MorrisonLow

Rockdale Council

Fit for the Future – Merger Business Case Modelling

DRAFT REPORT

March 2015

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1. INTRODUCTION

1.1 Fit for the Future

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However, there were various views as to how this could be achieved and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Rockdale City Council has engaged Morrison Low to undertake merger business case modelling across a broad range of factors (financial, social, environmental) in order to understand the implications of the merger proposed by the Independent Local Government Review Panel. Additionally, Council has also sought advice on potential mergers of the traditional St George councils only.

The government has a position based on the independent review panel recommendation for a combined St George and Canterbury councils, however, as has become clear to each of the councils affected by this recommendation there is little information about the benefits and dis-benefits of the proposed merger, nor any ready information about whether and why a large scale merger is the best option.

1.2 Merger business case modelling

The modelling is prepared on the basis of the information which is publicly available. This has been refined and modified through discussions with Rockdale City Council but no discussions have been undertaken with any of the other councils for the purposes of this business case.

Where the data is inconsistent or unclear it has not been included and will be recorded as either ‘no data’ or ‘no result’.

The data provided within the model is drawn from a variety of sources (including Rockdale directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail.

2. SCOPE

2.1 Multiple scenarios

This report analyses the following options.

1. **Rockdale Stand Alone**

   This is measured against Rockdale's current and future financial position based on the published Financial Statements and Long Term Financial Plans (Scenario 1) and as modified through further information provided by Council based on a revaluation of assets and resulting reduction in depreciation (Scenario 2).

   Where Rockdale has been identified as not meeting one of Fit for the Future benchmarks we have identified what the funding gap is. The analysis does not resolve how the gap would be addressed, as that is a question for council.

2. **Merger Options**

   The advantages and disadvantages of a number of different potential merger options have been assessed against a series of agreed criteria. The criteria include financial and non-financial indicators and go beyond the government's Fit for the Future benchmarks to incorporate communities of interest and the alignment between the council organisations.

   The options considered are

   - Rockdale + Kogarah + Hurstville ('St George')
   - Rockdale + Kogarah + Hurstville + Rockdale + Canterbury ('St George and Canterbury')

2.2 Reporting

This report is intended to provide a body of information which council will then use to determine what is in the best interests of the Council and community. As such it does not seek to recommend any one option over another. The report compares options and highlights advantages and disadvantages. The relative weighting that Rockdale applies will be a matter for the Council in making its determination as to the best way forward.

3. SUMMARY OF CONCLUSIONS

The Government has made it clear that the starting point for every council is scale and capacity. The Independent Panel position was that scale and capacity for Rockdale City arises through a merger of the St George Councils and Canterbury (though Canterbury has also been proposed to merge with Bankstown as an alternative).

While it is entirely possible for Rockdale to make what would be in our view a valid argument that it can meet the scale and capacity tests standing alone, Council would need to do so recognising the stated government position which runs contrary to that.

Of the Fit for the Future benchmarks, Rockdale meets only two at present and does not achieve anymore benchmarks over the modelling period based on maintaining the status quo. A change in accounting practices arising from a review of depreciation provided by Rockdale sees an improved performance with one further benchmark being met over the longer term and the Operating Performance ratio hitting 0 by 2023.

The change in depreciation affects the renewals ratio (meeting the benchmark by 2020) which in turn drives an improving outlook for the infrastructure backlog with this declining from 2019. Asset maintenance continues to be a concern with expenditure well below the benchmark.

TCorp has rated Rockdale Council with a Moderate rating for financial sustainability with a Neutral outlook. The Office of Local Government considers its infrastructure management to be Weak.

Table 1 Rockdale Council (status quo) performance against Fit for the Future benchmarks

Indicator	Modelling Outcome	Modelling Outcome (Revised reporting)
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Meets the benchmark in 2020
Infrastructure Backlog[1]	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark	Does not meet the benchmark

[1] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

3.1 What does Rockdale need to do to meet the Fit for the Future Benchmarks?

In order to meet the Fit for the Future benchmarks Rockdale requires an increase in revenue and/or a decrease in costs to address an ongoing operating deficit (as judged against the operating performance ratio criteria) and a small increase in renewals expenditure over the medium and longer term.

The average annual gap between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the period of the Council's LTFP is $4.9M per annum under Scenario 1 (13/14 Financial Statements), or $1.6M under Scenario 2 (following revaluation of assets and resulting impact on depreciation). Rockdale will need to address this in order to meet the key Operating Performance ratio benchmark.

In order to satisfy the infrastructure renewal ratio over the entire period being modelled Rockdale will need to fund an average increase of $2.5M per annum for building and infrastructure renewals. Overall the infrastructure funding gap required to meet the asset benchmarks is $5.7M over the next five years.

Even if the additional expenditure requirements set out above are achieved and a council meets all the Fit for the Future benchmarks, which logic would dictate means that scale and capacity has therefore been met, a council will still need to address the government's starting point of scale and capacity first. Interestingly in the case of each of these councils the Independent Panel position was that scale and capacity for each was achieved by a merger with different councils.

While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

3.2 Merger options

3.2.1 Scale and capacity

A merger of the St George Councils and a merger of the St George Councils and Canterbury both satisfy what appears to be the scale and capacity requirement of a population of 250,000 (based on the average size of council's not proposed for merger) by 2031.

3.2.2 Fit for the Future benchmarks

The merged council options are the sum of its parts. This means that the asset and financial positon of each council involved in the merger directly contributes to the overall asset and financial position of the merged council.

The significant transitional costs identified throughout this report mean the operating performance ratio of the merger options is consistently negative from day one and while efficiency benefits have been modelled as arising through the mergers the extent to which these are sufficient to improve the financial performance of the council differs across the options.

The table below summarised the merged council performance against the benchmarks.

Table 2 Merged council options performance against Fit for the Future benchmarks

Indicator	St George	St George + Canterbury
Operating Performance	Meets the benchmark	Meets the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

The performance of Rockdale and Canterbury in the asset related benchmarks results in the merger options not meeting the asset related benchmarks. This means that in order for the merger options to meet the asset maintenance, asset renewal and infrastructure backlog ratios a funding gap exists. This is set out in the table below.

Table 3 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (beyond 5 years) ($000)
St George Council	- 9,545	- 9,545
St George + Canterbury Council	- 20,780	- 19,202

3.2.3 Debt

The debt levels across the councils are low (total debt is $22.39M) and, in the case of the Kogarah, almost non-existent. All councils are well below the debt service ratio and the same is true for all of the merger options.

Typically, the consolidation of debt in a merger can be a community issue as a community with little or no debt may perceive as unfair having to repay debt that 'belongs' to other communities and other community's assets. In the case of the councils this may arise for Kogarah residents who currently carry almost no debt.

3.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property. Key examples are the different minimum rates across the councils and different proportions of rates borne by business and residential rate payers. For example, in Rockdale businesses bear 12% of the rates whereas in Canterbury that proportion rises to 22%.

Currently Kogarah has the highest average residential rate ($1,043) and Canterbury the highest average business rates ($4,502). In comparison Rockdale has the lowest average residential rate ($913) and Kogarah the lowest average business rate ($2,452).

A merged council would ultimately set a single rating system across the three councils and regardless of the approach there would be some properties where rates would rise and others where rates would reduce. A key driver for this would be land value and residents with comparatively high value properties would bear a higher proportion of the rates.

Changes to the average business and average residential rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected.

3.2.5 Environmental

The comparison of the community strategic plans highlighted the community as a common theme across all the councils. The review of the LEPs of the councils identified some different approaches and differing levels of relative importance for the natural and built environment and in particular highlighted the respective environments important to the communities such as the importance of the St George's river for Kogarah and Hurstville and Botany Bay for Rockdale.

The Councils approach to growth all reflect the developed nature of the LGAs with all councils falling in the Southern region for sub-regional planning where the major economic drivers for the Subregion largely seen as external to the Subregion (Sydney's Global Corridor, Sydney Airport, Port Botany and the Illawarra.

3.2.6 Representation

One of the biggest negative impacts from a merger of the councils is on representation. The number of people represented by each councillor will increase significantly under all the merger options making it more difficult for residents to access their councillors and the council.

Based on the current maximum of 15 councillors which provides an indicator of the best possible representation then under the different merger options representation would rise to 9,500 residents per Councillor (Kogarah + Hurstville), over 19,000 (St George) and around 26,000 (St George + Canterbury). All options are significantly more than the current representation levels of around 5,000 residents per councillor.

While measures can be put in place to address a loss of representation through local or community boards, at present the government has not set out in detail any proposal that the community could consider.

3.2.7 Community profile and communities of interest

There are as always similarities and differences across the four communities.

Similarities exist in the diversity of communities with over one third of the population speaking English and another language at home. Kogarah, Canterbury, Hurstville and Rockdale belongs to a cluster of New South Wales councils that have good English, high educational attendance, high year 12 achievements and a high ratio or professional to trade qualifications (NIER, March 2013).

There is a strong connection between the St George Councils. The *similarities and differences report* notes that there is a lot of population movement (migration) between the St George councils, Hurstville, Kogarah and Rockdale. Inner Sydney is a common place of work for residents of the four council areas reflecting the connection of Sydney metropolitan councils' to the City with around 14% of all workers commuting to work in Inner Sydney. However, for Canterbury, Hurstville and Rockdale, more residents work locally than commute in to Inner Sydney for employment.

There are also differences. While the four councils belong to a cluster which features moderately high wealth per household with much of this wealth in housing, Canterbury has the highest proportion of households in the lowest two income quartiles whereas Kogarah has the greatest proportion of households in the highest income quartile. Canterbury's SEIFA ranking (index of Socio-Economic Disadvantage) is significantly higher than the other three councils.

The four councils are in the same sub-region for planning purposes and the St George is typically within a single area for state service delivery.

Ultimately the question for any of the merger options would be how the council could adequately represent the different communities of interest from across the council areas. We would suggest that this needs to be considered in light of the significant reduction in representation that would arise under any of the merger options.

3.2.8 Costs and savings of the merger

The costs and savings of the mergers arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition for any of the options there are costs associated with creating the single entity (structure, process, policies, systems and branding), costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the mergers continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

The operating performance of all merger options is poor. All merger options fail the Operating Performance ratio throughout the modelling period. Operating Results for all merger options (excluding grants and contributions for capital purposes) are generally negative except the year in which asset and plant rationalisation occur.

The NPV of the costs and savings over the period being modelled (2023[2]) has been calculated and set out below, however this should be seen in light of the identified asset funding gap and the overall financial performance of the merger options.

[2] 2023 is the period being modelled to match the time covered by all Council LTFPs

Table 4 Summary of costs and savings

	NPV at 4%	NPV at 7%	NPV at 10%
St George Council	$51.3 million	$39.6 million	$30.4 million
St George + Canterbury Council	$122.7 million	$101.6 million	$85.4 million

3.2.9 Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

4. ROCKDALE STAND ALONE OPTION

An explanation of each indicator and the basis of the calculation are set out in Appendix A. Each has been calculated in accordance with the requirements set down by the Office of Local Government. The ratios are a reduced set of benchmarks drawn from those used by TCorp in its 2013 analysis of the Financial Sustainability of the New South Wales Local Government Sector.

4.1 Fit for the Future indicators

Of the Fit for the Future benchmarks, Rockdale meets only two at present and does not achieve anymore benchmarks over the modelling period based on maintaining the status quo. A change in accounting practices arising from a review of depreciation provided by Rockdale sees an improved performance with one further benchmark meet over the longer term and the Operating Performance ratio hitting 0 by 2023.

The change in depreciation affects the renewals ratio (meeting the benchmark by 2020) which in turn drives an improving outlook for the infrastructure backlog with this declining from 2019. Asset maintenance continues to be a concern with expenditure well below the benchmark.

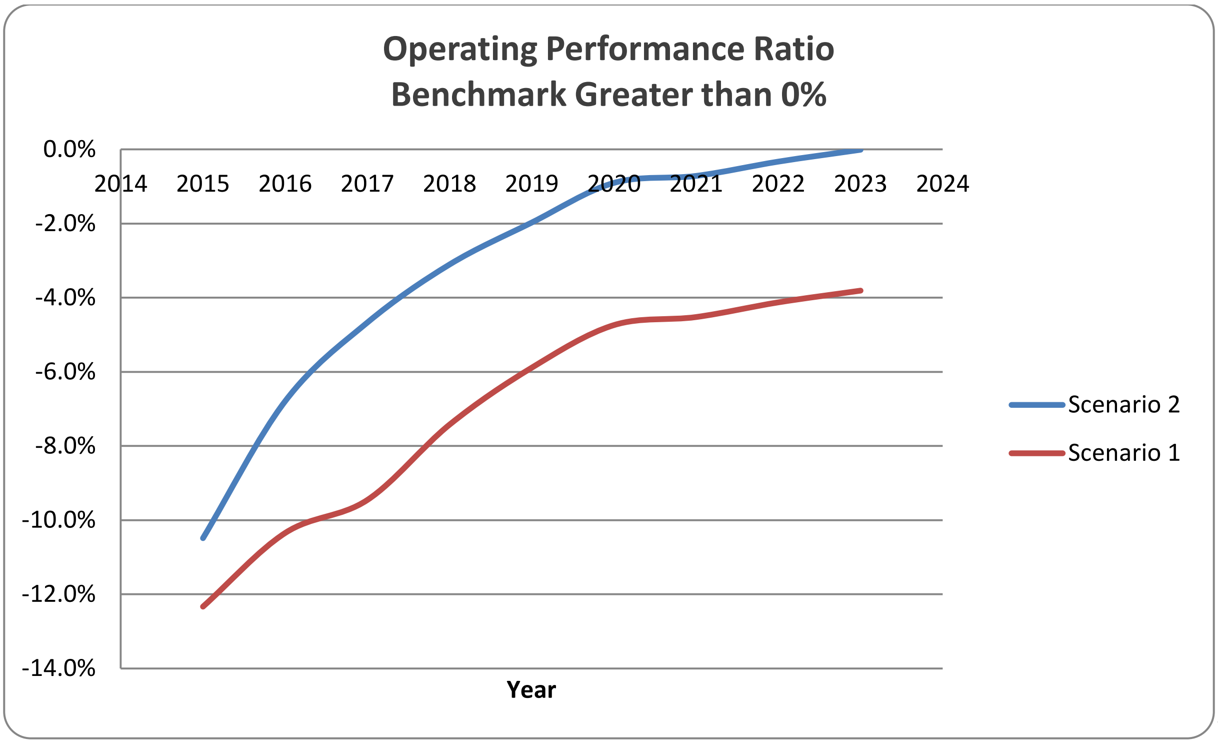
TCorp has rated Rockdale Council with a Moderate rating for financial sustainability with a Neutral outlook. The Office of Local Government considers its infrastructure management to be Weak.

Table 5 Rockdale Council (status quo) performance against Fit for the Future benchmarks

Indicator	Modelling Outcome	Modelling Outcome (Revised reporting)
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Meets the benchmark in 2020
Infrastructure Backlog[3]	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark	Does not meet the benchmark

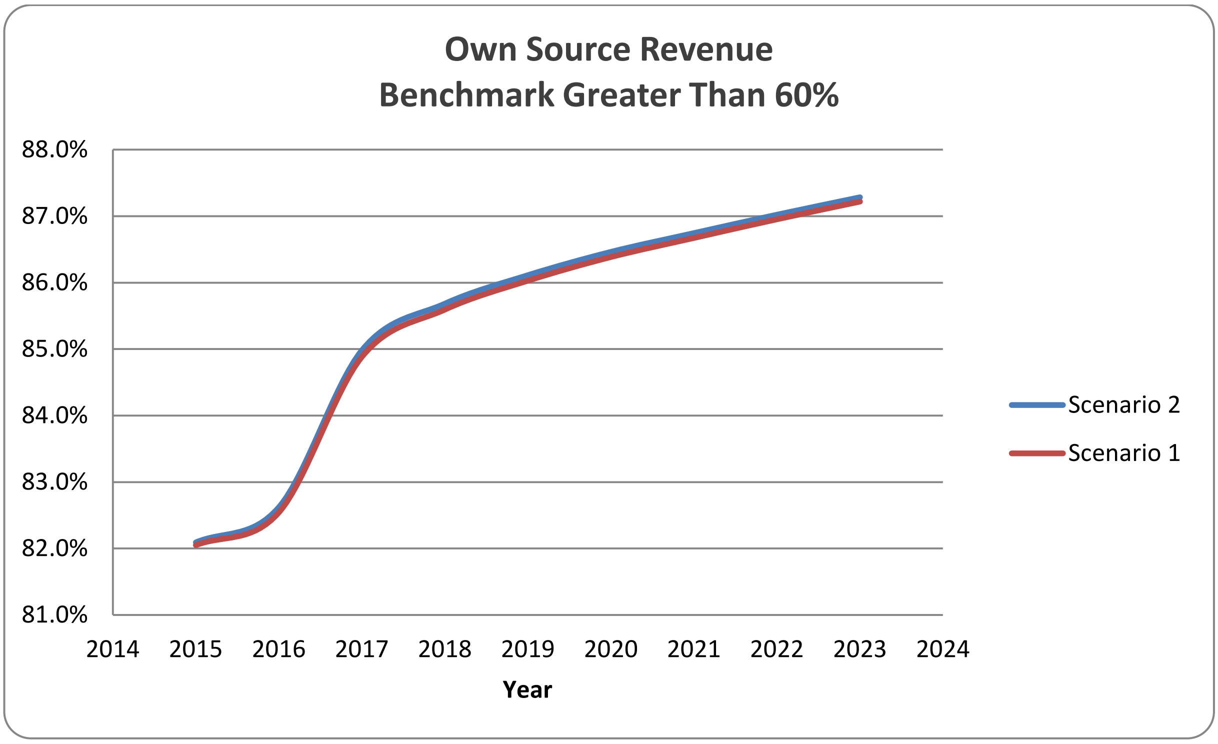
[3] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Figure 1 Operating performance ratio



[4]

Figure 2 Own source revenue



[4] Rockdale Scenario 1 is based on 13/14 Financial Statements. Rockdale Scenario 2 is based on a revaluation of assets and associated impact on depreciation.

Figure 3 Debt service ratio

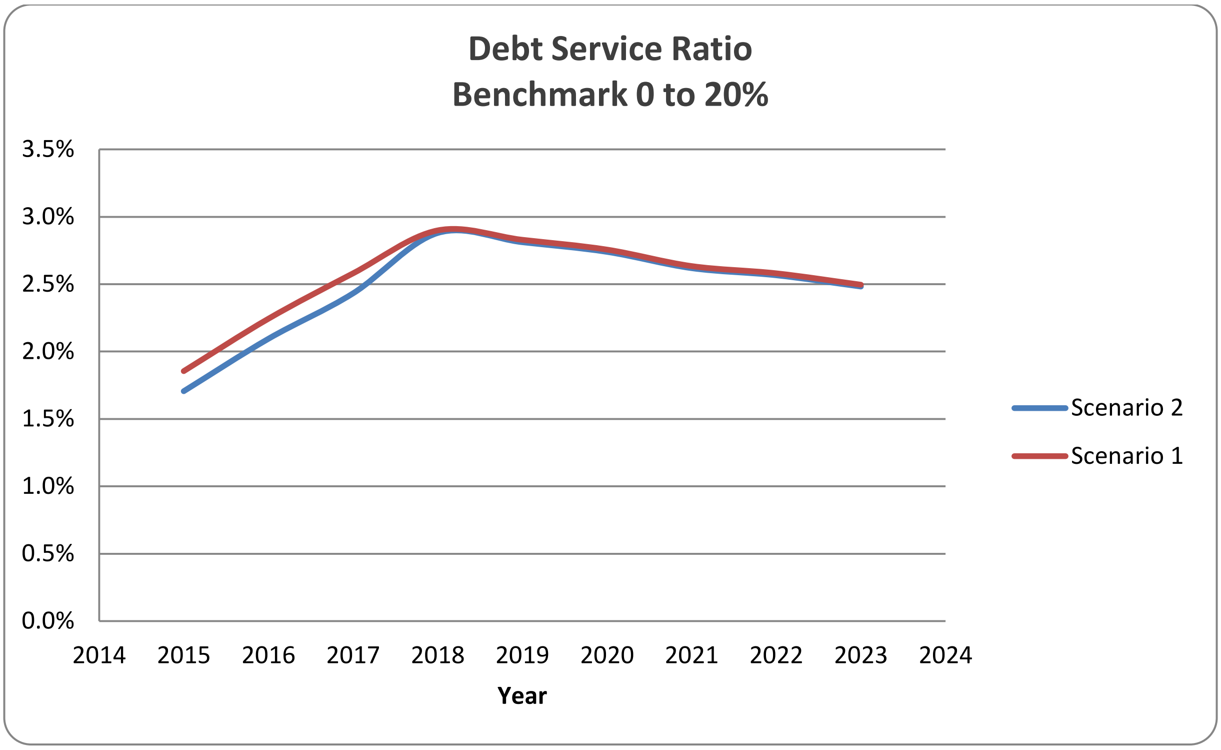


Figure 4 Asset renewal ratio

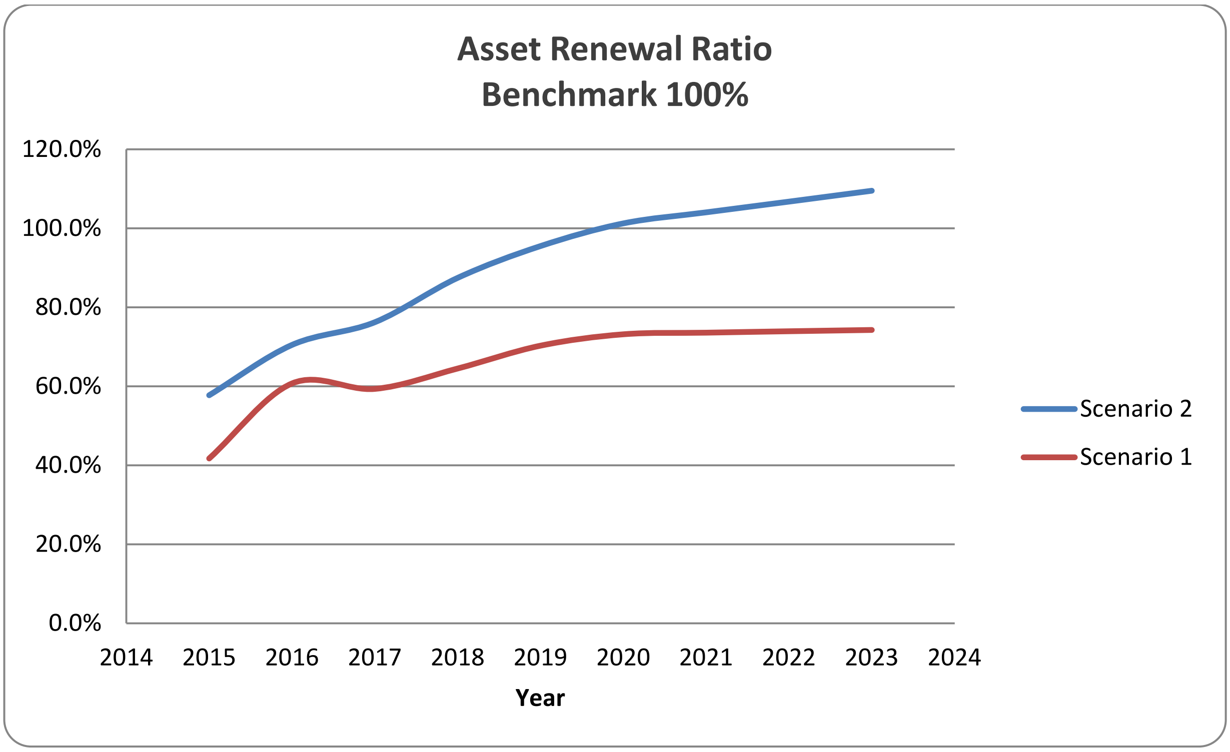


Figure 5 Infrastructure backlog ratio

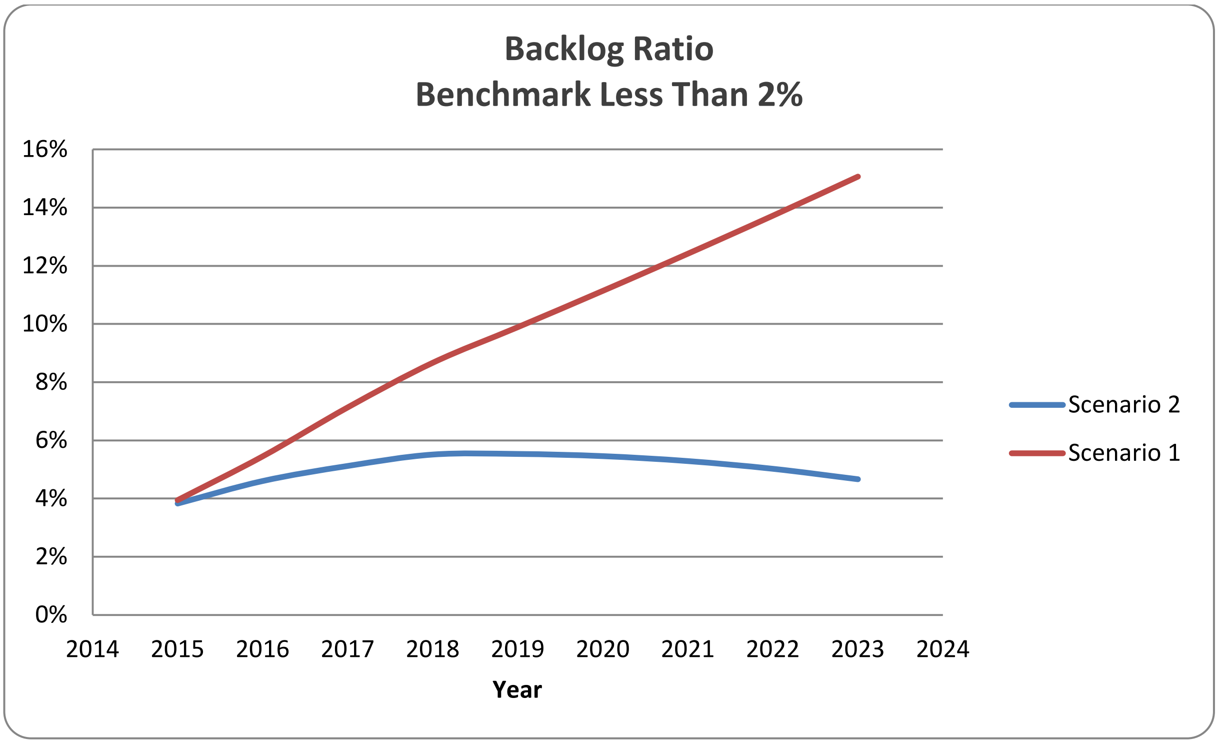


Figure 6 Asset maintenance ratio

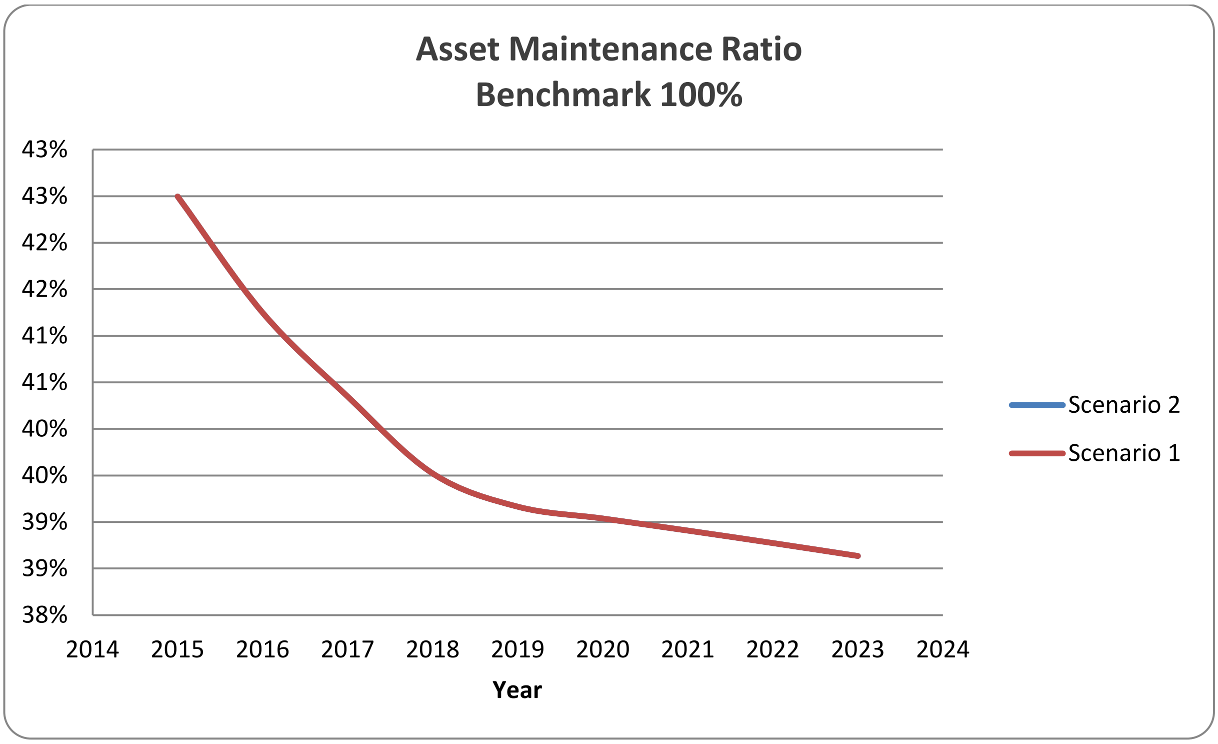
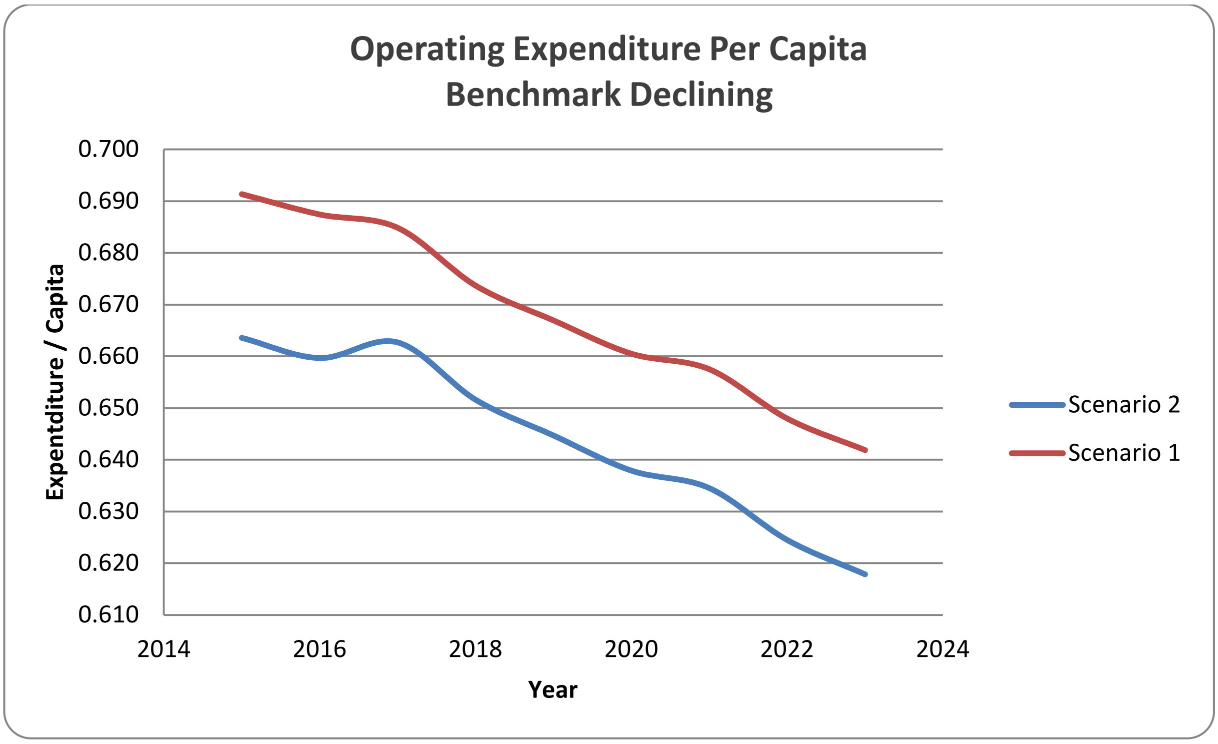


Figure 7 Real operating expenditure per capita



4.2 What does Rockdale need to do to meet the Benchmarks

An analysis of what would need to be done in order for Rockdale to satisfy all the Fit for the Future benchmarks has been undertaken. The asset based ratios (asset maintenance, asset renewal and infrastructure backlog) have been considered as has the operating performance ratio.

Each aspect has been separated out in the following sections before being combined into an overall figure which identifies what, if any, funding gap exists that if satisfied would enable the council to meet the Fit for the Future benchmarks.

Where such a gap has been identified council will need to determine how they best address that gap. We would expect that this would be either through additional revenue, a reduction in operating expenses or a combination of both

4.2.1 Operating performance

The operating result (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected over the life of the LTFP in the table below while the modelling uses actual figures for each year.

Table 6 Operating performance funding gap

Council	Gap ($000)
Rockdale Scenario 1	-4,900
Rockdale Scenario 2 (Revalued Assets)	-1,600

4.2.2 Asset maintenance

The maintenance ratio is based in part on the number council reports as 'required maintenance'. However there are no guidelines on how required maintenance is to be calculated and when the required maintenance figures from across the councils were considered some significant variations were identified.

The asset maintenance ratio is based in part on the number reported as 'required maintenance'. There are no guidelines on how 'required maintenance' is to be calculated and for the purposes of this report the figure reported by Council is assumed to be the correct figure to maintain Rockdale assets in the condition required by the community.

The table below sets out the gap between the required annual maintenance and projected maintenance. Negative figures are highlighted in red and show the annual additional amount a council, based on our standardised approach, would need to spend on maintenance to satisfy the asset maintenance ratio.

Table 7 Asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Rockdale	$ 1,778	$ 4,234	-$ 2,456

4.2.3 Asset renewal

The asset renewal ratio is based on council's assessment of annual depreciation on buildings and infrastructure and their actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

The table below sets out the gap between the required annual renewals and projected renewals expenditure. Negative figures are highlighted in red and show the annual additional amount a council (based on our standardised approach) would need to spend on renewal to satisfy the asset renewal ratio. Positive figures show the amount by which council will exceed the required renewal expenditure leading to a ratio of greater than 100%.

Table 8 Asset renewal gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
Rockdale	$ 12,102	$ 14,633	-$ 2,531

4.2.4 Calculating the estimated cost to satisfactory

The estimated cost to satisfactory is the key driver of the infrastructure backlog ratio. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and as such the approach varies significantly across NSW.

Given the variation in methodologies it was considered appropriate that for comparative purposes and for the assessment of the infrastructure backlog of a merged council a standardised approach should be adopted.

All councils have adopted a similar condition rating system based on a 1 – 5 condition rating where condition 1 is considered to be excellent and condition 5 being poor or very poor condition. The standardised approach adopts condition 3 as satisfactory. We do acknowledge that some councils have considered adopting a lower standard as satisfactory and have engaged with their communities on this. Our approach looks at the value of asset (Current Replacement Cost) in condition 4 and 5, and what could be done to ensure these assets are brought up to condition 3 (satisfactory). It should be noted the cost to satisfactory is an indicator of asset condition, and as such the reality of asset renewals is that those assets in condition 4 and 5 when renewed would be brought up to condition 1 or 2.

The table below sets out what council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years.

Table 9 Cost to bring assets to satisfactory

Council	Total value of assets[5] ($000)	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Rockdale	$ 688,267	$ 10,713	$ 7,194	-$ 3,519	-$ 704

4.2.5 Annual funding gap

The table below summarises the expenditure required by each council, based on our standardised approach, in order to meet all three asset based ratios within five years. Once the infrastructure backlog is brought to the benchmark then the required expenditure in all councils falls.

We have not included the funding gap related to the operating performance ratio in this table as that would not present a realistic picture of the required expenditure. Any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of the Council and therefore the Operating Performance Ratio. Additionally, a council may choose to address the funding gaps identified in Tables 7 – 10 by increasing revenue, shifting funding from

5 Current replacement costs (2014)

another service or activity, reducing overall costs or a combination of all the above. This will all affect the other ratio. It is not therefore considered possible to simply add the Operational Funding Gap identified in Table 6 and Asset Funding Gap identified in Table 10 below together into a single figure.

Table 10 Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)	Average funding required per annum (5 years+)
Rockdale	-$ 2,456	-$ 2,531	-$ 704	**-$ 5,691**	**-$ 4,987**

5. MERGER OPTIONS

5.1 Introduction

Rockdale has the largest population in the St George and Canterbury group of councils, making up over one third of the total population. The population of the area is forecast to grow by a further 25% to 2031.

Table 11 Population

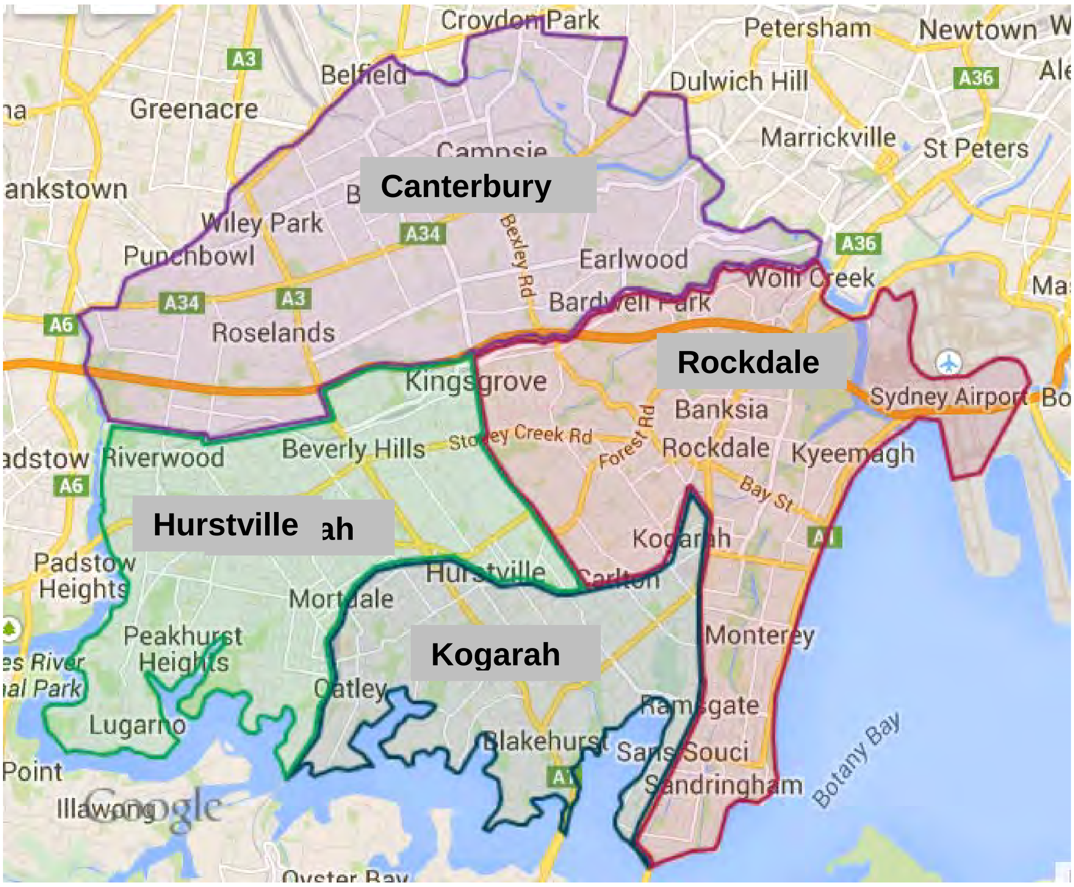
Council area	2013 ERP[6]	2031[7]	Land Area km^2
Canterbury	148,853	181,850	33.56
Hurstville	84,859	104,950	22.82
Kogarah	60,411	76,350	15.52
Rockdale	106,712	134,350	28.23

A map of the area is set out below in Figure 8 and shows each council area.

6 Australian Bureau of Statistics, Estimated Resident Population 2013

7 NSW Department of Planning and Environment, New South Wales State and Local Government Area Population Projections: 2014 Final

Figure 8 Map of St George and Canterbury Councils



5.1.1 Current position of the Councils

As a starting point, the councils' current performance against the Fit for the Future benchmarks[8] has been considered and set out in Table 12 below. We believe it is important to understand the respective position of each council as it is today and the results are those reported in the 2014 Financial Statements of each council. Figures in red are those where the Council does not meet the benchmark. We note that previously councils have not been required to report on the real operating expenditure ratio so these results were not published in the 2014 Financial Statements.

Table 12 Fit for the Future benchmarks 2014

Council	Operating Performance(%)	Own Source Revenue (%)	Debt Service[9]	Asset Maintenance (%)	Infrastructure Backlog (%)	Asset Renewal (%)
Canterbury	- .80	80.8	5.6%	38	3	53.8
Hurstville	- .72	86.3	6.97%	106	1	49.2
Kogarah	- 1.79	86.3	8,505	104	1	73.7
Rockdale	- 10.51	78.60	6.29%	42	3	52.9

8 Reported in the 2013/14 Financial Statements for the respective councils

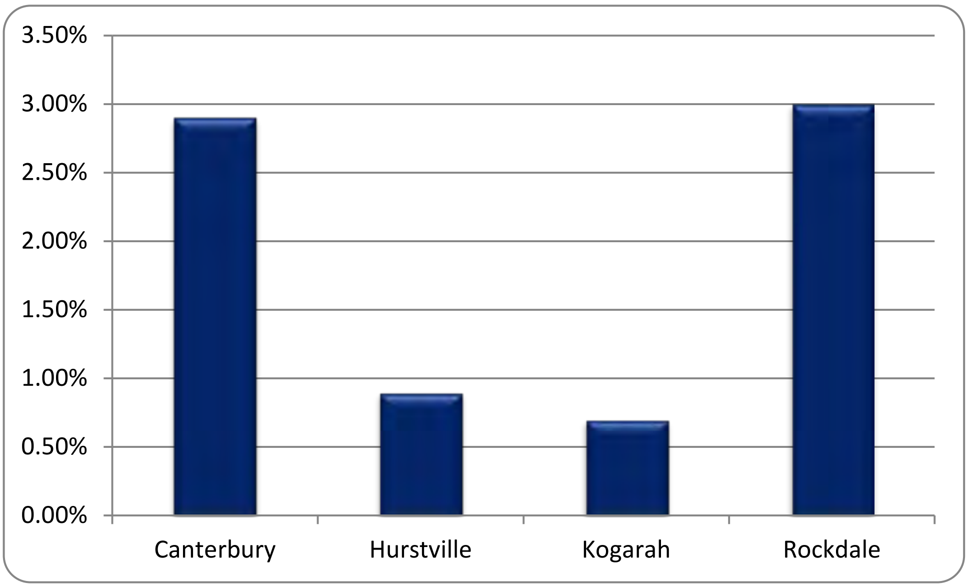
9 Prior to Fit for the Future there were different approaches to calculating the debt service ratio hence the different scale of number represented by Kogarah. All Councils are well below the benchmark

5.1.2 Infrastructure Backlog

For comparative purposes the figure below compares the infrastructure backlog ratio reported by each Council in 2014 highlighting the range across the four councils with two councils below the benchmark (Kogarah and Hurstville) and two above the benchmark (Rockdale and Canterbury).

Given the analysis in this report is based on publically available information, each council's assessment of their costs to satisfactory has had to be accepted as representing the true cost to satisfactory.

Figure 9 Reported infrastructure backlog as at 30 June 2014



The table below sets out what each council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years.

Table 13 Cost to bring assets to satisfactory

Council	Total value of assets[10] ($000)	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Canterbury	$ 873,164	$ 17,420	$ 11,950	-$ 5,470	-$ 1,094
Hurstville	$ 551,705	$ 2870	Below benchmark	$ 0	$ 0
Kogarah	$ 452,837	$ 1,865	Below benchmark	$ 0	$ 0
Rockdale	$ 688,267	$ 10,713	$ 7,194	-$ 3,519	-$ 704

10 Current replacement costs (2014)

5.2 Services

The range of services and facilities provided by any council to its community varies significantly from place to place. Not only do the types of services vary, but the levels of service will often be quite different from council to council.

The reasons for these variations are numerous. For many councils, the suite of services that they offer in the present day is a reflection of decisions made by councils past. Those decisions are generally based on community desires and needs, funding availability or strategic business choices. Figure 10 highlights the locations of some key council services including council offices, libraries, depots, swimming pools and recreation centres.

Figure 10 Key services and facilities of the councils

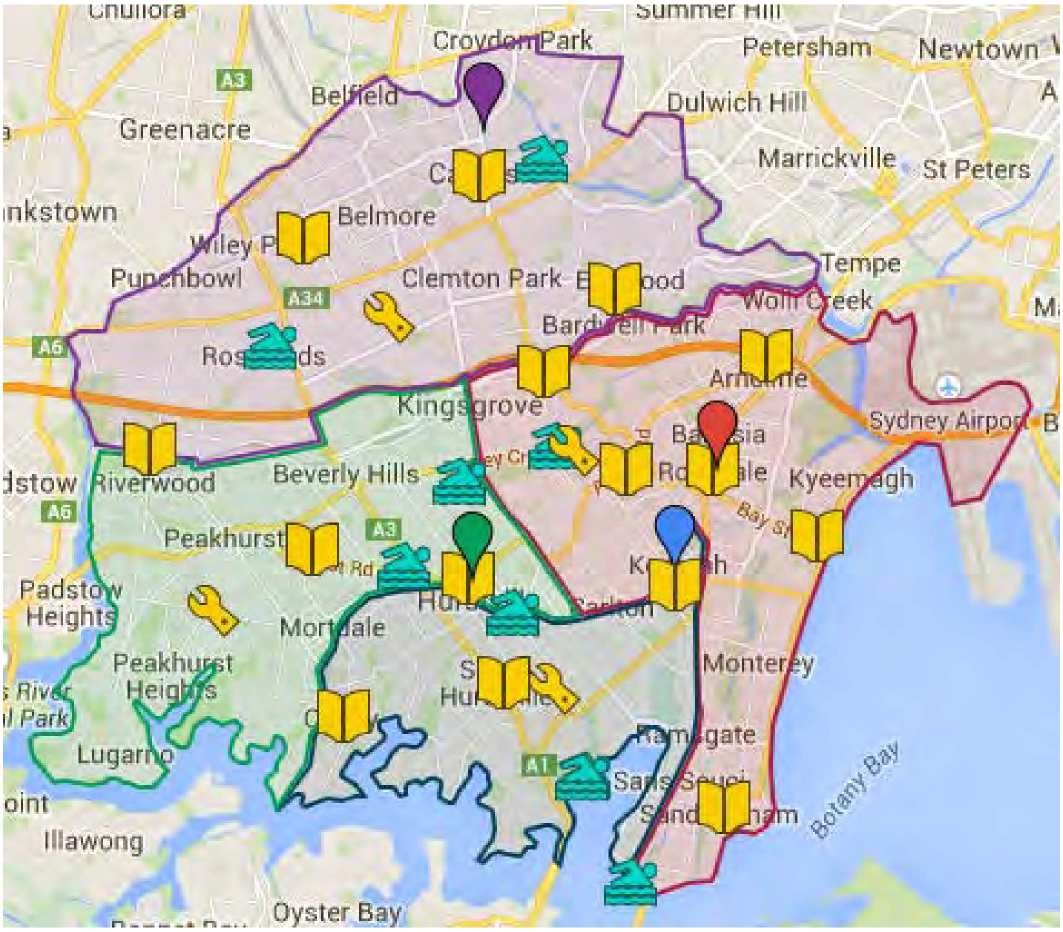


Table 14 Key to map of Council Services

	Council Offices
	Public Libraries
	Swimming Pools
	Recreation Centres
	Council Depots

Regardless of the original rationale for service types, levels and delivery decisions, councils need to continue to make regular and structured revisions to their service portfolios in order to meet emerging or changing community needs, capacity to pay issues or regulatory change. There are a range of examples where services vary across council borders and those variations can be in the form of:

- providing a particular service or not doing so
- differing methods of delivering services (in house, outsourced, collaborative)
- variety in the levels of service delivered (frequency, standard)
- pricing.

However, it is difficult to compare council services and service levels on publically available information as councils describe services differently and the information across the four councils is not presented consistently.

The location of the libraries and swimming pools of the councils are set out in Figures 11 and 12 below. Each facility has a representative catchment drawn around the location of facility. The size and nature of the facilities varies and the catchments are not scaled to demonstrate an oversupply or identify a facility or facilities for rationalisation. The purpose is to highlight the different challenge that a council or the councils will be faced with in regards to the provision and the location of services and facilities. Having responsibility for a larger area without the existing internal boundaries will require a different approach and likely lead to changes in services and service delivery.

Figure 11 Location of the libraries of the councils

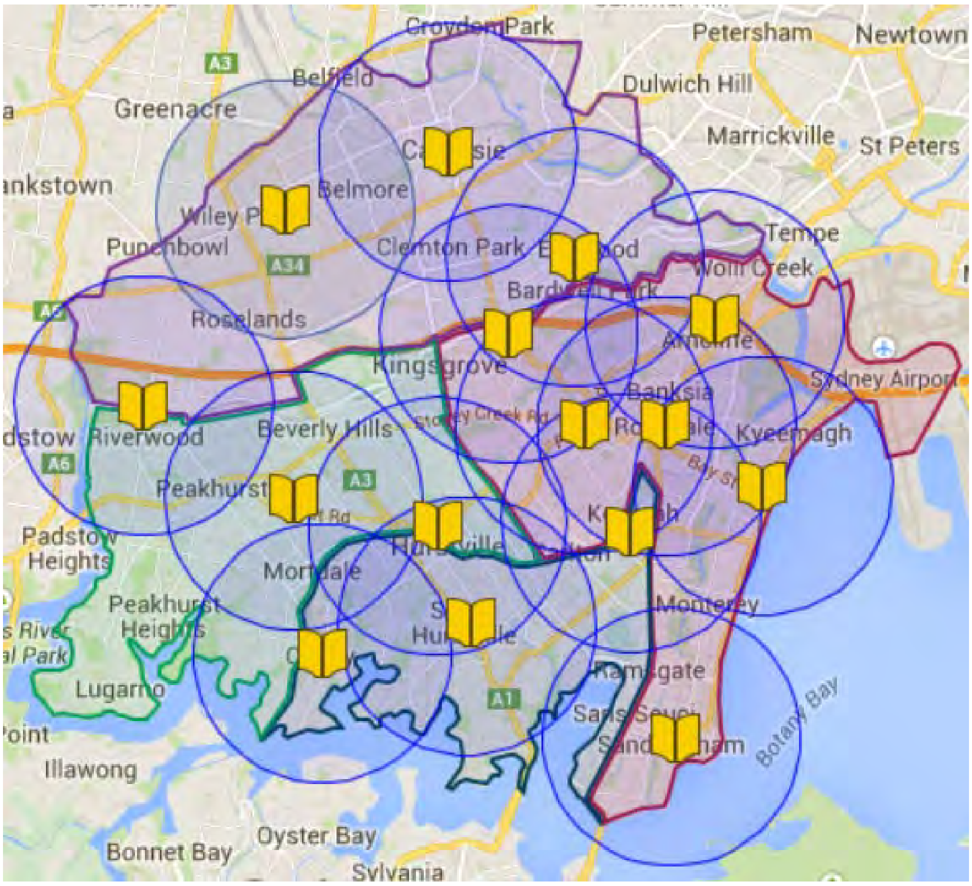
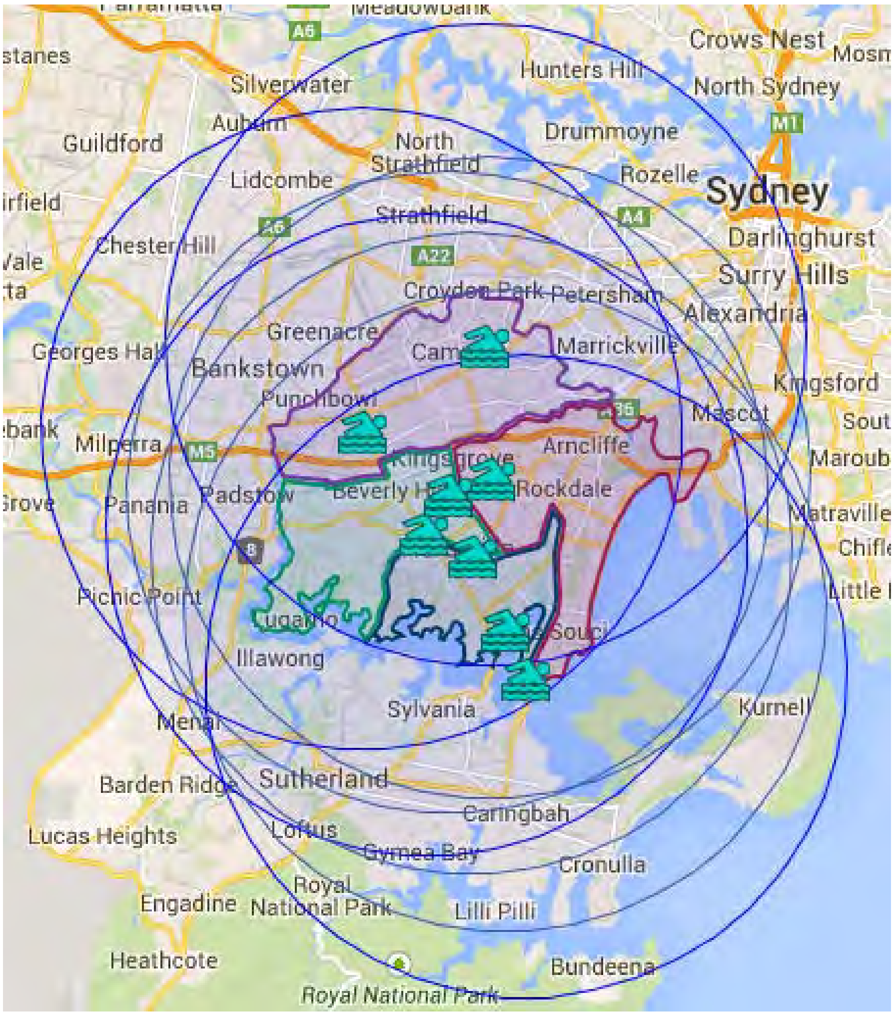


Figure 12 Location of the swimming pools of the councils



Establishing a uniform, or at least consistent, service offering through the mechanisms of service standard setting, pricing and delivery will be a challenging exercise for any merged council however it does provide opportunities for service review and re-evaluation. Often in a merged council the desire to ensure an equitable and fair service across the entire local government area can result in an immediate and sometimes dramatic increase in services, services levels and therefore costs. In assessing the advantages and disadvantages of the merger options the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise.

5.3 St George Council

To give some scale to the proposed council organisation, set out below are some broad indicators of the attributes of the merger option and a comparison to Sutherland Council[11].

[11] OLG Comparative Performance Data 2012-13

Table 15 Comparison of St George and Sutherland Council

	St George	Sutherland
Full time equivalent staff	900	1,090
Geographic area	66.5km^2	334km^2
Population	257,974	221,147
Annual expenditure	$206 million	197 million

The new council would be home to almost 6% of the population of the entire greater Sydney metropolitan area and represent the traditional St George area. Its population would be represented by three state parliamentary electorates/members and two federal electorates/members.

5.4 St George + Canterbury

To give some scale to the proposed council organisation, set out below are some broad indicators of the attributes of the merger option and a comparison to Blacktown Council[12].

Table 16 Comparison of St George + Canterbury and Blacktown Council

	St George + Canterbury	Blacktown
Full time equivalent staff	1,425	1,409
Geographic area	100km^2	240km^2
Population	397,523	325,000
Annual expenditure	$307 million	$386 million

The new council would be home to over 9% of the population of the entire greater Sydney metropolitan area and would represent a significant proportion of the population of the south western part of Sydney. Its population would be represented by four state parliamentary electorates/members and four federal electorates/members.

[12] OLG Comparative Performance Data 2012-13

6. ANALYSIS OF MERGER OPTIONS

6.1 Social, environmental and economic

6.1.1 Communities of interest

The following is a summary of a detailed communities profile and communities of interest study that is set out in Appendix H.

This desktop review of the communities has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are important considerations for a boundary adjustment process or proposal for the amalgamation of two or more areas under the Local Government Act 1993 as there is a need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented. While not specifically required under Fit for the Future reforms the communities of interest are a relevant consideration for councils wanting to understand the full range of potential impacts arising from merger options.

The key sources of information for the desktop review were ABS Census Data taken from each of the Councils' ProfileID[13] websites, population, household and dwelling projections prepared by NSW Department of Planning and Environment[14], along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* (NIER, March 2013) report[15].

Communities of interest are more likely to have similar interests and needs from their council, whereas people who do not share a community of interest are more likely to have different needs from their council.

There are a number of similarities and differences between the areas, including:

Similarities	Differences
• Similar diversity of culture, with fewer people born in Australia and higher proportions of residents from Asia, Southern and Eastern Europe than for Greater Sydney	
• In all four areas over a third of the population speak English and another language at home	
• Population growth is similar to or higher than the State average in all four areas	
• In all four areas employment rates are high, with low social security take up	
• Inner Sydney is a common place of work for all residents	

13 http://profile.id.com.au/canterbury, http://profile.id.com.au/hurstville, http://profile.id.com.au/kogarah, http://profile.id.com.au/rockdale
14 http://www.planning.nsw.gov.au/en-au/deliveringhomes/populationandhouseholdprojections/data.aspx
15 http://www.localgovernmentreview.nsw.gov.au/documents/lgr/NSW%20Local%20Government%20Areas_%20Similarities%20and%20Differences%20-%20March%202013.pdf

Similarities	Differences
• In all areas the highest proportion of workers also live in the area	
• Hurstville, Kogarah and Rockdale have similar profiles in terms of the types of industries in which residents are likely to work; with Health Care and Social Assistance most common	• Residents of Canterbury are most likely to work in Retail Trade, followed by Health Care and Social Assistance
• Hurstville Kogarah and Canterbury all have a high proportion of low density dwellings relative to medium and high density housing	• Rockdale has similar proportions of low density and medium density housing
• Canterbury, Hurstville and Kogarah have average proportions of children and elderly and relatively high retention rates for young adults	• While Rockdale has a relatively low ratio of children to adults of parenting age
• Hurstville, Kogarah and Rockdale have similar levels of population density	• Population density in Canterbury is slightly higher
• Hurstville, Kogarah and Rockdale belong to a cluster of councils characterised by middle incomes	• Canterbury, by contrast, belongs to a cluster of councils characterised by low to middle incomes. The Canterbury area has more households with incomes (equivalised) in the bottom two quartiles of the income distribution than the St George Councils
• Hurstville, Kogarah and Rockdale are areas of relatively low disadvantage according to the SEIFA index of deprivation; ranking in the top third least disadvantaged councils in the State	• Canterbury, by contrast, is an area of relatively high disadvantage according to the SEIFA index of deprivation; ranking in the bottom third of in the State

6.1.2 Natural and built environment

A summary assessment of the council's LEPs has been considered with the emphasis on:

- protection of the natural environment
- protection of the built environment/heritage and character of the existing urban area
- the overall (policy) approach to growth and development.

In respect to growth, the high level review identified that the aims of all the LEPs reflect the developed nature of the LGA and much of the zoning of all four councils reflects existing development typologies which may limit the extent to which redevelopment is facilitated by the LEP.

The relative emphasis on natural environment and built heritage of all the areas reflects the developed natures of the LGAs

- Canterbury reflects the developed nature of the LGA, with a focus on Urban Renewal, revitalisation of Town Centres and a Major Road corridor, and provision of a range of housing and employment opportunities to meet future demand.
- Hurstville reflects the Georges River frontage forming the southern boundary of the LGA, and with redevelopment focussed on maintaining existing character and amenity
- Kogarah reflects the Georges River frontage forming the southern boundary of the LGA and tributaries of the Georges River now functioning as significant open space areas, with

growth of the area's economy seen as based around existing housing and industry sectors. We note that the Council is shortly about to undergo consultation with the community on a new LEP.

- Rockdale reflects location on shores of Botany Bay and immediate tributaries, but the importance of built heritage is not reflected in aims of LEP (despite over 200 items in Heritage Schedule).

A summary of the comparisons of the approach to growth and protection of the natural and built environment is set out in Appendix F.

South Subregion

Canterbury, Hurstville, Kogarah and Rockdale LGAs fall within the South Subregion in *"A Plan for Growing Sydney".* (See below).

The LGAs share a predominantly developed character with zoning controls largely reflecting existing development, implying limited redevelopment potential.

Hurstville, Kogarah and Rockdale have significant interfaces with major waterways – Georges River and Botany Bay, which is reflected in each Council's LEP aims.

Although the Subregion contains two "Strategic Centres" (Hurstville and Kogarah) and the *Plan* appears to show a "Priority Precinct" for major urban renewal in the Wolli Creek area in Rockdale LGA, major economic drivers for the Subregion are largely seen as external to the Subregion (Sydney's Global Corridor, Sydney Airport, Port Botany and the Illawarra [p132]). Priorities for the Subregional economy include (p132)

- Facilitate good employment and transport connections and an efficient freight network to Sydney Airport and Port Botany
- Investigate pinch-points associated with growth in the vicinity of Sydney Airport and Port Botany
- Identify and protect strategically important industrial-zoned land

Significant features of the *Plan* in this Subregion include part of the Westconnex project and forecast urban renewal potential along existing rail corridors and future transport links. This would imply a need to review planning controls around these corridors to enable and facilitate redevelopment.

The future of the northern part of Rockdale LGA appears inextricably linked to broader planning outcomes associated with Transport Gateway (Sydney Airport and Port Botany) development. This would imply a need to review local planning in Rockdale to accommodate these influences.

FIGURE 32: South Subregion

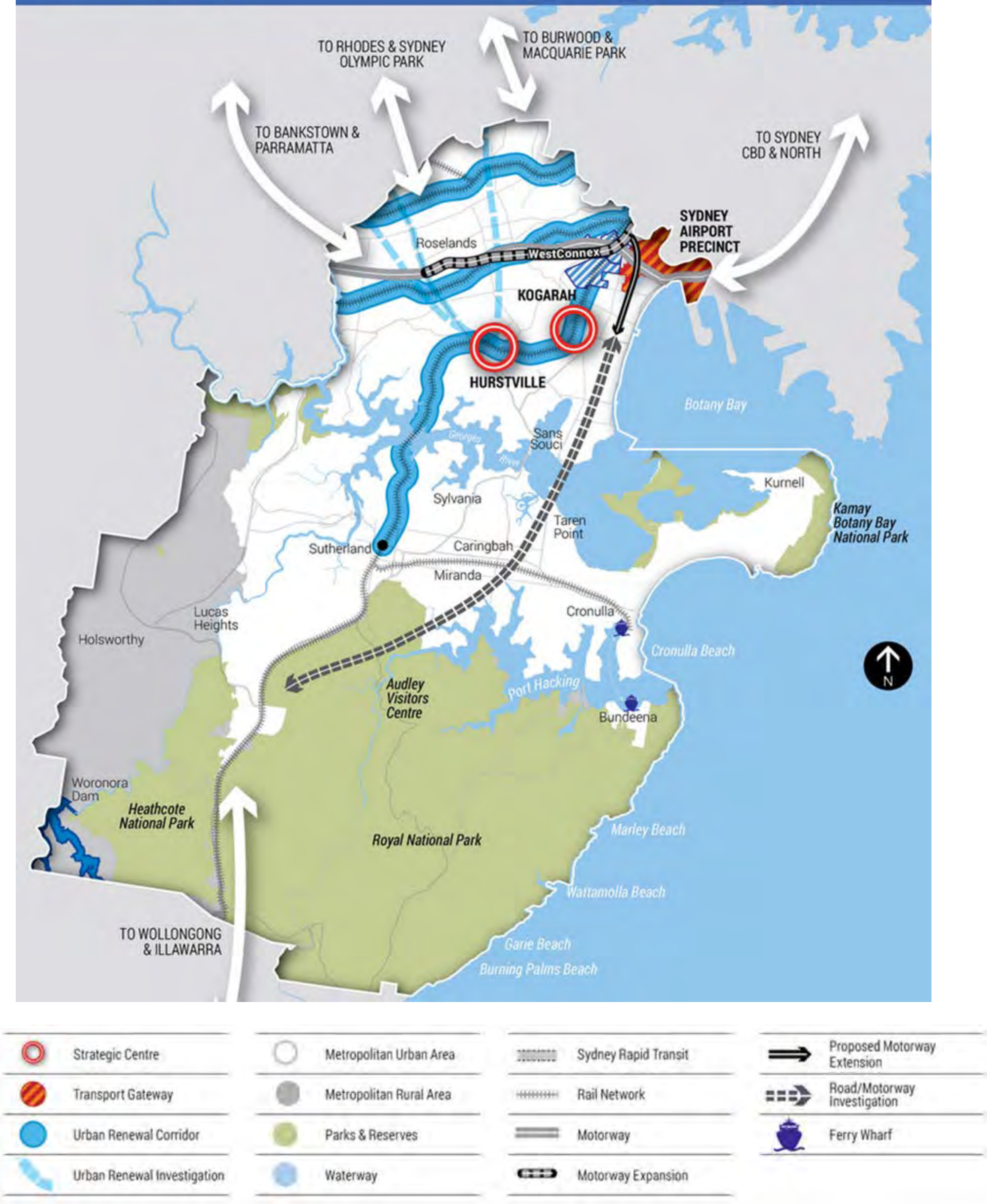
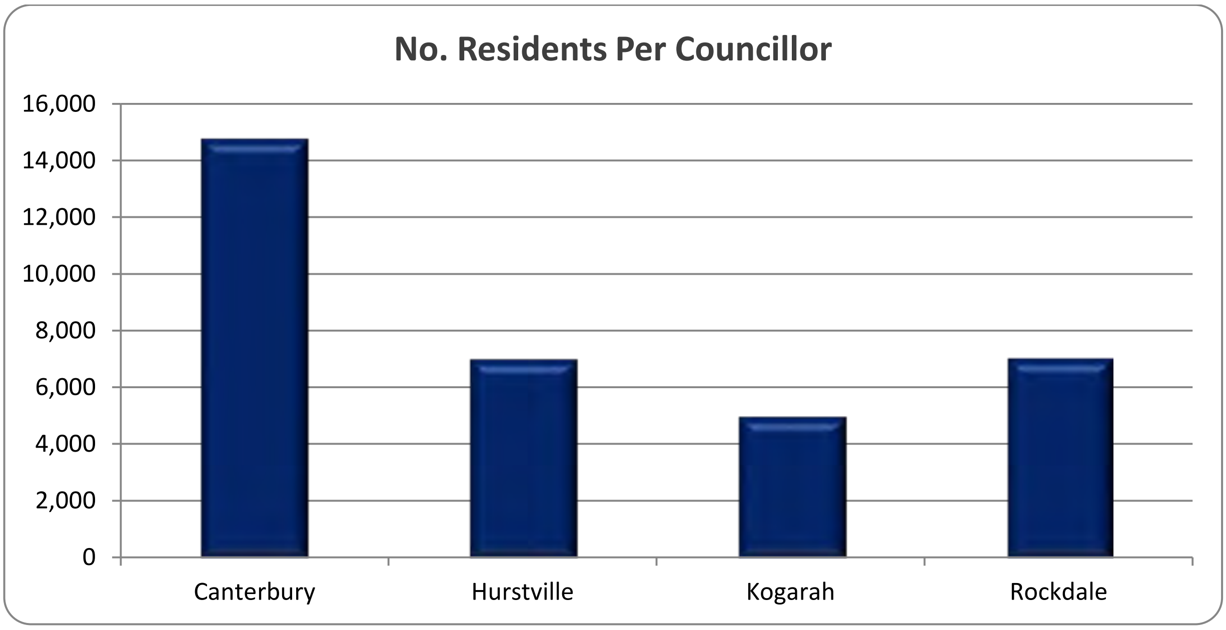


Table 17 Environmental indicators

Council	Open Space (Ha/'000 population)	Waste diverted (%)	Tree Canopy (% of LGA)
Canterbury	2.4	39	17.5
Hurstville	3.3	42	25.2
Kogarah	2.5	50	21
Rockdale	3.5	24	12.4

6.1.3 Representation

Rockdale currently has a ratio of one councillor to just over 7,000 residents, which is much higher than would be possible in any of the merger options given the current constraints of a maximum of 15 Councillors. The greatest impact on representation of a merger would be to Kogarah, and the smallest impact on Canterbury residents who currently have over twice the rate of residents to councillors than the other councils in this group.



Under a combined St George and Canterbury Council, and the current maximum of 15 councillors per council, representation would fall to a ratio of 1 councillor to 26,000 residents at best.

Table 18 Comparison of representation[16]

Council	Representation (population / Councillor)
St George Council	19,120
St George + Canterbury Council	26,020

[16] Assuming 15 Councillors

6.1.4 Organisation alignment

Policy alignment

A comparison of each council's community strategic plan was undertaken to identify at a high level whether there was consistency or inconsistency between the organisations in a policy sense.

The visions as expressed by these four councils are very different, with Rockdale's and Hurstville's a single brief statement and Canterbury's complete vision statement being a full page in length. Despite this difference, all four councils share similar themes and priorities in a general sense.

All plans express clear council-focused priorities around issues such as responsible governance, effective decision-making, prudent use of resources and strong local leadership.

All four councils also acknowledge the strong presence and influence of multiculturalism in their local areas and the importance of social cohesion and community safety.

Local environmental issues are also prominent themes across all four councils with similar statements addressing the need to improve the local built environment whilst preserving and enhancing the natural environment.

While there are similarities at a high level comparison between the three councils, we acknowledge that the differences where they arise will become more apparent at a more detailed level of analysis (e.g. delivery programs, operational plans).

Cultural Alignment

While it is difficult to compare the internal cultures of the council organisations in this exercise, there are both subjective and objective indicators that give an insight into how aligned or misaligned the organisations cultures are.

Communities

Often an organisation's culture develops as a direct influence of the community it serves. There are a number of indicators of cultural alignment of local government areas including the social and cultural diversity of the community (discussed in this report under communities of interest), the community aspirations and values and how the community views its relationship with Council.

While there can be quite specific local needs and community aspirations, there are common themes that emerge from a comparison of the visions for their communities that are expressed by the councils in their Community Strategic Plans.

The common themes that emerge, very consistently, among the councils' community values are:

- Being sustainable
- Healthy, safe and attractive environments
- Community connections both social and physical
- Thriving, vibrant and prosperous economies
- Active and harmonious communities
- Governance that is responsive, efficient and innovative

All of these elements of community vision are expressed differently however there is an underlying commonality.

Canterbury

Hurstville

Kogarah

Rockdale

Only Rockdale appears to have recently surveyed community perceptions of Council. Rockdale residents rated overall community satisfaction with Council at 86% indicating the Council's relationship with its community is good.

Corporate Organisations

By measuring training and development expenditure against both total expenditure and full time equivalent staff numbers we can assume that each of the councils has a similar approach to staff development, tempered by some variation in the actual numbers.

	Canterbury	Hurstville	Kogarah	Rockdale
FTE	525	317	242	341
Percentage of employee costs allocated to training	0.49	0.72	1.07	0.68
Total employee cost ($000) per FTE	$82	$86	$80	$93
Total annual expense ($000) per FTE	$186	$209	$196	$243

Only Kogarah Council spends around the industry benchmark on training and development. Hurstville and Rockdale spend around three quarters of the benchmark while Canterbury spends only half of suggested investment in staff training and development.

The annual employee costs, per employee, while not too dissimilar, range from the highest cost per staff member in Rockdale and the lowest in Kogarah.

A crude indicator of staff productivity can be the proportion of the operating costs spent per staff member and when comparing this, Rockdale has the highest spend per FTE while Kogarah, Hurstville and Canterbury all fall in a similar range. We add a note of caution when using these figures as they can be influenced by factors such as the maturity of the workforce and the fluctuating nature of total expenditure year on year and capital projects. Ideally they should be compared over time.

Hurstville, Kogarah and Rockdale publish their Workforce Plans and while each Council's Plan is different they identify common strategic issues; ageing workforces and recruitment and retention as major challenges for which they are developing strategies. Hurstville and Kogarah report that around a third of their workforces are over 50 while Rockdale's workforce is much older.

Rockdale report voluntary turnover as being low (less than 5%) while Hurstville and Kogarah have average turnover rates between 8 and 10 percent which are more consistent with the industry average of around 9% turnover annually.

Again, while this is as much dependent upon the profile of the workforce as it is on corporate culture, it does identify some common ground.

Organisational size can impact on culture in a range of ways, such as diversity of skills and workforce characteristics, level of specialisation vs multifunctional roles, capacity to undertake a greater range of functions and services, and partnership and advocacy capacity with other levels of government.

Hurstville and Kogarah have similar size workforces as a proportion of the resident population they serve. Rockdale has the highest workforce per head of population.

Corporate values

Each Council will naturally take a different approach to developing their own corporate culture but each is underpinned by a set of organisational values. The Councils generally propose similar sets of values as to how the organisations will operate which is not surprising given the public service sector in which they operate.

The common elements are:

- Commitment to the customer
- Honesty, integrity and teamwork
- Responsiveness, responsibility and accountability
- Excellence, innovation and learning

There are small variations in values between the councils and in any case these are relatively common corporate values.

Corporate Policies

A desktop review of the policy registers of the councils highlights some interesting philosophical differences and issues that have been given priorities (at some point in time) by the different councils.

Rockdale has by far the most extensive policy register indicating a very prescriptive albeit transparent operational approach. It has developed a comprehensive range of policies that appear to cover all services and key functions to guide how Council does businesses. Canterbury also has an extensive range of policies as well, with some reflecting local priorities i.e. purchasing Australian made goods that make then unique.

Both Kogarah and Hurstville policies are generally focused on Councils more traditional functions and responsibilities.

While we recognise policies change and reflect a positon at a particular time they also reflect the organisational culture which is tasked with implementing them.

6.2 Financial Analysis

The estimated costs and savings of the merger options have been modelled with the results set out below.

Table 19 provides a narrative summary of the costs and savings of the merger, a table setting out a summary of the financial costs and savings for each option is set out in Appendix B with the detailed assumptions that underpin the modelling set out in Appendix C. The NPV of the costs and savings is set out in Table 20. The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged council is modelled on the basis of a combined base year where all council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs. Overlaid are the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

Table 21 - 22 then summarise the overall financial performance of the merger options with the Fit for the Future Indicators set out later in section 4.1.

Table 19 **High level description of financial costs and savings arising from merger**

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with Senior Staff Harmonisation	Reduction in total costs of Senior Staff	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts	Savings from Procurement and network level decisions over asset expenditure		Savings from Procurement and network level decisions over asset expenditure Savings from moving to large regional waste contract		Savings from Procurement and network level decisions over asset expenditure	Savings from Procurement and network level decisions over asset expenditure
- IT	Significant costs to move to single IT system across entire council					Benefits arise from single IT system and decrease in staff
- Operational						
Assets		Rationalisation of plant and fleet		Rationalisation of some buildings Further rationalisation of plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

The NPV of the costs and benefits over the period being modelled (2023[17]) has been calculated and set out below (a positive number indicates a saving).

Table 20 Summary of financial costs and savings

Merger option	NPV at 4%	NPV at 7%	NPV at 10%
St George Council	$51.3 million	$39.6 million	$30.4 million
St George + Canterbury Council	$122.7 million	$101.6 million	$85.4 million

While the merged council has a number of efficiencies modelled over the short, medium and longer term, the significant short term costs arising from the merger, redundancy costs that arise in the medium term and the respective councils' financial positions prior to the merger mean that the financial performance varies across the options. This is demonstrated by reference to each merger option's Long Term Financial Plan an excerpt of which is set out in Tables 21 - 22 below.

The financial performance improves over the medium and longer term but the impact of rising costs from staff increases associated with services and service levels begins to also take effect in the longer term. Neither of the merger options meet the Operating Performance ratios and while in later years some of the options produce positive operating results (excluding grants and contributions for capital purposes), particularly in the year in which plant, fleet and buildings are rationalised, these are not sufficient to meet the benchmark ratio of greater than 0% over three years.

[17] 2023 is the period being modelled to match the time covered by all Council LTFPs

Table 21 Summary of Financial Impacts of St George Merger

Selected Councils Combined LTFP - 2014/15 Extrapolated	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Source: Council Financial Statements and Long Term Financial Plan	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**
Rates & Annual Charges	126,484	132,256	138,670	142,830	147,115	151,528	156,074	160,757	165,579	170,547	175,663
User Fees & Charges	19,372	19,936	19,682	20,316	20,969	21,644	22,341	23,060	23,802	24,569	25,359
Grants & Contributions - Operations	16,975	12,642	13,236	23,521	13,321	13,627	13,941	14,261	14,589	14,925	15,268
Grants & Contributions for Capital	19,198	22,982	24,908	24,504	25,068	25,644	26,234	26,838	27,455	28,086	28,732
Interest and Investment Income	8,387	8,341	6,741	3,093	3,093	3,093	3,093	3,093	3,093	3,093	3,093
Gains from disposal assets	1,535	1,384	113	111	114	116	13,950	122	125	127	130
Other Income	14,471	15,513	14,716	14,477	14,810	15,151	15,500	15,856	16,221	16,594	16,975
Total Income	**206,422**	**213,054**	**218,066**	**228,853**	**224,491**	**230,805**	**251,133**	**243,987**	**250,864**	**257,941**	**265,222**
Income excl Gains\losses	204,887	211,670	217,953	228,742	224,377	230,689	237,183	243,865	250,740	257,813	265,092
Income excl Gains\losses & Capital Grants	185,689	188,688	193,045	204,238	199,309	205,044	210,949	217,027	223,285	229,727	236,359
Expenses											
Borrowing Costs	724	792	686	1,040	956	868	782	688	600	527	470
Employee Benefits	75,534	78,562	85,519	83,461	84,035	83,204	85,194	87,833	92,768	97,977	103,477
Gains & losses on disposal	138	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	38,244	36,575	40,794	42,018	43,278	44,577	45,914	47,291	48,710	50,171	51,677
All other Expenses	83,918	80,789	82,431	122,912	102,032	94,327	91,772	94,007	89,787	92,463	95,220
Total Expenses	**198,558**	**196,718**	**209,430**	**249,430**	**230,301**	**222,976**	**223,661**	**229,818**	**231,865**	**241,139**	**250,843**
Operating Result	**7,864**	**16,336**	**8,636**	**- 20,577**	**- 5,810**	**7,829**	**27,472**	**14,168**	**19,000**	**16,802**	**14,379**
Operating Result before grants & contributions for capital purposes	**- 11,334**	**- 6,646**	**- 16,272**	**- 45,081**	**- 30,878**	**- 17,815**	**1,238**	**- 12,669**	**- 8,455**	**- 11,285**	**- 14,353**

Table 22 Summary of financial impacts of St George and Canterbury merger

Selected Councils Combined LTFP - 2014/15 Extrapolated	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Source: Council Financial Statements and Long Term Financial Plan	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**
Rates & Annual Charges	194,890	203,309	211,971	218,330	224,880	231,626	238,575	245,732	253,104	260,698	268,519
User Fees & Charges	27,224	28,889	27,650	28,540	29,459	30,407	31,386	32,396	33,438	34,515	35,626
Grants & Contributions - Operations	29,662	23,340	26,438	42,509	26,608	27,220	27,846	28,486	29,141	29,812	30,497
Grants & Contributions for Capital	26,072	32,778	28,568	28,105	28,751	29,413	30,089	30,781	31,489	32,213	32,954
Interest and Investment Income	10,566	10,711	8,324	5,195	5,195	5,195	5,195	5,195	5,195	5,195	5,195
Gains from disposal assets	1,535	2,517	413	406	416	425	17,417	445	455	466	476
Other Income	17,813	19,246	18,705	18,402	18,825	19,258	19,701	20,154	20,618	21,092	21,577
Total Income	**307,762**	**320,790**	**322,069**	**341,488**	**334,133**	**343,544**	**370,209**	**363,190**	**373,441**	**383,990**	**394,844**
Income excl Gains\losses	306,227	318,273	321,656	341,081	333,718	343,119	352,792	362,745	372,986	383,524	394,368
Income excl Gains\losses & Capital Grants	280,155	285,495	293,088	312,976	304,966	313,706	322,702	331,964	341,497	351,311	361,414
Expenses											
Borrowing Costs	1,271	1,342	1,841	2,006	1,922	1,835	1,748	1,654	1,566	1,493	1,436
Employee Benefits	117,669	121,869	133,872	130,568	131,130	129,815	130,215	131,594	139,130	147,091	155,499
Gains & losses on disposal	301	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	48,168	47,395	51,794	53,348	54,948	56,597	58,295	60,043	61,845	63,700	65,611
All other Expenses	126,705	123,689	125,715	176,507	150,116	141,238	138,455	142,087	137,380	141,476	145,695
Total Expenses	**294,114**	**294,295**	**313,222**	**362,429**	**338,116**	**329,485**	**328,712**	**335,378**	**339,921**	**353,761**	**368,241**
Operating Result	**13,648**	**26,495**	**8,847**	**- 20,941**	**- 3,983**	**14,059**	**41,496**	**27,812**	**33,520**	**30,229**	**26,603**
Operating Result before grants & contributions for capital purposes	**- 12,424**	**- 6,283**	**- 19,721**	**- 49,046**	**- 32,734**	**- 15,354**	**11,407**	**- 2,969**	**2,031**	**- 1,984**	**- 6,351**

6.2.1 Rates

Given the differing rating structures among the councils it is difficult to model the impact of a merger on rate revenue and in particular the impacts on individual land owners. As a starting point the current rates for the four councils are set out below highlighting the existing differences as well as the different approaches.

Figure 13 Average residential rate (2014)

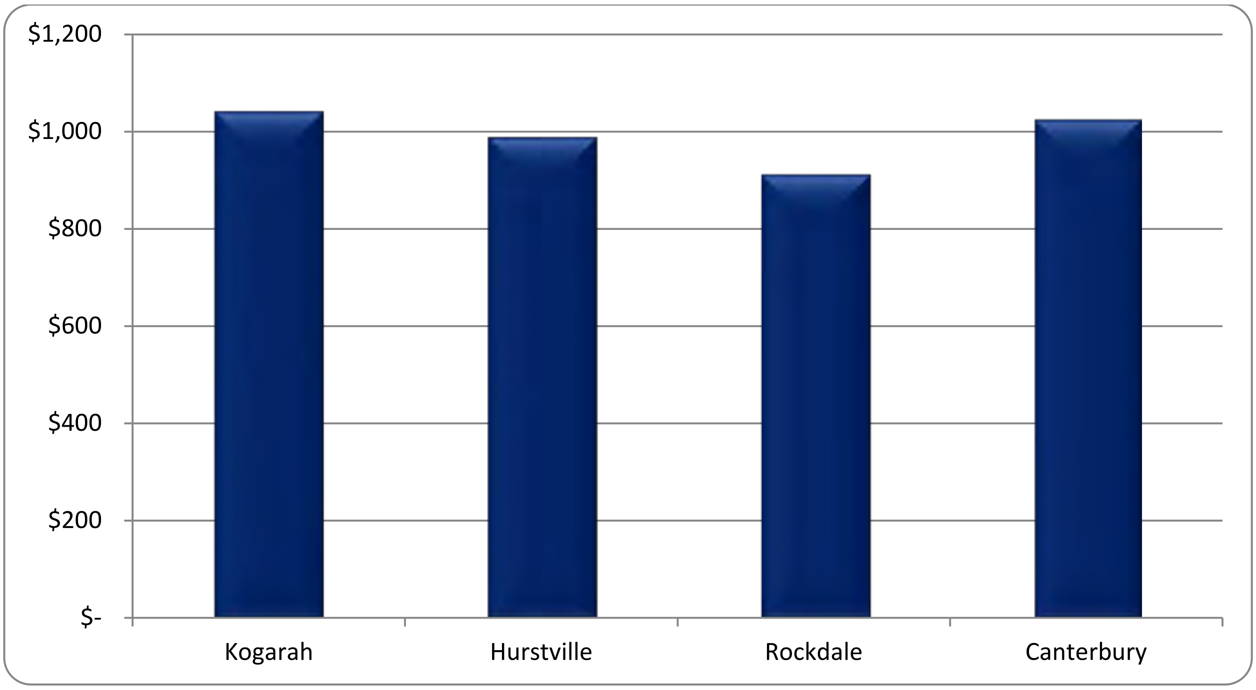


Figure 14 Average business rate (2014)

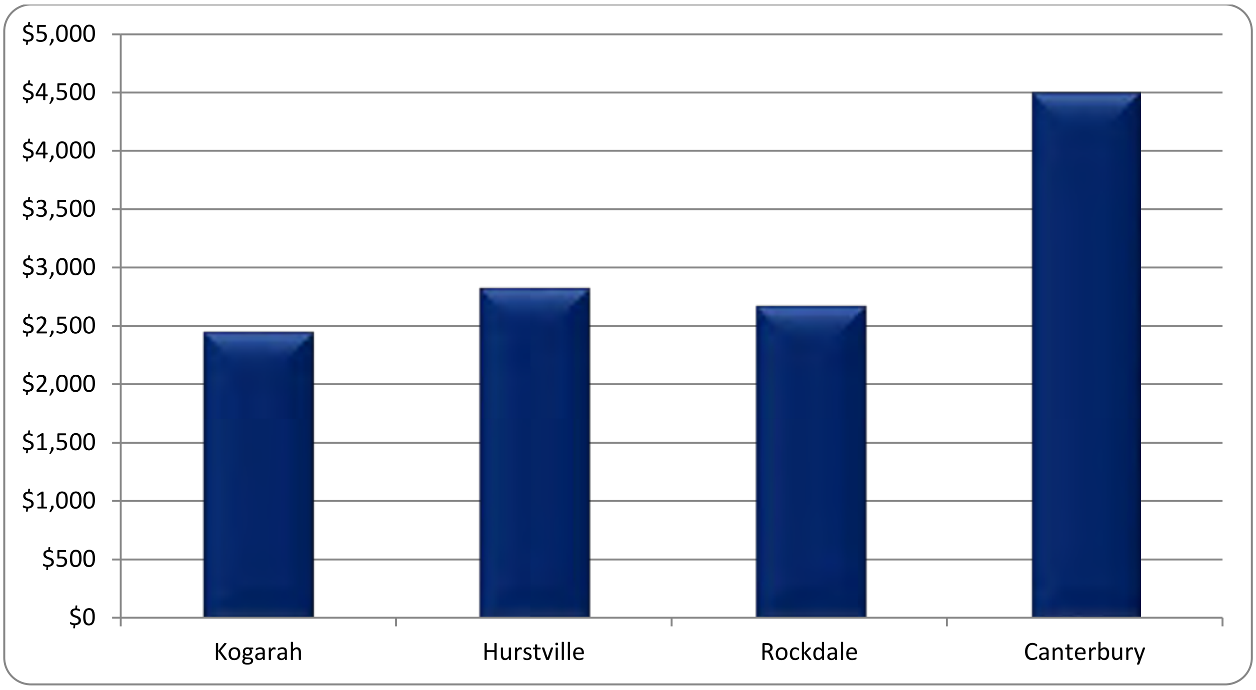


Figure 15 Comparison of minimum rates (2014)

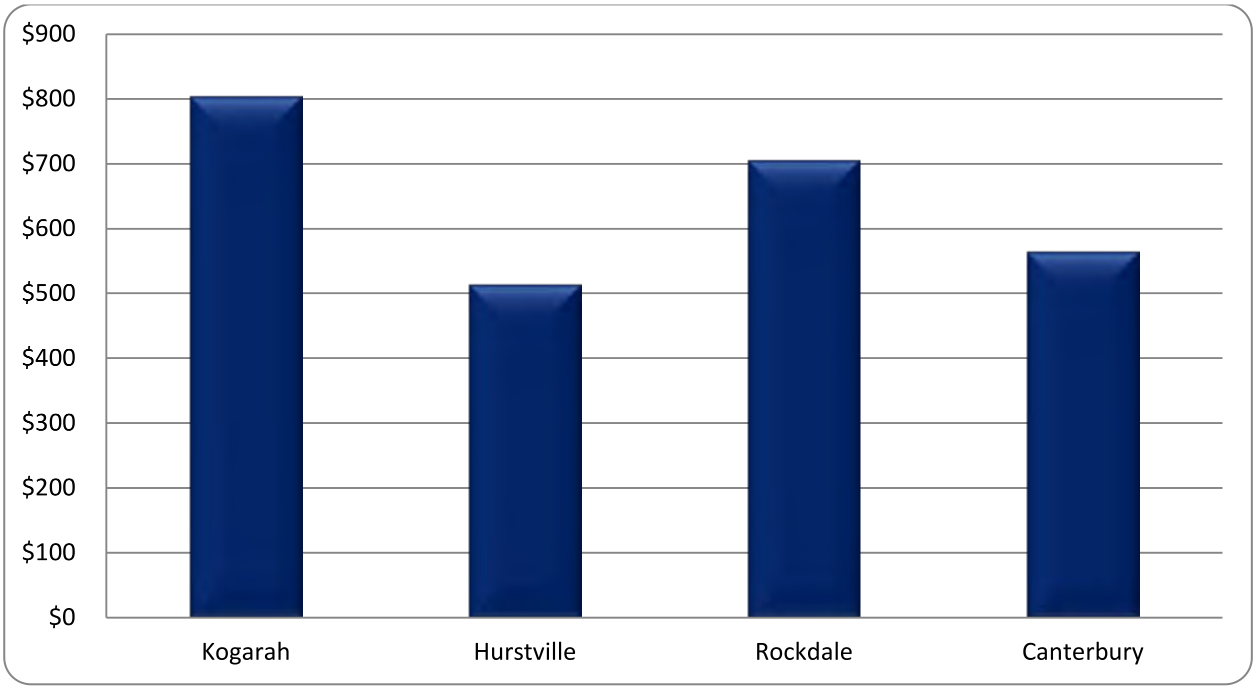


Table 23 Comparison of proportion of residential and business rates

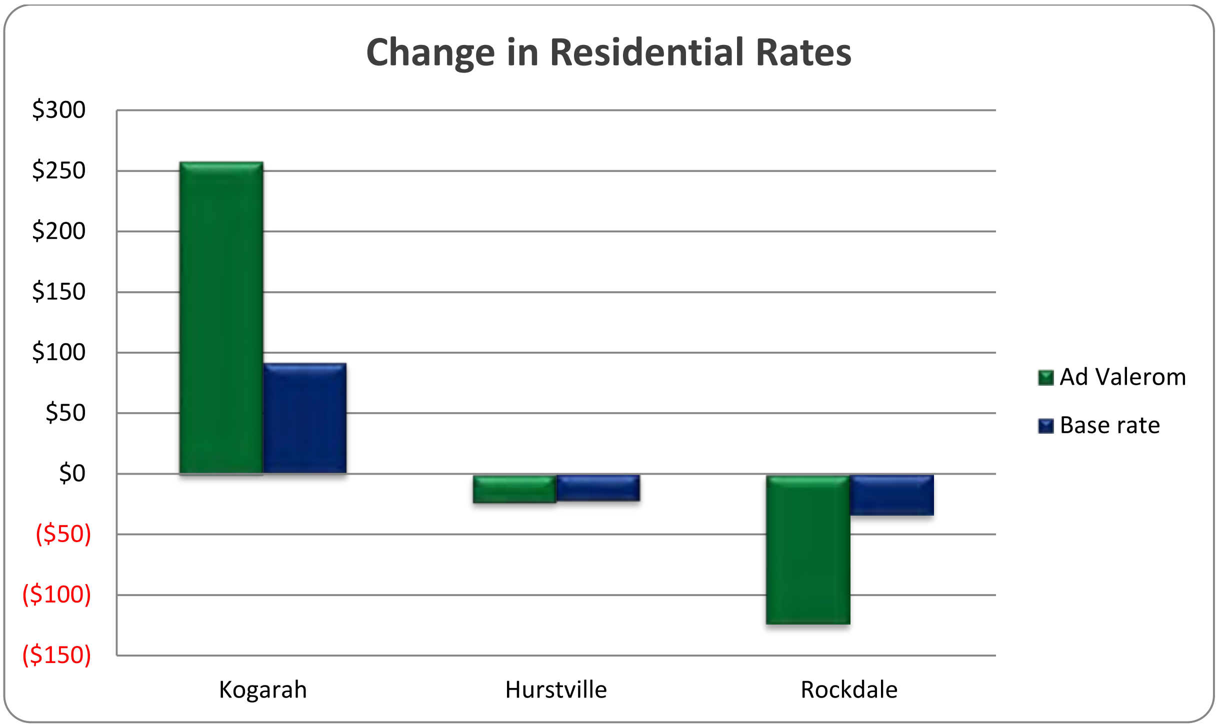
Proportion of rates	Canterbury	Hurstville	Kogarah	Rockdale
Residential	78%	82%	88%	88%
Business	22%	18%	12%	12%

In order to provide information on what the potential impact of a merger on rates would be, representative examples have been modelled by redistributing the 2014/15 rates without adjusting the rating structures. Two scenarios have been used based on the total rate revenue (residential and business) of the three councils. In each scenario the total rates (residential or business) are apportioned across the councils consistently. Scenario 1 is entirely ad valorem and Scenario 2 provides for a base charge to be set at the maximum level with the remainder ad valorem.

The key drivers are therefore land values and the differences in the way in which councils currently allocate rates between categories. The actual impact on any property or properties will be the result of the actual rating structure chosen by any new council and how quickly a merged council decided to adopt and then implement a single rating structure. Within each council area there will be individual properties that are affected in different ways by the changes due to categorisation and land valuation issues.

Analysis of potential changes in average rates indicate that in comparison the standard rate peg change in rate (2.3% for 2014) there would be changes in rates for Rockdale residents arising from either of the merger options, with greater impact on the business community. Residential rates would decrease under either merger, although less so under the St George and Canterbury merger. The impact on the business ratepayers would be greater under the four council merger option. The changes are described in the figures below by reference to a change from the 2014-15 rate and expressed as either an increase or decrease from the current average rate set out above.

Figure 16 Change in Rates for St George Option



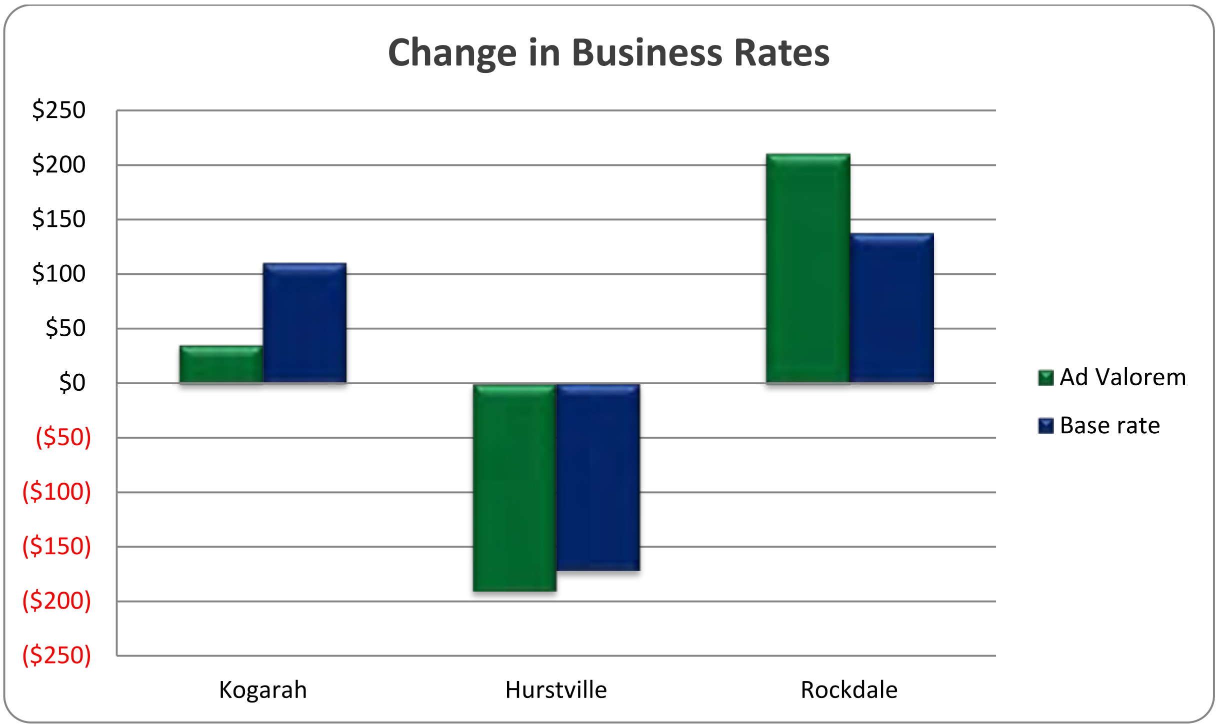
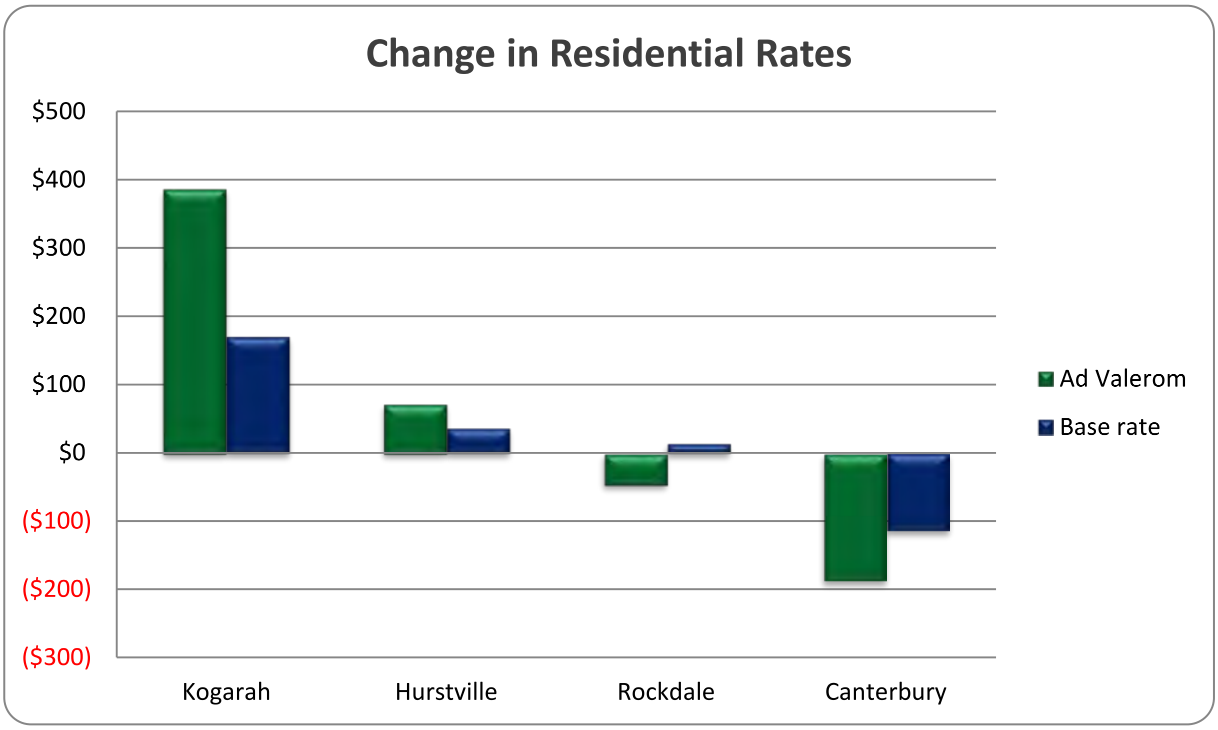
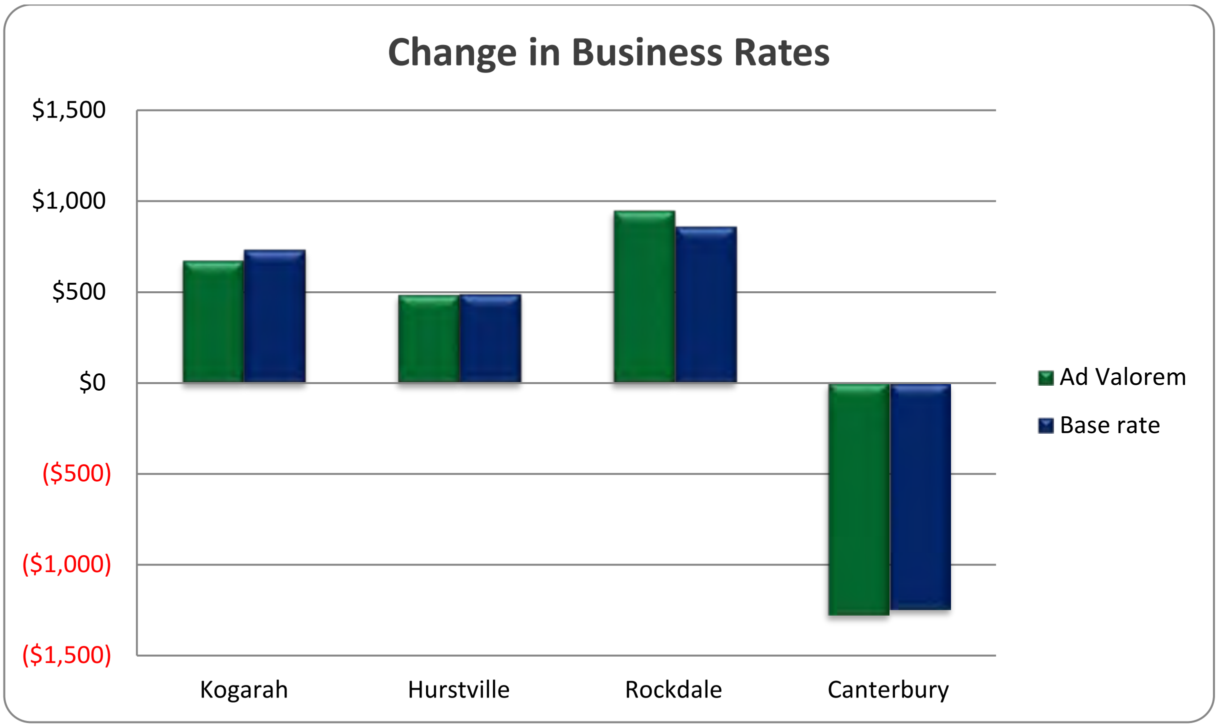


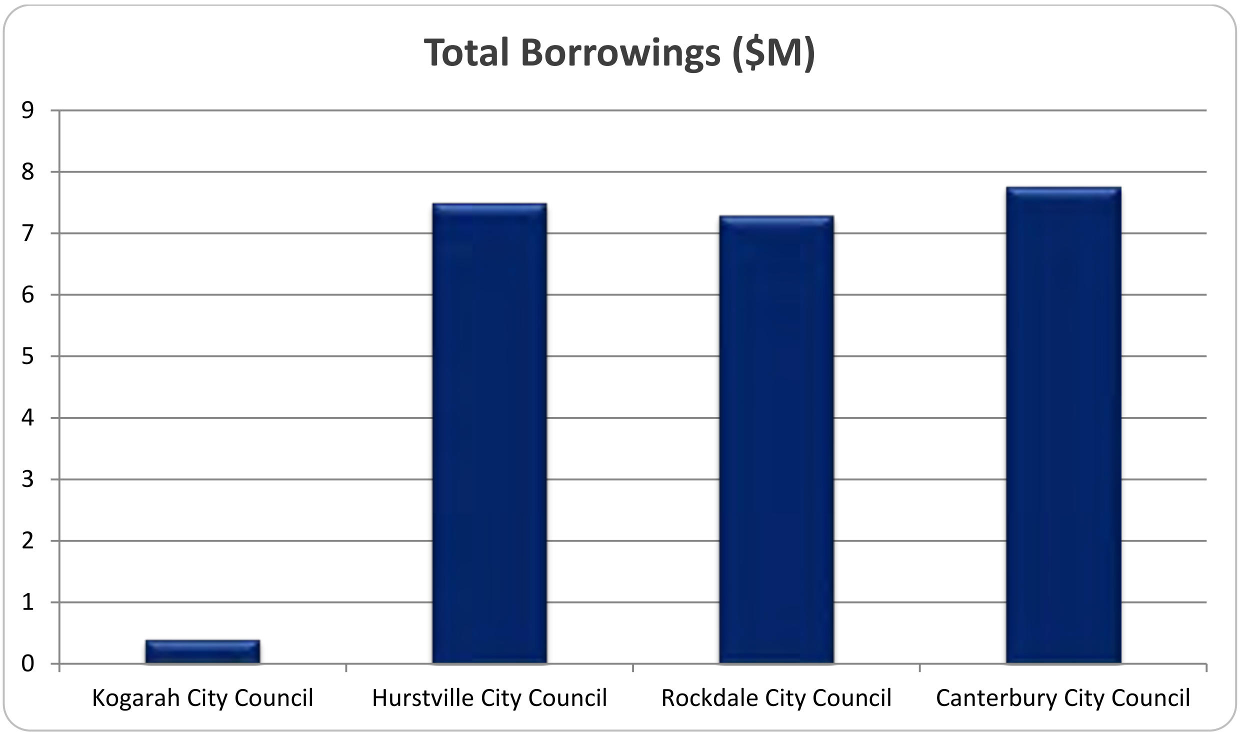
Figure 17 Change in Rates for St George + Canterbury Option





6.3 Debt

With the exception of Kogarah, which has virtually no debt, the other councils in the St George have debt ranging between $7.3 and $7.8M with total debt of $22.9M.



This translates into a debt per capita ranging from $7 for Kogarah residents through to just over $90 per resident for Hurstville residents.

Kogarah has debt of approximately $400,000 and does not intend to borrow any significant sums of money in the foreseeable future. In contrast the other councils in the St George area have existing borrowings of over $20 million and intend to borrow another $27 million dollars in the near future to deliver on their current plans and activities.

A merger between the St George and Canterbury councils would result in a debt per capita on the current level of shared debt of $58.

Table 24 Comparison of debt

Council	Debt ($000)	Debt per Capita ($)
St George	15,130	59
St George + Canterbury	23,400	58

6.4 Fit for the Future

6.4.1 Scale and capacity

Scale

Scale has not been defined by the either the Independent Review Panel or the Office of Local Government. However, an analysis of the inner Sydney metropolitan councils not recommended for merger appears to indicate a threshold requiring a population of approximately 250,000[18] by 2031.

On that basis a merger of the St George and a merger of the St George + Canterbury satisfies this criteria. No two-council merger in the St George would meet the criteria, although Rockdale + Hurstville would be close. Given Canterbury's large size, a two-council merger between it and any of the other St George councils would also satisfy the criteria.

Capacity

The panel report articulates the Key Elements of Strategic Capacity.[19]

Table 25 Scale and capacity

Box 8: Key Elements of Strategic Capacity

- 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.

The performance of the merger options against each of the key elements is set out in the following table. The assumption is that a single council on its own does not meet any of the capacity elements because each council was put into a potential merger group by the Independent Review Panel. The assessment is then based on the extent to which a merger creates a change in assessment against the criteria compared to a single council.

A more detailed explanation of the rationale for these assessments is then set out in Appendix E.

18 Average population in 2031 of the inner Sydney Metropolitan Councils not recommended for merger
19 Box 8, Page 32 of Revitalising Local Government

Table 26 Scale and capacity in the councils

Criteria	St George	St George + Canterbury
More robust revenue base and increased discretionary spending	Yes (Significant change)	Yes (Significant change)
Scope to undertake new functions and major projects	Yes (Significant change)	Yes (Significant change)
Ability to employ wider range of skilled staff	Yes (Significant change)	Yes (Significant change)
Knowledge, creativity and innovation	Yes (No change)	Yes (No change)
Effective regional collaboration	Yes (Significant change)	Yes (Significant change)
Credibility for more effective advocacy	Yes (Significant change)	Yes (Significant change)
Capable partner for state and federal agencies	Yes (Significant change)	Yes (Significant change)
Resources to cope with complex and unexpected change	Yes (Significant change)	Yes (Significant change)
High quality political and managerial leadership	Yes (Moderate change)	Yes (Moderate change)

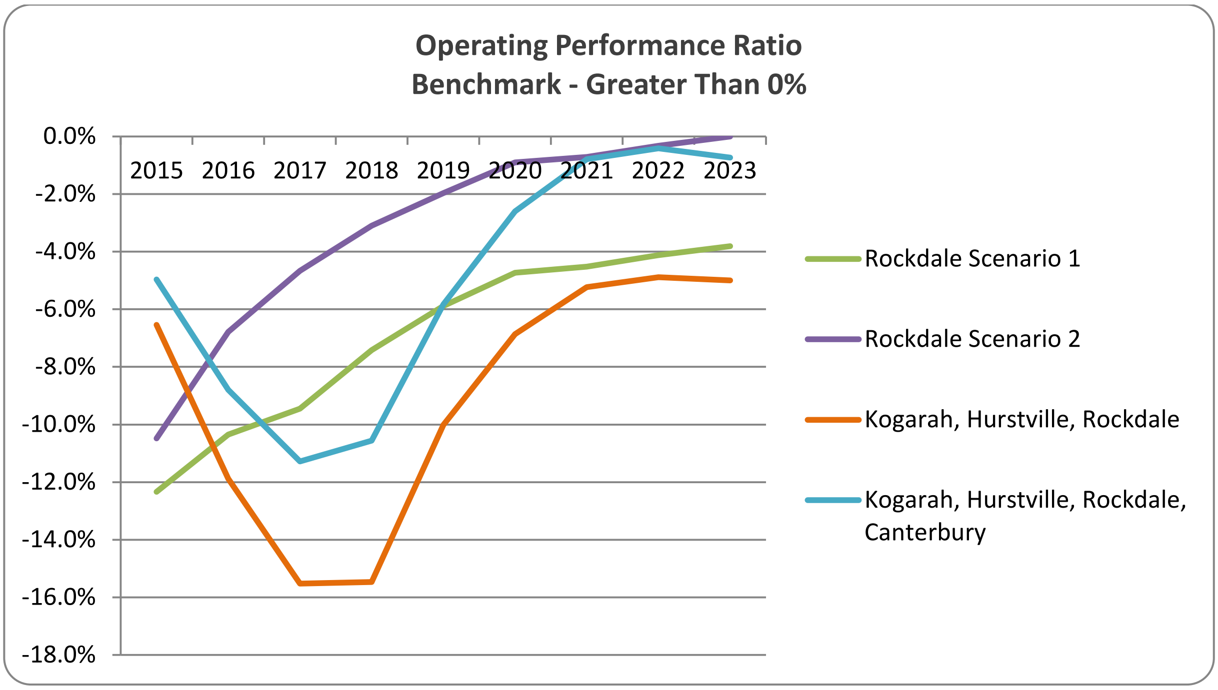
6.4.2 Fit for the Future Benchmarks

The table below summarises the performance of each merger option against the benchmarks highlighting the performance on day one and then over the period being modelled (2023). A graph of each ratio showing the performance on a year by year basis compared to the Rockdale standalone options then follows.

Table 27 Summary of merger options using Fit for the Future indicators

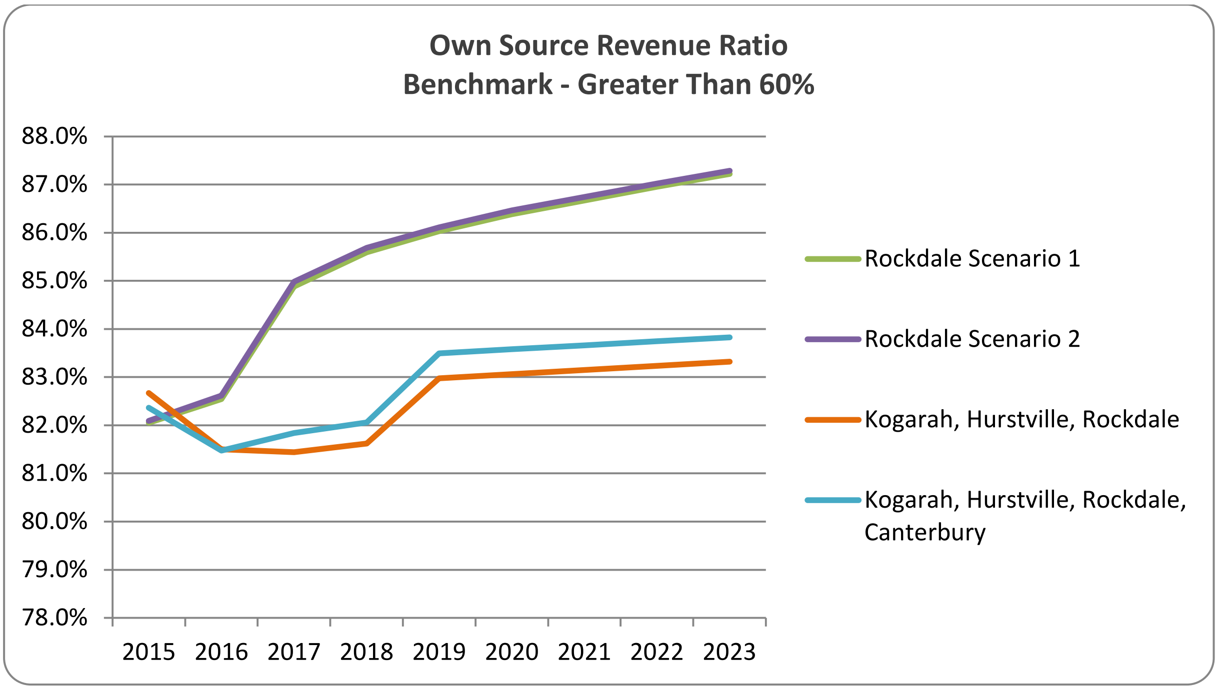
Indicator	St George		St George + Canterbury	
	Day One	**Over modelling period**	**Day One**	**Over modelling period**
Operating Performance	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Meets the benchmark	Does not meet the benchmark from 2017	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	N/A	Meets the benchmark	N/A	Meets the benchmark

Figure 18 Operating performance ratio



[20]

Figure 19 Own source revenue



[20] Rockdale Scenario 1 is based on 13/14 Financial Statements. Rockdale Scenario 2 is based on a revaluation of assets and associated impact on depreciation.

Figure 20 Debt service ratio

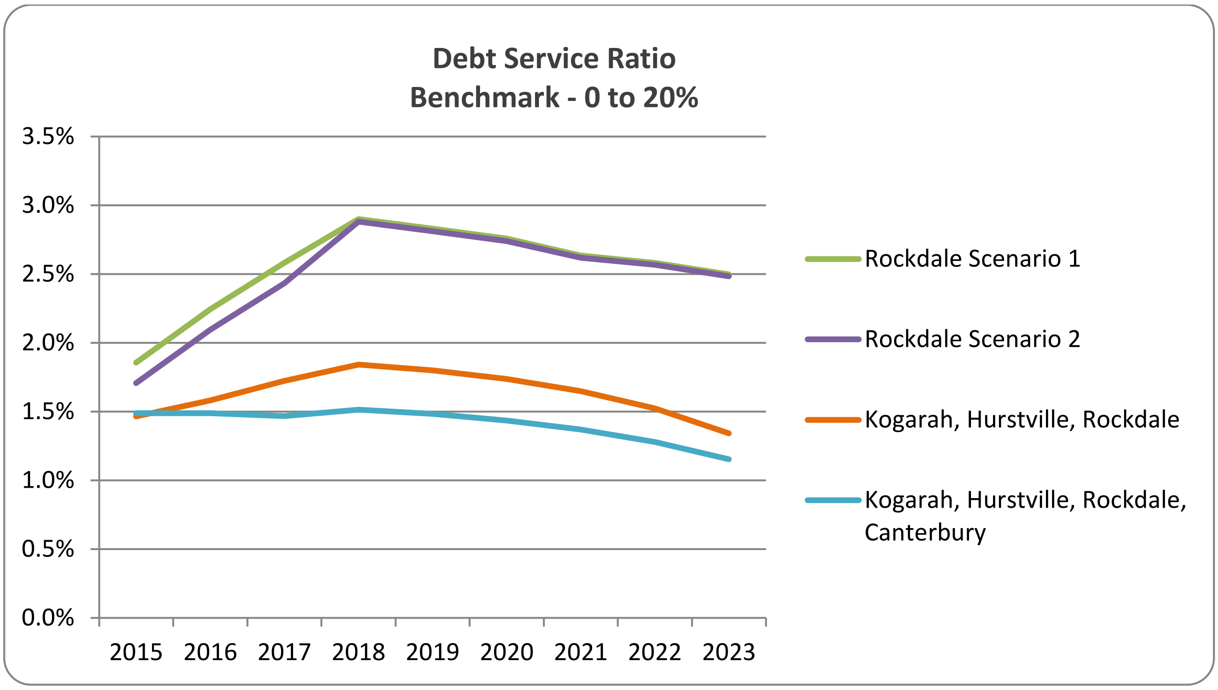


Figure 21 Asset renewal ratio

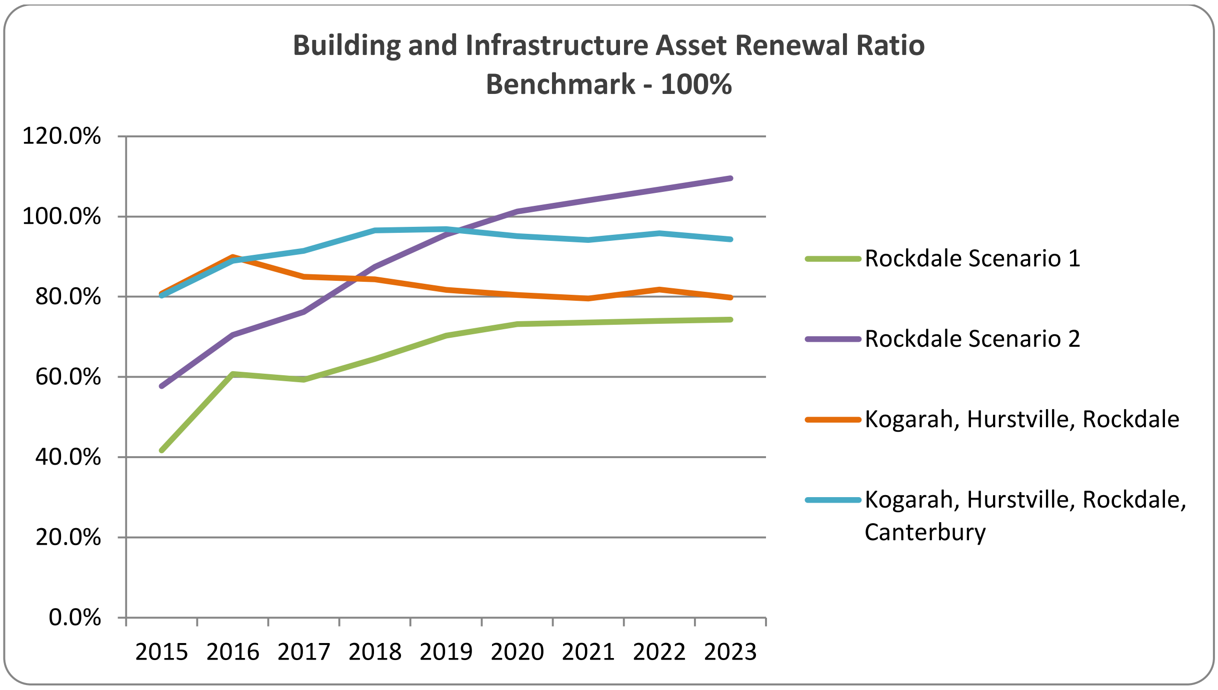


Figure 22 Infrastructure backlog ratio

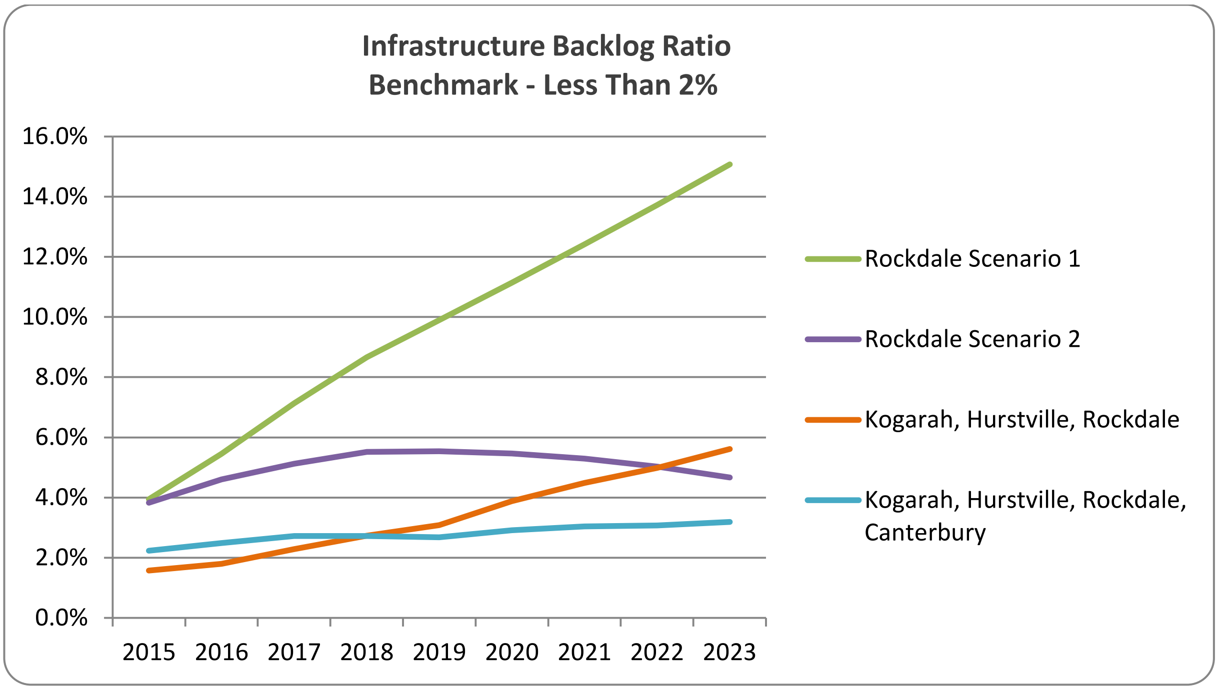


Figure 23 Asset maintenance ratio

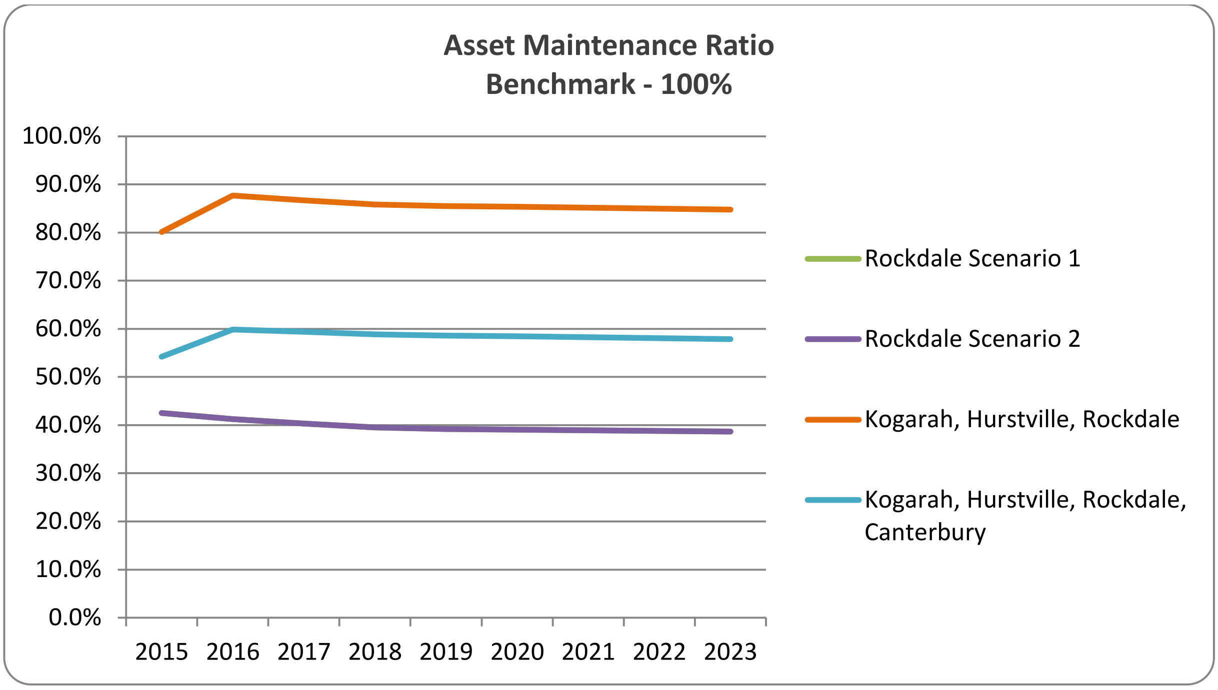
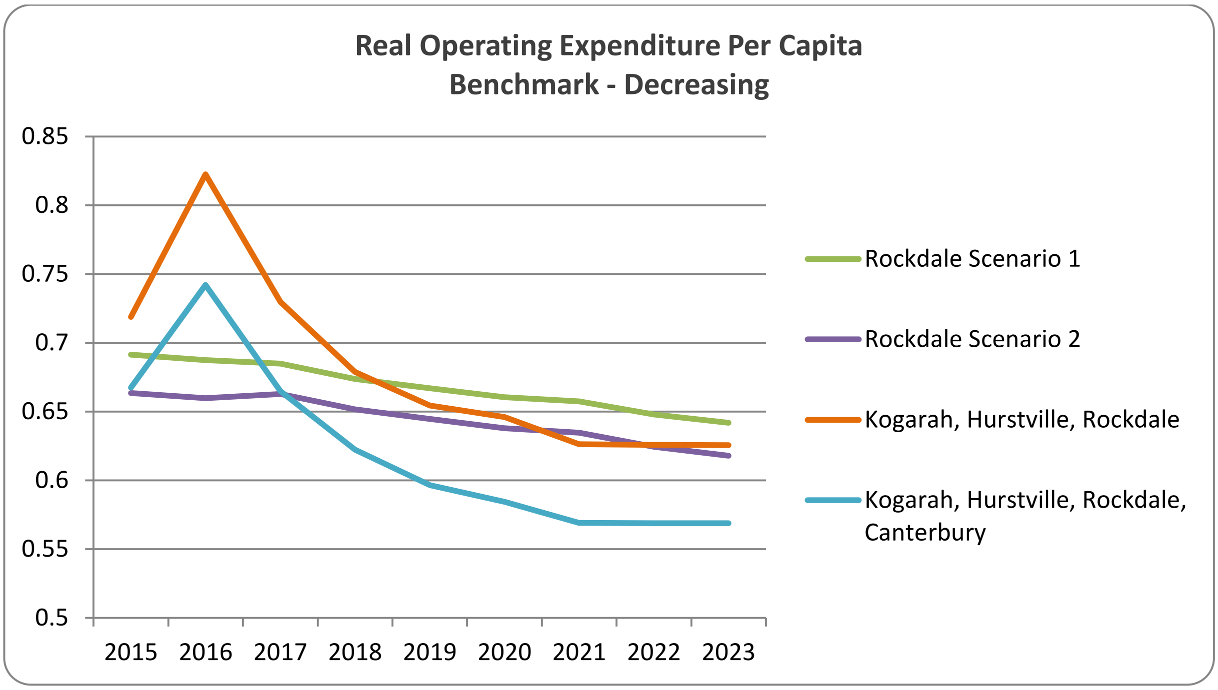


Figure 24 Real operating expenditure per capita



6.4.3 Asset Maintenance

The maintenance funding gap for each of the merger options has been set out below. For the purposes of the modelling it is assumed that the combined expenditure on maintenance for the merged council is the total of the existing/predicted maintenance budgets and as the analysis is required to be on publically available information. Each council's assessment of 'required maintenance' has been assumed to represent the correct figure to maintain that community's assets in the appropriate condition.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the modelling uses actual figures for each year.

Table 28 Merger options asset maintenance funding gaps

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
St George	14,230	16,685	- 2,455
St George + Canterbury	22,130	37,921	- 15,791

6.4.4 Asset Renewal

The required annual renewal expenditure for the merged council options is based on the combined calculation of the depreciation on building and infrastructure assets. For the purposes of the modelling it is assumed that the combined expenditure on building and infrastructure renewals for the merged council is the total of the existing/predicted renewal budgets for these assets.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the modelling uses actual figures for each year.

Table 29 Merger options asset renewal funding gaps

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
St George	24,567	31,657	- 7090
St George + Canterbury	37,639	41,050	- 3411

6.4.5 Infrastructure Backlog

We have then calculated what the merged council options would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years and set that out in the table below. As the analysis is required to be on publically available information each council's assessment of 'required maintenance' has been assumed to represent the correct figure to maintain that community's assets in the appropriate condition.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the modelling uses actual figures for each year.

Table 30 Merger options infrastructure backlog funding gaps

Council	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
St George	18,074	20,145	N/A	N/A
St George + Canterbury	40,005	32,117	- 7,889	- 1,578

6.4.6 Funding shortfall

The combined asset funding shortfall for each merger option is then set out in the table below. For simplicity, this is presented as an average of the years projected in each council's LTFP while the modelling uses actual figures for each year.

Table 31 Merger options total asset funding gap

Council	Asset Maintenance ($000)	Renewals ($000)	Infrastructure Backlog ($000)	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
St George	- 2,455	- 7090	-	- 9,545	- 9,545
St George + Canterbury	- 15,791	- 3411	- 1,578	- 20,780	- 19,202

6.4.7 Operating Performance

The operating result of the merged council options (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP while the modelling uses actual figures for each year.

Table 32 Merger options operating result funding gap

Council	Gap ($000)
St George	- 17,412
St George + Canterbury	- 11,875

6.5 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a "no forced redundancies" position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

7. CONCLUSIONS

The Government has made it clear that the starting point for every council is scale and capacity. The Independent Panel position was that scale and capacity for Rockdale and the other three councils arises through a merger either of St George and Canterbury or Bankstown and Canterbury.

While it is entirely possible for Rockdale to make what would be in our view a valid argument that it can meet the scale and capacity tests with a lesser merger or potentially standing alone, Council would need to do so recognising the stated government position which runs contrary to that.

The table below provides a summary of the Council's performance against the benchmarks. Rockdale meets 2 of the 7 benchmarks today and over the period being modelled meets 3 of the 7, with the renewal ratio meeting the benchmark in 2020.

Table 33 Rockdale City Council (status quo) performance against Fit for the Future benchmarks

Indicator	Modelling Outcome	Modelling Outcome (Revised reporting)
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Meets the benchmark in 2020
Infrastructure Backlog[21]	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark	Does not meet the benchmark

7.1 What does Rockdale need to do to meet the Fit for the Future Benchmarks?

In order to meet the Fit for the Future benchmarks Rockdale requires an increase in revenue and/or a decrease in costs to address an ongoing operating deficit (as judged against the operating performance ratio criteria) and a small increase in renewals expenditure over the medium and longer term.

The average annual gap between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the period of the Council's LTFP is $4.9M per annum under Scenario 1 (13/14 Financial Statements), or $1.6M under Scenario 2 (following revaluation of assets and resulting impact on depreciation). Rockdale will need to address this in order to meet the key Operating Performance ratio benchmark.

In order to satisfy the infrastructure renewal ratio over the entire period being modelled, Rockdale will need to fund an average increase of $2.5M per annum for building and infrastructure renewals. Overall the infrastructure funding gap required to meet the asset benchmarks is $5.7M over the next five years.

[21] The forecast of a council's infrastructure backlog is based on using condition 3 as satisfactory

Even if the additional expenditure requirements set out above are achieved and a council meets all the Fit for the Future benchmarks, which logic would dictate means that scale and capacity has therefore been met, a council will still need to address the government's starting point of scale and capacity first. Interestingly in the case of each of these councils the Independent Panel position was that scale and capacity for each was achieved by a merger with different councils.

While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

7.2 Merger options

7.2.1 Scale and capacity

A merger of the St George, St George and Canterbury both satisfy what appears to be the scale and capacity requirement of a population of 250,000 (based on the average size of councils not proposed for merger) by 2031.

7.2.2 Fit for the Future benchmarks

The merged council options are the sum of its parts. This means that the asset and financial positon of each council involved in the merger directly contributes to the overall asset and financial position of the merged council.

The significant transitional costs identified throughout this report mean the operating performance ratio of the merger options is consistently negative from day one and while efficiency benefits have been modelled in arising through the mergers the extent to which these are sufficient to improve the financial performance of the council differs across the options.

The table below summarised the merged council performance against the benchmarks.

Table 34 Merged council options performance against Fit for the Future benchmarks

Indicator	St George	St George + Canterbury
Operating Performance	Meets the benchmark	Meets the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

Overall, Rockdale performs worse against the benchmarks than either of the merged council options, most notably in terms of operating performance. The merger options do not meet the asset related benchmarks. This means that in order for the merger options to meet the asset maintenance, asset renewal and infrastructure backlog ratios a funding gap exists. This is set out in the table below.

Table 35 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
St George Council	- 9,545	- 9,545
St George + Canterbury Council	- 20,780	- 19,202

7.2.3 Debt

The debt levels across the councils are low (total debt is $22.39M) and, in the case of the Kogarah, almost non-existent. All councils are well below the debt service ratio and the same is true for all of the merger options.

Typically, the consolidation of debt in a merger can be a community issue as a community with little or no debt may perceive as unfair having to repay debt that 'belongs' to other communities and other community's assets. In the case of the councils this may arise for Kogarah residents who currently carry almost no debt.

7.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property. Key examples are the different minimum rates across the councils and different proportions of rates borne by business and residential rate payers. For example, in Rockdale businesses bear 12% of the rates whereas in Canterbury that proportion rises to 22%.

Currently Kogarah has the highest average residential rate ($1,043) and Canterbury the highest average business rates ($4,502). In comparison Rockdale has the lowest average residential rate ($913) and Kogarah the lowest average business rate ($2,452).

A merged council would ultimately set a single rating system across the three councils and regardless of the approach there would be some properties where rates would rise and others where rates would reduce. A key driver for this would be land value and residents with comparatively high value properties would bear a higher proportion of the rates.

Changes to the average business and average residential rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected.

Under the different merger options the impacts on Rockdale residents remain the same with the average residential and average business rate decreasing under all merger options.

7.2.5 Environmental

The comparison of the community strategic plans highlighted the community as a common theme across all the councils. The review of the LEPs of the councils identified some different approaches and differing levels of relative importance for the natural and built environment and in particular highlighted the respective environments important to the communities such as the importance of the St George's river for Kogarah and Hurstville and Botany Bay for Rockdale.

The Councils' approach to growth all reflect the developed nature of the LGAs with all councils falling in the Southern region for sub-regional planning where the major economic drivers for the Subregion largely seen as external to the Subregion (Sydney's Global Corridor, Sydney Airport, Port Botany and the Illawarra).

7.2.6 Representation

One of the biggest negative impacts from a merger of the councils is on representation. The number of people represented by each councillor will increase significantly under all the merger options making it more difficult for residents to access their councillors and the council.

Based on the current maximum of 15 councillors which provides an indicator of the best possible representation available under the different merger options, representation would rise to over 19,000 (St George) and around 26,000 (St George + Canterbury). All options are significantly more than the current representation levels of around 7,000 residents per councillor.

While measures can be put in place to address a loss of representation through local or community boards, at present the government has not set out in detail any proposal that the community could consider.

7.2.7 Community profile and communities of interest

There are as always similarities and differences across the four communities.

Similarities exist in the multicultural diversity of communities with over one third of the population speaking English and another language at home. Kogarah, Canterbury, Hurstville and Rockdale belong to a cluster of New South Wales councils that have good English, high educational attendance, high year 12 achievements and a high ratio or professional to trade qualifications (NIER, March 2013).

There is a strong connection between the St George Councils. The *similarities and differences report* notes that there is a lot of population movement (migration) between the St George councils, Hurstville, Kogarah and Rockdale. Inner Sydney is a common place of work for residents of the four council areas reflecting the connection of Sydney metropolitan councils' to the City with around 14% of all workers commuting to work in Inner Sydney. However, for Canterbury, Hurstville and Rockdale, more residents work locally than commute in to Inner Sydney for employment.

There are also differences. While the four councils belong to a cluster which features moderately high wealth per household with much of this wealth in housing, Canterbury has the highest proportion of households in the lowest two income quartiles whereas Kogarah has the greatest proportion of households in the highest income quartile. Canterbury's SEIFA ranking (index of Socio-Economic Disadvantage) is significantly higher than the other three councils.

The four councils are in the same sub-region for planning purposes and the St George is typically within a single area for state service delivery.

Ultimately the question for any of the merger options would be how the council could adequately represent the different communities of interest from across the council areas. We would suggest that this needs to be considered in light of the significant reduction in representation that would arise under any of the merger options.

7.2.8 Costs and savings of the merger

The costs and savings of the mergers arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition for any of the options there are costs associated with creating the single entity (structure, process, policies, systems and branding). Costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the mergers continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

The operating performance of both merger options is poor, failing the Operating Performance ratio throughout the modelling period. Operating Results for the merger options (excluding grants and contributions for capital purposes) are generally negative except the year in which asset and plant rationalisation occur.

The NPV of the costs and savings over the period being modelled (2023[22]) has been calculated and set out below, however this should be seen in light of the identified asset funding gap and the overall financial performance of the merger options.

Table 36 Summary of costs and savings

	NPV at 4%	NPV at 7%	NPV at 10%
St George Council	$51.3 million	$39.6 million	$30.4 million
St George + Canterbury Council	$122.7 million	$101.6 million	$85.4 million

7.2.9 Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

[22] 2023 is the period being modelled to match the time covered by all Council LTFPs

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

APPENDIX A FIT FOR THE FUTURE BENCHMARKS[23]

Operating Performance Ratio

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

23 Office of Local Government Fit for the Futre Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

$$\frac{\textit{Cost of debt service (interest expense \& principal repayments)}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

Description and Rationale for Criteria:

The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textbf{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

Description and Rationale for Criteria:

The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and
- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B SUMMARY OF COSTS AND BENEFITS OF MERGER OPTIONS[24]

Table 37 Summary of Costs and Benefits of St George Merger

		2016	2017	2018	2019	2020	2021	2022	2023
		(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Governance		- 241	- 248	- 256	- 265	- 273	- 282	- 291	- 300
Staff	Redundancies	- 1,414			- 6,804				
	Staff costs	- 5,285	- 8,916	- 12,388	- 15,605	- 14,325	- 13,023	- 11,696	- 10,346
	Harmonisation	1,746	1,801	1,859	1,918	1,980	2,043	2,108	2,176
IT	Costs and Benefits	30,900	15,450	5,150			- 6,420	- 6,625	- 6,837
Materials and Contracts		- 602	- 621	- 641	- 1,241	- 1,280	- 1,938	- 2,000	- 2,064
Assets	Plant and fleet				- 4,844				
	Buildings				- 8,987				
Grants and Government Contributions		- 10,500							
Transitional Costs	Transitional body	7,950			500				
	Total	**22,554**	**7,465**	**- 6,277**	**- 26,487**	**- 13,889**	**- 19,620**	**- 18,505**	**- 17,372**

[24] In this appendix all costs are shown as a positive number and all savings are shown as negative numbers

Table 38 Summary of Costs and Benefits of St George + Canterbury Merger

		2016	2017	2018	2019	2020	2021	2022	2023
		(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Governance		- 584	- 602	- 622	- 641	- 662	- 683	- 705	- 728
Staff	Redundancies	- 1,890	-	-	- 10,161	-	-	-	-
	Staff costs	- 8,479	- 14,167	- 19,606	- 29,921	- 28,095	- 26,239	- 24,352	- 22,433
	Harmonisation	2,536	2,617	2,701	2,787	2,876	2,968	3,063	3,161
IT	Costs and Benefits	38,400	19,200	6,400			- 7,978	- 8,233	- 8,497
Materials and Contracts		- 1,796	- 1,853	- 1,912	- 2,897	- 2,990	- 4,069	- 4,199	- 4,333
Assets	Plant and fleet				- 5,678				
	Buildings				- 11,304				
Grants and Government Contributions		- 16,500							
Transitional Costs	Transitional body	11,000			500				
	Total	**22,687**	**5,194**	**13,040**	**- 41,399**	**- 28,871**	**- 36,002**	**- 34,426**	**- 32,830**

APPENDIX C COSTS AND BENEFITS ARISING FROM THE MERGER OPTIONS – DETAILED ASSUMPTIONS

Costs and benefits identified below form the basis of the modelling referred to throughout the report.

Assumptions have been made using the best available information including analysis of various reports on and estimates of merger costs in other similar situations. This has been supplement with professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Costs are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, Council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support Council/Committee Secretarial Support	Reduced councillors and remuneration	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)				

1.1 Governance ($290 – 550,000)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and Councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on the Lord Mayor and Councillor fees from the City of Sydney as reported in the Annual Report 2014. The Independent Review Panel has envisaged a full time Mayor and there will be higher costs associated with such a role than the current Mayor and Councillors of the councils receive. It is assumed that there would be 14 councillors and a Mayor.

The total governance costs across the councils is based on the respective council's annual reports 2013/14 and there is the potential ongoing efficiency of $290 - $550,000 depending on the merger option.

1.2 Executive management ($1.44 - $2.4 million)

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors). Revised remuneration packages for the new General Manager and Directors for the new entity have been informed and assumed to be similar to the executive remuneration packages of councils of similar size and scale to that of the proposed new entities.

The General Managers total remuneration for the councils is based on the council's respective annual reports 2013/14, and the amalgamation to a single entity with a single General Manager has the potential saving of approximately $840 - $950,000.

In addition there would be a rationalisation of the existing director position. Based on the Annual Reports for 2013/14 combined remuneration for directors and assuming that the new entity has four – five director positions, the estimated savings are in the order of $960,000 - $1.5 million.

It is important to note that while ongoing efficiencies have been identified effective from the short term, there is the one off cost of redundancies of approximately $630,000 - $1.5 million that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3 Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service.

Based on our previous experience one would expect resource efficiencies of between 5 and 15%. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however having said that there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services Section.

2 Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3) Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Long Term (5 years plus)					

2.1 Rationalisation of duplicate services ($2.1 – 2.8 million)

Consistent with the dis-establishment of three Councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers. A comparison of FTEs per head of population and FTE to service expenditure of NSW Councils also indicates the newly formed council would be higher than the average on both measures which confirms the need to reduce total FTE numbers.

Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than separate Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans , Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.

- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the ‘front of house’ customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the ‘back office’ such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity both in terms of resources and actual cost. However it is expected that ICT would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The starting point for the assumption underpinning the efficiency for corporate services was a 35%[25] reduction in corporate support personnel. A review of the organisational charts of the three councils means that in this case our views is that the opportunity for reductions in corporate is significantly less than the starting point and in the region of 5 – 15%. On costs are considered to be included as the figure used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those outlines above.

In order to achieve the opportunities identified would require detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled on an average of 26 weeks[26]

3 Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

[25] Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

[26] The Local Government (State) Award provides a sliding scale for redundancy pay-outs from 0 for less than 1 year, 19 weeks for 5 years and 34 weeks for 10 years. An average of 26 weeks has therefore been used throughout the modelling.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)					

3.1 Management tier 3 and 4 ($3.1 – $4.9 million)

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. While Section 1 addresses the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out. On the basis that between two and four councils are being disestablished and a single entity created, the assumption is that there will be at least a 10 - 20% reduction across the existing Tier 3 and Tier 4 positions achieving an ongoing efficiency of $3.1 – $4.9 million on remuneration and on costs.

3.2 Staff Turnover ($3.7 – $5.8 million)

The industry average turnover is approximately 9% and on the basis that the new entity adopts a ‘natural attrition’ policy not to fill positions in the short term, there is an estimated annual efficiency of $3.7 – $5.8 million on staff remuneration.

3.3 ICT Benefits ($6.4 – $7.9 million)

Without a full investigation into the current state of the three councils ICT infrastructure and systems, and without an understanding of the future state the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from three councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce by 40%[27] over

[27] Report to the Local Government Commission on Potential Savings of a Range of Options for the Re-organisation of Local Government in the Wellington Region, Brian Smith Advisory Services Limited, November 2014

time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the three councils, the 40% efficiency is unable to be determined at this time.

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and based on an ICT cost of $90 million have estimated the Net Present Value at $200 million and payback period of 5 years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate however to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of $6.4 – 7.9M per annum.

Sensitivity Analysis

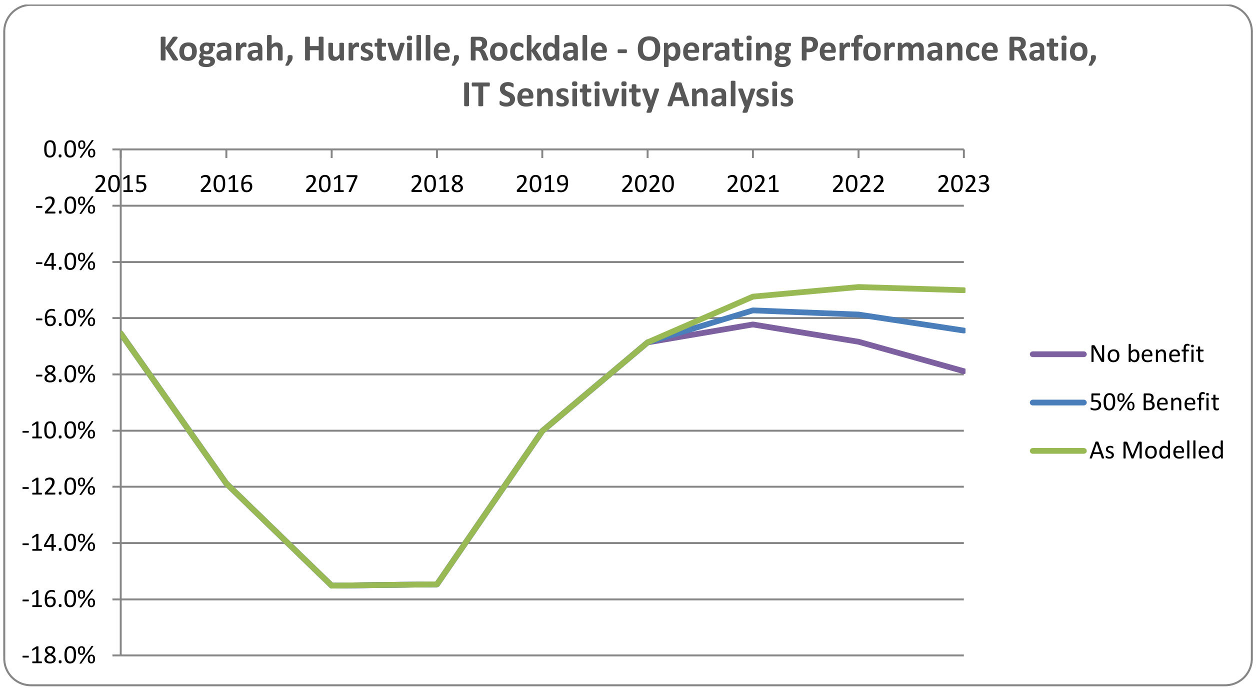
Due to the high level of uncertainty associated with the realisation of IT benefits one additional scenario has been modelled to demonstrate the overall impact on the financial sustainability of the IT benefits being realised.

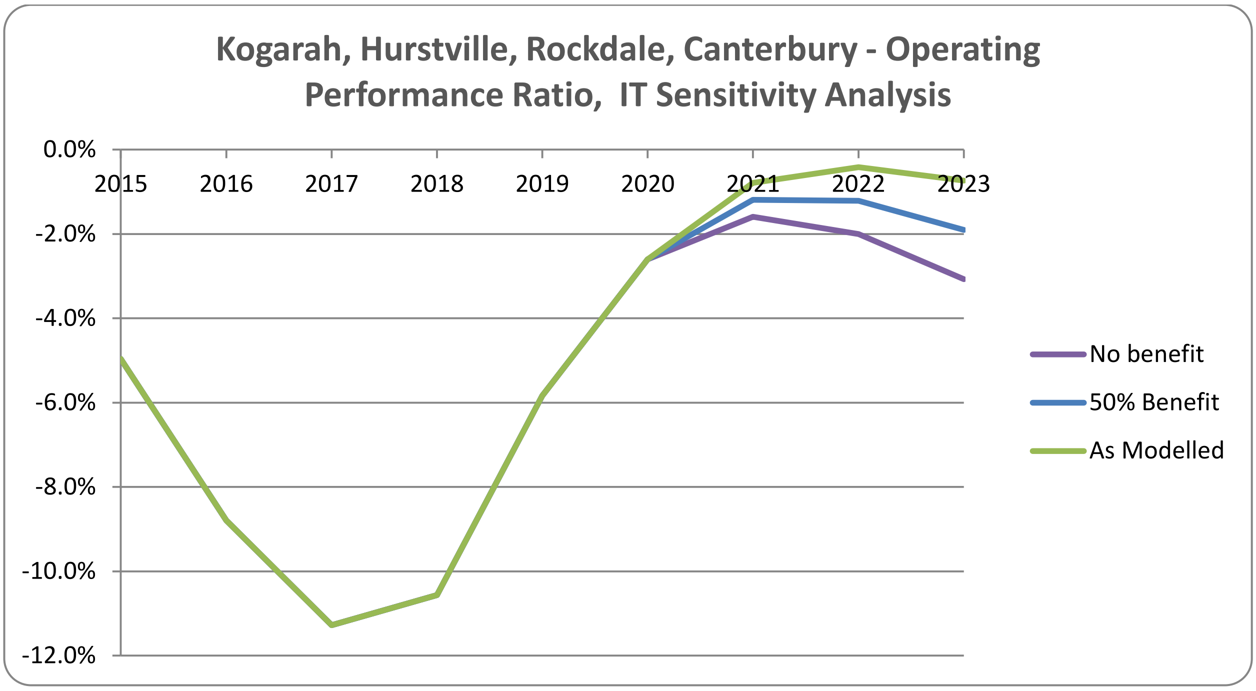
The impact on the merged council is set out by reference to the Operating Performance Ratio and a summary of the Financial Impacts.

Benefits at 50%

Realising only 50% of the IT benefits affects the merged council's operating performance by further magnifying the poor operating result in the long term. It reduces the annual benefits by between $.5 and $4M per annum.

The impact of this is demonstrated by reference to the operating performance ratio, real operating expenditure per capita ratio and summary of the financial performance of the merged council.





3.4 Materials and contracts ($1.5 – $3 million)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from six councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement including through SSROC shared and panel contracts but that the process also identified a large number of services contracted out by the councils which are not aligned or co-ordinated.

The increased scale and size of the infrastructure networks managed by the merger options would in our view lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

Based on the analysis during the project and our experience the combined savings have been modelled in the short term at 2% and rising to 4% over the medium and longer term.

3.5 Properties ($8.9 – 11.3 million – one off)

There is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for Council purposes. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (refer to Section 3.7).

For the purposes of modelling the merged council it is assumed that the council would dispose of 5% of the combined buildings portfolio by value in the medium term. In the longer term savings in properties are achievable but should be carried out in a more strategic manner across the combined entity.

3.6 Works units

Staff ($6.1 – $9.6 million)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 20% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks with an assumption on the number of affected staff at Canterbury, Rockdale and Hurstville based on proportion of staff in works units in Kogarah and other similar Sydney councils.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet ($4.8– $5.6 million – one off)

Based on our experience of reviewing a large number of works units across NSW most councils as are have significantly more plant and equipment than reasonably required to undertake it day to day functions. As such it is reasonable to assume that a reduction in plant and fleet in the order of 30% would be achievable should there be an amalgamation of councils.

4 Services and Service Levels ($1.0 – $1.5 million)

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[28] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition.

5 Transition costs

The formation of the new entity from the current state of three Councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[29] for the proposed Wellington reorganisation.

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below:

[28] Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

[29] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

Governance	• Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	• Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required
Finance and Treasury	• Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	• Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change • Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	• Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	• Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1
Planning Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond • Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Da1 and beyond

Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

5.1 Transition body ($6.8 - $9 million)

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at $36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[30] and on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the merger options is $6.8 – $10 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

5.2 ICT ($52 to $75 million)

The costs associated with ICT for the new entity relate to rationalising the existing councils ICT infrastructure, business applications, security and end user support for the single entity. The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. With the limited time to undertake this report the ICT costs have thus been based on the proposed Wellington reorganisation and tested against other potential merges of different sizes. A number of ICT scenarios were explored by Deloitte[31] for Wellington and the WNTA scenario most closely resembles the merger options. Scaling these costs based on the size of the

30 Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

31 Wellington Local Government Reorganisation Options – Transition Costs and Benefits for Technology Changes, Deloitte, September 2014

merger options provides an estimated ICT cost of between $30 million and $75 million. The estimated cost are spread across the initial years of the councils operations with the majority falling in the first two years.

Given the respective size of the councils and the populations they serve in the context of the studies cited it is considered that the most likely costs are in the middle.

5.3 Business Process (existing Council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the six existing councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4 Branding ($1.2 - $2 million)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace the existing signage of the six councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is $1 – $2 million based on other amalgamation experience.

5.5 Redundancy Costs ($960,000 – $1.5 million)

Through the transition period the Tier 1 and Tier 2 positions would be made redundant and based on employment contracts with a redundancy period of 38 weeks, the one off cost of redundancies is estimated at between $960,000 and $1.5 million based on the Councils' respective Annual Reports 2013/14.

5.6 Remuneration Harmonisation ($1.6 – $2.3 million)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the three councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for similar sized councils have been compared to that of the four councils as well as between the councils.

5.7 Elections ($0 million)

There is a possibility of proportional savings in existing council budgets as instead of six separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the three councils.

APPENDIX D CAPACITY

Key Elements of Strategic Capacity	St George	St George + Canterbury
More robust revenue base and increased discretionary spending	**Yes**	**Yes**
Degree of Change	Significant change	Significant change
Rationale	Revenue base increased to 285,000 (now)	Revenue base increased to390,000
Scope to undertake new functions and major projects	**Yes**	**Yes**
Degree of Change	Significant change	Significant change
Rationale	Better able to prioritise and undertake regionally significant projects intellectually, financially and resource wise	Better able to prioritise and undertake regionally significant projects intellectually, financially and resource wise
Ability to employ wider range of skilled staff	**Yes**	**Yes**
Degree of Change	Significant change	Significant change
Rationale	Larger council has capacity to employ (and contract) more specialist staff	Larger council has capacity to employ (and contract) more specialist staff
Knowledge, creativity and innovation	**Yes**	**Yes**
Degree of Change	No change	No change
Rationale	Knowledge, creativity and innovation are a function of the organisational culture. Particularly in metropolitan Sydney and an increase scale makes little or no difference	Knowledge, creativity and innovation are a function of the organisational culture. Particularly in metropolitan Sydney and an increase scale makes little or no difference
Effective regional collaboration	**Yes**	**Yes**
Degree of Change	Significant Change	Significant Change
Rationale	Large single council responsible for and represents interests of all of St George.	Very large single council responsible for and represents interests of all a significant part of South West Sydney
Credibility for more effective advocacy	**Yes**	**Yes**
Degree of Change	Significant Change	Significant Change
Rationale	Large single council responsible for and represents interests of all of St George.	Very large single council responsible for and represents interests of all a significant part of South West Sydney

Key Elements of Strategic Capacity	St George	St George + Canterbury
Capable Partner for State and Federal Agencies	**Yes**	**Yes**
Degree of Change	Significant Change	Significant Change
Rationale	Large single council responsible for and represents interests of all of St George.	Very large single council responsible for and represents interests of all a significant part of South West Sydney
Resources to Cope with complex and unexpected change	**Yes**	**Yes**
Degree of Change	Significant change	Significant change
Rationale	Large council with large financial capacity to meet challenges intellectually, financially and resource wise	Large council with large financial capacity to meet challenges intellectually, financially and resource wise
High Quality political and managerial leadership	**Yes**	**Yes**
Degree of Change	Moderate change	Moderate change
	The quality of managerial leadership can be influenced by a management structure and remuneration that attracts and retains the highest calibre of executive staff. A merger of the 3 councils increases the management group and remuneration capacity The quality of political leadership is in the hands of the electorate and it is arguable that a larger entity or representative focus necessarily equates to “quality”.	The quality of managerial leadership can be influenced by a management structure and remuneration that attracts and retains the highest calibre of executive staff. A merger of the 4 councils increases the management group and remuneration capacity The quality of political leadership is in the hands of the electorate and it is arguable that a larger entity or representative focus necessarily equates to “quality”.

APPENDIX E COMPARISON OF THE APPROACH TO THE NATURAL AND BUILT ENVIRONMENT

The following is based on overarching LEP plan aims as an indication of:

- protection of the natural environment
- protection the built environment and built heritage
- general approach to growth and development

	Natural	Built	Approach to Growth
Canterbury **(Canterbury LEP 2012)**	The particular aim of the LEP which relates to the protection of the natural environment is: • to protect the natural environment for future generations and implement ecological sustainability in the planning and development process	The particular aim of the LEP which relates to the protection of built heritage is: • to protect and promote the environmental and cultural heritage values of Canterbury	The Aims of the LEP reflect the developed nature of the LGA, with a focus on Urban Renewal, revitalisation of Town Centres and a Major Road corridor, and provision of a range of housing and employment opportunities to meet future demand: • to provide for a range of development that promotes housing, employment and recreation opportunities for the existing and future residents of Canterbury • to promote a variety of housing types to meet population demand • to ensure that development is of a design and type that supports the amenity and character of an area and enhances the quality of life of the community • to create vibrant town centres by focusing employment and residential uses around existing centres and public transport nodes • to revitalise Canterbury Road by encouraging a mix of land uses that does not detract from the economic viability of existing town centres • to retain industrial areas and promote a range of employment opportunities and services • to promote healthy lifestyles by providing open space that supports a variety of leisure and recreational facilities and encouraging an increased use of public transport, walking and cycling

	Natural	Built	Approach to Growth
			• Much of the zoning tends to reflect existing development typologies which may limit the extent to which redevelopment is facilitated by the LEP
Hurstville **(Hurstville LEP 2012)**	The particular aims of the LEP which relate to the protection of the natural environment are: • to protect and conserve the environmental heritage, cultural heritage and aesthetic character of Hurstville • to protect and enhance areas of remnant bushland, natural watercourses, wetlands and riparian habitats • to retain, and where possible extend, public access to foreshore areas and link existing open space areas for environmental benefit and public enjoyment • to ensure development embraces the principles of ecological sustainability These Aims reflect the importance of, particularly, the Georges River frontage forming the southern boundary of the LGA	The particular aim of the LEP which relates to the protection of built heritage is: • to protect and conserve the environmental heritage, cultural heritage and aesthetic character of Hurstville	The Aims of the LEP reflect the developed nature of the LGA, with redevelopment focussed on maintaining existing character and amenity: • to encourage and co-ordinate the orderly and economic use and development of land that is compatible with local amenity • to provide a hierarchy of centres to cater for the retail, commercial, residential accommodation and service needs of the Hurstville community • to provide a range of housing choice that: • accords with urban consolidation principles, and • is compatible with the existing environmental character of the locality, and • is sympathetic to adjoining development • to maintain and enhance the existing amenity and quality of life of the Hurstville community • to ensure development embraces the principles of quality urban design • to ensure that development is carried out in such a way as to allow the economic and efficient provision of a range of public services and community facilities Much of the zoning tends to reflect existing development typologies which may limit the extent to which redevelopment is facilitated by the LEP
Kogarah **(Kogarah LEP 2012)**	The particular aims of the LEP which relate to the protection of the natural environment are: • to protect and enhance Kogarah's natural environment, foreshores and waterways • to provide high quality open space and a range of recreational areas and facilities suited to meet the needs of the residents of Kogarah and its visitors	The LEP contains no Aim which relates to the protection of built heritage.	The Aims of the LEP reflect the existing development of the LGA, with growth of the area's economy seen as based around existing housing and industry sectors: • to guide the orderly and sustainable development of Kogarah • to encourage a diversity of housing choice suited to meet the needs of the current and future residents of Kogarah

	Natural	Built	Approach to Growth
	• to conserve Kogarah's environmental heritage These Aims reflect the importance of, particularly, the Georges River frontage forming the southern boundary of the LGA and tributaries of the Georges River now functioning as significant open space areas		• to promote economic development and facilitate the continued growth of commercial, medical-related and industrial employment-generating opportunities • Much of the zoning tends to reflect existing development typologies which may limit the extent to which redevelopment is facilitated by the LEP
Rockdale **(Rockdale LEP 2011)**	The particular aims of the LEP which relate to the protection of the natural environment are: • to conserve the environmental heritage of Rockdale • to promote and enhance Rockdale's foreshores • to minimise impacts on land subject to environmental hazards, particularly flooding Reflects location of LGA on shores of Botany Bay and immediate tributaries	The particular aims of the LEP which relate to the protection of built heritage are: • to maintain and improve residential amenity and encourage a diversity of housing to meet the needs of Rockdale residents Over 200 items in Heritage Schedule but importance not reflected in aims of LEP	Notes importance of Transit Oriented Development but planning for growth is not a key feature of the LEP aims. Aims include: • to maintain and improve residential amenity and encourage a diversity of housing to meet the needs of Rockdale residents • to promote economic activity within Rockdale through the facilitation of commercial, employment-generating and tourism opportunities • to encourage residential and employment densities around transport nodes in order to provide sustainable transport options

A review of the Metropolitan Strategy *A Plan for Growing Sydney; December 2014* was also undertaken to better understand the strategic drivers for each council.

METROPOLITAN PLANNING

South Subregion

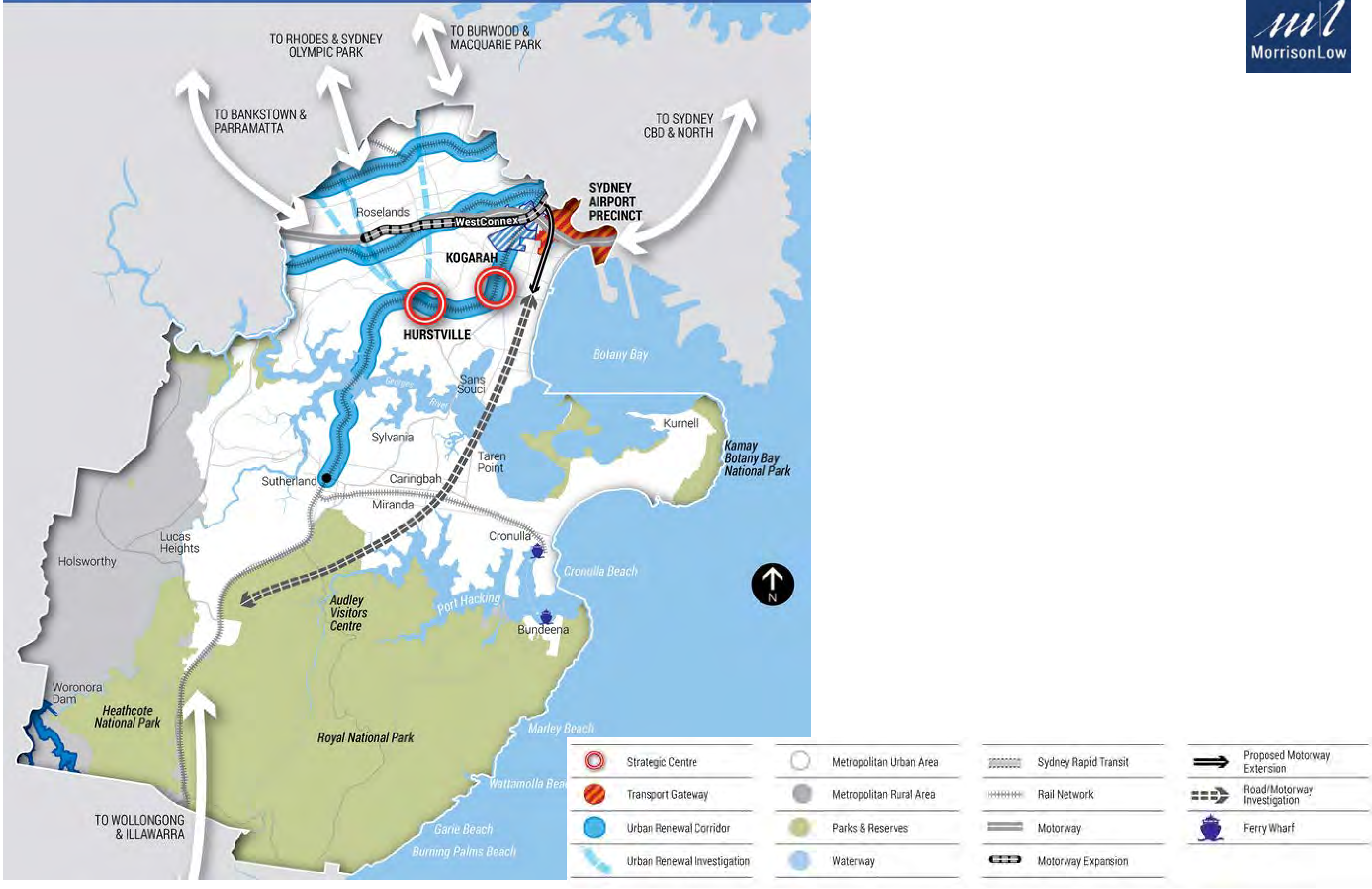
All the Councils are part of the Southern sub-region. The major economic drivers for the Subregion are largely seen as external to the Subregion (Global Corridor, Sydney Airport, Port Botany and the Illawarra (p132) with priorities for the Subregional economy including (p132)

- Facilitate good employment and transport connections and an efficient freight network to Sydney Airport and Port Botany
- Investigate pinch-points associated with growth in the vicinity of Sydney Airport and Port Botany
- Identify and protect strategically important industrial-zoned land

The Plan appears to show a "Priority Precinct" for major urban renewal in the Wolli Creek area in Rockdale LGA but no further commentary is offered in the Plan on the potential role of this precinct.

The future of the Rockdale LGA appears inextricably linked to broader planning outcomes associated with Transport Gateway development. This would not only imply a need to review local planning in Rockdale to accommodate these influences but also that, in the Metropolitan context, the future of Rockdale LGA has more in common with areas in the Sydney Central Subregion to the north rather than the other Councils located in the South Subregion.

FIGURE 32: South Subregion



APPENDIX F COMPARISON OF COMMUNITY STRATEGIC PLANS

Council	Vision	Broader Themes
Kogarah	• Embracing the diversity of our community. • Improving our natural and built environment. • Responding to changing community needs and expectations • Creating a cohesive and resilient community.	• Achieve long term economic and social security • Recognise the intrinsic value of biodiversity and natural ecosystems and their protection and restoration • Enable our communities to minimise their ecological footprint • Build on the characteristics of ecosystems in the development and nurturing of a healthy and sustainable City • Recognise and build on the distinctive characteristics of the City including our human and cultural values, history and natural systems • Empower people and foster participation • Expand and enable co-operative networks to work towards a common sustainable future • Promote sustainable production and consumption, through appropriate use of environmentally sound technologies and effective demand management • Enable continual improvement, based on accountability, transparency and good governance
Hurstville	• An evolving city which promotes a sustainable and safe community that connects people and places, and celebrates diversity.	• Creating a diverse, harmonious and inclusive City that provides a range of social, cultural, educational and leisure opportunities. • Protecting and improving the City's natural and built environments and cultural assets for the health, well-being and benefit of current and future residents. • Increasing Hurstville's level of income and capital, and distributing this wealth to the community in the form of local facilities, services and jobs. • A highly effective, efficient and accountable organisation which engages with the community to provide responsive and relevant services.
Rockdale	• One Community, Many Cultures, endless Opportunity	• Rockdale is a welcoming and creative City with active, healthy and safe communities. • Rockdale is a City with a high quality natural and built environment and valued heritage in liveable neighbourhoods. A City that is easy to get around and has good links and connections to other parts of Sydney and beyond.

Council	Vision	Broader Themes
		• Rockdale is a City with a thriving economy that provides jobs for local people and opportunities for lifelong learning. • Rockdale is a City with engaged communities, effective leadership and access to decision making.
Canterbury	• Attractive city • Stronger community • Healthy environment • Strategic leadership • Improving council	• Attractive streetscapes • Balanced development • Prosperous economy • Embracing diversity • Health and Safety • Access to services • Transport alternatives • Responsible use of resources • Care for the natural environment • Engaged community • Healthy finances • Effective governance • Efficient services • Responsible employer • Well-maintained equipment

APPENDIX G DETAILED COMMUNITY PROFILE

MorrisonLow

Hurstville City Council

ROCKDALE CITY COUNCIL
On Historic Botany Bay

KOGARAH CITY COUNCIL

City of Canterbury
City of Cultural Diversity

The Communities of St George and Canterbury

March 2015

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Document Status

Approving Director:	Draft	Date:	March 2015

1. INTRODUCTION

A desktop review of the communities of the St George and Canterbury council areas has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the Canterbury and St George area. The key sources of information for the desktop review were ABS Census Data taken from each of the Councils' ProfileID[32] websites, population, household and dwelling projections prepared by NSW Department of Planning and Environment[33], along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* (NIER, March 2013) report[34].

Communities of interest and geographic cohesion are important considerations for any boundary adjustment process under Section 263 of the Local Government Act 1993. In particular, in the case of a proposal for the amalgamation of two or more areas, there is a need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented (Section 263(e5), Local Government Act 1993).

Communities of interest are more likely to have similar interests and needs from their council, whereas people who do not share a community of interest are more likely to have different needs from their council.

2. SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

There are a number of similarities and differences between the areas, including:

Similarities	Differences
• Similar diversity of culture, with fewer people born in Australia and higher proportions of residents from Asia, Southern and Eastern Europe than for Greater Sydney	
• In all four areas over a third of the population speak English and another language at home	
• Population growth is similar to or higher than the State average in all four areas	

32 http://profile.id.com.au/canterbury, http://profile.id.com.au/hurstville, http://profile.id.com.au/kogarah, http://profile.id.com.au/rockdale

33 http://www.planning.nsw.gov.au/en-au/deliveringhomes/populationandhouseholdprojections/data.aspx

34 http://www.localgovernmentreview.nsw.gov.au/documents/lgr/NSW%20Local%20Government%20Areas_%20Similarities%20and%20Differences%20-%20March%202013.pdf

Similarities	Differences
• In all four areas employment rates are high, with low social security take up	
• Inner Sydney is a common place of work for all residents	
• In all areas the highest proportion of workers also live in the area	•
• Hurstville, Kogarah and Rockdale have similar profiles in terms of the types of industries in which residents are likely to work; with Health Care and Social Assistance most common	• Residents of Canterbury are most likely to work in Retail Trade, followed by Health Care and Social Assistance
• Hurstville Kogarah and Canterbury all have a high proportion of low density dwellings relative to medium and high density housing	• Rockdale has similar proportions of low density and medium density housing
• Canterbury, Hurstville and Kogarah have average proportions of children and elderly and relatively high retention rates for young adults	• While Rockdale has a relatively low ratio of children to adults of parenting age
• Hurstville, Kogarah and Rockdale have similar levels of population density	• While population density in Canterbury is slightly higher
• Hurstville, Kogarah and Rockdale belong to a cluster of councils characterised by middle incomes	• Canterbury, by contrast, belongs to a cluster of councils characterised by low to middle incomes. The Canterbury area has more households with incomes (equivalised) in the bottom two quartiles of the income distribution than the St George Councils
• Hurstville, Kogarah and Rockdale are areas of relatively low disadvantage according to the SEIFA index of deprivation; ranking in the top third least disadvantaged councils in the State	• Canterbury, by contrast, is an area of relatively high disadvantage according to the SEIFA index of deprivation; ranking in the bottom third of in the State

3. POPULATION SUMMARY

3.1 Current Base Information

	Population (ERP June 2013)	No. Households	Land Area ha	Population Density
Canterbury	148,853	48,462	3,356	44.35
Hurstville	84,859	28,404	2,282	37.19
Kogarah	60,411	20,016	1,552	38.92
Rockdale	106,712	36,359	2,823	37.8
Total	400,835	133,241	10,013	40.0

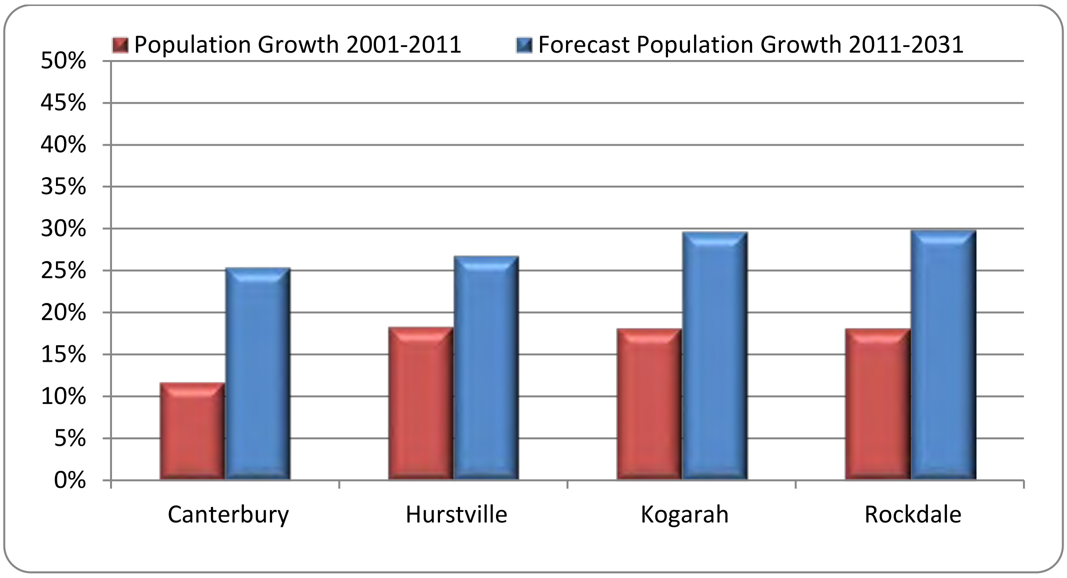
3.2 Population Growth and Forecasts

Analysis of the census data and the NSW Department of Planning and Environments Population forecasts has been undertaken to identify the future population growth within the St George area. All areas of the St George area and Canterbury will accommodate a share of the State's growth with an overall population increase of 27.5% or around 107,000 people by 2031.

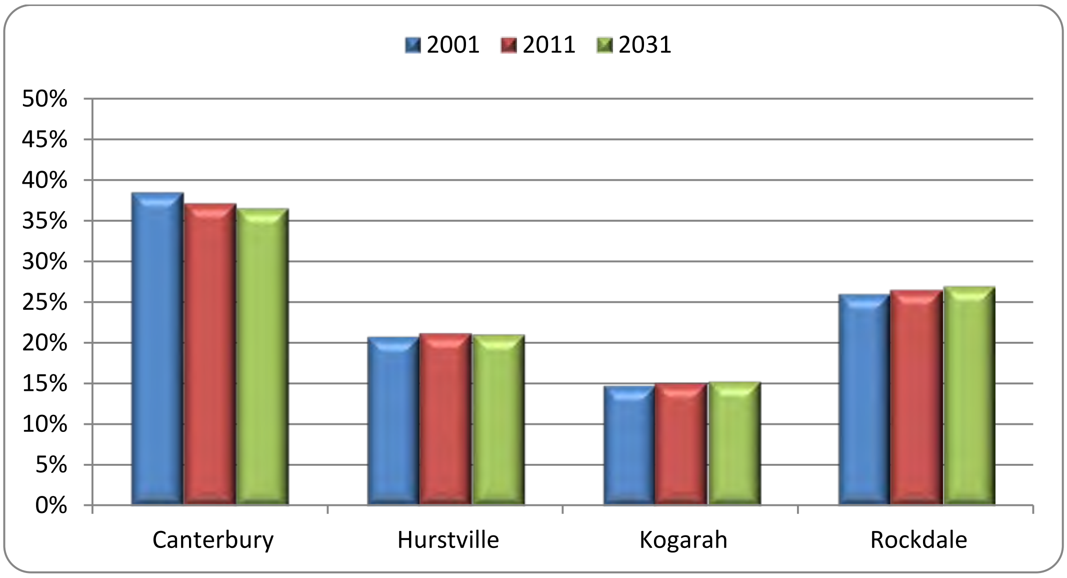
Canterbury, Hurstville, Kogarah and Rockdale belong to a cluster of metropolitan Sydney suburbs which are experiencing a population growth rate above the state average with growth the result of a balance between overseas arrivals and births (NIER, March 2013).

Hurstville, Kogarah and Rockdale experienced similar levels of growth between 2001 and 2011 at around 18%. Canterbury experienced a slightly lower growth rate of 12% between 2001 and 2011.

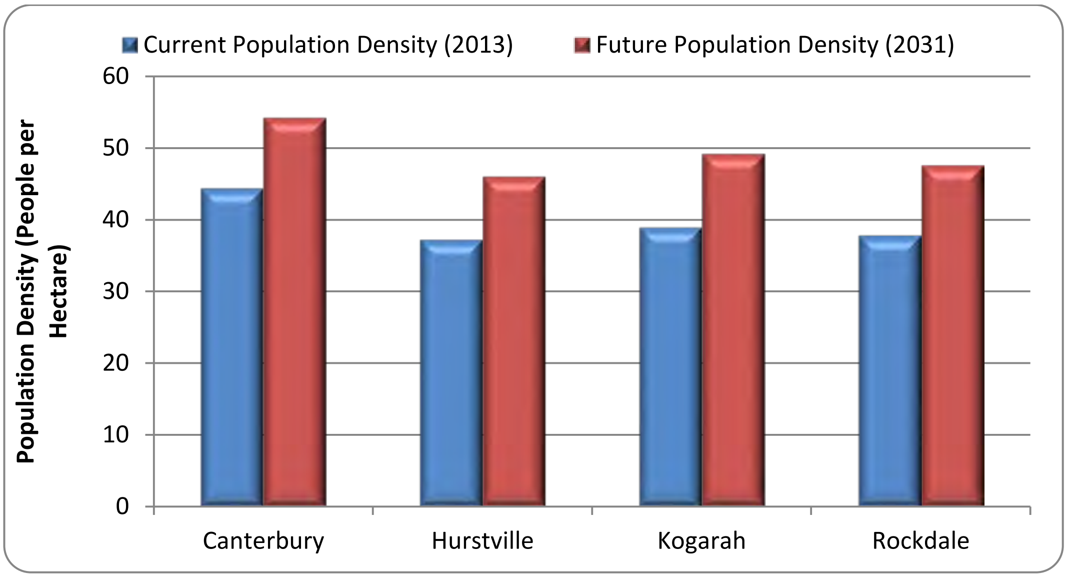
All four council areas are forecast to experience much higher rates of growth between 2011 and 2031 than they did over the 2001 to 2011 period. Hurstville, Kogarah and Rockdale are forecast to experience a similar growth rate of 30% between 2011 and 2031. Canterbury is forecast to grow at a slightly lower rate of 25% between 2011 and 2031.



Canterbury will continue to have a greater share of the population across the four Councils but this will decline slightly by 2031, while Hurstville, Kogarah and Rockdale will gain a slightly larger share of the overall population by 2031.



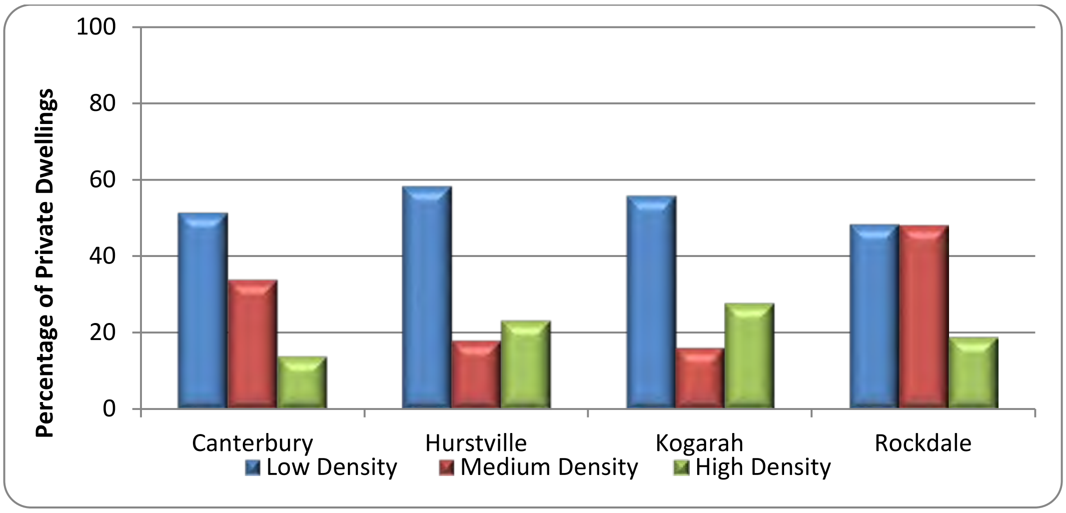
Population density will increase at a similar rate in all council areas. Canterbury currently has the highest population density at 44 persons per hectare and by 2031 this is expected to be 54 persons per hectare. Overall, population density will increase across the four areas from around 40 persons per hectare to around 50 persons per hectare.



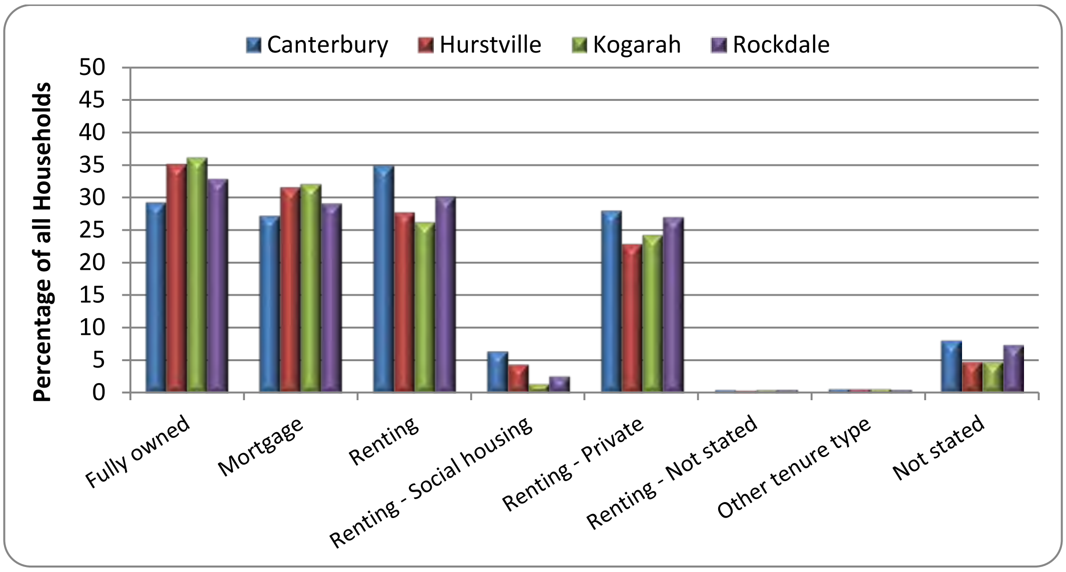
3.3 Dwellings

Overall, the four councils are in a cluster of areas with a high proportion of flats; greater population mobility than the state average and tenancy distributed across the tenancy types (NIER, March 2013).

Hurstville, Kogarah and Canterbury have a high proportion of low density dwellings, relative to medium density and high density housing. Rockdale has similar proportions of low density and medium density housing and has the highest proportion of medium density housing of the four areas, followed by Canterbury. Kogarah has the highest proportion of high density housing of the four areas, followed by Hurstville and Rockdale.



The four councils belong to a cluster which features moderately high wealth per household with much of this wealth in housing (NIER, March 2013). Kogarah and Hurstville have the highest proportion of homes owned outright and mortgaged. Canterbury and Rockdale have the highest proportion of renters. Of those who are renting; Canterbury (6.2%) has the highest proportion living in rented social housing, followed by Hurstville (4.5%).

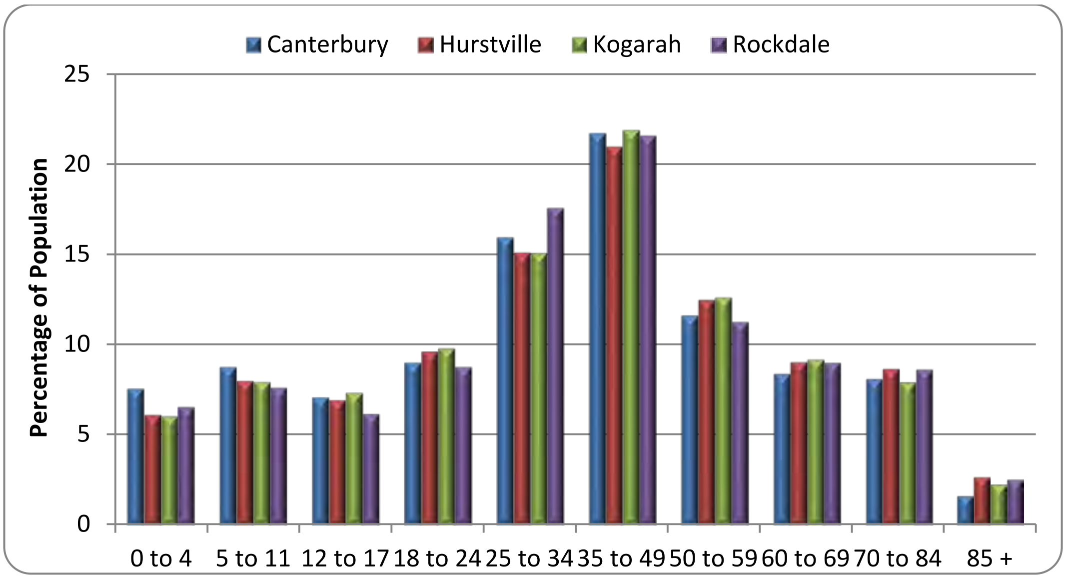


3.4 Age Structure

Different age groups have different service needs and preferences. The age structure of a community provides and insight into the level of demand for aged based services and facilities as well as the key issues on which local government will need to engage with other levels of government in representing their community.

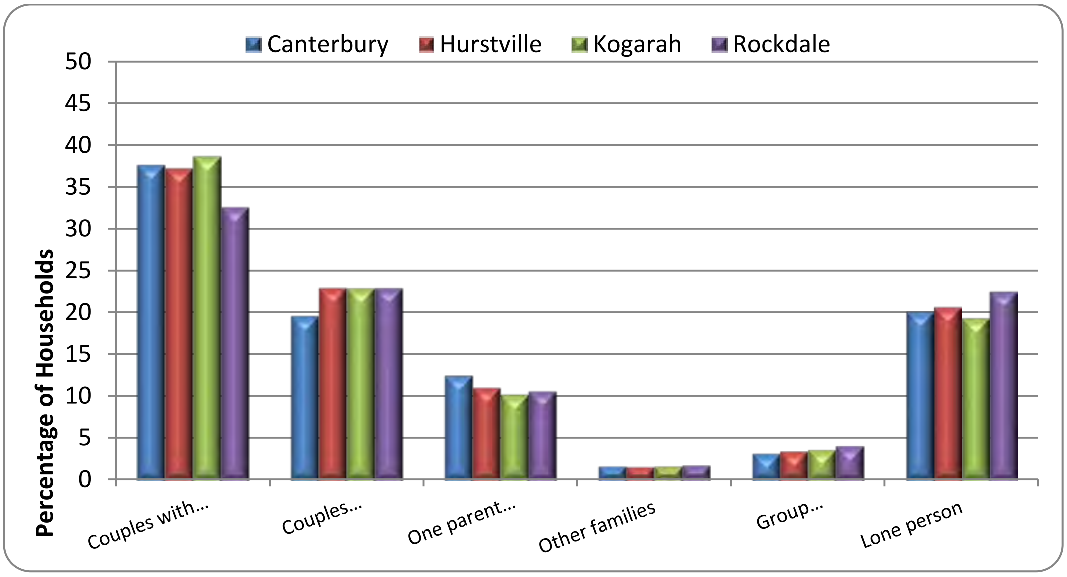
Canterbury Hurstville and Kogarah are similar in that they belong to a cluster of Sydney councils with average proportions of children and elderly people and relatively high retention rates for young adults (NIER, March 2013). Canterbury has the highest proportion of children aged 11 years or less.

By contrast, Rockdale has a relatively low ratio of children to adults of parenting age associated with a low proportion of children in the population overall. Rockdale also has a higher proportion of young adults (25-34) and a relatively high proportion of the very old.



3.5 Household Types

In all four areas, couple households with children are the most common type of households. Canterbury has a lower proportion of couples without children and the highest proportion of one parent families while Rockdale has the highest proportion of lone person households. Hurstville, Kogarah and Rockdale have similar proportions of couple without children households and lone parent households.



4. CULTURE

The study on the similarities and differences in local government across New South Wales places all four areas in the same cluster which typically has a high proportion of Australian born, fewer northern and western European born and relatively more Asian and Southern and Eastern European born than other parts of Sydney (NIER, March 2013).

4.1 Birthplace

The following table shows the proportion of Australian born residents in each of the four areas and the four most common countries of birth, after Australia, for each of the four council areas. Canterbury has the lowest proportion of Australian born of the four areas and Kogarah has the highest. In all four areas, china is the most common country of birth after Australia.

	Born in Australia	1	2	3	4
Canterbury	44.7	China - 7.1%	Lebanon - 4.9%	Greece - 3.9%	Vietnam - 3.1%
Hurstville	53.9	China - 14.3%	Hong Kong - 2.8%	United Kingdom - 1.9%	New Zealand - 1.8%
Kogarah	54.2	China - 13.0%	Greece - 2.2%	Hong Kong - 2.2%	Former Yugoslav Republic of Macedonia - 3.0%
Rockdale	49.7	China - 6.3%	Greece - 3.2%	United Kingdom - 2.0%	Lebanon - 3.0%

4.2 Religion

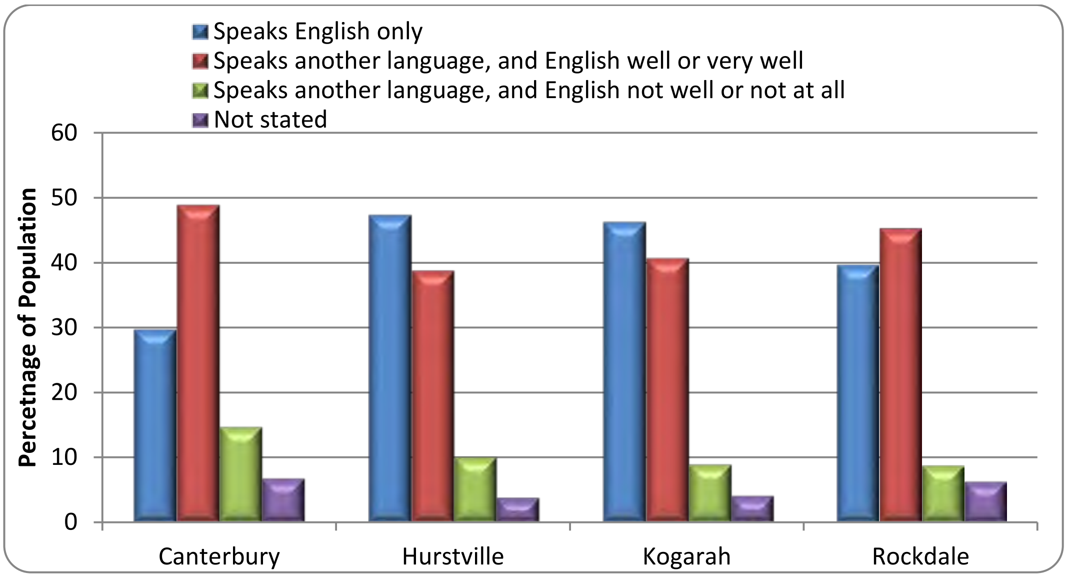
Canterbury, Hurstville, Kogarah and Rockdale are part of a council areas with a high proportion of Orthodox religions. The four areas all have a relatively low proportion of Muslims and a relatively low proportion of residents with no religion.

4.3 Language

Canterbury, Hurstville, Kogarah and Rockdale are all part of a cluster of local council areas where English spoken at home is low relative to other parts of Sydney and Asian languages are relatively commonly spoken at home (NIER, March 2013).

In all four areas, over a third of the population speak both English and another language at home. In Canterbury and Rockdale, a greater proportion of the population speak another language and English at home than speak English only at home.

Canterbury has the highest proportion of people who speak another language and do not speak English well or at all, followed by Hurstville.

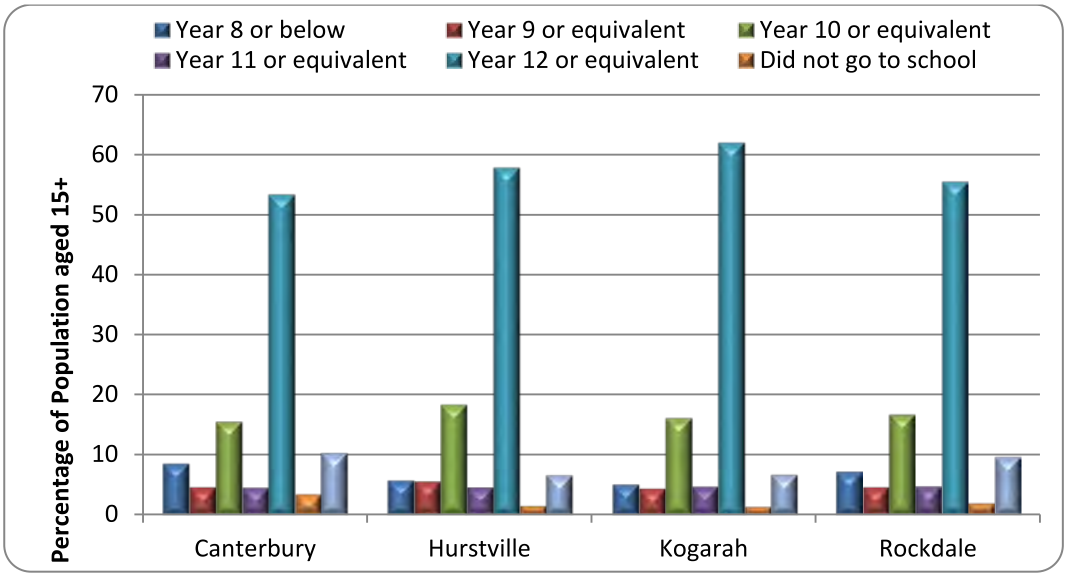

Speaks English only
Speaks another language, and English well or very well
Speaks another language, and English not well or not at all
Not stated
Percetnage of Population
60
50
40
30
20
10
0
Canterbury
Hurstville
Kogarah
Rockdale

5. EDUCATION

In the similarities and differences study, Kogarah, Canterbury, Hurstville and Rockdale belongs to a cluster of New South Wales councils that have good English, high educational attendance, high year 12 achievements and a high ratio or professional to trade qualifications (NIER, March 2013).

5.1 School Completion

School completion data is a useful indicator of socio-economic status. Combined with educational qualification it allows an assessment of the skill base of the population. Of the four areas, Canterbury has the lowest rate of Year 12 school completion at 53%; slightly lower than the Year 12 completion rate for Sydney as a whole (55%). The percentage of school leavers who complete Year 12 in Rockdale (56%) is similar to the completion rate for Sydney as a whole. The Year 12 completion rate in Hurstville (58%) and Kogarah (62%) is higher than for Sydney as a whole.

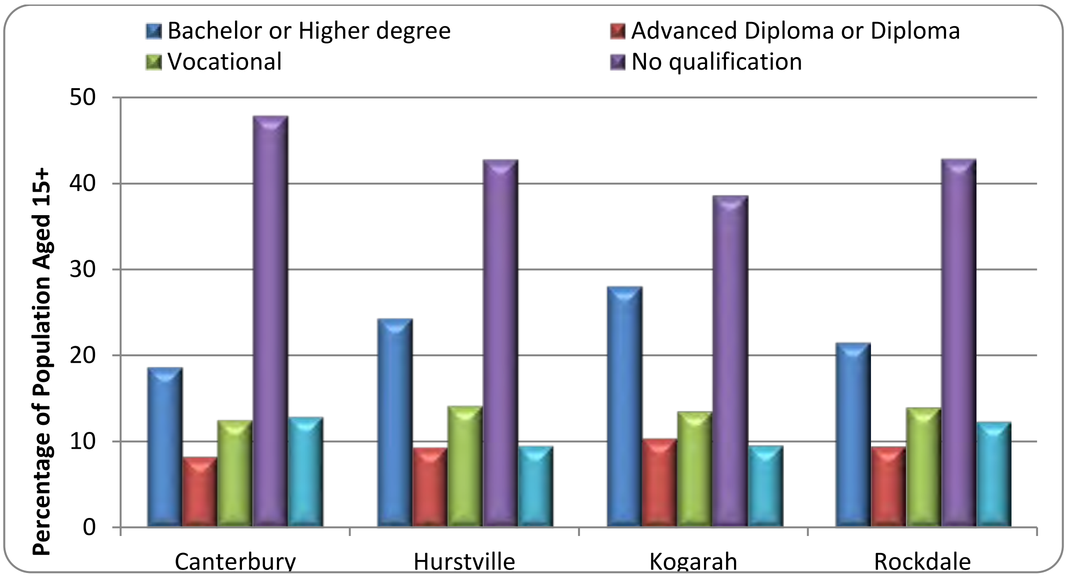


5.2 Post School Qualifications

Post school educational qualifications relate to educational achievement outside primary and secondary school and are an important indicator of socio-economic status. Hurstville, Kogarah and Rockdale have a higher proportion of residents with a Bachelors or Higher Degree than for the whole of Greater Sydney (20%). Canterbury has the lowest proportion of residents with a Bachelor or Higher Degree, of the four areas, and has a lower proportion of residents with a Bachelors or Higher Degree than for Greater Sydney as a whole.

In all four areas, the majority of residents have no post school qualification, with Canterbury have the highest proportion overall. Kogarah has the lowest proportion (39%) of residents with no post school qualifications, of the four areas and is the only one of the four areas which has a lower proportion than for Greater Sydney (42%). Hurstville and

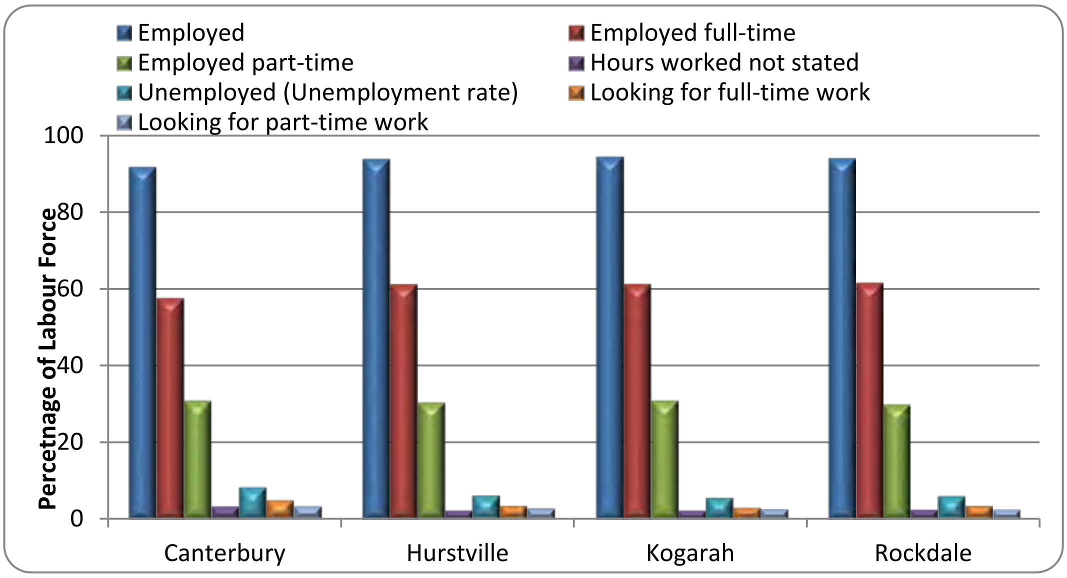
Rockdale (43%) have a similar proportion of residents with no qualifications to Greater Sydney while, Canterbury (48%) has a higher proportion of residents with no qualifications to Greater Sydney.



6. LABOUR MARKET

6.1 Employment Status

In all four areas, over 90% of residents aged 15 years and over are employed, with around 60% in full-time employment and around 30% in part-time employment. The similarities and differences study found that all four areas belong to clusters of councils characterised by low unemployment, however measured, low social security take up, reasonably high work availability and high average earnings (NIER, March 2013).



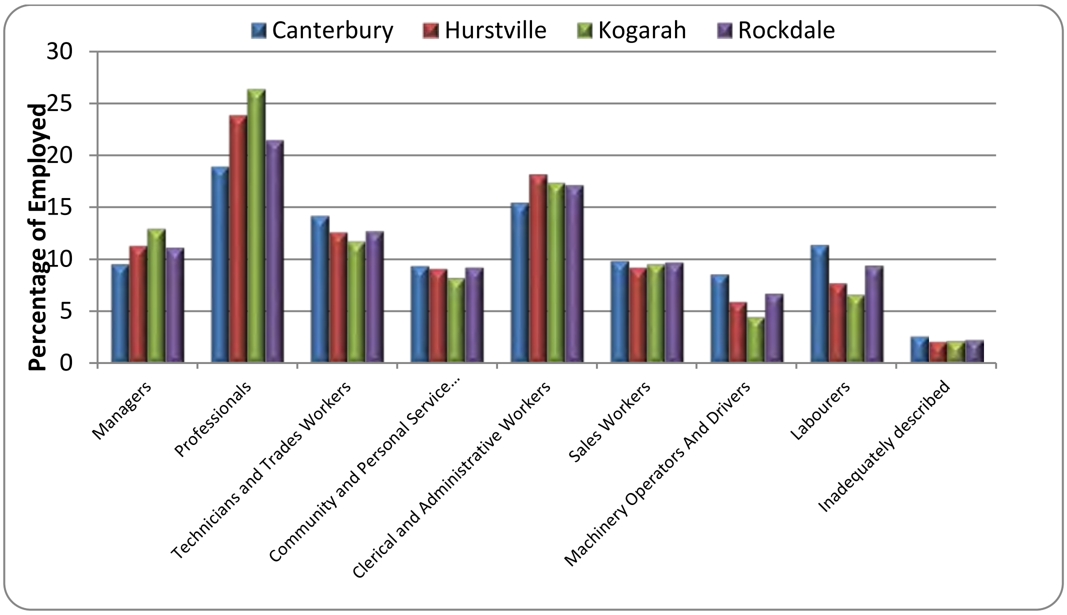
6.2 Industries of Employment

The table below shows the most common industries of employment in each of the areas. Hurstville, Kogarah and Rockdale have very similar industry profiles, with a predominance of Health Care and Social Assistance, Retail Trade and Professional, Scientific and Technical Services. The Industry profile for Canterbury differs slightly from the other areas, however, Retail Trade and Health Care and Social Assistance are also common.

	1	2	3	4	5
Canterbury	Retail Trade	Health Care and Social Assistance	Manufacturing	Accommodation and Food Services	Transport, Postal and Warehousing
Hurstville	Health Care and Social Assistance	Retail Trade	Professional, Scientific and Technical Services	Manufacturing	Transport, Postal and Warehousing
Kogarah	Health Care and Social Assistance	Retail Trade	Professional, Scientific and Technical Services	Accommodation and Food Services	Financial and Insurance Services
Rockdale	Health Care and Social Assistance	Retail Trade	Transport, Postal and Warehousing	Accommodation and Food Services	Professional, Scientific and Technical Services

6.3 Occupations

All four areas have a predominance of professionals, with Kogarah particularly high. Clerical and administrative workers are the next most common occupational group, followed by technicians and trades workers and managers.



7. HOUSEHOLD INCOME AND WEALTH

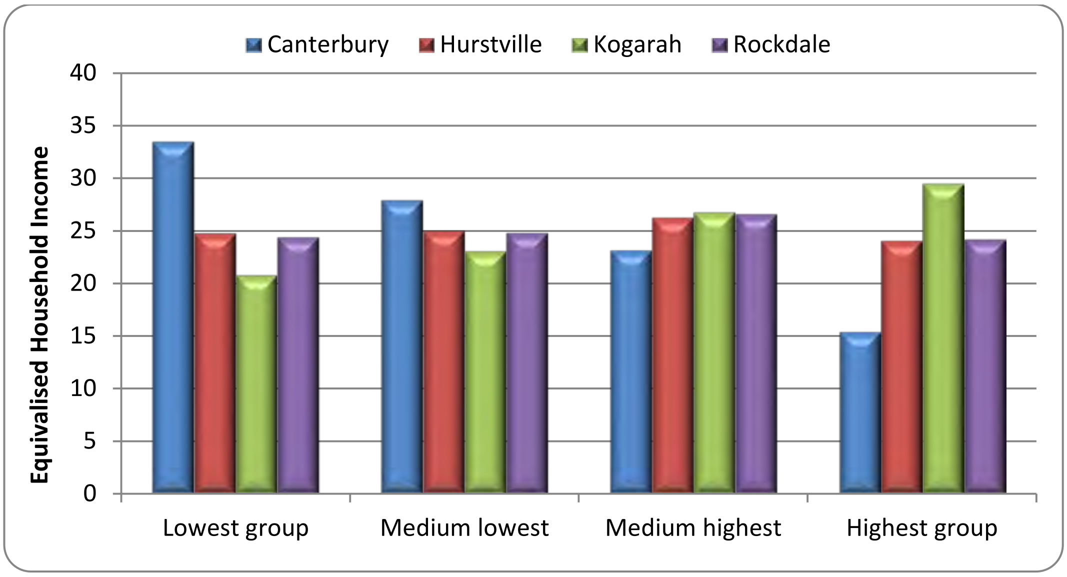
Hurstville, Kogarah and Rockdale belong to a cluster of councils characterised by middle incomes with a high wage and salary component. Property income is also significant, accounting for around 25% of disposable income. Business and benefits account for around 10% of disposable income (NIER, March 2013).

Canterbury, by contrast, belongs to a cluster of councils characterised by low to middle average incomes, typically around $35,000, but with some cluster members significantly above this. Income sources tend to be diversified with around 60% wages and 15% each from small business, property and benefits. Income growth for this cluster has generally been low (NIER, March 2013).

7.1 Equivalised Household Income

Equivalised income puts all households on an equal footing independent of household size and composition to enable a true comparison between areas over time. It is an indicator of the income resource available to a household of standard size and is the best measure of the changing economic fortunes of households living in an area.

Canterbury has the highest proportion of households in the lowest two income quartiles while Kogarah has the greatest proportion of households in the highest income quartile. Hurstville and Rockdale have the flattest income profiles with a more even spread of households across the income groups.



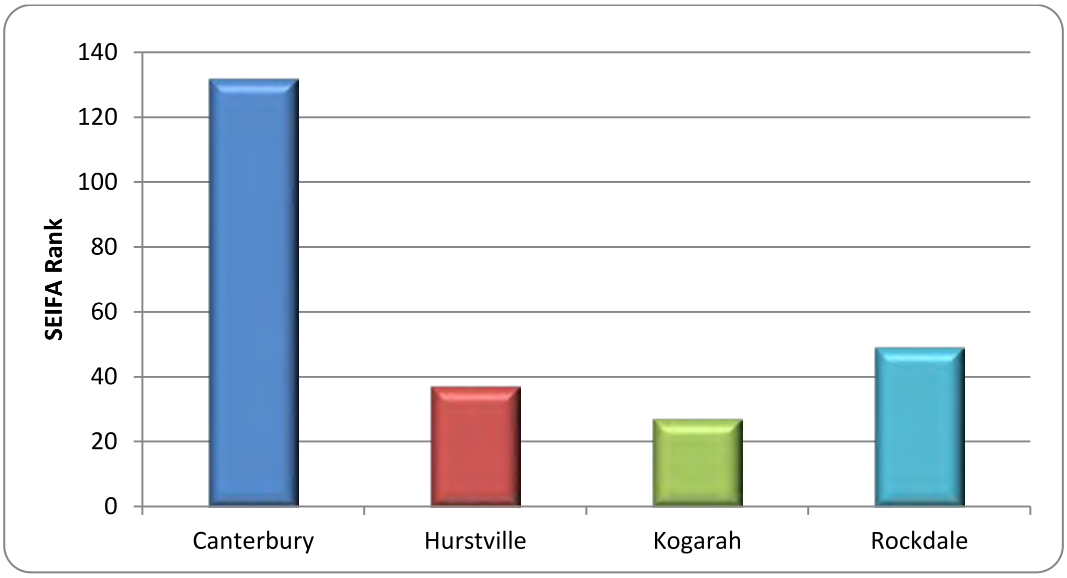
8. SOCIOECONOMIC DISADVANTAGE

The SEIFA Index of Deprivation measures the relative level of socio-economic disadvantage based on a range of census characteristics. It is a good place to start to get a general view of the relative level of disadvantage of one area compared to others and is used to advocate for an ara based on its level of disadvantage.

The index is derived from attributes which reflect disadvantage such as low income, low educational attainment, high unemployment and jobs in relatively unskilled occupations.

Lower scores on the index reflect higher levels of disadvantage, while higher scores indicate greater advantage. The SEIFA index provides a ranking of all 152 NSW council areas, where 1 is the most advantaged.

Kogarah is the most advantaged of the four areas with a rank of 27 in New South Wales, followed by Hurstville which is ranked 37 and Rockdale which is ranked 49. These rankings place these three areas in the top third of the state. By contrast, Canterbury has a significantly lower ranking of 132, placing it in the bottom third of the state.



9. LOCAL ECONOMIC FEATURES

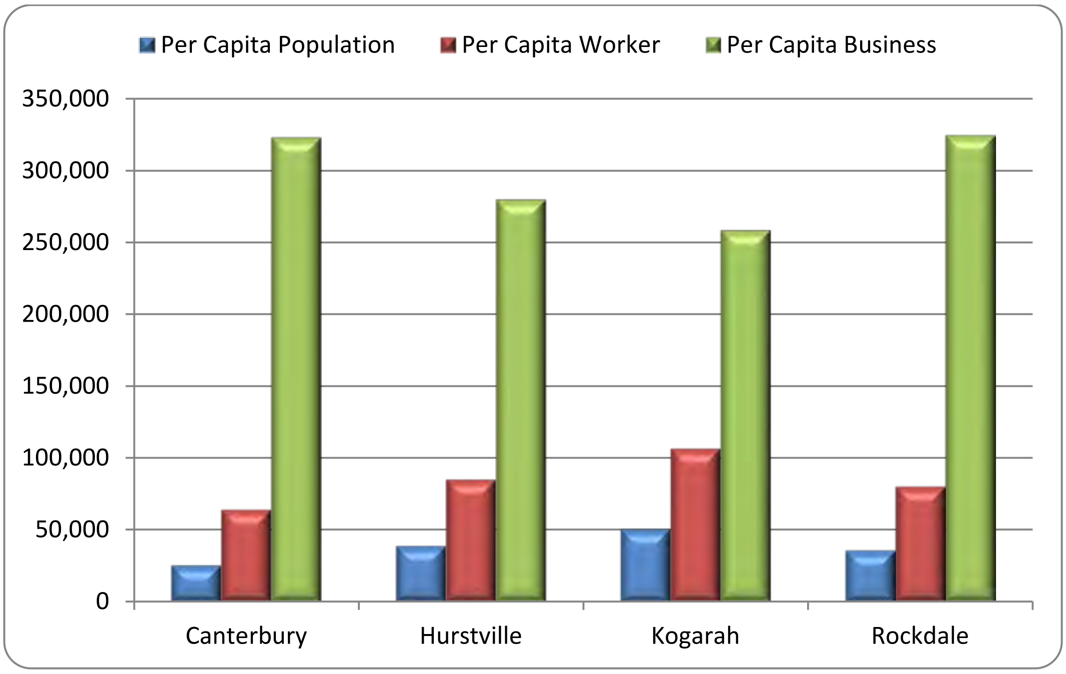
9.1 Gross Regional Product

The gross regional product for each of the four council areas is:

	GRP 2013
Canterbury	$3,810,000,000
Hurstville	$3,300,000,000
Kogarah	$3,050,000,000
Rockdale	$3,830,000,000

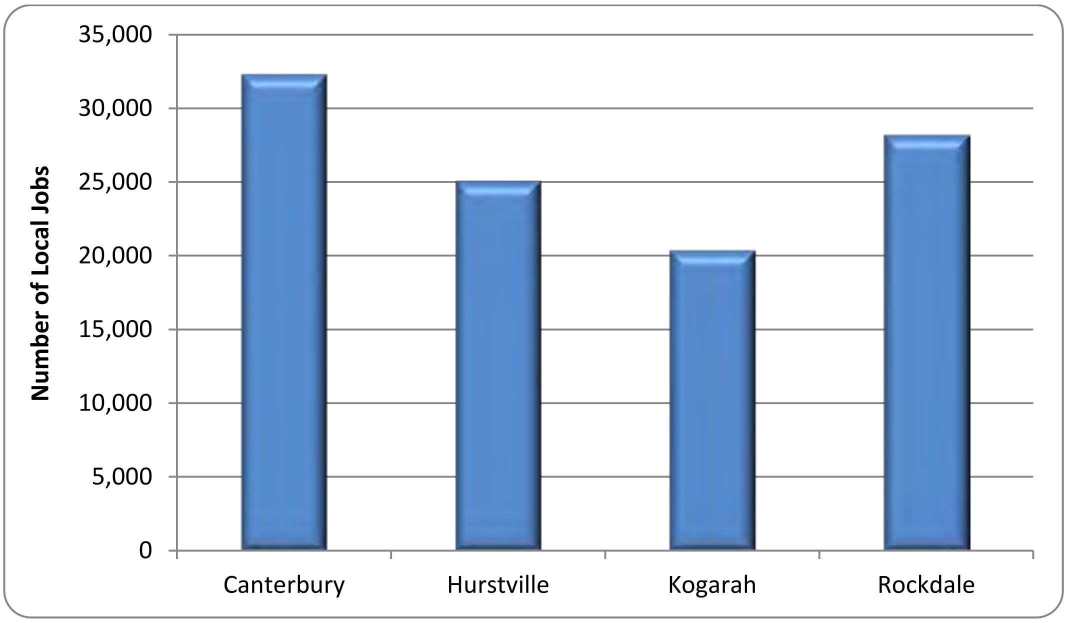
In overall gross terms Rockdale has the largest total economic output followed by Canterbury; Kogarah has the smallest total economic output in gross terms. However, on a per capita basis Kogarah has the highest economic productivity relative to population size ($50,500) and the highest economic productivity per worker ($106,468), but the lowest per business ($258,800).

Canterbury has the lowest economic productivity relative to population size ($25,600) and the lowest economic productivity per worker ($64,000), but relatively high economic productivity per business ($323,300). Rockdale also has relatively high economic productivity per business ($325,000).



9.2 Size of Workforce

The number of jobs in each area is shown in the figure below. Canterbury has the highest number of jobs in the local area overall, followed by Rockdale and Hurstville; of the four areas Kogarah has the lowest number of local jobs.



10. INTERDEPENDENCE AND ECONOMIC RELATIONSHIPS

As outlined in the similarities and differences report, economic relationships and interdependency between council areas can be mapped by estimating the extent to which employment in each council area depends on economic activity in other council areas. The report concludes that New South Wales is held together by the relationship between each council area and the City of Sydney as a key provider of government and financial services. The City of Sydney also provides, retail, entertainment and other services to the metropolitan area.

10.1 Metro Commuter Clusters

According to the similarities and differences study these four council areas belong to the middle ring commuter cluster, where around 20<35% of the resident workforce is employed in the City of Sydney, but in the case of Canterbury, Hurstville, Kogarah and Rockdale have a relatively dispersed commuting pattern (NIER, March 2013).

10.2 Workers' Place of Residence

The most common places of residence for people employed in each of the council areas are shown below. In all four areas, the highest proportion of workers also live in the area. Canterbury has the highest proportion of workers who also live in the area while Kogarah has the lowest proportion. For Canterbury and Hurstville, the next highest proportion of workers is drawn from within the St George area.

	First most common place of residence	**Second** most common place of residence
Canterbury	Canterbury - 35%	Hurstville - 6%
Hurstville	Hurstville - 30%	Kogarah - 9%
Kogarah	Kogarah - 24%	Sutherland Shire West - 13%
Rockdale	Rockdale - 31%	Sutherland Shire East - 8%

10.3 Residents' Place of Work

The table below shows that Inner Sydney is a common place of work for residents of the four council areas; with around 14% of all workers commuting to work in Inner Sydney. However, for Canterbury, Hurstville and Rockdale, more residents work locally than commute in to Inner Sydney for employment.

	Top Place of Work	**Second** most common place of work
Canterbury	Canterbury - 15%	Sydney Inner - 11%
Hurstville	Hurstville - 16%	Sydney Inner - 14%
Kogarah	Sydney Inner - 15%	Kogarah - 14%
Rockdale	Rockdale - 14%	Sydney Inner - 14%

10.4 Migration Patterns

The following table shows in-migration from other council areas and out-migration to other council areas for each the four areas, between 2006 and 2011. Migration between different council areas provides some level of evidence of connections between adjacent council areas. The similarities and differences report notes that there has been much population movement between the St George councils, Hurstville, Kogarah and Rockdale and this is evident in the table below (NIER, March 2013). There has also been a reasonably high level of movement from the Canterbury area to Hurstville and to Kogarah.

	Highest Net Gains	**Highest Net Losses**
Canterbury	1. Marrickville 2. Ashfield 3. Sydney	1. Bankstown 2. Hurstville 3. Liverpool
Hurstville	1. Rockdale 2. Canterbury 3. Kogarah	1. Bankstown 2. Sutherland Shire 3. Liverpool
Kogarah	1. Rockdale 2. Randwick 3. Canterbury	1. Sutherland Shire 2. Hurstville 3. Bankstown
Rockdale	1. Randwick 2. Marrickville 3. Sydney	1. Hurstville 2. Sutherland Shire 3. Kogarah

11. POLITICAL PARTY COMPOSITION

11.1 Local Government

The composition of each elected council is shown in the table below.

	Liberal	Labour	Greens	Independent	Unity
Canterbury	3	6	1		
Hurstville	4	5		1	2
Kogarah	6	4		1	1
Rockdale	6	5		4	

11.2 State and Federal Government

All four areas have a predominance of Liberal and Labour State MPs. At the Federal level there is a clear predominance of Liberal representatives; with the exception of Canterbury.

	State		Federal	
	Electoral District/s	Party	Electoral District/s	Party
Canterbury	Oatley, Canterbury	Liberal/ Labor	Watson, Grayndler, Banks, Barton	Labor / Labor / Liberal /Liberal
Hurstville	Kogarah, Oatley	Labor/Liberal	Banks	Liberal
Kogarah	Kogarah, Oatley	Labor/Liberal	Barton	Liberal
Rockdale	Rockdale, Kogarah	Liberal/Labor	Barton	Liberal

12. SERVICING

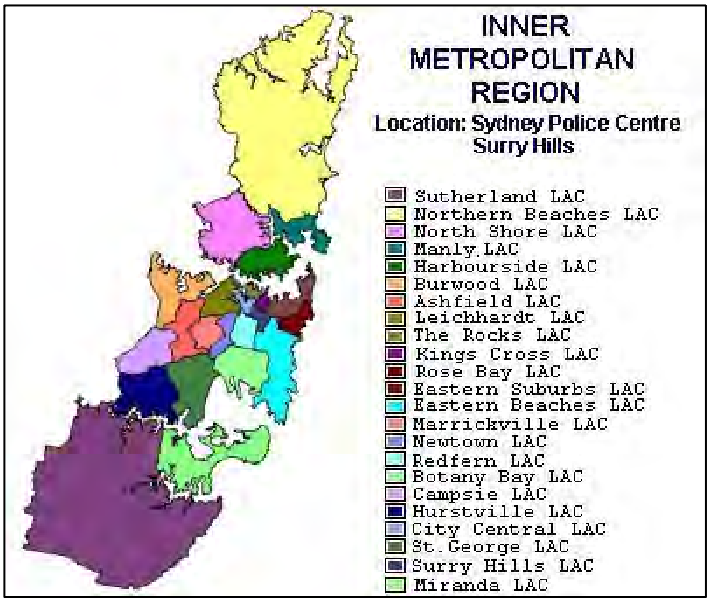
12.1 State and Federal Government Services

1. NSW Health Local Health Districts

Hurstville, Kogarah and Rockdale are part of the South Eastern Local Health District, shown on the left below, while Canterbury is part of the Sydney Local Health District, shown on the right below.

2. NSW Police, Inner Metropolitan Region

The four council areas are all within the Inner Metropolitan Region.



3. NSW Metropolitan Strategy, South Subregion

Canterbury, Hurstville, Kogarah and Rockdale, along with Sutherland are part of the South subregion for planning purposes. The South subregion is described in the NSW Metropolitan Strategy as; offering diverse, vibrant urban areas and coastal settlements located around some of the city's most beautiful coastline, waterways and bushland.