF requirement of >100% (albeit immaterially). Waverley (99.63%) and City of Sydney (87.9%) are the least well placed councils in relation to this ratio but it is the latter that brings GS's average down. For this ratio, Woollahra would need to be aware its position as standalone is better placed (on current data)

Debt Service (DS)

The debt service ratio indicates the degree of prudence in managing council indebtedness.

Global City DS ratio average is 0.35%, which meets the benchmark recommended by FFTF. Only Waverley (1.45%) and Woollahra (2.12%) have debt items on their balance sheets and as such are the only councils that contribute to this figure being above 0%.

Real Operating Performance per Capita (ROPPC)

This measures council's capacity to achieve economies of scale based on population size.

ROPPC for the Global City has increased from 1.38 in FY10 to 1.47 in FY14. This does not meet the FFTF benchmark which advocates a decreasing trend. The ratio increase is primarily driven by the City of Sydney which has seen an increase from 1.99 to 2.23 during the period, driven by strong increases in total expenses from continuing operations (by c.24% between FY10 and FY14) with population only increasing by 6.8%.¹⁰

Impact on Financial Fitness: The creation of the Global City would contribute nothing to Woollahra's financial fitness.

Other Objectives

IPART:

In addition, we intend to examine the proposal's consistency with the broader regional and state-wide objectives of the ILGRP's preferred option, including economic, transport, regional planning and equity objectives. As an example, we will consider the following ILGRP objectives.

For Metropolitan areas:

- create high capacity councils that can better represent and serve their local communities on metropolitan issues and be true partners of State and Federal agencies
- establish a more equitable pattern of local government across the metropolitan area, taking into account planned development
- underpin Sydney's status as a global city (in particular, we will consider the specific objectives for the City of Sydney in meeting the State's objectives for a global city, which are quite distinct from the objectives for other suburban areas of Sydney.
- support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.¹¹

Most of these objectives have been picked up elsewhere in IPART's methodology, and are dealt with in other parts of this submission. The one that is not raised elsewhere by IPART is equity.

The narrow revenue base of local government in Australia means that local councils have to focus on basics (e.g. roads and footpaths, rubbish collection and recreation facilities). They cannot afford a wide range of social services provided by local authorities in America and Europe. As a result there is limited scope to use local government for redistributing income or wealth between households and localities.

Moreover, it would be highly inefficient for the state government to attempt to do so through amalgamations, without taking into account the policies and programmes of the federal government, which are explicitly directed to this end.

In any case, it is far from clear that the creation of a Global City would assist in this regard. Within the Sydney City-Eastern Suburbs conurbation, none of the Councils was found by NSW Treasury Corp to be financially disadvantaged except Botany Bay.

If government is committed to a more equitable distribution of local government finances, this might be achieved through redistributing existing government grants that already account for 28% of total NSW local government revenue.

<p>Equity: There are much more effective ways of addressing concerns about equity among the municipalities of New South Wales than the creation of mega-councils.</p>
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3. Scale and Capacity – Alternative Merger Proposals

Based on a study by Grant Thornton, Woollahra has considered a range of amalgamation options involving the councils identified for inclusion within the boundaries of the proposed Global City. None of these options places Woollahra in a stronger financial position than if it stood alone.

Two of the councils – Randwick and Waverley – have proposed a voluntary amalgamation to avoid what they regard as a much less desirable alternative. There have been suggestions that Woollahra might be included in the new merged entity, and we believe that it is necessary to state our position.

Community Attitudes

As noted above, recent research conducted on behalf of Woollahra Council found that 81% of respondents would prefer the council to stand alone. But when pressed to express an opinion on a forced amalgamation, 56% of respondents said that a merger with Waverley was their first preference, and only 21% reported that a merger with Waverley and Randwick came first.¹²

Impact on Financial Fitness

The Grant Thornton study found that amalgamation of the three councils would result in the new council only meeting 5 of the 7 FFTF benchmarks at the present time, no better than Woollahra remaining on a stand-alone basis. And this option would only meet 6 of the 7 criteria in two years' time.¹³ Randwick claims that under its amalgamation proposal, the new council would meet all 7 benchmarks in year two.¹⁴

The study undertaken for Randwick Council by SGS Economics and Planning contains a number of heroic assumptions. The difference in the service cost per resident between Randwick and the other two councils of 50-100% is highly improbable. No analysis has been made on why this differential might exist – there is no evidence that it is due to economies of scale – and it is more likely that it is explained by different service levels in the respective councils. This means that amalgamation could result in a reduction in service levels to the residents of Woollahra.

Service cost modelling in Randwick Council's Fit for the Future – Options Analysis indicates that efficiencies of \$17m per year could be secured by applying Randwick's service unit costs to Woollahra. On a cost base of \$68m (derived from the report), this suggests savings in the order of 25%.

To suggest that efficiency gains of 25% are available in a \$68m budget raises doubts over the reliability of the modelling. Around 50% of the \$68m is directly related to employee costs. Since employee costs are protected by legislation for three years, and Randwick and Waverley have agreed to protect them a further two years, the \$17m saving can only be achieved against non-employee costs.

Applying the purported \$17m savings against non-employee costs of \$34m is in fact a forecast 50% efficiency saving. This is simply not achievable.

A 2011 survey of local and international literature by three academics found that, overall, there is little evidence that amalgamation will of itself yield economies of scale in service delivery greater than those achievable through shared service arrangements, or that such economies are available across many of local government's functions beyond fairly limited thresholds.¹⁵ Also the 2013 Independent Local Government Review Panel Final Report, in reviewing past results of council mergers, referred specifically to the work of six academics who found that there is little evidence that amalgamations will automatically yield substantial economies of scale.¹⁶ Further doubts are raised by Professor Brian Dollery, Australia's most widely published academic on local government, in that the results of amalgamations (in Australia) have not met expectations and that structural change through compulsory council consolidation have not been effective in achieving their intended aims of meaningful cost savings and increased operational efficiency.¹⁷

There is no research to support the contention that efficiency gains of this magnitude are achievable.

Impact on Woollahra's Rates

Local government rates in NSW are levied, in the main, on land value. Consequently, if an amalgamation of councils includes councils with significantly different land values, a re-distribution of the rate burden toward the higher land value LGA will result.

The opportunities to mitigate the effect of differing land values between amalgamated councils are limited by the current legislation relating to rating structures. Whilst the state government has indicated that it will request IPART to review rating legislation, no changes to the current legislation are proposed in conjunction with the Fit for the Future reform process. The impact of disparate land values is best managed through the use of base amounts, the current maximum allowing the collection of 50% of rate through a base amount.

In 2013 Randwick Council, with the assistance of Ibis Information Systems Pty Ltd and co-operation of Waverley and Woollahra Councils, prepared 50 rate scenarios to determine the impact on rates if the three councils were amalgamated. The vast majority of these models proposed scenarios that are not permitted under rating legislation as they specifically sought to minimise the significant increases for Woollahra ratepayers that would result under existing legislation due to the disproportionately high land values in the Woollahra LGA.

Randwick Council acknowledge the impact of large rate increases for high value properties in their Fit for the Future publications and state that:

*"In most options a 70 per cent base rate resulted in the least change in the total rates paid by each council area. Restricting the total rates paid to a maximum of six times the base rate assisted in minimising the impact on high land value properties, particularly within the Woollahra area. . "*¹⁸

Neither aspect of this proposal is currently permitted under legislation, with base rates limited to 50% and there being no provision to cap rates.

It is in this context that Woollahra requested Randwick to extend the modelling to include minimum rating structures enabled by existing legislation in addition to the 50% base amount model already prepared.

Table 1 below shows some key statistics for Randwick, Waverley and Woollahra Councils. The disproportionately high land value in the Woollahra LGA is obvious, making up 40% of the amalgamated council's land value from only 24% of the combined total number of rateable properties and 21% of the combined land area.

Table 1 – Key Statistic for Randwick, Waverley and Woollahra Councils

	Population	%	Area km ²	%	Rateable Land Value \$'000	%	No. of Rateable Properties	%
Randwick	142,310	53%	36.3	63%	23,202,304	33%	50,573	48%
Waverley	70,706	26%	9.2	16%	18,799,524	27%	29,965	28%
Woollahra	57,677	21%	12.3	21%	27,445,233	40%	25,902	24%
	270,693	100%	57.8	100%	69,447,061	100%	106,440	100%

Regardless of the rating structure applied to the amalgamated council, residential rate increases for Woollahra are significant, ranging from 22% under a 50% base amount structure to 44% under Waverley's minimum rate structure or 53% in the event financial assistance grants are re-distributed and replaced with rates. This is totally unacceptable and unavoidable under existing rating legislation.

The modelling undertaken is summarised in Tables 2 and 3 below.

Table 2 – Dollar and Percentage changes in Rates Distribution following amalgamation

	Current Rates	50% Base	\$ Change	% Change	Randwick Min	\$ Change	% Change	Waverley Min	\$ Change	% of Total
Randwick	55,179,472	47,338,248	-7,841,224	-14%	43,426,195	-11,753,277	-21%	42,115,450	-13,064,022	-24%
Waverley	29,958,058	30,938,713	980,655	3%	29,704,019	-254,039	-1%	29,407,308	-550,750	-2%
Woollahra	31,295,191	38,155,760	6,860,569	22%	43,302,507	12,007,316	38%	44,910,015	13,614,772	44%
	116,432,721	116,432,721	0	100%	116,432,721	0	100%	116,432,773	0	100%

Further, as the distribution of financial assistance grants (FAG) is currently under review, Woollahra modelled what would happen in an amalgamation if the combined \$7.4m in FAG received by Randwick, Waverley and Woollahra was replaced by rates, what could be described as a 'worst case scenario'.

Table 3 – Dollar and Percentage changes in Rates Distribution following amalgamation adjusted for loss of FAG

	Current Rates	50% Base	\$ Change	% Change	Randwick Min	\$ Change	% Change	Waverley Min	\$ Change	% of Total
Randwick	55,179,472	50,332,947	-4,846,525	-9%	45,883,422	-9,296,050	-17%	44,572,677	-10,606,795	-19%
Waverley	29,958,058	32,895,949	2,937,891	10%	31,578,213	1,620,155	5%	31,281,502	1,323,444	4%
Woollahra	31,295,191	40,569,560	9,274,369	30%	46,336,821	15,041,630	48%	47,944,277	16,649,086	53%
	116,432,721	123,798,456	7,365,735	100%	123,798,456	7,365,735	100%	123,798,456	7,365,735	100%

A wide range of increases and decreases arise from all of the models.

- 50% Base Amount Model – from a decrease of \$59 to an increase of \$12,148
- Randwick Minimum Model – from a decrease of \$195 to an increase of \$39,641
- Waverley Minimum Model – from a decrease of \$258 to an increase of \$43,837

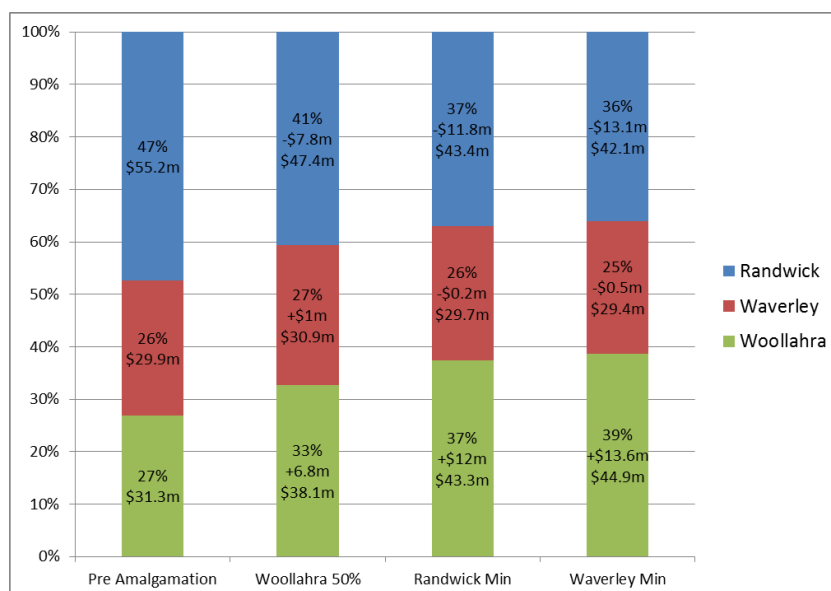
Table 4 provides an overview of ranges of dollar increases and the number of ratepayers affected.

Table 4 – Impact of Amalgamation (in dollar ranges)

Dollar Ranges	50% Base Amount			Randwick Minimum Rate			Waverley Minimum Rate		
Ranges	No.	% of Total	Average	No.	% of Total	Average	No.	% of Total	Average
Decrease more than \$200	0	0.0%	\$0.00	0	0.0%	\$0.00	3,250	13.3%	-\$228.15
Decrease between \$100 and \$200	0	0.0%	\$0.00	4,568	18.7%	-\$144.05	6,857	28.1%	-\$154.39
Decrease up to \$100	4,090	16.8%	-\$17.31	7,163	29.4%	-\$49.11	1,533	6.3%	-\$55.52
Increase up to \$100	6,801	27.9%	\$42.29	2,138	8.8%	\$35.98	1,302	5.3%	\$49.13
Increase between \$100 and \$500	9,257	37.9%	\$236.65	3,654	15.0%	\$268.97	3,924	16.1%	\$278.54
Increase between \$500 and \$1,000	3,098	12.7%	\$691.24	1,916	7.9%	\$729.22	2,065	8.5%	\$720.40
Increase between \$1,000 and \$2,000	826	3.4%	\$1,315.03	2,699	11.1%	\$1,437.76	2,744	11.2%	\$1,467.95
Increase between \$2,000 and \$5,000	258	1.1%	\$3,033.48	1,825	7.5%	\$2,862.00	2,208	9.1%	\$2,922.19
Increase between \$5,000 and \$10,000	63	0.3%	\$6,632.29	270	1.1%	\$6,875.54	316	1.3%	\$6,753.27
Increase greater than \$10,000	2	0.0%	\$11,983.04	162	0.7%	\$16,261.85	196	0.8%	\$16,712.12
	24,395	100.0%	\$281.19	24,395	100.0%	\$616.59	24,395	100.0%	\$682.48

The impact of an amalgamation is presented graphically in Figure 1.

Figure 4 – Graphical representation of the impact of amalgamation



Pensioner Rate – Hardship Provisions

The impact of these increases on pensioners cannot be ignored. While under both minimum rate models, as a consequence of their relatively lower land value properties, many pensioners would enjoy a reduction in rates there is still a significant number that would bear increases. On fixed incomes, increases of the magnitude outlined in the table below could well cause financial hardship in the absence of relief granted by the amalgamated council. There is certainly no guarantee of protection from these increases for pensioners in the Woollahra LGA.

Table 5 below shows the impact on pensioners in the same dollar ranges as above. To establish the full impact on pensioners it needs to be noted that even in the most favourable scenario (the 50% base amount model) the impact ranges from a decrease of \$43 to an increase of \$2,523. In the least favourable scenario (the Waverley minimum rate model) the impact ranges from a decrease of \$258 to an increase of \$8,771.

Pensioners in Woollahra are subject to the same requirements and income tests as pensioners anywhere in NSW. An amalgamation of the three councils would see Woollahra pensioners being adversely affected compared to Waverley and Randwick purely as a consequence of where they live. This is simply wrong. Neither local government nor state government have the policy tools at their disposal to play a significant role in the re-distribution of wealth.

Table 5 – Impact of amalgamation on pensioners in dollar ranges

Pensioner Rates Increases - Dollar Ranges									
Ranges	50% Base Amount			Randwick Minimum Rate			Waverley Minimum Rate		
	No.	% of Total	Average	No.	% of Total	Average	No.	% of Total	Average
Decrease more than \$200	0	0.0%	\$0.00	0	0.0%	\$0.00	171	17.5%	-\$228.86
Decrease between \$100 and \$200	0	0.0%	\$0.00	247	25.2%	-\$146.44	344	35.1%	-\$156.55
Decrease up to \$100	184	18.8%	-\$15.51	361	36.9%	-\$51.19	79	8.1%	-\$51.86
Increase up to \$100	364	37.2%	\$42.60	85	8.7%	\$41.70	51	5.2%	\$48.00
Increase between \$100 and \$500	371	37.9%	\$215.19	149	15.2%	\$271.51	164	16.8%	\$261.35
Increase between \$500 and \$1,000	54	5.5%	\$663.31	59	6.0%	\$697.28	83	8.5%	\$701.96
Increase between \$1,000 and \$2,000	4	0.4%	\$1,116.70	56	5.7%	\$1,347.85	61	6.2%	\$1,449.12
Increase between \$2,000 and \$5,000	2	0.2%	\$2,500.05	20	2.0%	\$2,572.47	24	2.5%	\$2,763.60
Increase between \$5,000 and \$10,000	0	0.0%	\$0.00	2	0.2%	\$7,807.04	2	0.2%	\$8,687.08
Increase greater than \$10,000	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00
TOTALS	979	100.0%	\$137,776	979	100.0%	\$173,033	979	100.0%	\$178,584

A further consequence of an amalgamation is the re-distribution of the rate base. Table 5 provides a summary of the re-distribution of rates paid by the local government areas if there was an amalgamation of Randwick, Waverley and Woollahra Councils.

Table 5 – Re-distribution of Rates in an amalgamation

	Current Rates	50% Base re-distribution	Randwick Minimum re-distribution	Waverley Minimum re-distribution
Randwick	55,179,472	-7,841,224	-11,753,277	-13,064,022
Waverley	29,958,058	980,655	-254,039	-550,750
Woollahra	31,295,191	6,860,569	12,007,316	13,614,772
	116,432,721	0	0	0

Under current legislation, Woollahra ratepayers will pay between \$7m and \$14m additional rates per year, effectively a re-distribution of wealth, which is not a responsibility of either state or local government.

It is also strongly argued that IPART would never approve rate increases at these levels for a financial sustainable council under the Office of Local Government's guidelines for Special Rate Variation applications.

The discussion above has focussed on residential rates. Although current legislation allows a more flexible approach to rating business properties (through sub-categorisation in centres of activity), consideration also needs to be given to the potential impact on rates paid by businesses. Table 6 below provides context across the three councils in relation to differing approaches taken to rating business properties.

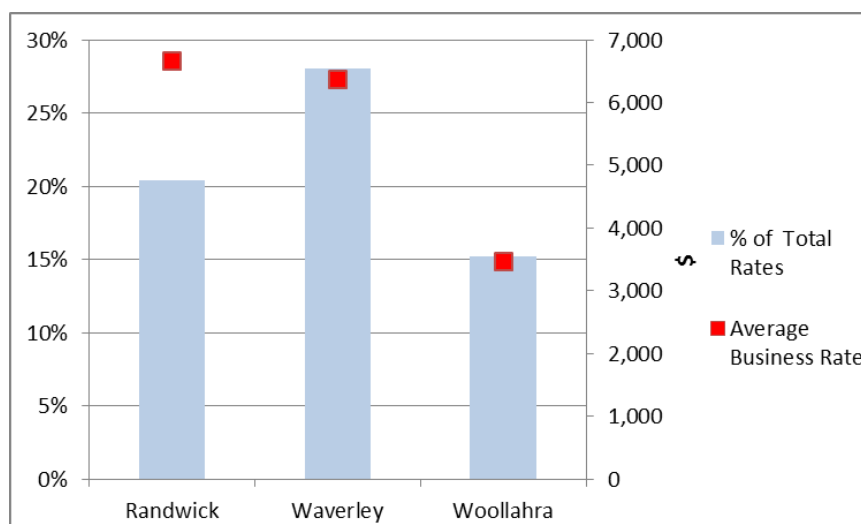
Table 6 – Mix of Residential and Business Rates in Randwick, Waverley and Woollahra

	Randwick					Waverley					Woollahra				
	Rates Levied \$'000	%	No. of Properties	%	Average Rate	Rates Levied \$'000	%	No. of Properties	%	Average Rate	Rates Levied \$'000	%	No. of Properties	%	Average Rate
Residential	52,229	80%	48,564	96%	1,075	29,766	72%	28,145	94%	1,058	27,374	85%	24,487	95%	1,118
Business	13,378	20%	2,009	4%	6,659	11,588	28%	1,820	6%	6,367	4,909	15%	1,416	5%	3,467
	65,607	100%	50,573	100%		41,354	100%	29,965	100%		32,283	100%	25,903	100%	

In Randwick, 4% of properties are business and they contribute 20% of total rates at an average of \$6,659 per property. In Waverley 6% of properties are business and they contribute 28% of total rates at an average of \$6,367 per property. In Woollahra 5% of properties are business and they contribute only 15% of total rates at a significantly lower average of \$3,467 per property.

Figure 2 below shows the differences in the percentage of rates collected from business and the average business rates for Randwick, Waverley and Woollahra Councils.

Figure 2 - % of total rates collected from business (left axis) and average business rates (right axis)



It is clear that both Randwick and Waverley rate their business properties more heavily than Woollahra. It is reasonable to assume that business rates paid by businesses in Woollahra LGA will increase over time as they are equalised with the not dissimilar Randwick and Waverley business rates.

Alternative Merger Proposals: We have considered a number of merger proposals involving the five councils identified for membership within the Global City. Woollahra is not central to any of these merger options, and there are no tangible benefits for the council or its residents from any of them.

In particular, amalgamation with Randwick and Waverley is not favoured by a large majority of residents, nor would it contribute to the financial fitness of the councils in question. Amalgamation might result in a reduction in service levels to the residents of Woollahra.

Such a merger would not be beneficial to Woollahra residents, since without legislative amendment, it would result in an increase in rates of \$7m to \$14m, with a particularly adverse impact on pensioners, with an increase in rates of \$138k to \$179k, and small businesses.

4. Scale and Capacity – ILGRP Criteria

Councils that do not agree with ILGRP's preferred structure are obliged to respond to a number of scale and capacity criteria. As IPART stated in its methodology:

The onus is on the council to demonstrate how it meets the strategic capacity requirements in Box 3.1, particularly if it chooses an option different from the ILGRP's recommendation. We will use our judgment in assessing strategic capacity based on the information we have available, given that there are no standardised benchmarks for these requirements.¹⁹

These requirements are listed as:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and Federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.²⁰

These criteria are expressed in such general language that it is impossible to know what they mean in practice, although IPART has recognised that councils' responses must be qualitative, since 'there are no standardised benchmarks available'.²¹

We agree that some of these criteria are expressed in such broad language that measurement of scale and capacity will be extremely difficult, that is not true in every case. For example, a council's financial performance might provide IPART with hard evidence as to the capacity of the council to undertake new functions, the management capability of its senior staff and whether the council has the resources to respond to unexpected change.

And yet in reviewing the Office of Local Government's data on the performance of metropolitan councils, we found that every one of the eight councils that have been exempted from the requirement to amalgamate have an operating deficit for the FY13-14 year, compared with only one-third of those councils for which amalgamation has been recommended.²² This points to a serious disconnect between the hard evidence that is available and the conclusions that the ILGRP reached in relation to scale and capacity. More specifically:

a. Robust revenue base

A recent study undertaken for Woollahra Council by Grant Thornton reported that the Own Source Revenue ratio is 90.75%, comfortably above the FFTF benchmark of >60%.

The Municipality of Woollahra is characterised by very high land and property values in the LGA and much higher than average weekly incomes. This indicates a

very strong capacity to pay for high quality infrastructure and services as and when required.

The following statistics demonstrate this aspect of the Woollahra LGA:

Largest residential land value	\$40 million (\$79 m prior to heritage concession)
Average residential land value	\$1.06 million
Residential land values \$2 million - \$5 million	2863
Residential land values \$5 million +	497
Average residential sale price to date 2014/15	\$2.425 million
Highest residential sale price to date 2014/15	\$39 million
Lowest residential sale price to date 2014/15 (50m ² Studio Apartment)	\$0.3 million

Total income from rates in the Woollahra LGA of approximately \$35 million represents only 1.3/1000 of total property values, the lowest percentage of all 41 Sydney Metropolitan councils.

A direct consequence of the comparatively high land values in Woollahra is that a significant proportion of Woollahra Council's total annual rates income is paid directly to the NSW State Government by way of the Emergency Management Contribution. For 2014/15, Woollahra Council's contribution of \$2.436 million represented 7.5% of total rates revenue. This is by far a much higher proportion of rates income any other council in the Sydney Fire District.

Analysis of household income levels in the Woollahra Council area in 2011 revealed that there was a larger proportion of high income households (those earning \$2,500 per week or more) and a lower proportion of low income households (those earning less than \$600 per week) when compared to Greater Sydney.

The 2011 census data shows 42.7% of households in the Woollahra LGA earned a high income, and 11.4% were low income households, compared with 23.6% and 18.3% respectively for Greater Sydney.

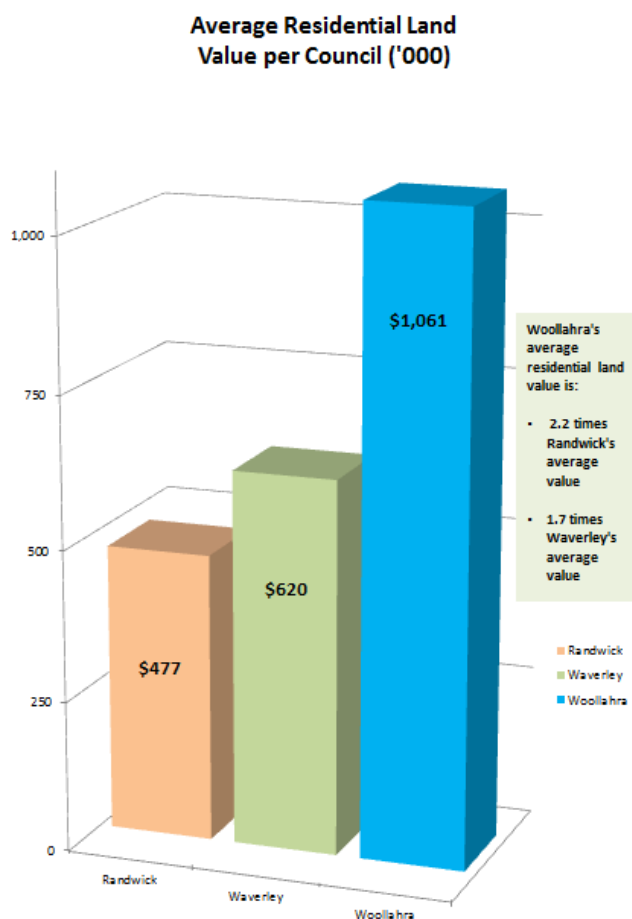
More recent data from the Australian Taxation Office identifies Woollahra LGA suburbs of Darling Point, Point Piper and Edgecliff with the nation's highest mean taxable income for 2012/13 at \$177,514. The Woollahra suburb of Bellevue Hill ranked third in the top ten suburbs nationally at \$143,112.

Further evidence of capacity to pay in the Woollahra LGA is the fact that the NSW government collects around \$80 million in land tax from the LGA – noting that land tax is not a tax against all properties. This is 2.3 times Council's total rates income – and with little evidence to show how much of that \$80 million the state government injects back into the Woollahra community.

These data provide clear evidence of Woollahra residents' general capacity to pay modest rate increases, if required for the long-term financial sustainability of Woollahra Council, to address emerging needs and to provide for service delivery to the high standards expected by the Woollahra community.

The unfair rate increases that would result from the amalgamation of Woollahra Council with other financially sustainable councils does nothing to address the broader system of local government reform and what would be a sensible reform in directing funds to local communities that are in most need of assistance.

The following chart highlights the extent of the disproportionately high land values in Woollahra in comparison to Randwick and Waverley Councils:



Rate increases for Woollahra ratepayers to fund rate decreases in Randwick is not local government reform. Woollahra residents do however have capacity to contribute to a broader local government reform agenda that sought to address equity issues across the state as a whole.

b. Scope to undertake new functions and major projects

A number of reviews in recent years (by TCorp and the Division of Local Government) have acknowledged that Woollahra is a well-managed and highly-effective council. It has a strong revenue base, with the capacity to improve its financial position over the short-term through special rate variations and adjustments to service charges. Debt levels are low, so that council has the scope to undertake new projects.

While other councils within the proposed membership of the Global City are proposing to undertake major new projects that may challenge their capacity to borrow, this is not the situation facing Woollahra.

As referenced elsewhere in this paper, Woollahra Council's Kiaora Place Public Private Partnership demonstrates Woollahra Council's capacity to successfully deliver strategically important and major development projects. The long-term community benefits from this development are substantial for the future communities of Woollahra. In addition to this development being cash-positive from day one, the long-term financial forecasts see the net return to Council reaching \$19.9 million in the 30th year of operation (expiry of the initial lease term for Woolworths and loan repayments), to \$32.3 million in year 40, and \$50+ million by year 50. Cumulative benefits at that point exceed \$800 million. The detailed financial modelling prepared by CBRE Richard Ellis extends to year 80, being the expiry of the Woolworths lease renewal options.

This one development alone combined with moderate existing and forecast debt levels, presents the Council with the capacity to expand services delivery, to take on new and expanded functions and to meet the growing expectation of its community.

Council is currently evaluating proposals for similar initiatives for strategic asset sites in Rose Bay and Double Bay.

c. Ability to employ a wide range of staff

Management and staff are fully qualified to service the needs of the municipality, and no attempt has been made to recruit a wider range of skills than required for council's core activities. Highly specialised skills are purchased as required through joint purchasing arrangements with other councils or through short-term service contracts, rather than employing these people on staff.

Council acknowledges the challenges faced by a number of council in remote and regional areas where high quality staff may not be as readily accessible as city councils and councils in larger regional centres. Similar difficulties may arise across all councils regardless of location where there is evidence of instability, conflict and concerns over reputation make them less attractive to high calibre candidates, particularly where the circumstances create high turnover.

Woollahra Council maintains excellent relationships between the elected members and the staff, with this stability and business approach reflected in the strong reputation the Council enjoys with the community. This was evidenced by the (then) Division of Local Government in its 2011 Promoting Better Review of the Council, where it was noted in relation to the conduct of council meetings:

"Councillors appeared to be very respectful of each other and Council staff in attendance and worked well together in discussing and resolving item on the agenda.

*Members of the public gallery making an appeal or comment on particular matters were also treated in a respectful manner by both councillors and Council staff present at the committee meeting."*²³

Through its brand, Council continues to attract strong interest from prospective candidates. In the last 12 months an average of 24 candidates applied for each vacancy advertised.

Council's reputation as an employer of choice is also reflected in our improving retention rate (as measured by Local Government HR Metrics Benchmarking Report 2014) which at 8.1% is marginally below the industry average of 8.5% (Voluntary Turnover Rate)²⁴ and through excellent results achieved in our most recent staff climate surveys. In 2012 Woollahra Municipal Council was rated the leading council in NSW on staff engagement as measured by an independent staff survey conducted by Insync Surveys Pty Ltd.²⁵

The Council has also been acknowledged through industry awards for the strength of its approach to Risk Management and Business Assurance. Specifically in this regard the Chair of the Council's Audit and Assurance Committee, Mr John Gordon, provided the following concluding comments in his Report on the Operations of the Audit & Assurance Committee for the Period from 1/7/2013 to 29/10/2014.

*"The Committee has formed a favourable opinion of Council's enterprise wide risk management process and the way it is integrated into normal operations. Form my experience of other Local Government entities, Council ranks as a leader in the way it has embraced risk management and supported this with a professional Internal Audit function. Both I and my other Independent AAC colleague have referred other Council clients to Woollahra Council for advice on risk management and control matters."*²⁶

d. Knowledge, creativity and innovation

These are obviously desirable qualities, but it is impossible to respond to such a broad statement of capabilities. It is widely accepted that these qualities are often absent from state bureaucracies, and it would be extraordinary if IPART were to support a recommendation for amalgamation based on an alleged deficiency of these attributes in municipal government.

Nevertheless, Woollahra Council has shown its capacity for innovation and creativity over many years. While a number of examples could be adduced, we offer the Master Plan for Gap Park, where the council took the lead in forming partnerships with a wide variety of external stakeholders to address a complex social issue in a highly creative way.

Case Study: Gap Park Master Plan

Woollahra Council faced both a unique challenge and an opportunity in developing a Master Plan for Gap Park. In addition to being an iconic tourist destination, the Gap is a notorious suicide hotspot. Faced with the social and physical challenges of the site, the Council took a collaborative approach in 2007 to start what turned out to be a long term project. It prepared a Master Plan for Gap Park that enhances its reputation as a premier tourist location and delivers self-harm minimisation measures aimed at reducing self-harm on the site.

In consultation with mental health service providers and the local police, council created an active, friendly destination through purpose built fencing, lighting, signage, seating, landscaping and pathways – all the normal capital works the community expects. In promoting the Park's recreational profile, the Council also wanted to increase the park's population, providing greater potential for self-harm intervention and a faster emergency service response with better outcomes.

Stage 1 included an inward curved purpose-built fence to serve as a physical barrier, a CCTV system and monitoring service, emergency help point phones linked to NSW Police and a dedicated Lifeline contact for the site, signage with messages of hope (designed with Lifeline and the Black Dog Institute), new seating and better lighting. Stage 3 includes the introduction of thermal imaging software to supplement the CCTV coverage to further assist emergency services responses.

As a result of this collaboration, Council has made a real contribution to a highly sensitive social issue, and developed a Master Plan that promotes public recreation and improve the long-term manage of the asset. The project has attracted national and international interest, and it breaks the stereotypes about the work that councils are usually involved in.

Other Examples

Other examples of innovative management of community assets include:

- The Kiaora Place Public Private Partnership
- Rose Bay car-park development to involve retail car-park and community facilities
- Adaptive re-use of the Cross Street Double Bay car-park to include a cinema complex, retail and commercial space, public car-parking and potentially residential development.

These are examples of multi-million dollar projects framed around common parameters of meeting community, retail, commercial and potentially housing demands delivered through a Public Private Partnership arranged at no cost to the ratepayer. This reflects the business expertise of the elected members and professional staff.

The soon to be completed Kiaora Place project is a \$115 million PPP which was subject to detailed examination by NSW Treasury and the Office of Local Government. The financial modelling submitted for review by NSW Treasury forecasts a net cash return to the Council over the first 30 year term of \$127 million, after providing for a new public library.

The Council will target similarly successful outcomes from its Rose Bay and Double Bay projects currently under planning and feasibility evaluation.

This also illustrates the Council's approach to partnering with the private sector to secure long-term public benefit rather than developing specialist capabilities in-house.

e. Advanced skills in strategic planning and policy development

How advanced? With the obvious exception of the Sydney City Council, the councils listed for inclusion in the proposed Global City are municipal authorities, and with rare exceptions, the challenges that elected councillors and professional staff will face are local ones.

Once again, when advanced skills in strategic planning and policy development are required, they can be acquired under contract for as long as the service is required, or they can be procured collaboratively through a ROC (or JO) or some other regional institution such as the Greater Sydney Commission.

The people of Woollahra (and the people of Sydney more broadly) will not be well served by hiring highly experienced (and expensive) policy and planning staff that are simply not required for the delivery of services to the local community day by day. Good governance lies in recruiting staff with those skills necessary for the effective performance of the council's core business. Until the state government spells out a profoundly different model of local government, it would be irresponsible of Woollahra Council (and other Sydney councils) to start recruiting.

f. Effective regional collaboration

IPART's methodology is inconsistent on the scope of stand-alone local authorities to pursue increased efficiency and effectiveness, capture the benefits of scale and build capacity and capability through collaboration and the sharing of resources. On the one hand, it says nothing about the Greater Sydney Commission and the associated sub-regional groupings, and it precludes discussion of the potential for Joint Organisations (JOs) or County Councils at this stage in the reform process:

. . . the formation of JOs is expected to occur during the next stage of the FFTF reform process, after other structural change and boundary change has been progressed.²⁷

On the other hand, it acknowledges that councils can incorporate sharing of resources and services in their Improvement Plans.

In some cases, councils may also choose to submit a Council Improvement Proposal which incorporates some aspects of structural change in their forward planning (eg, sharing some services or resources with other councils).²⁸

IPART's methodology fails to recognise that a number of councils, including Woollahra, already capture the benefits of scale, and access strategic capabilities through Regional Organisations of Councils and other forms of collaboration. And, as recently reported in the media, the threat of forced amalgamations seems to have had the effect of undermining the collaborative relationships that have developed at this level over some decades.²⁹

There are a number of alternative ways in which councils have addressed the need for regional collaboration without the need for amalgamation.

Joint Procurement and Shared Services

Woollahra has been a member of the South Sydney Regional Organisation of Councils (SSROC) since 1992. SSROC represents sixteen councils in the east, south and inner west of Sydney, covering a quarter of the population of the Greater Sydney metropolitan region. SSROC currently has around 30 contracts including basic commodities such as stationery, playground equipment and ready-mixed concrete and major services such as electricity supply and waste treatment.

- Electricity supply to large sites – SSROC has organised joint tenders for large sites and public lighting, with a contract that now covers 12 member councils and 6 non-members. In the 2012 tender, this resulted in a 6 -9% reduction in councils' electricity costs, a collective saving of around \$1.3 million.

- Waste treatment – eight member councils used SSROC to manage tenders for a new alternative waste treatment facility and interim landfill arrangements. It was estimated that these councils will avoid millions of dollars in waste levies in the first year alone.

One of the ROC's most successful programs had been its street lighting improvement program which included 18 non-member councils. Through collective representations to regulators, SSROC had been able to secure savings of more than \$20 million from Ausgrid in the 2003/04 and 2008/10 reviews. The ROC has also attracted grant funding to finance the replacement of low efficiency lighting on main roads, and has been leading negotiations over the replacement of existing lighting with less energy-intensive technologies.

There were also a number of shared services projects established or in train, although SSROC acknowledged that collaboration on shared service projects was often difficult for some of its member councils. In several cases, the ROC served as the shared service provider, and employed senior internal audit staff providing services for seven councils; and strategic procurement coordinators for three member councils. Attention was then being given to other shared services, including:

- A regional approach to certain specialist services, including pool inspections, legal services and project management.
- Several councils were working on aligning their payroll systems, and the ROC is examining the feasibility of standardising these services across the region.
- An audit was to be undertaken of the types of training and development undertaken by member councils to ascertain areas of common interest.

As a joint purchasing organisation, SSROC permits councils to exploit different scale economies where they exist. Small groups of councils within the ROC also collaborate in the sharing of services across political boundaries:

- One SSROC council provides dog pound facilities for another;
- Several councils collaborate in the provision of 'Meals on Wheels';
- Three have worked together on waste management over several years;
- Eight councils have entered into long-term contract for the treatment of household waste. The contract will see a 60% reduction in waste to landfill across Greater Southern Sydney;
- SSROC's street lighting improvement programme has been so successful that it includes 18 non-member councils.

This level of collaboration has been achieved in spite of legislative impediments, and a lack of ongoing support from the state government. We submit that, with proper support from the government, the ROCs (or JOs structured along similar lines) could accomplish many of the scale benefits claimed for the mega-councils.³⁰

Collaboration by Woollahra in Shared Policy, Planning and Services

Woollahra has been an active partner in a wide range of multi-council initiatives, at a variety of different levels, and in working closely with state government agencies, as and when required:

- In conjunction with Waverley and Randwick Council, Woollahra has funded the development of an Eastern Suburbs Economic Profile and jointly-purchased Economy ID as a tool for the three Councils and their communities to better understand the economic drivers and economic trends within their respective Council areas, business centres and the eastern suburbs.
- Woollahra consulted with Waverley Council during the preparation of its Comprehensive LEP which commenced on 23 May 2015. The focus of this consultation related to planning controls on each side of New South Head Road.
- The council engaged in a partnership with the City of Sydney for the joint operation of the Paddington Library service. SCC provides the facility free of charge and Woollahra manages the service on behalf of both councils. The service is overseen by a Planning Group that consists of the relevant Directors and Managers of Woollahra and the City. This arrangement has been in place for many years.
- Woollahra conducted a joint tender with Waverley Council for the procurement of a library management system.
- The council secured a joint library development grant with Waverley for Radio-Frequency Identification (RFID) system and participated in a joint tender with other SSROC member councils.
- Participation in the Eastern Region Local Government Aboriginal and Torres Strait Islander Forum. This is partnership between six councils – Woollahra, Waverley, Botany, Sydney, Randwick and Leichhardt. Established in 1998, the Forum meets bi-monthly and aims to promote reconciliation and address and participate at a regional level in the affairs, events and celebrations that impact our local Aboriginal and Torres Strait Islander communities.
- Woollahra Council participates in a Regional Environmental Program with Waverley and Randwick Councils.
- Woollahra Council is a member of the Local Government Children's Services Forum that meets bi-monthly to discuss and share information pertaining to the provision of local government early education and care services. In 2014, 23 member councils (Auburn, Blacktown, Botany Bay, Campbelltown, Canterbury, Fairfield, Holroyd, Hurstville, Kogarah, Leichhardt, Liverpool, Manly, Marrickville, Mosman, Parramatta, Penrith, Randwick, Shellharbour, Sutherland, Sydney, Warringah, Waverley and Woollahra) combined resources to engage consultants to conduct research into the delivery of early childhood education and care.

- Woollahra are participating in a working group of council representatives with the Office of Liquor Gaming and Racing to examine opportunities to better coordinate the respective roles of OLGA and local government in relation to liquor licensing, the consideration of DAs for licensed premises, the development of standard conditions and the enforcement of license conditions.
- In 2007, the Council launched a comprehensive process of consultation and engagement for the development of a new master plan for Gap Park, in an attempt to reduce suicides at this iconic site. Over the next six years, council worked closely with local, state and federal government agencies (notably NSW Police and National Parks and Wildlife Service), media outlets, service providers, suicide prevention advocates and mental health organisations, particularly Lifeline and the Black Dog Institute. The project has attracted national and international interest.
- Woollahra has worked with Waverley Council for several years to deliver an annual Transition to Starting School Forum to provide information and resources for parents from both LGA's with young children who will be starting formal schooling the following year.
- For the past two years, Woollahra has worked with Waverley to deliver free training to early childhood staff working in centres in the Waverley and Woollahra area about the pathways to local Early Intervention services for children who may need additional support.
- For many years, Waverley and Woollahra Councils have co-funded WAYS, a local Youth Service provider to provide Youth Week activities and celebrations to young people from both LGA's.
- Woollahra Council attends quarterly meetings of the SSROC Community Culture and Recreation Network, which focus on issues that are common to all of us, including homelessness and potential impacts of funding changes as a commonwealth and state level. We have also contributed to the draft regional youth strategy.
- A Woollahra representative attends the regional Home and Community Care (HACC) forum which focuses on issues pertaining to aged and disability service providers and their clients in the region. Representatives from Waverley, Woollahra, Botany Bay, Sydney and Randwick convene the meetings which include guest speakers of interest to all.
- Woollahra Council is a member of the Local Government Community Safety and Crime Prevention Network that meets quarterly to discuss crime prevention and safety initiatives.

- The Oxford Street Working Party brings together representatives from the City of Sydney and Woollahra Councils to develop and implement strategies aimed at the economic revitalisation of the retail and commercial Oxford Street Paddington.
- Woollahra, along with all Sydney Harbour councils, is a member of the Sydney Harbour Federation Trust Community Advisory Committee which contributes to the vision planning and management of Sydney Harbour sites including Cockatoo Island and Snapper Island in Sydney Harbour, Woolwich Dock and Parklands in Woolwich, HMAS Platypus in Neutral Bay, Georges Heights, Middle Head and Chowder Bay in Mosman, North Head Sanctuary in Manly, Marine Biological Station in Watsons Bay and Macquarie Lightstation in Vaucluse.
- Woollahra is a member of the Sydney Coastal Councils Group Inc., established in 1989 to promote co-ordination between Member Councils on environmental issues relating to the sustainable management of the urban coastal environment. The Group consists of 15 Councils adjacent to Sydney marine and estuarine environments and associated waterways, and represents over 1.4 million Sydney-siders. Member Councils are; Botany Bay, Hornsby, Leichhardt, Manly, Mosman, North Sydney, Pittwater, Randwick, Rockdale, Sutherland, Sydney, Warringah, Waverley, Willoughby and Woollahra.
- Woollahra Council sold its O'Dea Avenue Depot site in 2014 for \$56 million and relocated to a new joint depot facility in Alexandria with Waverley Council, the Alexandria Integrated Facility (AIF), at a cost of \$11 million. In addition to the opportunity presented by this relocation to operate services to the community from the new state of the art facility, the project has also injected a net \$45 million into Woollahra Council's long-term financial planning.
- Woollahra and Waverley Council are working collaboratively to fund and build a new Waverley/Woollahra State Emergency Services depot facility in Bondi Junction.

In our submission, IPART cannot form a judgement on the contribution that amalgamation might make to regional collaboration without a close study of the cooperative arrangements that already exist. These arrangements are highly varied, taking into account the diversity and complexity of the issues at stake and their natural geographic boundaries. The proposed amalgamation of the Sydney City Council with four eastern-suburbs councils fails to comprehend the extent of this diversity and complexity.

Regional Planning

The state government has recently established the Greater Sydney Commission to coordinate land-use and infrastructure planning across the greater Sydney region. Councils will be partners in this organisation through six sub-regional groupings. Woollahra is to be part of the Central sub-region, which will also include: Ashfield, Botany Bay, Burwood, Canada Bay, Leichhardt, Marrickville, Randwick, Strathfield, City of Sydney and Waverley.

The scope of its powers and functions remains unclear at this stage. Explanatory notes issued by the state government indicate that the Commission will play the following coordination roles:

- identifying places for housing and jobs which are close to transport and services;
- identifying new and improved services, such as public transport, that will be essential as communities grow;
- improving local environments and open spaces;
- helping to create well-designed neighbourhoods and suburbs.

Woollahra are working with SSROC and the GMs of all councils within the Central Sydney subregion, as identified in '*A Plan for Growing Sydney*' published by the Department of Planning and Environment in December 2014, to achieve a coordinated approach to planning for the sub-region.

While there is certainly a need for sub-regional planning, there is no reason why the boundaries of the proposed Global City or any other mega-council proposed to include the municipality of Woollahra would improve the quality of existing arrangements. Woollahra would certainly not benefit from most of the alleged benefits from inclusion in the proposed Global City.

Given the complexity of land-use and infrastructure planning across the greater metropolitan area, and the establishment of the Greater Sydney Commission, the creation of mega-councils will contribute little to the better coordination of regional or sub-regional planning, and by creating a small number of strong mega-councils, may actually make it more difficult.

Woollahra is also a member of the Metropolitan Council of Mayors, and quite apart from the Greater Sydney Commission, strongly supports collaboration of mayors across the greater Sydney region.

Woollahra is geographically self-contained. It belongs to a separate water catchment from Waverley, Randwick and Botany Bay. The community has a strong relationship with Sydney Harbour rather than Botany Bay or the Pacific Ocean. It has little in common with the City of Sydney.

Woollahra Municipality falls outside the economic corridor planned for the Sydney metropolis. Its main transport corridors are distinct from neighbouring councils, and the self-contained nature of Woollahra Municipality means regional collaboration on transport or other infrastructure is not a pressing priority as it may be in other parts of the Eastern Suburbs.

When sub-regional or trans-regional issues arise that justify Woollahra's involvement in a collective venture, then new standing or ad hoc institutions can be established to deal with them. For example, Woollahra is a member of the Sydney Coastal Councils Group, established in 1989 to address sustainability challenges shared by the member councils dealing with the urban coastal environment. These councils are not all geographically contiguous – they have come together on the basis of a shared policy challenge.

g. More effective advocacy

There are two dimensions to advocacy – the ease and effectiveness with which residents and local interests can communicate with their council, and the ease and effectiveness with which councils communicate with external stakeholders, including state and federal governments.

Amalgamation with councils whose interests differ significantly from those of Woollahra residents will weaken the capacity of local residents to communicate their concerns to government. And a significant mismatch between the scale of political organisation and the scale of service usage is likely to result in local residents paying for services they do not want, or not being able to convince the council to deliver services that they do want.

Correspondence

If a local community does not share the same preferences as the majority of the residents in a mega-council, then it is likely that the services associated with those preferences will be underfunded or not funded at all. For this reason, forced amalgamation on the scale proposed by the Review Panel is likely to result in the under-provision of services that are highly valued by particular neighbourhoods or communities. In the same way, a significant mismatch between fiscal boundaries and service boundaries may result in over-provision.

This has been described as the principle of 'correspondence' – 'each tier of government should have revenue raising and regulatory powers commensurate with its responsibilities'³¹ – or 'fiscal equivalence' – 'there is a need for a separate governmental institution for every collective good with a unique boundary, so that there can be a match between those who receive the benefits and those who pay for it'.³²

There are limits to the extent to which correspondence or fiscal equivalence can be pursued, but one of the ways it might be addressed (at least in part) is through the establishment of regional structures such as Joint Organisations. Woollahra Municipal Council supports the exploration of Joint Organisations as a way of capturing scale economies for certain functions, and for improving the scope for correspondence.

As noted elsewhere in this submission, the range of issues requiring advocacy in a metropolitan region as large as Sydney is diverse and complex, and will not be conveniently captured within the boundaries of the proposed Global City. Indeed, the

creation of strong mega-councils could very well have the effect of weakening the incentives to organise across jurisdictional boundaries. SSROC, the Eastern Region Local Government Aboriginal and Torres Strait Islander Forum and the Sydney Coastal Councils Group Inc. are just three current examples of this kind of collaboration.

h. Capable partner for state and federal agencies

The ILGRP placed a great deal of importance on the advantages from amalgamation in the capacity to partner with the federal and state governments. It is understandable that the state government might find it convenient to deal with a smaller number of local authorities when negotiating changes to policy and planning regulations, but this is not a strong reason for local councils to favour amalgamation.

It will also be much more convenient for the state and federal governments to deal with large corporations – there are fewer of them, and they can afford to recruit former political advisers and policy analysts who speak the same language as the government's own policy staff – but this would not be regarded as a justification for refusing to deal with small business, or to encourage mergers and acquisitions for the sake of creating more convenient 'partners'.

The great American political scientist, Aaron Wildavsky, once observed:

If we relax the assumption that a common purpose is involved, and admit the possibility (indeed the likelihood) of conflict over goals, then coordination becomes another term for coercion.³³

The same is true of partnership. What the ILGRP is saying when it argues for 'capable partnership' is that local government should become more amenable to state government policy changes.

Partnership is not an end in itself, but rather an instrumental value – it is necessary to know the purpose that the partnership is intended to serve to know whether it is desirable. There are also different kinds of partnerships, some of which will be better suited for particular purposes than others.

To a significant extent, whether or not councils have a collaborative relationship with the state government is dependent on the government and the willingness of its departments and agencies to engage in a meaningful way with local government. SSROC has sought a closer partnership with the state government over many years, with very limited effect.

The Greater Sydney Commission will demand new forms of collaboration between state and municipal governments in the metropolitan area, and the new sub-regions will create new partnerships between councils in the defined geographic zones. While a great deal about this new system of metropolitan governance is still unknown, the objectives are relatively clear. By comparison, it is unclear what kind of 'partnership' the proposed Global City is intended to create.

This is not a strong reason for proceeding with the creation of mega-councils, and given the different issues facing the residents of our locality, it is not a good reason for Woollahra being forced to merge with its neighbours or join a so-called Global City.

i. Resources to cope with complex and unexpected change

As noted above, council has the financial and organisational capacity to cope with complex and unexpected change. Forcing it to merge with other councils that are not as well equipped will only serve to dissipate those resources.

j. High quality political and managerial leadership

Over the past three council terms there have been ten barristers or solicitors, a doctor, nine company directors/managing directors, two architect/town planners, an ASIC Chairman/Commissioner, several chartered accountants, several investment bankers/traders, marketing, journalism and management professionals, government policy advisers and business owners.

It would be unusual to find such a high level of experience and expertise in the ministry of an Australian state government, and this provides a powerful illustration as to why it is dangerous to draw the simplistic conclusion that small councils lack significant political and managerial leadership. And through successive mayors and local members of parliament, Woollahra Council has maintained excellent relationships with both the state and federal Governments.

Amalgamation with other councils would almost certainly result in the loss of a significant amount of this capability. Only two or three of these men and women would be elected to a mega-council, and the additional commitment in time would not be compensated by the salary that might possibly be paid. Any conceivable remuneration could not possibly compensate them for the opportunity cost.

Scale and Capacity: Woollahra has an exceptionally strong revenue base, occupying a much stronger position than any other council in the Sydney region, with the resources required to respond to unexpected change.

Management and staff have been recruited and trained to deliver the core functions of a municipal council. Specialist skills and strategic planning capabilities are acquired on a contractual basis or through regional collaboration as and when required.

The Council attracts exceptionally well qualified professional and business leaders to serve as mayors and councillors, and amalgamation would result in the loss of a significant amount of this capability.

Woollahra has a long history of regional collaboration in joint purchasing, policy development and land use planning. Forced amalgamation into a mega-council would weaken the well-established collaborative arrangements that have developed across the city over many years.

The Council takes the view that metropolitan-wide collaboration is much more important than the sub-regional groupings identified by the ILGRP, and supports the Greater Sydney Commission.

5. The Other Fit for the Future Criteria

The IPART methodology also requires that after establishing scale and capacity, a council:

. . . satisfies overall the other criteria of sustainability, effective infrastructure and service management, and efficiency. . .³⁴

5.1 Woollahra is already fit for the future on 5 of the 7 financial health checks. It will meet the other two by June 2016, four years ahead of the 2020 date.

For many years Council has adopted a fiscally prudent budget strategy to guide the development of its annual budgets. With an overarching strategy of providing sufficient funding for continuing services further strategies include:

- Provide funding for recommended service expansions;
- Continue council's commitment to asset renewal;
- Continue a program of capital improvements at similar budget levels and ratios;
- Maintain an adequate working funds balance.

Among a series of economic parameters is the goal of adopting balanced budgets each year and continuing to grow income from fees and charges. Modest and supported growth in expenditure ensures the ongoing efficient delivery of services at the levels expected by the community.

As already noted, Woollahra Council commissioned a report from Independent Consultant's Grant Thornton (Annexure 3 pages 19 to 20) on the Council's performance against the FFTF financial benchmarks – on a stand-alone basis, and against a variety of amalgamation options. As regards Woollahra Municipal Council, Grant Thornton reported:

Operating Performance (OP)

OP ratio average is -3.48% which does not meet the FFTF benchmark of >0%. OP increased from -4% to -2.78% in FY2014 due to a negative fair value adjustment in relation to investment properties of c.\$-1.9m. However, Woollahra's historic income from continuing operations FY12-FY14 only grew c\$.4.5m when expenses grew c\$.8.3m over the corresponding period. This denotes OP has a decreasing trend towards FY14 if this one-off adjustment is overlooked.

The Operating Performance ratio is below benchmark at 2012-13 at -0.035. Primarily as a consequence of Council's Kiaora Place PPP with Woolworths and the income streams generated from the development, the ratio quickly improves in 2015/16 to 0.013 and remains above benchmark through to 2019-20 (refer Template 2 Table 4.1). Looking further ahead, Council's Long Term Financial Plan (LTFP) shows the Operating Performance ratio on a steady incline through to 2019-30.

Woollahra Council will meet the Operating Performance benchmark by June 2016

Own Source Revenue (OSR)

As expected of a metropolitan Council, council's Own Source Revenue Ratio is well above benchmark, indicating a low level of reliance on external funding sources including the Financial Assistance Grant.

The OSR ratio is 90.75% and is comfortably above the FFTF benchmark of >60%. The ratio has experienced a positive trend over the past three years as it increased from 89.9% in FY12 and FY13 to 92.4% in FY14. The slight increase in FY14 is attributable to decreasing income both from grants and contributions for operating and capital purposes but balanced by an increase in rates, annual charges as well as user charges and fees compared to FY13. The \$-1.9m fair value adjustment also negatively impacted the OSR ratio in FY14.

Woollahra Council meets the Own Source Revenue benchmark now

Building and Infrastructure Asset Ratio (BIAR)

The BIAR ratio is 74.16% which does not meet the FFTF benchmark of 100%.

Despite being below benchmark, it must be noted that the ratio increased from 56.6% in FY12 to 89.6% in FY14. This improvement highlights Woollahra's efforts to increase its funding for asset renewal through the Environmental and Infrastructure Renewal Levy. If Woollahra continued on this trend, it would potentially reach the FFTF benchmark in the near future.

Council has in place a robust asset management framework which is consistent with the IP&R Guidelines. Our policy was adopted in 2010: an Asset Management Strategy for the period 2010-2020 and a suite of Asset Management Plans (AMPs) for our major asset classes. Developed in 2010/11, these plans are currently undergoing their first scheduled five year review and update. When these updates are completed in November 2015, the revised plans will cover the period 2015-2035. Management of these processes is overseen by an internal Asset Management Steering Committee.

The robustness of Council's approach to asset management was endorsed by the Office of Local Government in their 2010 'Promoting Better Practice' review. A further endorsement was received in October 2014 when our systems and processes were audited by consultant auditors BDO as part of council's ongoing Internal Audit and Assurance Program. A further audit of this type is proposed for 2016 and biennially thereafter.

In preparation for the current review of AMPs, Council has undertaken detailed asset inspection of civil infrastructure assets over the last 18 months and is currently well advanced in an inspection program of council buildings. The outcome of these inspections will inform the revised AMPs.

Woollahra Council will meet the Buildings and Infrastructure Assets benchmark by June 2015

Infrastructure Backlog Ratio (IB)

The IB ratio is 1.36% which meets the FFTF benchmark of <2%. It must be noted that the IB ratio was c.5% in FY12 and c.6% in FY13. FY14 significant improvement is due to a change in the calculation method of the IB ratio, specifically how Woollahra was calculating the cost of returning assets to a satisfactory standard. Given recent criticism of councils' revision of these ratios, some background is required.

In the second half of 2014, council's engineers were updating the asset data base to include the findings of field inspections undertaken over the previous year. These inspections were to inform the five yearly review of council's asset management plans which were scheduled for 2015. Council was aware that Special Schedule 7 (SS7) was to be formally audited for the first time in FY2014/15, and staff also undertook an informal review of the methodology and numbers behind the published FY13/14 Schedule.

While undertaking these reviews, three material issues were identified with the data base and the methodology behind the published SS7 which together had the effect of artificially inflating the published figure for the backlog. In ordinary circumstances, council would have included the corrected figures in a new SS7 at the end of the financial year, but because of the proposed audit, it was decided to correct the published figure immediately. Following a review of our amendments by auditors Hill Rogers Spencer Steer, council revised its 2013/14 SS7 and informed the Office of Local Government accordingly.

Three corrections were made to the Schedule:

1. In the asset class, 'Sealed Roads Structures', the published SS7 included a backlog figure of \$5.8m. For this particular asset class, which is subterranean and therefore not subject to inspection, the estimated time of renewal is based entirely on initial life expectancy compared to age of the asset. The initial life expectancy allocated to these assets in Council's data base was 60-80 years. As many of these roads were built in the 1950s, the asset management system was automatically reporting them as overdue for replacement. A more realistic life expectancy for this class of asset is 100-120 years, which was adopted by the SSROC Councils in 2013. When this revised life expectancy is applied to this asset class, no assets are reported as requiring renewal. This is consistent with the observation of Council's engineers who report that on the rare occasions that these assets are uncovered as part of other works, they are invariably in very good condition. The backlog figure was therefore reduced from \$5.8m to zero.
2. The published SS7 included a significant error in the written down value for Sealed Road Structures as it erroneously excluded the value of the road subgrade which, as a depreciable asset, should have been included. The written down value which was reported as \$41.168 million should have been reported as \$212.017 million.

3. For the asset category of buildings, the reported 'Estimated cost to bring these up to a satisfactory standard' (backlog) had been significantly over-estimated. A review of the asset inspection data showed that very few building assets required immediate renewal, but the SS7 had reported a backlog figure of \$3.6m. A review of this anomaly by our Property Manager revealed that staff had incorrectly included the costs of some renewal works which were planned for coming years, but which were not reasonably considered to be part of an existing 'backlog'. The estimate in the Schedule 7 was corrected accordingly.

As further assurance, Council engaged a second auditor, PwC, in 2015 to review the methodology used in preparing our SS7. This review again supported the methodology.

Woollahra Council meets the Infrastructure Backlog Ratio benchmark now

Asset Maintenance (AM)

The AM ratio decreased from 109.8% in FY13 to 95.4% in FY14. With a three year average of 102.31%, the ratio is slightly over the FFTF benchmark. The positive average result can be explained by the Council's significant effort to maintain its public roads, however the decrease in FY14 is due to a new asset category; open space and recreational assets, that Woollahra Council was not maintaining in previous years and for which the actual maintenance was close to \$300k lower than the required maintenance.

Woollahra Council meets Asset Maintenance benchmark now

Debt Service (DS)

The DS ratio is 2.12% which meets the FFTF benchmark of >0% to 20%. The ratio increased from 1.99% in FY13 to 2.30% in FY14 and has been well positioned between the benchmark limits over the past three years as debt level has remained stable.

Woollahra Council meets Debt Service benchmark now

Real Operating Performance per Capita (ROPPC)

ROPPC has been decreasing from 1.17 in FY10 to 1.12 in FY14 and therefore meets the FFTF benchmark which promotes a decreasing trend. Over this period of time, Woollahra's population has been slowly increasing while the Council's CPI-deflated real operating expenditure remained relatively stable.³⁵

Woollahra Council meets the Real Operating Performance benchmark now

5.2 Woollahra is financially sustainable: 'Moderate' at present; 'Sound' within three years

A February 2015 review of Woollahra Municipal Council by TCorp concluded:

Council is currently assessed to have a FSR of Moderate. Based on the revised information provided to TCorp for the Base Case scenario, the Outlook for Council for the next three years is Currently Positive, which means that Council is likely to improve to an FSR of Sound over the next three years.³⁶

There is no case that would justify forcing Woollahra to amalgamate with neighbouring councils or becoming part of a 'Global City' based on economies of scale and financial sustainability.

5.3 Lack of a performance framework

We note that the FFTF framework fails to make any mention of service delivery. It is impossible to know whether local governments are providing value for money if there are no agreed benchmarks for the core services they are required to deliver.

The Division of Local Government commenced a consultation process on 'a new framework for measuring performance in local government' in November 2013, which was concerned with financial performance, sustainable asset management and strong governance as well as service delivery. But the service delivery element of this framework seems to have been abandoned partway through.

We acknowledge the difficulty of developing meaningful statements of service outcomes, service standards and performance benchmarks, and the problems that can be created if government does not allow sufficient time to build a consensus around outcomes, measures and benchmarks, and if the results are used to punish rather than drive service improvement.

But it is not enough for government to measure revenue and debt servicing backlog ratios – a reform process that was seriously concerned about making councils fit for the future would have incorporated this principle at its very heart. Any such performance regime must seek to capture the expectations and attitudes of local residents.

Financial Fitness: Grant Thornton has confirmed that Woollahra is currently financially fit on 5 of the 7 benchmarks, and will comply with the other two within two years.

The Treasury Corporation has rated the council as having moderate financial sustainability at present, and will be sound within three years.

Endnotes

- ¹ IPART, 'Methodology for Assessment of Council Fit for the Future Proposals', June 2015, p.8.
- ² IPART, 'Methodology. . .', p.31.
- ³ IPART Press Release, 5 June 2015, p.1.
- ⁴ Mark Lea Drummond, *Costing Constitutional Change: Estimates of the Financial Benefits of New States, Regional Governments, Unification and Related Reforms*, School of Business and Government, PhD Thesis, University of Canberra, Nov 2007.
- ⁵ S.C. Soul, *Population Size and Economic and Political Performance of Local Government Jurisdictions*, research thesis submitted to the Southern Cross University to fulfil requirements for a Degree of Doctor of Philosophy, 2000, p.17.
- ⁶ Soul, *Population Size. . .*, p.179.
- ⁷ Elisabeth Sinnewe, Michael A. Knott and Brian Dollery, 'Is Biggest Best? A Comparative Analysis of the Financial Viability of the Brisbane City Council', *Australian Journal of Australian Public Administration*, forthcoming.
- ⁸ Micromex Research, 'Woollahra Municipal Council', April 2015.
- ⁹ IPART, 'Methodology. . .', p.34.
- ¹⁰ Grant Thornton, 'Woollahra Municipal Council: Technical Assistance FFTF', April 2015, pp.21-22.
- ¹¹ IPART, 'Methodology. . .', p.33.
- ¹² Micromex Research, 'Woollahra Municipal Council', April 2015.
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