

PITTWATER COUNCIL IMPROVEMENT PROPOSAL

Appendix 4

KPMG INDEPENDENT ASSESSMENT – SUMMARY REPORT



cutting through complexity

Independent review of structural options for Manly Council & Pittwater Council

Prepared for Manly Council &
Pittwater Council

PART A: SUMMARY REPORT

1 April 2015

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Inherent Limitations

This report is delivered subject to the agreed written terms of KPMG's engagement.

This report provides a summary of KPMG's findings during the course of the work undertaken for Manly Council and Pittwater Council under the terms of the engagement letter dated 18 December 2014. The contents of this report do not represent our conclusive findings, which will only be contained in our final detailed report – Part B: Compendium Report and Appendices

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Key Findings

Independent Review of Structural Options for Manly Council & Pittwater Council

- The purpose of this review was to support Manly Council and Pittwater Council build a robust evidence base on the potential impacts of local government reform on the Northern Beaches.
- The complete findings, analysis and assumptions are contained in *Part B: Compendium Report and Appendices*.
- The analysis found that each of the Northern Beaches councils broadly meet key Fit for the Future financial benchmarks – even in the absence of any council mergers.
- Each of the Northern Beaches councils are ranked in the top 22 per cent of NSW councils when compared against TCorp's financial sustainability risk ratings.
- An analysis of the potential financial impacts of council merger options indicated that each option offered net benefit of between \$3.3m and \$34.5m over a ten year period from 2014-15 in net present terms. This is equivalent to between a 1.9 per cent and 20.4 per cent increase in council's operating results over ten years.
- When financial support from the NSW Government to assist with council mergers is included in the analysis, the net financial impact each option offers increases to between \$13.7m and \$44.9m in net present terms over the ten years. This is equivalent to between a 8.1 per cent and 26.5 per cent increase in council's operating results over ten years.
- When measured as a proportion of the merged councils' operating revenue the net financial impacts that each option offers range from 0.2 per cent to 2.1 per cent over ten years.
- Experiences in other jurisdictions indicates poorly planned implementation of structural change, or inadequate oversight of mergers risks eroding the estimated financial impacts.
- Both Manly Council and Pittwater Council will be able to achieve all of the Fit for the Future performance benchmarks by 2020 in all of the reform scenarios considered.
- There is strong evidence to suggest both Manly Council and Pittwater Council demonstrate 'strategic capacity' based on community outcomes achieved by the councils.
- Examination of the impacts of non-financial factors indicated that each structural option offered both advantages and disadvantages that will need to be considered by the community.
- Important non-financial factors to consider include implications of merger options for the community and governance, the environment, as well as service delivery by councils.
- A review of the demographic and socio-economic characteristics of the region highlighted both shared interests and distinct variations that may impact how a council is to meet the service and infrastructure needs of local communities.

No Merger Option



Finances

All 3 councils have a TCorp FSR rating of 'Sound'



Population

Manly = **44,000**
Pittwater = **62,000**
Warringah = **152,600**



Local Representation

Manly = **4,900**
Pittwater = **6,900**
Warringah = **15,200**



Manly = **6 / 7**
Pittwater = **7 / 7**
Warringah = **6 / 7**

Greater Pittwater Council & Greater Manly Council Option



Finances

NPV = **\$3.3m** over ten years (or \$13.7m with NSW Government financial assistance)



Population

Greater Pittwater Council = **129,000**
Greater Manly Council = **130,000**



Local Representation

Greater Pittwater Council = **12,900**
Greater Manly Council = **13,000**



Greater Pittwater Council = **7 / 7**
Greater Manly Council = **7 / 7**

Single Northern Beaches Council Option



Finances

NPV = **\$34.5m** over ten years (or \$44.9m with NSW Government financial assistance)



Population

Northern Beaches Council = **259,000**



Local Representation

Northern Beaches Council = **25,900**



Northern Beaches Council = **7 / 7**

Introduction & Approach

Local governments have a long history in Australia and play an important role in ensuring local communities function effectively with appropriate levels of services and infrastructure. For many, local government is also the most accessible tier of government and its institutions form part of the fabric of a community's local identity.

In recent years, the role and financial sustainability of local councils in NSW has been under the spotlight with a series of independent reports, public consultations and reviews commissioned by the State Government. Significantly, the Independent Local Government Review Panel (the Review Panel) recommended a number of reforms to the structure and operations of the local government sector, this included: strengthening audits of local councils; reviewing the rate system and rate-pegging; redistributing financial assistance grants; reducing the compliance burden; and revising the role of mayors, councillors and general managers.

The Review Panel's recommendations also included consideration of possible council mergers with a view to enhancing the long-term financial sustainability of local councils in NSW.¹ In regards to the Northern Beaches, the Review Panel recommended a merger of Manly Council, Pittwater Council and Warringah Council to form a single Northern Beaches council. The basis for this recommendation was threefold:

- A merger of Manly Council, Pittwater Council and Warringah Council into a single entity is required to create a council of sufficient 'scale' with a combined projected population of more than 307,000 residents by 2031.
- The close functional interaction and economic and social linkages between Manly Council, Pittwater Council and Warringah Council constituted an 'island' in the metropolitan Sydney region.
- The need for integrated planning of town centres, coastal management and transport infrastructure on the Northern Beaches.²

The NSW Government announced in September 2014 the Fit for the Future reform initiative aimed at building a stronger system of local government in NSW. The NSW Government's reform is wide-ranging and encompasses a commitment to introduce new streamlined legislation for local government, reductions in red tape and regulation, improved council performance benchmarking and access to cheaper finance for community infrastructure.³

A key component of the NSW Government initiative is also the requirement for each council to prepare a Fit for the Future submission outlining how it will be positioned to deliver the future service and infrastructure needs of its communities.

¹ The Destination 2036 Action Plan provided impetus for examining the future of the local government sector in NSW and pre-empted the establishment of the Panel Review. Commencing in 2012 the Panel Review issued a series of discussion papers and invited public submissions over a 15 month period. Analysis by NSW Treasury Corporation (TCorp) on the financial sustainability of the sector and an infrastructure audit completed by the NSW Office of Local Government (OLG) in 2013 also contributed to the overall evidence base and influenced the Panel Reviews final report and recommendations.

² Independent Local Government Review Panel (2014), *Revitalising Local Government*, January 2014.

³ OLG (2015), *Investing in Local Government Reform*, <http://www.fitforthefuture.nsw.gov.au/investing-in-local-government-reform>, accessed 15 March 2015.

Purpose

This summary report provides an overview of the findings of analysis of local government structural options for Manly Council and Pittwater Council. The purpose of the analysis was to:

- develop a robust evidence base to support Manly Council and Pittwater Council in assessing potential structural options for local government reform on the Northern Beaches;
- understand the potential advantages and disadvantages of each structural option;
- enable informed participation in the NSW Government's *Fit for the Future* reform agenda by Manly Council and Pittwater Council; and
- consider wider implications of local government reform.

This *Part A: Summary Report* should be considered alongside the detailed evidence base available in *Part B: Compendium Report and Appendices*.

Scope

The scope of the project was to:

- develop a suite of structural options (including a base case) in collaboration with Manly Council and Pittwater Council;
- review previous reform experiences in Australian and international jurisdictions to inform robust assumptions to guide analysis of local government reform;
- develop an evaluation framework of quantitative and qualitative indicators to underpin the analysis of the potential impacts of structural change.
- conduct a strategic and financial analysis of the structural options for Manly Council and Pittwater Council, including:
 - merger scenario analysis to examine the potential impacts of council mergers on local communities;
 - financial statement modelling and testing of structural options;
 - potential community and environmental impacts of structural options;
 - consideration of other structural options, drawing on experiences of other jurisdictions;
 - internal stakeholder consultations and validation with the leadership of Manly Council and Pittwater Council; and
 - consideration of issues relating the implementation of structural change.

The scope of the project has been developed with an understanding of the objectives of Manly Council and Pittwater Council, the NSW policy context, as well as the data, literature and local insights available to the project team. While some limitations to the analysis have been identified, these are addressed in a systematic manner in *Part B: Compendium Report and Appendices*.

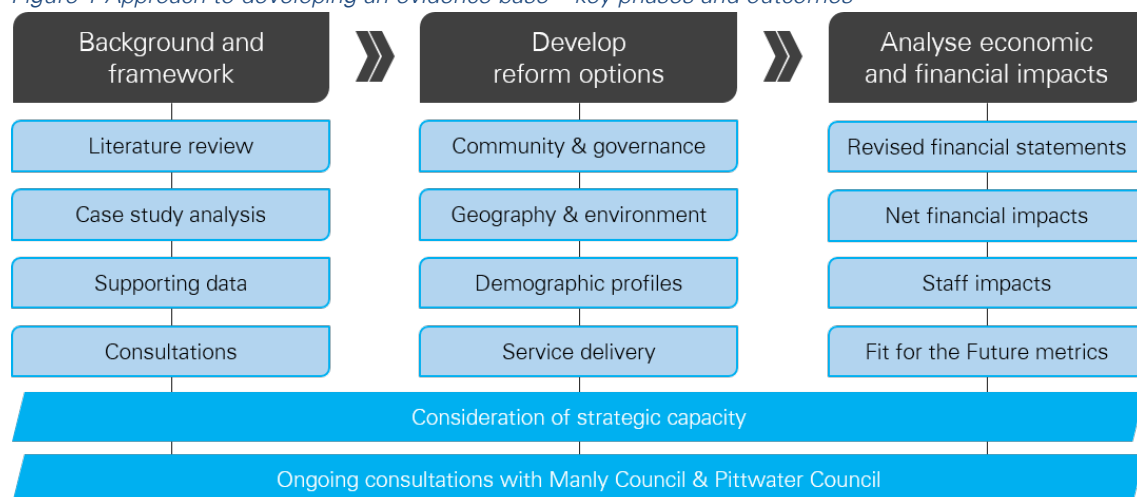
Approach

The approach to undertaking the analysis of potential impacts of local government reform was:

- an iterative process that was evidence-based and drew on the lived experiences of local government reform in other jurisdictions;⁴
- underpinned by an evaluation framework developed to address key limitations of previous analyses of local government reform;
- structured to acknowledge the importance of 'strategic capacity' and the NSW Government's Fit for the Future performance benchmarks; and
- consultative and considered the local context of the Northern Beaches communities to assess the broad implications of reform.

Figure 1 provides an overview of the approach formulated to build a comprehensive evidence base on the potential impacts of local government reform

Figure 1 Approach to developing an evidence base – key phases and outcomes



The key considerations to assessing potential impacts of each structural option include:



Financial and economic – net financial and economic impacts of each option and projected performance against the Fit for the Future metrics.



Community and governance – local representation and capacity to meet the future service and infrastructure needs of the community.



Geography and environment – management of environmental assets and catchment areas, urban characteristics and development potential.



Demographic profile – selected regional and socio-economic characteristics presented by each reform option.



Service delivery – high-level review of how each structural option may impact on the ability of a council to meet the needs of local communities.

⁴ Jurisdiction case studies from Queensland, Victoria, Auckland (New Zealand) and Toronto (Canada) were drawn on to guide the methodology and underlying assumptions for assessing potential local government reform impacts. These case studies are available in Part B: Compendium Report and Appendices.

Strategic Capacity

Central to the Fit for the Future reform agenda is the development of a local government sector that has the 'strategic capacity' to deliver services and infrastructure to local communities. Therefore, an important component of each Council's submission to the NSW Government will be an evidence base that details the ability of individual councils to reach 'strategic capacity' or the appropriate 'scale and capacity'. However, the context in which these concepts have been used and put forward by the Review Panel offers a limited definition that is difficult to measure or benchmark.

Varying perspectives

'Strategic capacity' in the context of discussions on the future of the local government sector in NSW is commonly viewed through the lens of 'scale' and in particular, population size. As a result, one of the most salient elements of the debate about local government reform has been the creation of larger councils – achieved either through boundary adjustments or council mergers. The recommendation put forward by the Review Panel highlighted a preference for larger councils, with population size commonly used as a proxy for 'strategic capacity', as well as the associated economies of scale to be achieved through greater efficiencies in service delivery.

While this perspective of 'strategic capacity' seeks to address some of the issues around financial sustainability, it is also important to develop a more holistic understanding of the factors that influence the type, scale and quality of service provision across NSW councils.

The Review Panel itself acknowledged that local councils in NSW provide a wide range of goods and services for local communities and this can be expected to continue to diversify and expand. As such, the issue of 'scale' may not be as relevant and a more local understanding of 'strategic capacity' is required. For instance, the priorities and expectations of communities will differ region to region and council by council, and it is therefore this local context that should be drawn to determine 'strategic capacity'.

Measuring 'strategic capacity'

There is a strong rationale for defining and measuring 'strategic capacity' beyond the narrow focus of 'scale' and population size. Ideally, clearly defined benchmarks could be established to appropriately measure the quantitative and qualitative performance of a council. However, understanding 'strategic capacity' in this context is complex and the Independent Pricing and Regulatory Tribunal noted the difficulties around measuring such a concept.⁵ For the purposes of this review, it is suggested that 'strategic capacity' should be addressed and understood not simply in terms of 'scale' and population size, but as an outcome-based assessment.

Table 1 below Manly Council and Pittwater Council have drawn heavily on the local context in demonstrating performance against the 'strategic capacity' criteria formulated by the Review Panel.

⁵ Independent Pricing and Regulatory Tribunal (2014), Review of criteria for Fit for the Future, September 2014.

Table 1 Demonstrating strategic capacity – Examples of Manly Council and Pittwater Council

Selected examples	Robust revenue base & increased discretionary spending	Scope to undertake new functions and major project	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
Regional Achievements										
Worked with SHOROC to secure \$644 million in NSW Government funding for public transport and \$129 million for health services in the region.				•	•	•	•	•	•	•
Manly Council										
Delivering multi-million dollar projects such as the new Aquatic Centre, and upgrades to Manly Town Centre and Manly Oval.	•	•	•	•	•	•	•	•	•	•
Commitment to being an 'employer of choice' and recent staff satisfaction survey results at a record high.	•		•	•	•	•	•		•	•
Diverse programs, events and initiatives to strength social capital in the area, such as the Food and Wine and Jazz Festivals.	•		•	•	•	•	•	•	•	•
Community partnerships have promoted sustainable waste management as recognised with two 'Keep Australia Beautiful' awards.	•		•	•	•	•	•	•	•	•
Pittwater Council										
Rationalisation of low benefit property assets and other redevelopments have supported a strong balance sheet, with cash reserves and low debt levels.	•	•	•	•	•	•	•	•	•	•
Track record of partnering with the state government to deliver and retain services and infrastructure for community.	•	•	•	•	•	•	•	•	•	•
Targeted leadership programs and initiatives secured a talented workforce with Council winning the prestigious H R Bluett Award (2003) and a finalist in 2013.	•		•	•	•	•	•		•	•
Recognised leader in corporate, strategic planning and policy development with a LGMA Highly Commended Award for 'Social Plan' and 'Economic Development Plan'.	•		•	•	•	•	•	•	•	•

Source: Manly Council and Pittwater Council

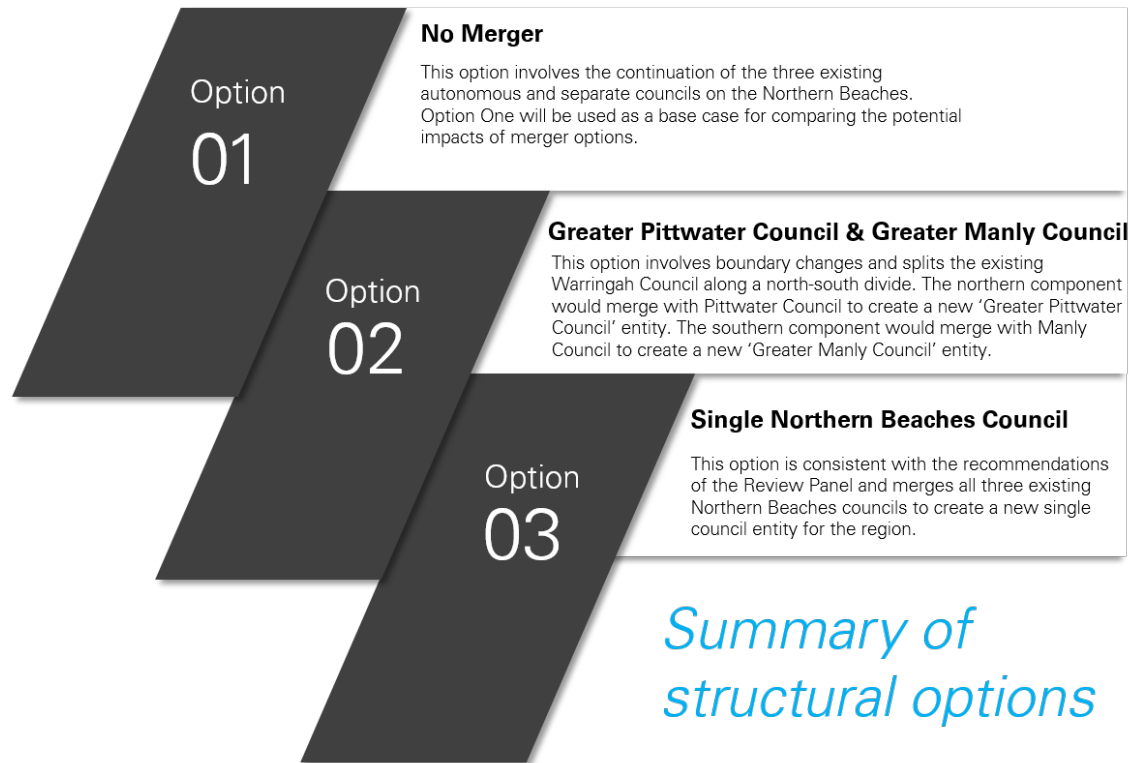
Detailed analysis and supporting evidence of strategic capacity is available in *Part B: Compendium Report and Appendices*.

Structural options for analysis

It was also considered important to look beyond the reform option recommended by the Review Panel. Following a review of the available evidence and consultations with Pittwater Council and Manly Council a shortlist of three potential reform options were agreed for further analysis and consideration.

Figure 2 describes the local government reform options considered for this project.

Figure 2 Structural options considered for further analysis



The potential impacts of each of these structural options for Manly Council and Pittwater Council are examined on the following pages followed by a brief analysis of the issues for consideration in implementing structural change.

Option 1

No Merger

This option involves no merger of councils on the Northern Beaches, with Manly Council, Pittwater Council and Warringah Council remaining as stand-alone, autonomous entities.



Financial & Economic

Analysis of published and unpublished data from each of the councils offered insights into the overall financial health of the Northern Beaches councils. Significantly, each of the councils broadly meet key financial benchmarks – even in the absence of any council mergers. Key financial and economic considerations include:

- All three councils were assessed by TCorp in 2013 as having a Financial Sustainability Rating (FSR) of 'Sound' – placing each of the Northern Beaches councils in the top 22 per cent of NSW councils based on FSR ratings.
- Both Manly Council and Pittwater Council were assessed as having a 'Neutral' FSR Outlook. This indicated there was unlikely to be changes in council's FSR rating over the short term. Warringah Council was assessed as having a 'Positive' FSR outlook – indicating there was likely to be an improvement in the council's FSR rating over the short term.⁶
- In the absence of any council mergers, each of the Northern Beaches councils will remain a modest but important local employer with 1,256 staff on a FTE basis currently employed across the three councils.
- As outlined in Table 2, nearly all of the Fit for the Future benchmarks have been met by the Northern Beaches councils. Where benchmarks have been partially met, the performance shortfall is marginal and is likely to be met post-2020 or earlier with appropriate council intervention.

Table 2 Fit for the Future Benchmarks – Option One

INDICATOR	Manly Council	Pittwater Council	Warringah Council
Operating Performance	✓	✓	✓
Own Source	✓	✓	✓
Asset Renewal	✓	✓	✓
Infrastructure Backlog	✓	✓	✓
Asset Maintenance	✓	✓	✓
Debt Service	✓	✓	✓
Real Operating Expenditure	✓	✓	✓

Legend: ✓ = Benchmark met by 2020; ✗ = Benchmark not met

Note: ✓ refers to where a council has fallen marginally short of achieving the benchmark by 2020.

Source: KPMG analysis, drawing on raw data provided by councils. Further details and analysis is available in Part B: Compendium Report and Appendices.

⁶ TCorp (2013), Financial Sustainability of the NSW Local Government Sector, published April 2013.



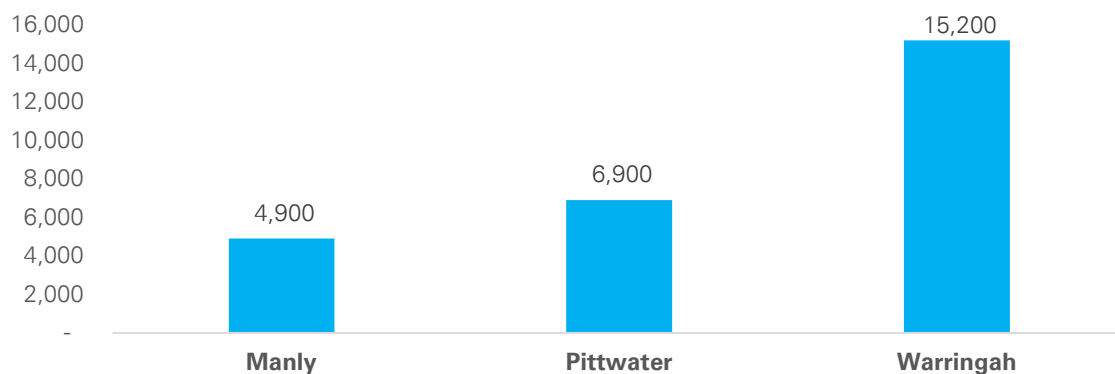
Community & Governance

The Northern Beaches of Sydney is known as a region that is an attractive place to live, work and visit.⁷ The communities of the Northern Beaches are both closely integrated by proximity and transport and, at the same time, distinctly individual. For example:

- The relatively small size of Manly Council should be viewed in the context of its high density living, concentrated entertainment and town centre precinct and world-renowned tourist destination with more than 8 million visitors each year.
- In contrast, Warringah Council is characterised by its large geographic reach and the urban sprawl of its suburbs stretching from the doorstep of Manly, through key retail destinations to the national parks on the Hawkesbury River.
- 'Peninsular' living is the lifestyle of choice for residents of Pittwater Council where the region's natural beauty and iconic environment stretch from the shoreline of Narrabeen Lagoon through the town centre of Mona Vale to the exclusive surrounds of Palm Beach.

The differences in the size and scale of each of the councils on the Northern Beaches is also reflected in varied approaches to governance and local representation – as measured by the number of residents per elected councillor (see Chart 1). Manly Council and Pittwater Council have relatively similar levels of local representation, while in comparison Warringah Council has more than three times the number of residents per councillor than Manly Council.

Chart 1 Local Representation, number of residents per councillor – Option One



Source: KPMG analysis, using approximate Estimated Resident Population for each Council.



Geography & Environment

The environmental features of the Northern Beaches are the region's natural assets. These assets are of state significance and have been prioritised in the Sydney Metropolitan Plan, requiring each of the councils to individually and jointly maintain responsibility for:

- Protecting and enhancing national and regional parks, including strategic additions to enhance bushland connectivity;

⁷ SHOROC (2015), State of the Region Report, <http://www.shoroc.com/regionalprofile/>, accessed on 24 March 2015.

- Improving the health and resilience of the marine estate (such as the tributaries and aquatic habitats of Pittwater); and
- Protecting early strategic consideration of bushfire, flooding and coastal erosion in relation to any future development on the Northern Beaches.

In the absence of mergers, collaboration between each of the councils to manage effectively the region's environmental assets will become more important. The pressures of a growing population, climate change and urban development will impact on these assets. Given a number of environmental assets cross existing council boundaries collaboration will require a joint commitment by the region's leaders and partnerships with the NSW Government.



Demographic Profile

There are important variations in the demographic profile of the Northern Beaches region that are relevant to the nature of council services and infrastructure demanded by the community. Each of the Northern Beaches councils has tailored respective Community Strategic Plans to address the evolving specific needs and priorities of residents. Table 3 below provides a snapshot of selected demographic indicators that may be relevant to how local councils prioritise the delivery of services for local communities.

Table 3 Selected demographic indicators - Option One

Selected Indicator	Manly Council	Pittwater Council	Warringah Council
Population (2013)	44,200	62,000	152,600
Land Area (km ²)	14	90	149
Median Age (years)	37	42	38
Population Density (per km ²)	3,157	688	1,024
Median Income (\$ per year)	87,682	70,747	65,007
Median house price (\$ 000's)	1,557	1,198	1,067
Households with children (%)	29.5	38.4	36.7
Travelled to work by public transport (%)	28.7	7.9	15.4

Source: ABS Estimated Resident Population (2013); profile.id; NSW Department of Planning and Environment; atlas.id and KPMG analysis.

There are a number of distinguishing features relating to the demographic profile of the three Northern Beaches councils. For example:

- Manly Council has a relatively younger population with a higher proportion of households without children. It also has the highest median income of the three Northern Beaches councils and a larger proportion of residents that commute to work using public transport.
- Warringah Council has a larger and more diverse population. It has the lowest median income of the Northern Beaches and has a mix of low density suburbs as well as town centres around Brookvale and Dee Why.
- Pittwater Council has the highest median age of the Northern Beaches, a much lower housing density and the second highest median income of the region. Similar to Warringah Council, nearly 40 per cent of households are families with children.

These features are important components to the overall socio-economic characteristics of the Northern Beaches region and are relevant to any potential reforms to local councils. Important variations in the demographic profile of the region reflect the need to more carefully examine the Review Panel's statement of the Northern Beaches region being an 'island' within metropolitan Sydney with shared 'communities of interest'.

Service Delivery

There is a track record of Manly Council, Pittwater Council and Warringah Council collaborating on issues of mutual interest to local communities and there is scope for this to continue in the future. This collaboration is supported by having three distinct councils able to advocate for local interests and retain local services (such as in relation to public transport and access to public health services).

Examples of regional collaboration and improved service delivery include:

- Joint procurement arrangements for roads and traffic management, maintenance services, administrative and professional services, office materials and equipment;
- The 'Kimbriki' joint venture to manage waste disposal and resource recovery operations on the Northern Beaches (and Mosman);⁸
- Issues focused committees such as Water Cycle Management, Regional Code of Conduct, Climate Change and Adaptation, and Narrabeen Lagoon Management.
- Lobbying State and Federal governments on critical regional issues such as bus rapid transit proposals and local hospital upgrades; and
- Sharing data to promote best practices around health and wellness, sustainability, built form, economic development and community engagement.

Many of these initiatives are undertaken through the Shore Regional Organisation of Councils (SHOROC) where each of the Northern Beaches councils (and Mosman) have collaborated on important initiatives of mutual interest. Recent key highlights from Northern Beaches collaboration are outlined in Box 1.

Box 1 Recent highlights from Northern Beaches collaboration

SHOROC – Key Highlights 2014

The strong model of collaboration between Northern Beaches councils and the NSW Government was recognised by the Planning Institute of Australia awarding SHOROC the President's Award for excellence in planning in 2014. Other key highlights include:

- An investment of more than \$129 million in Northern Beaches Hospital planning and community health services by the NSW Government;
- Joint tendering with more than \$18.8 million in regional contracts; and
- More than \$640 million in public transport investment involving road upgrades and planning across the Northern Beaches, an investigation of a Bus Rapid Transit system, as well as improved bus services, interchanges and commuter car parking.⁹

⁸ In 2009 a new company, Kimbriki Environmental Enterprises Pty Ltd (KEE) was created to own and operate the Kimbriki site with Warringah, Manly, Mosman and Pittwater Councils as shareholders.

⁹ SHOROC (2014), Annual Report 2014 – Results for our Region.

Option 2

Greater Pittwater Council & Greater Manly Council

This option involves boundary changes and splits the existing Warringah Council along a north-south divide. The northern and southern components would merge with Pittwater Council and Manly Council respectively to form two new merged entities.



Financial & Economic

The creation of a Greater Pittwater Council and a Greater Manly Council on the Northern Beaches offers potential financial gains for the region. Key financial impacts include:

- Financial analysis of Option Two indicated its successful implementation would be estimated to provide a net financial impact to the region of \$3.3 million over a ten year period from 2014-15 in net present terms. When accounting for possible NSW Government financial assistance for council mergers, the estimated net financial impact increases to \$13.7 million over the ten year period.
- The estimated net financial impact represents an aggregate improvement to current net operating results of 1.9 per cent (without financial assistance) and 8.1 per cent (with financial assistance). When measured as a proportion of the merged entities' operating revenue the net financial impacts are 0.2 per cent (without financial assistance) and 0.6 per cent (with financial assistance).
- Option Two offers \$29.2 million in savings over ten years for the Northern Beaches region stemming from reductions in the total number of council employees (estimated to be a 41 FTE reduction) and improved operating efficiencies.
- Option Two incurs relatively higher upfront implementation costs given the need to create two new council which results in the anticipated benefits not being realised until later in the timeframe under consideration.
- Financial modelling also indicates that under this reform option each of the new merged council entities will meet the Fit for the Future benchmarks by 2020.
- The two merged council entities will remain an important employer with total council employment levels across the Northern Beaches region estimated to be approximately 1,215 staff on a FTE basis.

Table 4 Fit for the Future Benchmarks – Option Two

INDICATOR	Greater Manly Council	Greater Pittwater Council
Operating Performance	✓	✓
Own Source	✓	✓
Asset Renewal	✓	✓
Infrastructure Backlog	✓	✓
Asset Maintenance	✓	✓
Debt Service	✓	✓
Real Operating Expenditure	✓	✓

Legend: ✓ = Benchmark met by 2020; ✗ = Benchmark shortfall

Source: KPMG analysis, see Part B: Compendium Report and Appendices for further details.

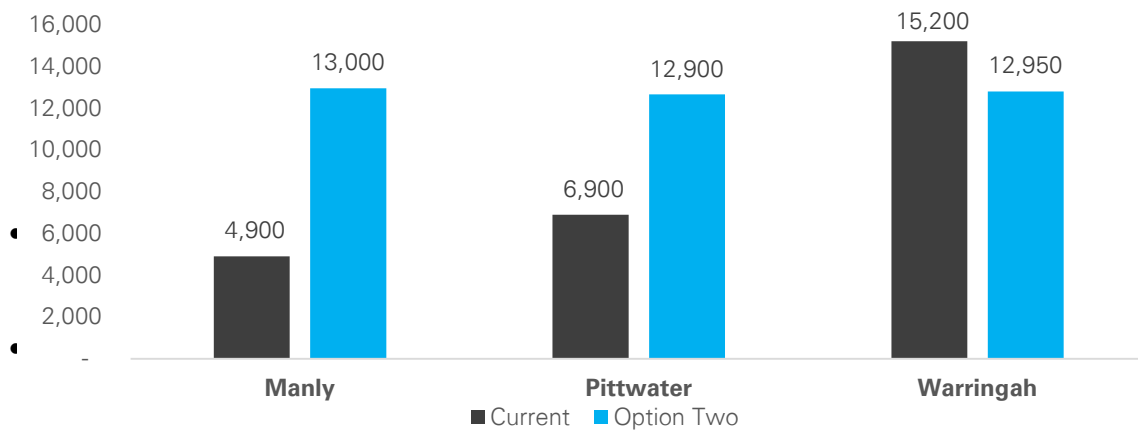


Community & Governance

Option Two may offer an opportunity to delineate the Northern Beaches into two separate council entities responsible for regions that have a more shared 'community of interest'. Further, retention of the strong 'Manly' and 'Pittwater' brands has the potential to improve the social and economic capital of the region. Key considerations include:

- The Greater Pittwater Council would have a wide geographic spread with a shared community of interest in lower density, healthcare and environmental assets management (for example national parks, coastal and flood environmental planning).
- The Greater Manly Council would link Manly's urban centre with more of its main residential and retail destinations and would have a stronger community focus on improving transport opportunities, childcare and community safety. It would also engage with stakeholders on transport and precinct planning for the new Northern Beaches Hospital at French's Forest.
- Boundary adjustments to create a 'northern' and 'southern' council on the Northern Beaches may enable Council's to better to respond to community needs and retain levels of service delivery.
- The two councils established in Option Two would have a similar resident population and would therefore be able to collaborate as equal partners while maintaining control of local identity and advocating for local priorities.
- Manly residents would experience a reduction in local representation with a more than two-fold increase in residents per elected councillor. Pittwater residents would also experience a reduction in local representation while Warringah residents would experience a slight increase (15 per cent) in local representation (Chart 2).

Chart 2 Local Representation, number of residents per councillor – Option Two



Source: KPMG analysis, assuming no increases in the number of elected councillors

¹⁰ Financial modelling results for each structural option are presented in Part B: Compendium Report and Appendices.



Geography & Environment

The boundaries for the current local councils typically follow natural water courses and greenways to avoid splitting communities. However, catchment areas and parkland span multiple councils and often have competing interests on opposite sides of a council boundary. The key geographic and environmental features of the proposed boundaries for Option Two, include two areas with relatively equal resident populations based on catchment and suburban boundaries. Key considerations include:

- The suburbs of North Curl Curl, Brookvale, Beacon Hill, French's Forest and Belrose would become part of the Greater Manly Council – this would bring the commuter ring of suburbs that surround Manly town centre into a single council.
- Greater Manly Council would gain complete catchment management responsibility of Manly Lagoon while Greater Pittwater Council would gain management responsibility of Narrabeen Lagoon and Ku-ring-Gai Chase National Park.
- The creation of a Greater Manly Council and Greater Pittwater Council does offer an opportunity to simplify ownership of some environmental assets on the Northern Beaches.



Demographic Profile

The projected demographic profile of the two councils proposed in Option Two are outlined in Table 5. Key considerations include:

- The proposed Greater Pittwater Council would have a relatively older resident population, with less frequent public transport use, and a relatively lower density of housing stock. The implications of housing growth from the Ingleside land release corridor would continue to be managed from a single council viewpoint.
- The proposed Greater Manly Council would be relatively more densely populated, use public transport more and have a closer alignment to the city of Sydney and North Sydney.
- This separation of the Northern Beaches along more shared 'communities of interest' may assist with council planning and facilitating more streamlined CSPs that are tailored to the local profile and context.

Table 5 Selected demographic indicators - Option Two

Selected Indicator	Greater Manly Council	Greater Pittwater Council
Population (2013)	129,500	126,500
Land Area (km ²)	54km ²	188km ²
Median Age (years)	38	40
Population Density (per km ²)	2,398	673
Households with children (%)	34.1	37.5
Travelled to work by public transport (%)	20.3	12.0

Source: ABS Estimated Resident Population (2013); profile.id; NSW Department of Planning and Environment; atlas.id and KPMG analysis.



Service Delivery

The creation of two councils may offer some advantages in regards to planning and service delivery for local communities. However, the need of regional collaboration on issues of mutual interest would need to continue.

- The northern area of the Northern Beaches has a higher median age than the southern areas. As a population group ages its demand for certain services and infrastructure evolves – particularly in regard to health and leisure activities. The creation of a Greater Pittwater Council may facilitate more targeted and accessible services for the older age demographic more prevalent in this area of the Northern Beaches.
- The 25 to 44 age bracket is highly represented in the southern area of the Northern Beaches. Service needs for this age group are diverse and a Greater Manly Council – with its town centres around Brookvale and Manly – may be well placed to facilitate the entertainment and visitor amenities demanded by this demographic.
- Option Two also provides a cleaner distinction between the higher-density suburbs of Greater Manly Council and the lower density suburbs of Greater Pittwater Council. This may facilitate more distinct approaches between the councils in regards to local planning laws and regulations, as well as road congestion, traffic flow management and asset management.
- On some measures, there is a clear delineating line that differentiates the ‘communities of interest’ on the Northern Beaches. For example, compared to the northern area, the southern areas is typically characterised by a younger, ‘double-income no kids’ household that is renting, and is more likely to commute to work by public transport. Option Two, therefore, may offer a cleaner separation of communities with common interests and demographic profiles.
- Enhanced strategic consideration of bushfire, flooding and coastal erosion in relation to any future development on the Northern Beaches has been identified as a key priority by the NSW Government. Under Option Two, the designated high risk areas, such as Collaroy, Narrabeen, Mona Vale and Bilgola coastal erosion zones and the marine estate of Pittwater, would all be the responsibility of the Greater Pittwater Council.

Option 3

Single Northern Beaches Council

This option involves merging Manly Council, Pittwater Council and Warringah Council to form a new single Northern Beaches Council for the region.



Financial & Economic

The merger of Manly Council, Pittwater Council and Warringah Council would likely generate financial gains for the region. Key financial impacts of Option Three include:

- Financial analysis of Option Three indicated its successful implementation would be estimated to provide a net financial impact to the region of \$34.5 million over a ten year period from 2014-15 in net present value terms. When accounting for possible NSW Government financial assistance for council mergers, the estimated net financial impact increases to \$44.9 million over the ten year period.
- The estimated net financial impact represents an aggregate improvement to the current net operating results of 20.4 per cent (without financial assistance) and 26.5 per cent (with financial assistance). When measured as a proportion of the merged entity's operating revenue the net financial impacts are 1.6 per cent (without financial assistance) and 2.1 per cent (with financial assistance).
- Option Three offers \$54.9 million in savings over ten years for the Northern Beaches region stemming from reductions in the total number of council employees (estimated to be a 101 FTE reduction) and improved operating efficiencies.
- Option Three is estimated to cost \$20.5 million in costs over ten years for the Northern Beaches region stemming from initial merger and implementations costs.
- Financial modelling also indicates that under this reform option each of the new Northern Beaches council would meet the Fit for the Future benchmarks by 2020.

Table 6 Fit for the Future Benchmarks - Option Three

INDICATOR	Single Northern Beaches Council
Operating Performance	✓
Own Source	✓
Asset Renewal	✓
Infrastructure Backlog	✓
Asset Maintenance	✓
Debt Service	✓
Real Operating Expenditure	✓

Legend: ✓ = Benchmark met by 2020; ✗ = Benchmark shortfall

Source: KPMG analysis. Further details are available in Part B: Compendium Report and Appendices.

- The proposed single Northern Beaches Council would become a relatively large single employer in the region with an estimated employee base of 1,155 staff on a FTE basis. This compares with the 1,256 existing council employees (on a FTE basis) currently employed collectively by the three councils on the Northern Beaches.

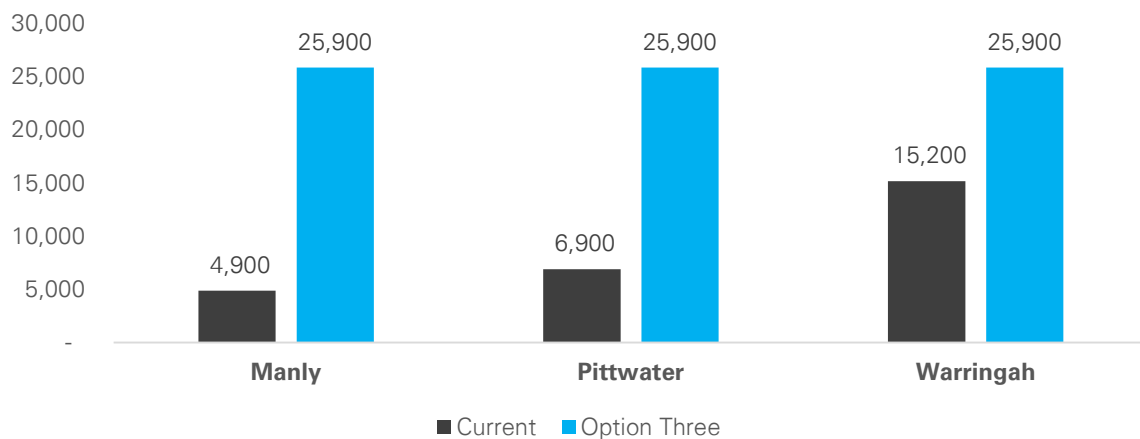


Community & Governance

A single Northern Beaches Council may be well placed to shape and nurture the transport, health and economic development priorities of the region, including by acting as a strong advocate and partner for the State and Federal governments. However, these potential advantages will come at the expense of local representation and governance for Northern Beaches residents:

- This impact on local representation is likely to be most keenly felt by Manly residents given the current ratio of 4,900 residents per council would increase more than five-fold to 25,900 residents per councillor.
- For Pittwater residents the ratio would increase almost four-fold from the current 6,900 residents per councillor.
- For Warringah residents the ratio would increase by 70 per cent from the current 15,200 residents per councillor.
- The significant impact on local representation will need to be considered in the context of potential concerns regarding governance and appropriate scrutiny of matters before council.
- While the Review Panel recommended a two-term transition period prior to any reductions in the number of councillors in any merged entity, this issue will need to be considered by the community with a view to the long-term impacts on local representation.

Chart 3 Local Representation, number of residents per councillor – Option Three



Source: KPMG analysis, assuming no increase in the number of elected councillors.



Geography & Environment

A number of Northern Beaches precincts of strategic significance to the NSW Government have been identified in the Sydney Metropolitan Plan (*A Plan for Growing Sydney*) – these include the Northern Beaches Hospital Precinct and the Brookvale and Dee Why Town Centres. Option Three therefore may present an opportunity through the creation of a single Northern Beaches Council to potentially reduce the barriers to coordinated planning and increase coordination for stewardship of environmental assets.



Demographic Profile

Compared to Greater Metropolitan Sydney, the Northern Beaches region perform strongly on indicators of education and levels of overall socio-economic advantage. However, it is important to note the demographic profile of the Northern Beaches as a whole, does not consider the variations in the demographic and socio-economic characteristics of the resident population across the region.

Key demographic features of the region include:

- There is a higher rate of post school qualifications (67 per cent) on the Northern Beaches relative to Greater Sydney (60 per cent).
- The Northern Beaches is characterised by relatively high median incomes that are 25 per cent higher than the median for Greater Metropolitan Sydney.
- The ageing population is prominent feature of the Northern Beaches with the resident population in the 65+ age bracket expected to increase the most (56 per cent) over the period to 2031.
- House median prices are also high compared to the rest of the Sydney market with median house prices all over \$1 million across each of the existing councils.

Table 7 Selected demographic indicators - Option Three

Selected Indicator	Northern Beaches Council
Population (2013)	259,000
Land Area (km ²)	163km ²
Median Age (years)	39
Population Density (per km ²)	1,589
Households with children (%)	35.9
Travelled to work by public transport (%)	15.9

Source: ABS Estimated Resident Population (2013); profile.id; NSW Department of Planning and Environment; atlas.id and KPMG analysis.

In this context, Option Three may present an opportunity to create a merged council entity with a steady rate base and a relatively prosperous community that can support long term service needs associated with a dispersed and increasingly ageing population.



Service Delivery

While the Northern Beaches region as a whole is, at least compared to the Greater Metropolitan Sydney region, one of broad socio-economic advantage, there are important variations across the region that are relevant to considerations of how a single Northern Beaches council may deliver services and infrastructure to its communities. These include:

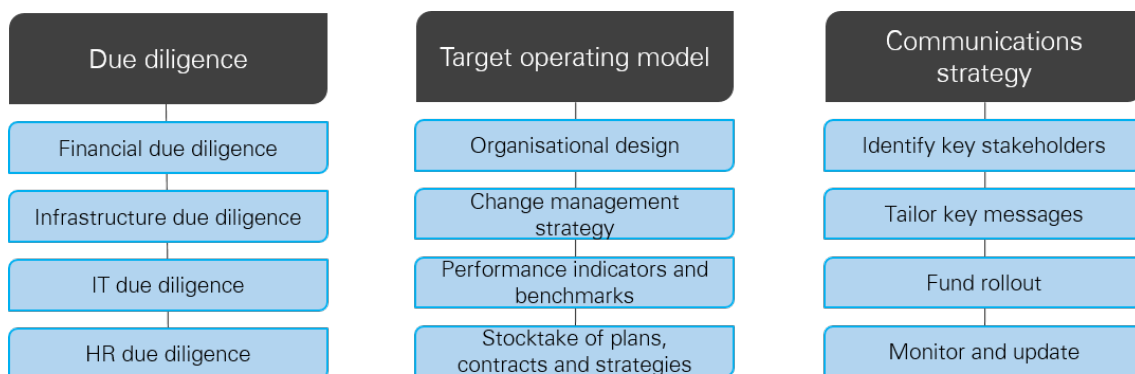
- The wider variation in median house prices across suburbs in a merged Northern Beaches council may generate resistance from ratepayers in regards to cross-subsidising services and infrastructure in other suburbs that are not in close proximity or have few shared interests.
- The increased disparity in population density across the region may present a merged Northern Beaches council with potential challenges with regard to complexity of service delivery, with residents in high-density regions (such as Manly) having different expectations and service level needs to residents with a larger footprint in lower-density urban regions.
- Having a single Northern Beaches council may benefit the management of the Northern Beaches Hospital precinct which was identified as a 'Strategic Centre' in the Sydney Metropolitan Plan. A merged council may be best placed to coordinate the mixed-used development, transport and employment potential for the Northern Beaches region that flows from the development of the hospital precinct. (Note: this may be an objective that could also be achieved through joint planning and collaboration between existing councils).
- Given the priority associated with management of key environmental assets (including coastal assets) and catchment areas on the Northern Beaches, a single council may be best place to harmonise environmental planning and strategies across the region. (Note: this may be an objective that could also be achieved through joint planning and collaboration between existing councils).
- It is arguable as to whether Option Three represents a merger of 'communities of interest' given the significant variations in key demographic indicators across the Northern Beaches. This may weaken the ability of a single Northern Beaches council to provide targeted service and infrastructure delivery across diverse communities.
- The establishment of single council and, by default, a single 'voice' for the Northern Beaches region may create a more powerful and influential advocate for the interests of the region. Conversely, this may be at the risk of pursuing regional outcomes at the expense of local communities due to the weakened levels of local representation.

Implementing Structural Change

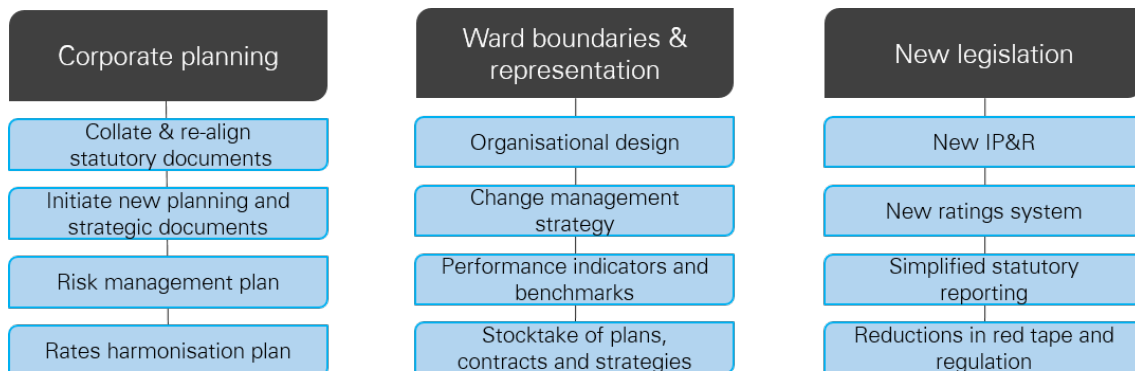
It is important to recognise the capacity to achieve the potential financial advantages of council mergers is a direct function of the effectiveness of the merger implementation plans and strategies in place. Potential merger benefits can be quickly eroded by poor leadership, insufficient oversight of transition, incompatibility of IT and record-keeping systems, delays to implementation and lost productivity stemming from differences in work culture and practice that come to the fore in a newly merged council entity.

A high-level implementation plan for the merger of two or more councils on the Northern Beaches is illustrated below based on short-term and medium-term priorities.

Short-term implementation priorities (next 6 months):



Medium-term implementation priorities (next 6 to 12 months):



Importantly, this analysis does not ignore the need for a detailed implementation plan to be developed following any agreement on council mergers on the Northern Beaches. Such a plan will need to be tailored to the specific reform option adopted by each council and endorsed by the NSW Government. It is also acknowledged the NSW Government has ear-marked funding to support councils with the costs associated with reform – with any new merged council entity on the Northern Beaches entitled to \$10.5 million in direct funding assistance.

Further analysis of potential implementation issues to consider is available in *Part B: Compendium Report and Appendices*.

The complete findings, analysis and assumptions and supporting evidence base are contained within *Part B: Compendium Report and Appendices*.

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