

PITTWATER COUNCIL IMPROVEMENT PROPOSAL

Appendix 5

KPMG INDEPENDENT ASSESSMENT
– COMPENDIUM REPORT



cutting through complexity

Independent review of structural options for Manly Council & Pittwater Council

Prepared for Manly Council &
Pittwater Council

PART B: COMPENDIUM REPORT & APPENDICES

1 April 2015

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Contents

Glossary	3
1 Introduction	4
2 Approach	11
3 Strategic capacity	23
4 Developing options for reform	40
5 Economic & financial impact analysis	51
6 Implementing structural change: issues for consideration	65
Appendix A: Overview of Local government and the Northern Beaches region	70
Appendix B: Case studies in local government reform	79
Appendix C: Alternate structural option	88
Appendix D: Sub-Regional Analysis of the Northern Beaches	93
Appendix E: Financial analysis – Methodology and key assumptions	104
Appendix F: Revised income statements	117

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No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Pittwater Council and Manly Council consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

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Glossary

ABS	Australian Bureau of Statistics
BRT	Bus Rapid Transport
CAD	Canadian Dollar
CBD	Central Business District
CEC	Coastal Environmental Centre
CSP	Community Strategy Plan
DLG	Department of Local Government
EEO	Equal employment opportunity
FSR	Financial Sustainability Ranking
FTE	Full-Time Equivalent
GRP	Gross Regional Product
IPART	Independent Pricing and Regulatory Tribunal
IT	Information Technology
JO	Joint Organisation
LGMA	Local Government Managers Australia
LGNSW	Local Government New South Wales
LGSS	Local Government Software Solutions
LIRS	Low Interest Rate Subsidy
LIRS	Local Infrastructure Renewal Scheme
NPV	Net Present Value
NSW	New South Wales
NZD	New Zealand Dollar
OLG	Office of Local Government
RBA	Reserve Bank of Australia
RMS	Roads and Maritime Services
ROCs	Regional Organisation of Councils
SEQ	South East Queensland
SHOROC	Shore Regional Organisation of Councils
SRV	Special Rate Variation
TCorp	New South Wales Treasury Corporation
WA	Western Australia
WDV	Written Down Value
WHS	Work Health and Safety

1 Introduction

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.

This chapter explores in more detail the policy context of the NSW Government's Fit for the Future reform agenda and introduces the scope of work for this review.

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.

1.1 Independent Local Government Review Panel

The Independent Local Government Review Panel ('the Review Panel') was formed in late 2011 as a result of the Destination 2036 conference – a two-day event attended by all 152 local councils in NSW. The purpose of the conference was to discuss how communities, economies and technologies might change over the next 25 years and how the local government sector might change to meet these challenges. An action plan was agreed and the following initiatives were delegated to the Review Panel:

- encourage and facilitate innovation in operations and regional collaboration by reviewing national and international best practice;
- review the revenue system to ensure greater flexibility and self-reliance;
- develop a number of different structural models for local government, weighing the pros and cons of alternative governance models and identifying barriers and incentives to mergers and boundary adjustments; and
- clearly define the functions, roles and responsibilities of Local and State government⁴.

Over the review period from March 2012 to October 2013, panel members traversed the state consulting with councils and communities to develop and refine a range of potential structural options. The Panel conducted extensive consultations throughout the period, releasing three separate discussion papers to summarise feedback and direction and commissioned independent research to help inform its thinking.

A key input to the Panel Review's work was a financial sustainability and benchmarking exercise undertaken by NSW Treasury Corporation (TCorp).

1.1.1 Financial Sustainability of the NSW Local Government Sector

NSW Treasury Corporation (TCorp) was appointed by the NSW Office of Local Government and NSW Treasury to investigate and assess the financial sustainability of all 152 local councils in NSW. TCorp's report and benchmarking exercise emerged as a key input to the Review Panel's consideration of the local government in NSW.

To complete the exercise, TCorp developed a definition of financial sustainability that incorporated elements of financial strength, service and infrastructure requirements, and the needs of the community. As such, TCorp defined financial sustainability as:

"A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community."

A set of Financial Sustainability Ratings (FSRs) were developed to benchmark current performance and Outlook Ratings were assigned based on whether these ratings were anticipated to improve or deteriorate based on each council's Long Term Financial Plan. In assessing the 152 councils in NSW, TCorp evaluated:

- The financial capacity of each council, including an analysis of each council's historical results over the 2009-2012 period;
- The long term sustainability of each council, including an analysis of each council's Long Term Financial Plan and the extent to which each council has completed and integrated its Asset Management Plan into its Long Term Financial Plan;

⁴ Destination 2036 Action Plan (2012), NSW Office of Local Government, <http://www.olg.nsw.gov.au/sites/default/files/Destination-2036-Action-Plan.pdf>

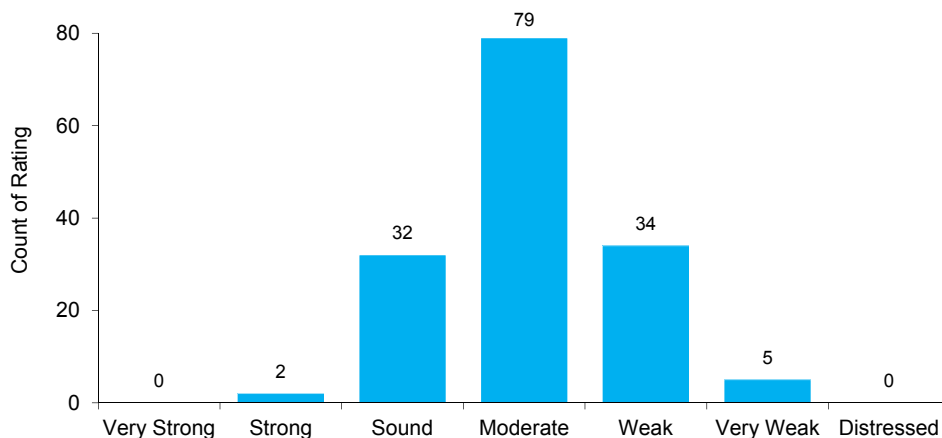
- The financial performance of each council compared to similar councils when measured against financial sustainability benchmarks.

The FSR methodology was used to assess and assign each council an individual rating ranging from 'Very Strong' to 'Distressed'. To be considered financially sustainable, a council must have been assessed at a 'Moderate' or higher level. TCorp then assigned an Outlook rating of 'Positive', Neutral or Negative' depending on each council's expected performance over a three year period.

The results of the analysis suggested that three quarters of councils were achieving a moderate or higher FSR rating. However, nearly half of all councils were determined to have a negative FSR outlook based on the high number of operating deficits and large asset maintenance and infrastructure spending gaps. No councils were assigned an FSR of 'Very Strong' or 'Distressed'. The distribution of FSR results are shown in the *Chart 1-1 Distribution of FSR results for NSW councils across rating categories*

below.

Chart 1-1 Distribution of FSR results for NSW councils across rating categories



Source: TCorp (2013)

The FSR for all three Northern Beaches councils were assessed by TCorp as being 'Sound'. Warringah Council was one of only five councils in NSW to be assessed as having a 'Positive' FSR outlook, with both Manly Council and Pittwater Council assessed as having a 'Neutral' FSR outlook.⁵

Overall, the TCorp review and assessment process highlighted risks to the future financial sustainability of the local government sector in NSW. However, ratings against the benchmarks were not uniform across councils and the three Northern Beaches met, or exceeded, the minimum FSR benchmarks established by TCorp. This is not to say there are no risks to financial sustainability of councils on the Northern Beaches.

1.1.2 Final Report – Revitalising Local Government

In January 2014, the Panel Review's final report *Revitalising Local Government* was publically released. Given the broad mandate of the Review, the Review Panel made a total of 65 recommendations falling across 12 themes. Despite the wide-ranging nature of the recommendations across all aspects of the local government sector, the recommendations that have received the most public attention to date relate to proposed council mergers.

⁵ TCorp (2013), *Financial Sustainability of the NSW Local Government Sector*, April 2013.

The Review Panel outlined the impetus for increased consolidation of local government due to several interrelated factors, including:

- fiscal imperatives demand efficiencies in government across the board – NSW has a number of councils that are unnecessarily small, heavily dependent on grant subsidies and unable to effectively represent the needs of local communities;
- there is a shortage of highly-skilled personnel – larger councils have an increased ability to attract qualified staff. The lack of qualified engineers was cited as an example of a barrier to addressing infrastructure backlogs;
- local government needs to be a legitimate partner to State and Federal government – mergers and / or more effective sub-regional arrangements are vital to making metropolitan Sydney a globally competitive city for the 21st century.

The Review Panel report also forecasted a difficult fiscal environment for local government in NSW. Slower economic growth is anticipated to limit revenue growth while large infrastructure gaps and increasing demands for services will place further pressures on council budgets. State and Federal budgets will also have less to contribute as they aim to bring their own finances back into surplus.

It is on this basis the Review Panel concluded that the number of local councils in the Greater Metropolitan Sydney region should be significantly reduced. In recommending 10 different merger options for the metropolitan region to reduce the number of local councils from 41 to between 15 and 18, the Review Panel indicated its objectives were to:

- create high capacity councils that can better represent and serve local communities and be genuine partners of State and Federal agencies;
- establish a more even distribution of local government across the metropolitan region;
- underpin Sydney's status as a 'global' city; and
- support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.

The Panel Review's recommendation with regard to the Northern Beaches region of Sydney is outlined in Box 1-1 Panel's Recommendations for local government reform on the Northern Beaches

Box 1-1 Panel's Recommendations for local government reform on the Northern Beaches

Panel Review's Recommendations – Northern Beaches

The Panel Review made a series of merger recommendations for metropolitan Sydney. With respect to potential local government structural options on the Northern Beaches, the Panel made the following recommendations:

Council's affected:

- Manly Council, Pittwater Council, and Warringah Council.

Options:

- Amalgamate (preferred); or
- Combine as a strong Joint Organisation

Rationale:

- Projected population of merged entity is 307,400 in 2031;
- Close functional interaction and economic/social links between these councils which constitute an 'island' in the metropolitan region;
- Need for integrated planning of town centres, coastal management and transport infrastructure on the Northern Beaches.

Source: Revitalising Local Government (2013)

1.2 NSW Government – Fit for the Future

The NSW Government responded to the Review Panel's report with a comprehensive local government reform initiative known as '*Fit for the Future*'. The initiative calls on each Council in NSW, individually or collectively, to assess their 'strategic capacity' and prepare a submission for the Government by June 30, 2015.

Councils are required to review their current financial and strategic position and the future needs of their community. The Office of Local Government has prepared self-assessment tools and guidance materials to aid in this process. Each Council must then submit their proposals on how they intend to become '*Fit for the Future*' using either an 'Improvement' template or a 'Merger' template. Submissions must respond directly to the recommendations of the Review Panel and councils are encouraged to access expert assistance from Government or independent advisors. The NSW Government has committed over \$1 billion to support councils in assessing their options with particular incentives in place for those considering voluntary merger options.

Concurrent to this process, the NSW Government will continue to implement its own reform agenda, including increasing financing options for councils, simplifying reporting obligations, streamlining access to grants and reviewing options for additional planning powers⁶.

1.2.1 Fit for the Future submissions

All councils are expected to submit a proposal to become *Fit for the Future* with the templates provided to guide the discussion of how the Council will achieve this. A summary of the process is illustrated in Figure 1-1 below.

Figure 1-1: NSW Government – *Fit for the Future* submission process



Source: NSW Office of Local Government (2015)

Responding to government

Following a review of its scale and capacity, metropolitan councils may decide to either submit a Merger Template (Template 1) or an Improvements Template (Template 2). Submissions are expected to demonstrate how councils will meet or exceed the benchmarks with their proposed Merger or Improvement plans over a five year period (2015-16 to 2019-20). In both templates, councils are asked to share any consultations with their community and their neighbouring councils on the various structural options available to them.

⁶ *ibid*

1.3 Review of structural options

This document *Part B: Compendium Report and Appendices* provides the supporting evidence base and analysis of local government structural options for Manly Council and Pittwater Council. The key findings and a brief overview of the analysis undertaken for this review is found in *Part A: Summary Report*.

1.3.1 Purpose

The purpose of the review 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.

1.3.2 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.

1.3.3 Limitations

The project scope excluded some items from the analysis, notably:

- consultations with communities, including in relation to attitudes and preferences for local government reform;
- detailed assessment of issues relating to the implementation of a proposed reform; and

- examination of alternate reform options outside those developed in Chapter 40 and Appendix C.

During the course of the analysis, limitations were identified with respect to the consistency and depth of data provided and were taken into consideration in the approach to financial analysis and reporting. These limitations relate to:

- Consistency in reporting – Each council may prepare long term financial projections, account for infrastructure backlog and report their per service expenditures differently; and
- Detailed employee data – The basis for employee efficiency savings is underpinned by detailed employee data provided by Manly Council and Pittwater Council. Where this data was not provided by Warringah Council, benefit and cost streams for direct staffing efficiencies were limited to higher level analysis based on publicly available FTE establishment data.

Limitations were addressed in a systematic manner and more information on the steps taken to address them can be found in Appendix E.

1.3.4 Report Structure

This report is structured as follows:

- Chapter 2 discusses the approach to developing the structural options for local government reform and evaluating the impacts;
- Chapter 3 provides an analysis of the complexities around understanding and measuring strategic capacity, and includes examples of strategic capacity exhibited by Pittwater and Manly Council;
- Chapter 4 presents the structural options available to the Northern Beaches councils, including the supporting evidence base developed in consultation with Pittwater Council and Manly Council;
- Chapter 5 presents the economic and financial impact analysis of each of the structural options; and
- Chapter 6 provides a summary of the challenges and issues for consideration relating to the implementation local government reform in the NSW Fit for the Future policy context.

A series of appendices provide detailed supporting information and analysis, including:

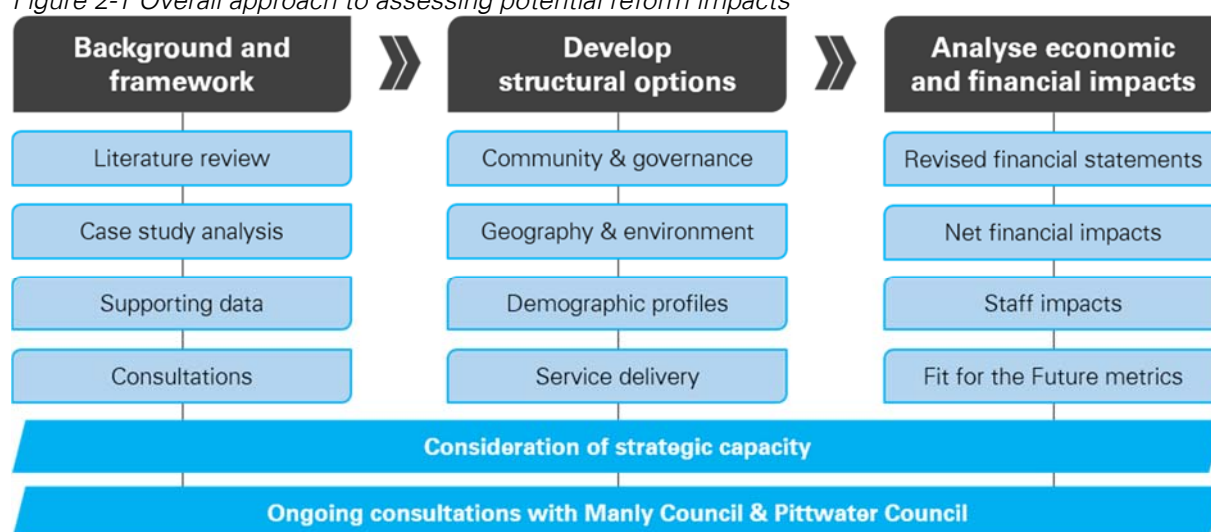
- Appendix A introduces the role of local government in Australia and on the Northern Beaches;
- Appendix B provides a series of domestic and international case studies offering insights into local government reform experiences in other jurisdictions;
- Appendix C provides analysis of an alternate structural option for the Northern Beaches that was not included in the Part A: Summary Report;
- Appendix D outlines key demographic profiles and analysis that was drawn on in this review;
- Appendix E provides detailed information on the financial analysis methodology, underlying assumptions and limitations of the analysis; and
- Appendix F provides revised income statements for each structural option considered in the review.

2 Approach

The development of the approach was informed by the outcomes of the comparative study to recognise and respond to limitations and experiences identified in previous analyses of local government reform. In addition, the approach was underpinned by a process of co-design to recognise the complex stakeholder environment – decision stakeholders were engaged at key points throughout the review for the purposes of testing, feedback, and refinement.

Figure 2-1 below outlines the iterative approach to developing the evidence base and assessing the potential impacts of structural reform for Manly Council and Pittwater Council. Significantly, the approach acknowledges the need to consider the potential financial impacts of local government reform alongside the non-financial impacts.

Figure 2-1 Overall approach to assessing potential reform impacts



Source: KPMG

The following sections discuss the approach outlined in Figure 2-1 in further detail.

2.1 Background and framework

2.1.1 Literature review

To underpin the context of the NSW local government reform agenda a brief analysis of relevant literature was undertaken. This literature review focused on:

- the changing role of local government in Australia;
- the scale of local government in Australia and a comparison of the NSW sector with other jurisdictions;
- a brief profile of local government on the Northern Beaches; and
- the strategic priorities identified in the Sydney Metropolitan Plan relevant to Northern Beaches precincts.

A summary of the Literature Review and relevant findings for this project are available in Appendix A.

2.1.2 Case study analysis

There are a number of local government reform experiences in Australia and overseas in recent decades that can be drawn on as support evidence to guide this review. The frequency and extent of attempted reform has contributed to a significant body of literature covering the various options for reform, the process of implementation, as well as some preliminary and high-level analysis on the costs and benefits of reform to the broader community.

A series of domestic and international case studies will be examined, including:

- Victoria (1993);
- Queensland (2008);
- Western Australia (2015);
- Toronto – Canada (1998); and
- Auckland – New Zealand (2009).

Each case study is examined from the context of the reform objective, the approach to implementation and, where available, an overview of the reform impacts and key lessons for the NSW context. These case studies are available in Appendix B.

2.1.3 Support data

To lay the groundwork for the subsequent analysis of local government structural options on the Northern Beaches it was necessary to first collate all relevant data (published and unpublished) at project commencement. To facilitate this, on project commencement a data collation template was provided to Pittwater Council, Manly Council, Warringah Council and Mosman Council.

Rather than relying solely on out of date or publically available data, the data collation exercise enabled the analysis of structural options to draw on the most up-to-date information available from each council. The templates incorporated information and data directly relevant to undertaking a robust analysis of local government structural options on the Northern Beaches. This included;

- Balance sheet data *(2008-09 to 2023-24)*
- Income statement data *(2008-09 to 2023-24)*
- Cash flow statement data *(2008-09 to 2023-24)*
- Current staffing establishment data (by function)
- Survey results data (both community satisfaction surveys and employee satisfaction surveys);
- Facility-level data (including income and expenditure as well as average utilisation rates);

The templates also provided an opportunity to identify core assumptions underpinning each Council's Long Term Financial Plans, including assumptions relating to:

- Revenues and expenditure (such as population growth, land values and external grants);
- Asset management (such as depreciation methods);
- Asset replacement and capital expenditure calculations;
- Debt exposures (such as facility type, interest rate and repayment period).

It is acknowledged that council's do take different approaches to reporting requirements (such as estimating infrastructure depreciation) and, where relevant, this has been noted in the impact analysis of structural options. Table 2-1 below outlines where any relevant data gaps existed following the data collation exercise.

Table 2-1 Responses to data collation request, by Council

DATA REQUESTED	Manly Council	Pittwater Council	Warringah Council	Mosman Council
Balance Sheets	●	●	●	●
Income Statements	●	●	●	●
Cash Flow Statements	●	●	●	●
Staffing Establishment (by function)	●	●	○	●
Survey Results	●	●	●	●
Facility-level Data	●	●	○	●
Infrastructure	●	●	●	○
Net Cost of Services	●	●	●	●

Legend: ● = data provided ○ = partial data provided

Source: KPMG

Following discussions on structural options to be considered in this project, the shortlisted scenarios did not involve Mosman Council and, as such, no further analysis was undertaken on Mosman Council's data.

2.1.4 Consultations with Manly Council and Pittwater Council

Iterative consultations were held with relevant stakeholders from Manly Council and Pittwater Council to help understand current operating models, local priorities, develop structural options, test assumptions underpinning the impact analysis and validate key findings. At key stages of the project, status updates and preliminary analysis were presented to elected Councillors at workshops organised by respective Councils.

On project commencement high level discussions were also held senior management at Warringah Council. These consultations were aimed at better understanding Warringah Council's operating model and corporate governance, as well as to gather further insights on local government reform on the Northern Beaches. As Warringah Council was not an engaging party to this project, no subsequent consultations were undertaken with the exception of where data clarifications were required or additional data was requested to fill gaps. Further, Warringah Council was not involved in the validation process undertaken for this review.

2.2 Develop structural options

The Review Panel offered a large number of recommendations relating to potential council mergers in the Sydney metropolitan region – no fewer than 10 potential merger groups were suggested to reduce the number of councils in Sydney from 41 to between 15 and 18 councils. In the Northern Beaches region, the Review Panel recommended all three existing councils – Warringah Council, Manly Council and Pittwater Council – merge to form a single Northern Beaches council. The rationale for this merger recommendation was:

- creating a single council with a projected population base of 307,000 in 2031 would lead to an appropriate level of 'scale and capacity'; and

- close functional interaction with economic and social links which constitute an 'island' in the metro region; and
- need for integrated planning of centres, coast, transport etc. was necessary.⁷

Given the breadth of the Review Panel's scope of work for the review it was not realistic for the Review Panel to conduct a more detailed analysis of potential merger options on the Northern Beaches. This report therefore provides an opportunity to fill this gap in analysis and develop an appropriate evidence base on which to examine potential reform impacts.

The identification of structural options for the Northern Beaches has been based on a broad range of inputs. These inputs are summarised in Box 2-1 below.

Box 2-1 Key inputs to development of potential structural options

	<p>Community & Governance:</p> <p>This input includes local representation and capacity to meet the current and future service and infrastructure needs of the community.</p>
	<p>Geography & Environment:</p> <p>This input includes management of environmental assets and catchment areas, natural geographic boundaries and urban characteristics, as well as land release areas and development potential.</p>
	<p>Demographic Profiles:</p> <p>This input includes detailed statistical analysis of the socio-economic characteristics of the each of the Northern Beaches councils;</p>
	<p>Service Delivery:</p> <p>This input includes a high level service and organisational review of how each potential structural option may impact on the ability of a council to service its local communities.</p>

Source: KPMG

This options analysis, supported by detailed consultations with Manly Council and Pittwater Council, ensured the shortlisted structural options were achievable and realistic and could make a genuine impact on aspects of strategic capacity and the ability to meet the current and future service and infrastructure needs of the Northern Beaches community.

A base case – or 'no merger' – option was also reconstructed based on current Council Long Term Financial Plans for Manly and Pittwater Councils. This served to measure the additional benefits and costs of any potential structural options.

2.2.1 Community & Governance

Impacts to community through service quality, access to amenities (and representation in the merger scenarios) were reviewed to assess the intended and unintended consequences of any potential structural option. Local representation is an important attribute of the role of local councils in Australia and any proposed changes to the number of local council entities on the Northern Beaches may impact the number of councillors elected.

Consequently, community members may be concerned about the ratio of residents to councillors post-reform. Councillors are typically very active in engaging with communities and participate in several fora

⁷ Independent Local Government Review Panel (2014), *Revitalising Local Government*, January 2014.

for a range of activities that impact residents daily. Councillors also play an important role in scrutinising council documents and proposals and are held accountable for council decisions.

A number of key inputs were drawn on to inform the consideration of community and governance issues for each Council. These include:

- Consideration of shared 'communities of interest' and local priorities;
- Potential impacts of local government reform on local representation, as measured by the total resident population divided by the number of elected councillors in the region.

2.2.2 Geography & Environment

Local government structural options, including proposed council mergers, are typically developed with respect to incorporating immovable geographical boundaries. These include:

- major arterial roads and motorways; and
- natural environmental features (such as parks and waterways);

Drawing on the geographical similarities to establish any changes to council boundaries may enable a new merged council entity to maximise efficient use of assets and infrastructure. The management of environmental assets and catchments areas are also important responsibilities for councils – particularly on the Northern Beaches where communities are established around important assets such as coastal environments, national parks and reserves, and important waterways and habitats.

Population and housing growth also needs to be carefully managed, particularly in relation to in-fill growth where development needs to integrate within existing communities and greenfield sites where development on the periphery of existing communities necessitates expanded infrastructure and provision of new amenities.

Valuing and caring for the natural environment has also been identified as a key priority for councils on the Northern Beaches. This is particularly important as access to local environmental assets form a bedrock of the overall amenity and quality of life for so many communities - whether its national parks and reserves, local waterways and marine life, or the beach and coastal environment. The capacity of local council's ability to effectively manage these environmental assets and catchment areas is therefore an important to consideration of the potential impacts of local government structural options on the Northern Beaches.

2.2.3 Demographic profiles

Publically available population and census data was evaluated to highlight key similarities and differences between local councils on the Northern Beaches. This analysis provided important insight into the future pressures and priorities local councils will face. Each Council's overall demographic profile was compared against neighbouring councils, and considered in the context of the Northern Beaches region, the wider metropolitan region as well as on a state-wide basis.

Key indicators that may be considered as part of this analysis include:

- Median age;
- Median weekly household income;
- Couples with children;
- Population density;
- Median property prices; and
- Public transport to work.

More detailed analysis of the demographic profile of the Northern Beaches region is found in Appendix D.

2.2.4 Implications for council services

Consultations were undertaken with the executive leadership of both Pittwater Council and Manly Council. The purpose of these consultations was to:

- Understand the structure, functions and operations of each Council division;
- Establish the extent of shared services currently in place across Councils in the Northern Beaches region;
- Gain insights and perspectives from each Council on respective experiences with shared services and other areas of collaboration.
- Identify further opportunities for shared services in the Northern Beaches and, importantly, what limitations exist for the practical implementation of further Council 'improvements'.
- Inform the development of assumptions to underpin the analysis of structural options, particularly in regard to potential future shared service scenarios.

2.3 Economic and financial impacts

A revised series of Long Term Financial Plans will be prepared for each structural option. The associated analysis will provide a number of quantitative and qualitative insights into the economic and financial impacts of each structural option.

2.3.1 Revised Financial Statements

Long term financial projections were provided by Councils and consolidated to create revised income statements for each new merged Council. Financial modelling was undertaken to account for estimated financial benefits and costs of each structural options – these included expected savings measures and associated merger costs. Insights and lessons from the domestic and international case study experiences in local government reform (refer Appendix B) formed important inputs to the development of the assumptions underpinning the economic and financial analysis.

Assumptions underpinning the financial modelling exercise are outlined in Section 2.4 below with further details available in Appendix E. The revised income statements for each structural option are presented in Appendix F.

2.3.2 Staff impacts

Detailed staffing data by council division will be analysed and the functional type of each role categorised. Efficiencies will be estimated as percentage reductions to the functional type. For example, these efficiencies will be weighted more heavily toward strategic, executive and back office support functions, where there are more significant economies of scale to be achieved in comparison to customer-facing and front line service delivery functions.

The revised staffing establishment profiles for each council will be provided on a full-time equivalent (FTE) basis to give an indication of the likely employment impact for each council and the Northern Beaches region as a whole.

2.3.3 Net financial impacts

A number of pertinent indicators will be measured to give an insight into the likely scale and size of the net financial impact of each structural options. These indicators include:

- the estimated net financial impact of each structural option measured in net present value (NPV) over a ten year period from 2014-15;

- the estimated net financial impact of each structural option measured as an aggregate improvement to the current net operating results over a ten year period;
- the estimated net financial impact of each structural option measures as a portion of the merged entities' operating revenue over a ten year period; and
- the estimated net financial impacts when considered with and without NSW Government financial assistance to support implementation of council mergers.

2.3.4 Fit for the Future metrics

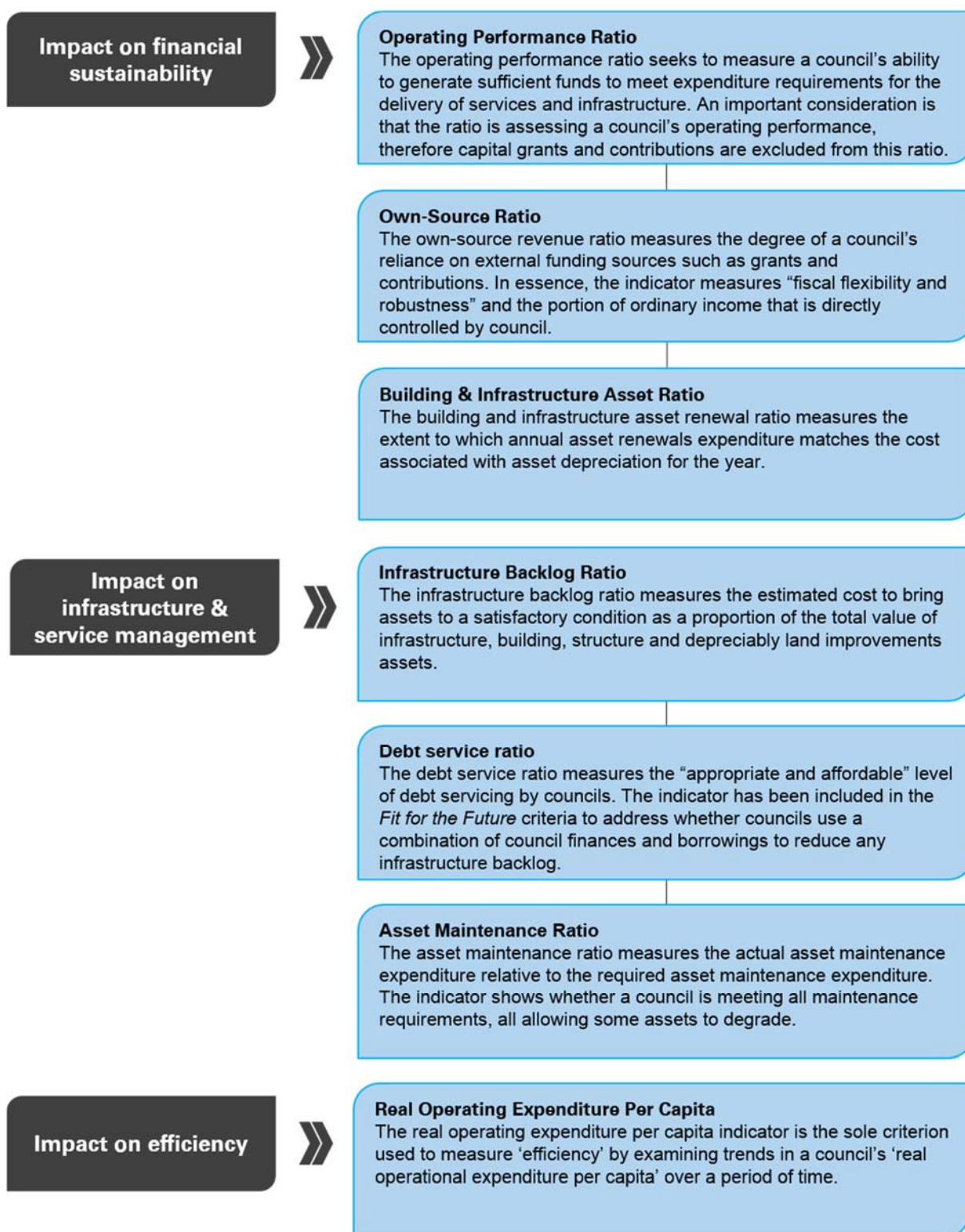
The preparation of revised Long Term Financial Plans will also enable each structural option to be considered in the context of the *Fit for the Future* templates that require each council to demonstrate performance against a set of pre-determined benchmarks. It will be important to draw on these benchmarks and compare performance against the seven *Fit for the Future* criteria for each structural option being considered.

The seven *Fit for the Future* benchmarks are summarised in Appendix E which includes a brief outline of:

- what each *Fit for the Future* metric is seeking to measure;
- how each *Fit for the Future* metric is calculated;
- the relevant *Fit for the Future* benchmark established by the Office of Local Government; and
- an analysis of any limitations of the *Fit for the Future* metric.

The seven *Fit for the Future* criteria are summarised in Figure 2-2 below.

Figure 2-2 Fit for the Future criteria



Source: KPMG; Office of the Local Government (2014), and Independent Pricing and Regulatory Tribunal (2014)

Potential impacts of council improvements in Option One: No Merger

As the base case scenario, the analysis of Option One: No Merger assumes that Councils will make no changes to improve operating performance over the ten year time frame. This is necessitated by the need to determine the incremental benefits and costs of each merger option against the status quo.

In practice, both Manly Council and Pittwater Council have a track record of identifying and implementing means of enhancing service delivery, improving council operations and achieving efficiencies and value for local communities. In this context, Option One: No Merger will provide an opportunity for both councils to engage in regional strategic collaboration through participation in regional partnerships. To reflect this notion of improvement opportunities, a high-level cost of service analysis is prepared in Chapter 5 to demonstrate potential impacts on any future improvements undertaken by councils.

2.4 Assumptions and limitations

A financial analysis was conducted for each structural option from the perspective of the implicated Councils and modelled based on the likely impacts to their financial statements and operating performance.

The development of assumptions was based on:

- council management input;
- lived experiences of reform impacts from other relevant jurisdictions; and
- industry benchmarks from the Australian Bureau of Statistics, the Reserve Bank of Australia and the NSW Fair Work Commission.

2.4.1 Data limitations

During the course of the analysis, limitations were identified with respect to the consistency and depth of data provided and were considered in the development of the financial modelling approach.

Consistency in reporting

Local councils in NSW have reporting responsibilities as public entities under Australian Accounting Standards and have a Local Government Code of Accounting Practice and Financial Reporting which assists councils in interpreting and applying the appropriate policies.

Each Council is different in how it structures its operations, delivers services and meets community priorities. This may lead to some variations in how Councils prepare their long term financial projections, account for infrastructure backlog and report their per service expenditures. As noted frequently throughout the report, the financial figures only tell one side of the story. The results of our analysis are therefore subject to the accuracy of the data provided by Councils.

Detailed employee data

In the absence of detailed employee data, benefit and cost streams for direct staffing efficiencies for Warringah Council were limited to higher level analysis based on publicly available financial data. To ensure consistency in assumptions, financial impacts for Warringah Council were estimated with reference to ratios calculated in the more detailed analysis of Manly Council and Pittwater Council staffing establishment.

The approach taken to address these limitations is provided in Appendix E.

2.4.2 Key underlying assumptions

The purpose of the financial impact analysis was to reflect the likely results to Council operating performance under various scenarios. The development of each merger option relied on a number supporting data and assumptions. Within the analysis, there are three key drivers of the benefits and costs – staffing reductions, council expenditure efficiencies and merger implementation costs.

Staffing reductions

Staffing efficiencies were estimated at between 4 per cent and 9 per cent of the establishment, based on the scenario modelled. Reductions at the functional level varied from 50 per cent to 2 per cent based on the reasonableness of achieving any efficiencies.

These assumptions were driven by the Toronto and Auckland case study experiences where merger savings stemmed primarily from reductions in the staffing establishment. In Toronto, there was a reduction of 9 per cent of total positions, 14 per cent in admin and support positions, 34 per cent in management positions, and 60 per cent in executive management positions. Auckland's new organisational structure resulted in a net 16 per cent reduction in staff.⁸

Council expenditure efficiencies

Detailed cost items within 'Materials and contracts' and 'Other expenses' from Manly, Warringah and Pittwater Council's financial statements were reviewed to determine the scope of applicability of efficiency savings. An estimated value of efficiency savings was applied to projected 'Materials and contracts' and 'Other expenses' from the long term financial projections of each structural option.

The Auckland case study experience suggested a 3 per cent saving in 'materials and contracts' and 'other' expenditures following amalgamation however it was felt that this may be too optimistic given the efforts to date by SHOROC with regard to procurement and the relative scale differences – Auckland was a merger of seven metropolitan councils and may therefore be able to drive more efficiencies than the three councils in the Northern Beaches. A 2 per cent saving was therefore applied in each of the merged entity scenarios.

Merger implementation costs

Costs associated with the merger included estimated redundancy costs as well as implementation costs comprising IT and facility consolidation, staff retraining and costs of debt financing (or foregone interest on cash or cash equivalents). These costs, based on a percentage of total annual expenditure, were consistent with case study examples. These costs, with the exception of some staff redundancy payments, are assumed to take place over the course of the 2015-16 fiscal year with the merged entity beginning to achieve the above efficiency savings in 2016-17.

Total upfront costs were estimated at 4.7 per cent of total annual expenditure and apportioned across cost types based on Toronto's comparative study:

- facility consolidation: 30 per cent of total upfront cost;
- IT consolidation: 30 per cent of total upfront cost;
- retraining: 2 per cent of total upfront cost; and
- other transition costs: 11 per cent of total upfront cost.

Each merger option's total upfront cost varied slightly from the 4.7 per cent of total annual expenditure due to the assumptions underpinning the redundancy package (see below).

Redundancy costs were estimated based on:

⁸ Refer to Appendix B for further details and key sources of assumptions drawn from domestic and international case study experiences in local government reform.

- the estimated staffing efficiencies by branch;
- average salaries and accruals (annual leave and long service leave) by division from Manly and Pittwater Councils; and
- an assumption about the average tenure of employees (based on turnover rates) to determine the redundancy liability as a function of annual salaries.

According to data from the NSW Fair Work Ombudsman, redundancy pay periods range from 4 to 12 weeks pay depending on staff tenure. Staff tenure was estimated with respect to the average employee turnover rate of 10.9 per cent across each of the councils..

Average annual leave and long service leave accruals per FTE were applied to the estimated redundancy pay package. No additional premiums for voluntary redundancies were assumed in the model.

Other assumptions in the model related to:

- nominal salaries and wages growth rate;
- labour costs;
- basis to seek debt financing / Cost of debt;
- investment returns;
- timing of redundancies;
- Kimbriki Environmental Enterprises;
- population;
- inflation; and
- discount rate.

Revised financial statements and calculation of *Fit for the Future* benchmarks

For the majority of the *Fit for the Future* benchmarks, revised financial statements were sufficient to calculate the relevant benchmark ratios, however the Asset Renewal, Infrastructure Backlog and Asset Maintenance ratios required additional input from Councils.

A limitation of this approach is that any new merged council entity would be required to conduct a stocktake of the new asset base and may devote more or less resources to particular areas of focus. This analysis assumes that 80 per cent of funds committed for asset renewal would go towards improving asset conditions to a minimum level 3 standard (reducing the infrastructure backlog). At the same time, 0.4 per cent of total written down value (WDV) of infrastructure assets was assumed to deteriorate below Level 3 conditions (increasing the infrastructure backlog).

For a more detailed discussion of the assumptions underpinning the financial analysis, please see Appendix E.

2.5 Considerations for implementing reform

In addition to establishing an evidence base on which Councils could engage with their communities, additional research was conducted to explore the key challenges and lessons learned associated with local government reform.

Success is highly dependent on the quality of implementation planning and strong leadership throughout the process. Given this importance, implementation considerations were identified and discussed at a high level by drawing on:

- guides to local government reform – including council mergers – that have been issued by governments in relevant jurisdictions;
- the comparative study of domestic and international local government reform experiences;
- consultations with members of each Council; and
- implementation plans for public sector organisational redesigns, on which KPMG has acted as an advisor

It is noted that the implementation considerations are outlined at a high level only, and that a more detailed implementation plan and risk assessment would be required to support a final decision on structural options. Depending on the structural option selected, Councils are also likely to receive additional support from the NSW Government to accomplish their objectives.

3 Strategic capacity

3.1 Defining 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 offer a limited definition that is difficult to measure or benchmark. Figure 3-1 is an extract from the Panel Review's final report and provides some guidance on how the concept of 'strategic capacity' should be defined.

Figure 3-1 Defining 'strategic capacity' - Panel Review



Source: Independent Local Government Review Panel (2014)

3.1.1 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'.

3.1.2 Measuring 'strategic capacity'

There is a strong rationale for defining and measuring 'strategic capacity' beyond the narrow focus of 'scale' and population size.⁹ 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 (IPART) noted the difficulties around measuring such a concept.¹⁰ 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.

In Table 3-1 and Table 3-2 below Manly Council and Pittwater Council have drawn heavily on the local context in articulating performance against the 'strategic capacity' criteria formulated by the Review Panel.

⁹ Drew, J. and B. Dollery (2014), Keeping It In-House – Households as an Alternative Proxy for Local Government Output, Australian Journal of Public Administration.

¹⁰ Independent Pricing and Regulatory Tribunal (2014), Review of criteria for Fit for the Future, September 2014.

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Table 3-1 Manly Council: Examples of Strategic Capacity

Robust revenue base and increased discretionary spending	<p>Financial statements for the 2013-14 year show that Manly Council is financially sound, and the benchmarks for the six ratios identified as key indicators of financial sustainability by TCorp have been met.</p> <p>In particular, the Council's Operating Performance Ratio of 3.41 per cent – a result of increasing rate and investment revenue and a reduction of expenses – shows that Manly is in a fiscally flexible position. Also, it has not relied on external funding sources for operating expenditure. Council expenditure and achievements in the services and infrastructure delivered to the community are described each year in its Annual Report against its Community Strategic Plan, Delivery Program; and includes its financial performance in its Audited Financial Accounts.</p>
Scope to undertake new functions and major projects	<p>Manly Council's Community Strategic Plan Beyond 2024 describes how Manly Council will undertake new functions and major projects annually across a wide variety of areas, across the quadruple bottom line.</p> <p>The Council uses its funds, assets, and staff resources carefully in order to maximise its ability to undertake new functions, projects and major projects in different ways to meet the various social, environmental, economic goals and needs of its residents and visitors.</p> <p>In the last couple of years, Manly Council has demonstrated its flexibility in the management of new capital projects and functions. Currently, Council has commenced building and constructing of a new \$20 million Aquatic Swim Centre (also assisted by a NSW Government Low Interest Rate Loan 'LIRS' Subsidy), upgrading the Manly Town Centre public domain and planning the construction and design of a new underground public car park at Manly Oval (including replacement of the Manly Oval back on top) in the next 2-4 year period. The Council also plans to commence construction of a \$5 million stormwater detention system at the Manly Oval to prevent downstream flooding in the Manly CBD through a NSW Government LIRS subsidy. It hopes to undertake this project in combination with works to construct a new car park at the Manly Oval to meet existing and projected car parking demand.</p>

Ability to employ wider range of skilled staff	<p>Manly Council employs approximately 350 (FTE) across a variety of skilled roles and aims to be “Employer of First Choice”. Results from the Council’s November 2014 staff survey (undertaken every two years on a confidential basis by an external consultant) saw overall staff satisfaction with Council as an employer rise by 12.3 per cent. Also, the staff voluntary turnover rate has halved from 18 per cent to 9 per cent for the past two financial years. The net loss of staff during this period was driven primarily by natural attrition and higher levels of productivity from staff and contractors.</p> <p>The success of workforce planning strategies can be evidenced by:</p> <ul style="list-style-type: none"> • Attracting and Retaining Talent: On average there are at least 10 applicants for every vacancy while staff turnover is running at 7.24 per cent. • Leadership & Staff Engagement: Staff Climate Survey responses saw 80- 90 per cent of answers to questions involving leadership, managers/supervisors and engagement at an average score of 5-6+ which indicates a high level of satisfaction. • Operational Best Practice: Council has a range of activities that can be characterised as a Centre of Excellence and best practice. E.g. Childcare services, Technology and Infrastructure, Regulatory & Compliance Services, Communications and Graphics, Environmental Services. • Learning and Development: \$240,000 will be spent this year and Council has spent a proportionate amount over this past period. Staff have attended EEO, Customer Service, Induction, WHS, Code of Conduct, Performance Review etc. sessions which have involved around 25 per cent of staff this past quarter.
Knowledge, creativity and innovation	<p>The Annual Report and the ten year Community Strategic Plan demonstrates that Manly Council has sought to employ knowledge, creativity and innovation in the delivery of its current programs and activities across the quadruple bottom line.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Working with stakeholders to improve community safety in relation to late night Manly’s culture, and progressing the community safety program via its Stay Safe Project and community partnerships and innovative programs and marketing. • Promoting a healthy and active Manly community across all age groups (from the young to the old, clubs and sporting groups) in the media, programs and events from the young to the old. • Extensive community consultation and refinement of plans have preceded public works, parks and playgrounds (e.g LM Grahams Reserve, Manly 2015, Ivanhoe Park). • The creation of a more culturally vibrant Manly through the provision of its library and art gallery services through innovative events, displays, public programs that appeal to a range of community visitors.

- The Council supports the social and welfare needs of the Manly community by providing quality and affordable childcare, youth services and meals on wheels services. It works with volunteers to improve the quality of services and assets and hopes develop more innovative models to further these initiatives in the future.
- A viable Manly for work, employment and infrastructure is achieved through strategies and projects that renew and activate public spaces (such as Short Street Plaza, Raglan and Sydney roads (to be undertaken in 2015) in the CBD of Manly and progress with its Manly 2015 project. It also provides place-making events (i.e beyond the summer and peak periods) such as the Food and Wine and Jazz Festivals (October 2013, and June 2014), as well as the prestigious Australian Open of Surfing held in February 2014. These events attract thousands of local, regional and international visitors and assist in boosting the local economy, employment and infrastructure usage.
- The Council is keen to continuously maintain and improve its infrastructure and sustainable transport (via the installation of safe pedestrian measures, roundabouts on local roads, and expanded provision of cycle racks at the Manly Wharf interchange).
- The protection of Manly's environmental heritage (including beaches, bushland, water- ways, and biodiversity) is achieved through a variety of projects that manage development, monitor public health and building compliance. Local reduction in greenhouse gas emissions is assisted through the installation of solar power for its lighting, and water in its public buildings and facilities. Responsible waste management is promoted by decade-long (and more) innovative local community partnerships, volunteering programs and events, and management projects. These services were recognised in NSW through the win of two NSW 'Keep Australia Beautiful' awards last year for being the most sustainable city and longstanding innovative community partnerships.
- The Council also works in partnership with the community volunteers to stage events, deliver environmental projects, community safety, consider development applications, reduce waste and encourage recycling. Council's highly developed precinct system established over the years provides input to services and asset renewal. Council also continuously surveys its community about its performance, and undertakes community engagement to test plans, project viability, strategies and goals, by welcoming a variety of input, through its special purpose committees, working groups and various other mechanisms.
- Council also works in partnership with its neighbouring SHOROC councils to continuously lobby various levels of government to ensure regional improvements in transport, health, and community environmental projects.

**Advanced
skills in
strategic
planning and
policy
development**

Manly Council has developed advanced skills in strategic planning and policy development over the years by undertaking rigorous research and planning to examine the needs and goals of its resident community. Through the careful integration of goals and strategies, the Council delivers on a wide range of priorities and services.

The Council undertakes regular community satisfaction surveys that are used to measure, monitor and improve services across the quadruple bottom line. These have been undertaken in November since 2003 to provide benchmark data and guidance in annual budgetary planning. The recent 2014 results provide evidence of continued community satisfaction with services, and the results will be published in Council's next Beyond 2025 Community Strategic Plan and Operational Plan 2015-16.

As well, as part of the development of the community strategic plan (at the start of a new term of Council), wide-ranging community consultation (via community panel surveys) and engagement (via community, stakeholder and councillor workshops) assisted strategies, and goals development over a ten years planning horizon.

The Council monitors its service delivery by collecting, measuring and reporting on a monthly, quarterly and annually progress reports. Councillors receive a monthly report across all divisional units from the General Manager's office. The Council reports quarterly on the progress with its Delivery and Operational Plan, and provides budget updates and graphs of service indicators (these are contained in the Business Paper reports on Council's website). This report spans across the Council's entire operations (e.g. from community safety, lifeguards, swim centres visitors, libraries, art galleries, events, place-making activities, public domain infrastructure improvements, the range of environmental and development assessment services, compliance, health and building services, waste management, governance and corporate services). As well, there are a variety of techniques employed to measure the quality of services, business case scenarios, strategic plans that use available data on operations, competitors, markets and benchmarks.

Effective regional collaboration	<p>Manly has actively supported the establishment of SHOROC (partnership between Manly, Mosman , Pittwater and Warringah Councils) and its regional collaboration on lobbying, resource sharing and work at a strategic level with its four Northern Sydney Beaches and neighbouring councils. Its involvement in SHOROC enables it to work towards achieving broader regional level objectives and priorities.</p> <p>Some outcomes include: the formation of Kimbriki Environmental Enterprises to manage regional waste; regional advocacy on health and transport infrastructure; cost saving and efficiency program (joint tendering and collaborative cost savings & efficiency projects); regional strategies (sustainability, employment, transport, land use and state of the environment), and joint campaigns.</p> <p>SHOROC member councils currently spend \$18.8 million annually through joint procurement arrangements which represents 20 per cent of the combined materials and contracts spend of the region. Joint procurement arrangements achieve savings for Councils through increased buyer power and economies of scale. These joint tender processes regularly identify discounts in the order of 5-10 per cent offered by suppliers for multi-council contracts across a range of goods and services.</p> <p>The SHOROC member councils continue to work with local, state and federal agencies to ensure the needs of Northern Beaches (Manly, Warringah, Pittwater and Mosman) are heard and services delivered. Regional priorities and actions being progressed at present relate to:</p> <ul style="list-style-type: none"> • Improve access to healthcare; • Better transport access to the Northern Beaches; • Encourage the development of more affordable housing options and improve local amenity; • Improve support services for the young and ageing; and • Protecting the natural environment. See Link: http://shoroc.com/
Credibility for more effective advocacy	<p>The Council works with its stakeholders, volunteers, special purpose committees and regional partners, including Councils, to advocate and deliver a variety of service priorities to the Manly and Northern Beaches community. This includes the provision of a range of innovative local social, environmental, economic and governance services.</p> <p>The Council also works with a range of state agencies and non-profit groups to deliver services and advocates strongly when gaps appear in funding areas.</p> <p>Collaboration regionally and advocacy (through SHOROC) has improved regional public transport infrastructure (e.g. bus lanes and BRT) to and from the CBD, greater frequency of bus & ferry services. It has also worked to improve community and health service delivery on the Northern Beaches, including large infrastructure (transport, roads) surrounding the development of a new private hospital at Frenchs Forest, upgrading Mona Vale Hospital and related community services.</p>

**Capable
partner for
State and
federal
agencies**

The Council has demonstrated its capability in undertaking projects with a number of State and Commonwealth Government departments. For instance, the Council achieved funding in 2009 from the Commonwealth (Department of Transport and Regional Development) as part of the stimulus economic program to upgrade Manly Ocean Beach (from North Steyne to Queenscliff), which involved new paving, lighting, landscaping and seawall protection. This project was valued at \$3.1million, and was completed within the projected budget, and has generated significant multiplier benefits to the local Manly economy.

As well, another Commonwealth grant in 2010 was used along with Council funding (project value \$1.9 million) to add to the building structure and recreational facilities to expand the number of children places at the Manly Roundhouse Child Care Centre.

The Council has also undertaken projects in collaboration with its neighbours. One involving Warringah Council has been the dredging and maintenance of Manly Lagoon over time, as well as Estuary Restoration works (works up to the value of \$2.1 million) to prepare detailed integrated environmental approvals to undertake engineering works considering all relevant environmental impacts. This also involved the in-stream removal of 4000 cubic metres of accumulated sediment, litter, vegetation, and organic material from Manly Lagoon, one of the most degraded waterways on the eastern seaboard. It also establishment of on-site innovative de-watering, and treatment technology, and a site clean-up and restoration.

It continues to work with its regional partners through the SHOROC organisation, and demonstrates collaboration on efforts to improve regional transport, traffic and connections with other areas of metropolitan Sydney. For instance, as a result of co-ordinated regional advocacy, the Minister for Transport has committed to finalising comprehensive plans for transport in the region, and SHOROC's priorities for Bus Rapid Transport systems, and upgrades to major transport corridors has been supported by the NSW Government via its 2014 Budget, and major project plans.

The Council has also worked with the Northern Sydney Area Health Service in improving health services locally and on a regional basis (also through SHOROC). Improvements to services at Seaforth (Children's related services at Dalwood site) and Queenscliff are underway in construction.

The Council also works with the NSW relevant departments for community services to deliver a variety of community services (e.g. Meals on Wheels for aged community members, disability services for the Northern Beaches, counselling & referrals). Over the years, Council has taken on various state agency services sometimes with grants or small fees and managed to successfully fund the cost of the additional services required. Examples include: meals on wheels, disability services, local community transport initiatives (HopSkipJump Bus), cat and dog registrations, swimming pool registrations, and range of compliance activities in building and health inspections.

Resources to cope with complex and unexpected change	<p>Manly Council was rated by TCorp in 2013 as having a sustainable financial record and sound outlook. Manly Council's Long Term Financial Plan as contained in its Community Strategic Plan continues to demonstrate the Council's ability to manage its financial resources and revenue sources while undertaking major infrastructure projects in the next few years. This plan demonstrates how the planning and management of resources over a ten year period to alleviate potential risks, maintain fiscal sustainability and work towards operational excellence.</p> <p>According to the 2014 Financial Statements, Council had \$33 million in cash assets and investments, of which \$26.9 million were long term deposits in reserves. Some of these have external and internal restricted purposes, but a significant proportion could help in assisting the Council in the case of complex or unexpected change (e.g. natural disasters).</p> <p>As well, the Council can draw on qualified and experienced professional staff (including engineers, builders, planners, drivers, rangers), resources (plant and equipment) and present innovative solutions to complex and unexpected changes. Past responses to events planning and natural disasters over the years (including bush fires, numerous storms, flooding of roads, and properties) demonstrate this capability.</p>
High quality political and managerial leadership	<p>Manly Council has extensive experience in management and planning. This experience is employed to ensure that Manly is able to deliver services and resources innovatively as required to the meet the various needs of its residents and visitors.</p> <p>It aims to provide a well governed Manly with transparent and responsible decision-making in partnership with the community by:</p> <ul style="list-style-type: none"> • Maintaining public confidence in Council's transparent and accountable decision-making. • Working in partnership with the community. • Efficiently use of Council's resources. • Advocating to State and Federal Governments. <p>In order to do this, the Council and the Executive team employ high quality staff and managers who are well qualified and well positioned to adapt to changing political environments. The range of internal and external expertise available helps to ensure it can deliver services, govern, lead, advise or consult to meet the needs of the community within available budgetary resources.</p>

**Other
information
relevant to
strategic
capacity in
local
community**

The Council undertakes continuous improvements in community consultation and engagement over time. This is an important demonstrated component of strategic capacity in the local community. The community panel survey last undertaken as part of the CSP Beyond 2021 was reviewed in February to April 2013. The 2013 consultations involved externally facilitated workshops, detailed community panel survey, and revisiting strategies to develop Community Strategic Plan Beyond 2023, as well as the four year Delivery Program, and aligned to capture the new council interests and priorities. Council continues to monitor high levels, engagement and monitoring of community usage of Council's website.

Council engages with the community, professionals, and other stakeholders in nineteen special advisory committees and four external committees (also includes Councillors representing Council). It also has at least seven active community precinct committees and supports their communications with Council on development and planning matters. Precinct meetings are undertaken and meetings continue with focus group meetings on Street Tree Management & Manly 2015 continuing.

The Customer Review of Performance undertaken each November (2013) to survey 300 Manly residents about their satisfaction with the provision of the Council services across the quadruple bottom line (including a separate category for infrastructure). Continuing high levels of satisfaction across all service levels are highlighted for excellent performance.

Source: Manly Council

Table 3-2 Pittwater Council: Examples of Strategic Capacity

Robust revenue base and increased discretionary spending	<p>Pittwater is financially sound as a result of continued positive financial results, as acknowledged by TCorp assessment. Pittwater undertook a comprehensive community engagement strategy in 2012 and received approval for a Special Rate Variation from IPART. This enabled Council to fund a 10 year program of major works worth over \$38 million to manage the infrastructure backlog of roads, footpaths, wharfs, surf clubs and environmental assets.</p> <p>Pittwater Council has been increasing its revenue base through land release and infill development as well as commercial ventures such as a portfolio of kiosks/restaurants. In addition, the Council manages its property portfolio on an asset for asset basis to increase its discretionary spending.</p>
Scope to undertake new functions and major projects	<p>Since Pittwater Council's establishment, numerous major projects have been undertaken, including: replacement / new Community Centres at Avalon and Newport, innovative new Library at Mona Vale that preserved the park over the top, new and refurbished Surf Clubs at Avalon, North Palm Beach and Newport, new and upgraded wharf infrastructure in particular Palm Beach Wharf, Park & Ride facility at Warriewood, Newport Main Street access and beautification, Winnererremy Bay Parkland following acquisition from the State Government, Warriewood Valley Land Release, Planning for Ingleside land release.</p> <p>Recently, the State Government provided grant funding assistance for the Palm Beach Wharf. Pittwater Council commissioned the design and project was well-managed and delivered within the projected time frame and budget.</p> <p>The Council has undertaken a redevelopment of Lakeside Holiday Park at North Narrabeen with 17 new cabins, a water feature playground, solar heating and a new kitchen, along with management changes. A further example of the commercialisation of assets to achieve financial sustainability can be demonstrated through the redevelopment of the Avalon Beach surf club. This entailed a total cost of \$2.8 million, and incorporated a café and restaurant with the aim to help fund ongoing maintenance and development of the building and Avalon Reserve.</p> <p>Pittwater Council has upheld its responsibilities as a custodian of Pittwater's environmental assets. Biodiversity and sustained ecosystems have been maintained in the Pittwater region, and the urban forests, bushland and waterways have been managed with the goal of sustainability through strategies such as integrated water cycle management.</p> <p>The Council also seeks to conserve key parcels of land that have both environmental and community value. This included significant expenditure to save the Ingleside Escarpment. Council also saved the Winnererremy Bay foreshore by swapping the Council depot from Winnererremy Bay to a more suitable location at Warriewood.</p>

	<p>Over the last fifteen years, the Council has undertaken a program of major asset renewal and consolidation of its major community building infrastructure including the redevelopment of Avalon Recreation Centre, the development of Newport Community Centre and the provision of a new central library at Mona Vale.</p>
<p>Ability to employ wider range of skilled staff</p>	<p>The Council undertook a restructure in 2014 resulting in a cessation of a service area and commencing a new service area. This resulted in a turnover of staff and the employment of over 50 new staff within EFT numbers.</p> <p>Pittwater Council has also implemented a Leadership Framework incorporating a program of mentoring, ongoing feedback, executive coaching and targeted sessions that is aligned with the core values of the Council.</p> <p>The Council's workforce development plan includes several strategies for career development and employee well-being. Strategies to overcome a gender bias include additional females being appointed to management and introduction of a Pittwater Women's Network to provide leadership and mentoring across the organisation. Council also works in partnership with universities to provide employment opportunities for planning and engineering students.</p>
<p>Knowledge, creativity and innovation</p>	<p>Pittwater Council has collaborated with the State government in establishing a unique partnership with Narrabeen Sports High School whereby recreational assets can be jointly used by the school and the community. These shared use facilities include a multi-purpose indoor sports centre; cricket and ovals complex; and recently another turf oval and multi-sports synthetic oval. Since the opening of the fields in 2012, community bookings have been almost at 100 per cent. Also, the turf field is irrigated through rainwater captured by the synthetic field. The synthetic oval project won a Parks & Leisure Australia award for Open Space Development in June 2013.</p> <p>Working in partnership with the State Government, as well strategic rationalization of Council's property assets, Special Levy, loan borrowings and developer contributions (\$94) has resulted in Pittwater Council acquiring/obtaining public ownership of over 145 hectares of open space. Examples include Warriewood Wetlands, Ingleside Chase Escarpment, Warriewood Bay, Narrabeen Sports High, Newport Public School, Warriewood Land Release Open Space, Currawong.</p> <p>The Coastal Environment Centre continues to deliver coastal and environmental education through 50 school holiday programs and an ongoing program conducted with schools across NSW. The CEC has won a number of Awards, and recently it received recognition for its Coastal Ambassadors Program which provides the Surf Lifesaving movement with knowledge about the coastal environment and coastal processes.</p> <p>The Council has initiated a Revolving Energy Fund. This has resulted in the Council reducing its power usage by 1,150,000 kWh a year and greenhouse gas emissions by 1,300 tonne a year. The financial saving during 2012-2013 was \$290,000. In addition, all public buildings are fitted with LED, induction or other energy efficient lighting. Money saved from the energy saving initiatives is then spent on further retrofitting Council buildings with energy efficient devices.</p>

The Council has led the way with other sustainability initiatives. Water savings initiatives have included water tanks, stormwater harvesting, bores with irrigation systems as well as incentives offered to businesses by Council through its free 'Saving Water in Your Business' program. This included walk-through water audits, water usage monitoring and leak detection, installations of water efficient fixtures, and tips on saving water

Recent community surveys have identified the community's satisfaction with Pittwater Council's approach to community engagement. Pittwater achieved the highest satisfaction rating (53.4 per cent) of the three northern beaches Councils in a recent survey commissioned by Warringah Council (Jetty Research survey 2014). The high level of engagement established through the reference groups and consultation has enabled Pittwater to collaborate closely and effectively with the community about Council projects.

Pittwater coordinates a highly successful program of local markets, including a weekly fresh produce market; a monthly market at Palm Beach and a summer twilight market. The Pittwater Food and Wine Fair continues to grow each year with nearly 10 000 people attending on the day. Pittwater Council was also a finalist in the 2014 Dougherty Award for the Food and Wine Fair.

In 2014 Pittwater Council won the LGNSW Arts and Cultural Award for the 'Pittwater Arts Paper' for the community engagement undertaken in the development of the paper. The Enliven Pittwater Strategy has been in place since July 2013 delivering over 45 short term goals and activations aiming to support local economic development and enhance the vibrancy in the town and village centres.

A large section of creekline corridor was reconstructed in Warriewood Valley, including comprehensive creek rehabilitation and the planting of 27,000 trees and shrubs. This converted the former degraded, weed-infested creek system into a wildlife corridor linking the wetlands to the escarpment and beyond. Council provides financial and in-kind support for 36 Bushcare groups involving bush regeneration and weed control in 92 reserves covering approximately 150 hectares.

In collaboration with SHOROC and the University of New South Wales, Pittwater undertook a regional groundwater research study that was a first of its kind for the northern beaches region. The study aims to reduce the current gap of knowledge on groundwater systems, and takes into account the impact of climate change, changes in rainfall patterns and the ability to recharge the aquifer systems.

The Council initiated and pioneered E-Planning in NSW, which introduced web based integration and reporting on Planning controls and processes. In addition, Council has developed a number of initiatives around planning, including an innovative waterway (Pittwater) zoning and waterway management Plan, Sector by Sector land release that allowed coordinated urban development and associated infrastructure, place planning and locality plans with Character statements into Planning documents.

In 1998, the Council introduced the concept of Accessory Dwellings to the Department of Planning which lead to Secondary Dwelling legislation for the State. The Council has focused on the long term financial viability of our assets. With this focus, a number of kiosks/restaurants have been provided at Council reserves to provide new amenities as well as a potential source of funding for the ongoing maintenance and improvement of the reserves.

**Advanced
skills in
strategic
planning and
policy
development**

In 2014, Pittwater Council established a new Place Management business unit to achieve an integrated approach to planning, designing and managing the villages and centres. The Place Management approach is to:

- Draw upon broader skills sets and expertise across the organisation to realise shared goals and objectives.
- Add design intent and value to projects and initiatives.
- Develop a strategic direction for centres in collaboration with relevant Business Units
- Coordinate the different professions, functional areas and external stakeholders to achieve a solution for the betterment of 'place'.

A major review of Children's Services has led to the Council transferring responsibility for direct provision of Family Day Care, Vacation Care and Out-of-hours School Care to not-for-profit operators. Council will utilise the estimated surplus of \$400,000 pa. to focus on Youth and Family Services, where a higher level need and service gaps have been identified.

Pittwater Council has been recognised for its leadership in integrated planning and reporting. This includes the development in partnership with LGSS of an online corporate reporting system which follows from the community strategic plan, delivery program and budget, operational plans and finally down to a performance appraisal system. This is supported by our fully integrated Resourcing Strategy, Long Term Financial Plan, Asset Management Plan and Workforce Strategy.

The Social Plan and Economic Development Plan developed in close consultation with the business community both received a Highly Commended citation in the LGMA Excellence Awards in 2013. The Council's community Reference Groups bring together community leaders to help tackle key strategy items within the Community Strategic Plan. Pittwater Council initiated a Development Unit forum to appraise and resolve on relevant Development Applications in a public format that is transparent, accountable and brings together Applicants and Objectors in the decision making process.

Effective regional collaboration	<p>Examples regional collaboration include:</p> <ul style="list-style-type: none"> • Pittwater Council has worked with other SHOROC Councils in the pre-planning of an alternate waste technology facility at Kimbriki Resource Recovery Centre. • Pittwater Council has supported a centralised procurement and contract management service undertaken through SHOROC. • Pittwater continues to drive a strong local economy that supports the development of local businesses and contributes to additional sub-regional employment opportunities. • Pittwater is the greenfield land release entity in the sub region and is working with regional councils and the State Government to accommodate growth in the region. • Pittwater Council has taken a lead role in the creation of the Northern Beaches Flood Warning & Information Network including a website and coordination of early warning systems. • Pittwater has taken a major role in the successful lobbying for a Bus Rapid Transit system for the Northern beaches. • Pittwater cooperates regionally in Surf Life Saving and Bush Fire volunteerism and community safety.
Credibility for more effective advocacy	<p>Pittwater Council has actively lobbied the state government with other SHOROC Council's for funding for roads, health and transport projects. This has included \$129 million towards the redevelopment of Mona Vale Hospital as a sub-acute facility and the introduction of \$644 million for a Bus Rapid Transit scheme.</p> <p>In 2014, Pittwater Council called into question the 10/50 Vegetation Code introduced by state government. This led to significant revisions to the code to achieve better protection for Pittwater's tree canopy.</p> <p>The Council and its community successfully lobbied for the return of maternity services to Mona Vale Hospital during 2012/13. The NSW government has since also provided funding for a palliative care unit at the hospital.</p>

Capable partner for State and federal agencies	<p>Pittwater Council is has proven itself to be an effective and capable partner for State and Federal agencies. As described Pittwater Council has partnered with the State government to improve facilities for schools including Narrabeen Sports High, Narrabeen North Primary, Newport Public.</p> <p>In partnership with the State Government, the Council acquired large tracts of environmentally significant land (Ingleside Chase Reserve) as well as significant foreshore land (Winnererremy Bay). In conjunction with State Government a management plan was prepared for the establishment of the Currawong state park. Under this plan, the Council has undertaken significant works to maintain and protect the heritage buildings and the natural environment.</p> <p>A strategic planning review of undeveloped land remaining in Warriewood was carried out in 2013 in partnership with the NSW Department of Planning & Infrastructure. This review drew on community engagement and utilised a new community mapping tool based on Google Maps to gather feedback from the public. This provided the basis for ongoing partnership, with precinct planning being undertaken in the Ingleside Land release area. This involves multi-disciplinary teams and specialists as well as effective community engagement strategies.</p> <p>The Council has undertaken a proactive role with the State Government in the completion of the Warriewood Valley Strategic Review (completed June 2013) and the commencement of the Precinct Planning process with the State Government commencing in 2014. These projects are an important part of the State Government's and Council's housing targets.</p>
Resources to cope with complex and unexpected change	<p>Pittwater Council has a stable rate base, valued currently at \$38.6 million. Rateable increases over and above statutory provisioning are sustainable, with the 2011 Special Rate Variation receiving broad community support, and helping to secure some \$38.9 million in additional rate income over a 10 year time frame. This, along with alternate revenue streams such as fees and charges, grants, investments etc. place the Council in a sound long term sustainable financial position with the ability to respond to internal and external shocks.</p>

**High quality
political and
managerial
leadership**

Pittwater has had a history of stable leadership at both the political and management level. Examples include:

- Pittwater has a proven track record as a leader in local government and previously won the H R Bluett Award in 2003 and was shortlisted in 2013.
- Pittwater Council has an effective and collaborative partnership with its Federal and State Members in both assisting and advocating for our community on strategic matters such as Health, Transport, Housing, Employment, Education, Waste Management, Planning, and Infrastructure.
- Pittwater Council makes strong representation at the Local Government Conference and has provided motions relevant to a broad spectrum of local government.
- Pittwater Council effectively interacts with its community through Community Reference Groups and via Resident Associations, with survey feedback being very positive.
- Pittwater Council has received a number of Awards that recognise excellence in strategic planning, environmental management and customer service.

Source: Pittwater Council

4 Developing options for reform

The Review Panel's Final Report *Revitalising Local Government* recommended a merger of the three Northern Beaches councils of Manly, Pittwater and Warringah into a single council. The basis for this recommendation was threefold:

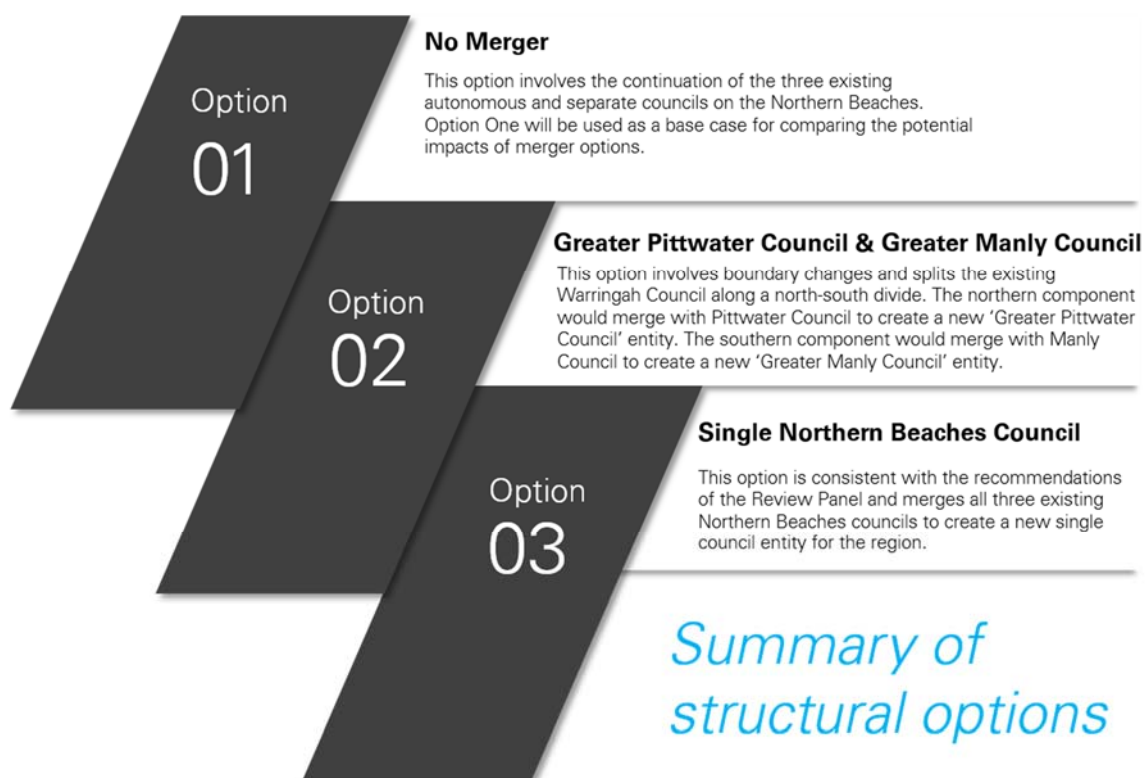
- A merger of the Northern Beaches councils into a single entity is required to create a council of sufficient 'scale' with a combined projected population of more than 307,000 residents by 2031.
- The close functional interaction and economic and social linkages between each of the three Northern Beaches councils 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.¹¹

In this context, it was considered important to build a more substantial evidence base on potential local government structural options on the Northern Beaches.

4.1 Summary of structural options

Following a review of the available evidence and consultations with Manly Council and Pittwater Council a shortlist of three potential structural options were agreed for further analysis and consideration. These options are outlined in Figure 4-1.

Figure 4-1 Structural options considered for further analysis



Source: KPMG

¹¹ Independent Local Government Review Panel (2014), *Revitalising Local Government*, January 2014.

4.2 Option One: No Merger

A robust analysis of the potential impacts of local government reform requires a base case on which to compare the advantages and disadvantages offered by each structural option. A 'no merger' (or *status quo*) scenario is where Manly Council, Pittwater Council and Warringah Council remain autonomous and continue to function as separate entities. Option One is consistent with both Manly Council's and Pittwater Council's resolutions and opposition to the Panel Review's recommendation to create a single council on the Northern Beaches.

In this context, the evidence base for considering "no merger" as a structural option is outlined below drawing on the key inputs outlined in Chapter 1.

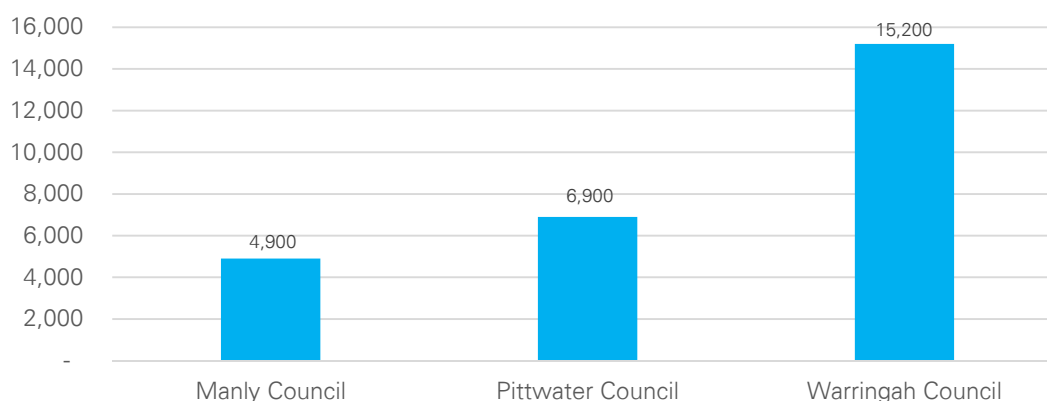
4.2.1 Community & Governance

The Northern Beaches of Sydney is known as a region that is an attractive place to live, work and visit.¹² 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.¹³
- 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. Chart 4-1 provides an approximate measure of current local representation levels for each council on the Northern Beaches. 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 4-1 Local Representation, number of residents per councillor - Option One



Source: KPMG analysis, drawing on ABS population data (2013).

¹² SHOROC (2014), State of the Region Report, <http://www.shoroc.com/regionalprofile/>, accessed 24 March 2015.

¹³ Manly Council (2015), Tourism, <http://www.manly.nsw.gov.au/attractions/tourism/>, accessed 24 March 2015.

While three potentially competing voices advocating for local community interests may present a lost opportunity to strengthen influence with the NSW State Government, the recent achievements of SHOROC – led by mayors from Manly Council, Mosman Council, Pittwater Council and Warringah Council – suggest that such partnerships can play an important role in both supporting local needs and priorities, and furthering broader regional strategies and economic development (refer Box 3-1).

4.2.2 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;
- 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.¹⁴

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.

4.2.3 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 CSPs to address the evolving specific needs and priorities of residents. Table 4-1 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 4-1 Selected demographic indicators - Option One

Selected Indicator	Manly Council	Pittwater Council	Warringah Council
Population (2013)	44,200	62,000	152,600
Land Area (km²)	14	90	149
Median Age (years)	37	42	38
Population Density (per km²)	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.

¹⁴ NSW Planning & Environment (2014), Sydney Metropolitan Plan – A Plan for Growing Sydney, December 2014.

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 mergers of 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'.

4.2.4 Implications for Council Services

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);¹⁵
- 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 (BRT) 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 outcomes from Northern Beaches collaboration as reported by SHOROC are outlined in Box 4-1.

¹⁵ 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.

SHOROC – Key Outcomes 2014

The value of cross-council collaboration can also be seen in recent outcomes reported by SHOROC. Together, the member councils of SHOROC have undertaken extensive community consultations to develop a strong understanding of the needs and priorities of the region, and have advocated strongly on behalf of local communities.

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 equivalent to 20 per cent of the combined regional spend on materials and contracts (with reports of discounts of between 5 and 10 per cent from suppliers achieved);¹⁶ 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.¹⁷

¹⁶ SHOROC (2015), *Joint tendering and business improvement*, <http://shoroc.com/portfolio-item/council-cost-savings-productivity/>, accessed 24 March 2015.

¹⁷ SHOROC (2014), *Annual Report 2014 – Results for our Region*, October 2014.

4.3 Option Two: Greater Manly Council & Greater Pittwater Council

This option involves boundary changes and splits the existing Warringah Council along a north-south divide. The 'northern' component would join Pittwater Council to create a Greater Pittwater Council, while the 'southern' component would join with Manly Council to create a Greater Manly Council. It is assumed each merger council will be represented, in the long term, by ten elected councillors.

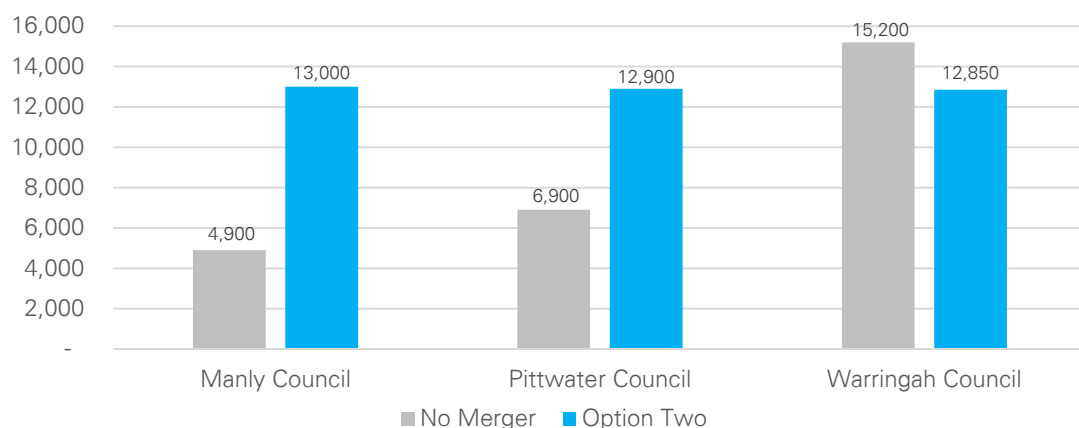
4.3.1 Community & Governance

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 asset 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 councils to respond better to community needs and retain service levels.
- The two councils established in Option Two would have a similar resident population of approximately 130,000 and would therefore be able to collaborate as equal partners while maintaining control of local identity and advocating for local priorities.

The potential impacts on local representation of Option Two are illustrated in Chart 4-2 below. Warringah residents would experience a 15 per cent improvement in local representation – as measured by the number of residents to elected councillors – with an average of 12,850 residents per councillor (exact local representation impacts will depend on which new merged council entity Warringah residents would be represented by). For Manly and Pittwater residents, local representation would deteriorate from the status quo – but not to the extent it would through the creation of a single council for the Northern Beaches (Option Three).

Chart 4-2 Local Representation, number of residents per councillor - Option Two



Source: KPMG analysis, drawing on ABS population data (2013). Note: It is assumed both the new Greater Manly Council and the new Greater Pittwater Council would each have 10 elected councillors.

4.3.2 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.

In this context, the creation of a Greater Manly Council and Greater Pittwater Council may offer an opportunity to simplify ownership of some environmental assets on the Northern Beaches.

4.3.3 Demographic Profile

The projected demographic profile of the two councils proposed in Option Two are outlined in Table 4-2. 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 4-2 Selected demographic indicators - Option Two

Selected Indicator	Greater Manly Council	Greater Pittwater Council
Population (2013)	130,000	129,000
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.

4.3.4 Implications for Council Services

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.

4.4 Option Three: One Council for Northern Beaches

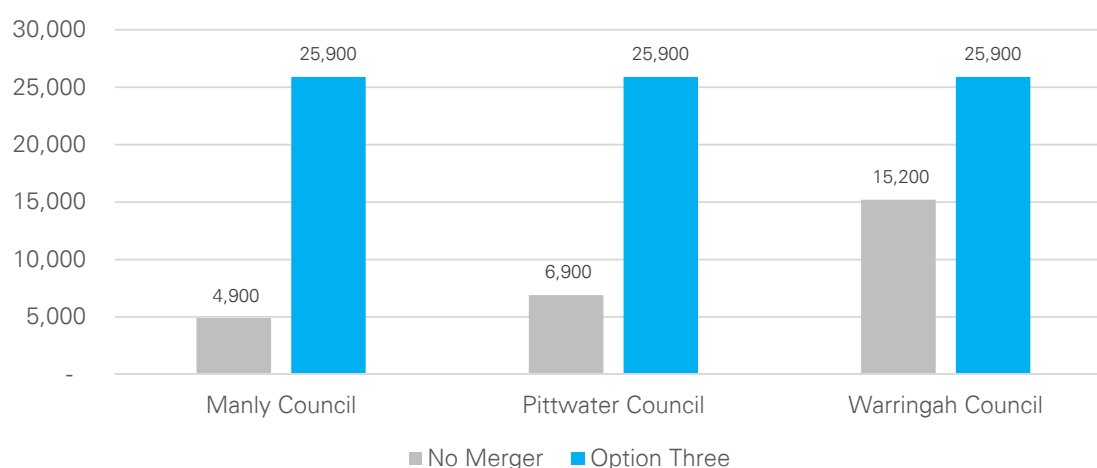
Option Three directly corresponds to the proposed merger scenario recommended by the Panel Review in 2014. A single Northern Beaches Council would be established by bringing together all three existing councils into a single merged entity – no boundary adjustments would be made. It is assumed the merged council will be represented, in the long term, by ten elected councillors although it is acknowledged a higher number may be elected during the transition period (refer Chapter 6 for further details on issues for consideration during implementation).

4.4.1 Community and 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 (see Chart 4-3). Key considerations include:

- 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 4-3 Local Representation, number of residents per councillor - Option Three



Source: KPMG analysis, drawing ABS population data (2013). Note: It is assumed the new Northern Beaches Council merged entity would have 10 elected councillors.

4.4.2 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.

4.4.3 Demographic Profile

Compared to Greater Metropolitan Sydney, the Northern Beaches region performs 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.

A snapshot of key demographic indicators is provided in Table 4-3 and 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. There are, however, important variations in median house prices by suburb across the region as illustrated in Figure 4-2.

Further demographic analysis and supporting data is provided in Appendix D.

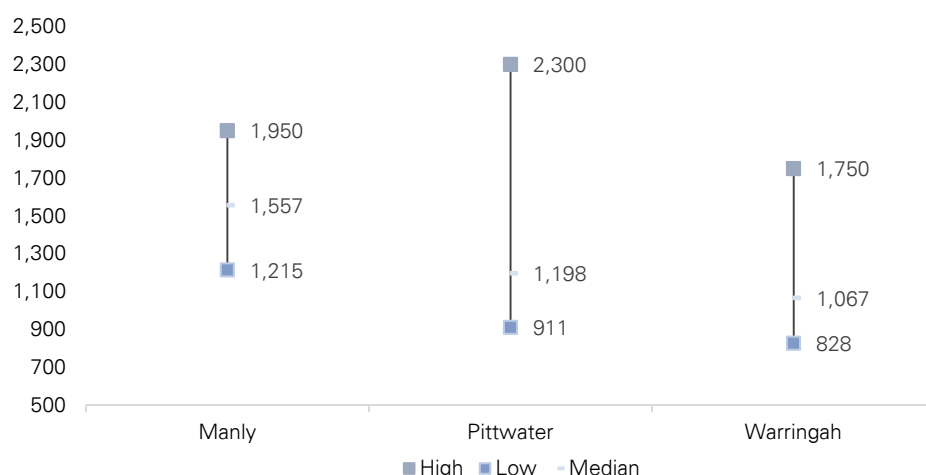
Table 4-3 Selected demographic indicators - Option Three

Selected Indicator	Northern Beaches Council
Population (2013)	259,000
Land Area (km²)	163km ²
Median Age (years)	39
Population Density (per km²)	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.

Figure 4-2 Median house prices by suburb (2014)



Source: Domain.com.au, Property Guide 2014.

4.4.4 Implications for Council Services

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.

5 Economic & financial impact analysis

This Chapter presents the results of the economic and financial impact analysis, including the long term financial plans, net financial impacts, staffing impacts, and fit for the future benchmarks. It should be noted that merged entity results reflect all of the efficiency savings and cost assumptions summarised in Chapter 2.4.2. Long term financial projections were then consolidated to create revised income statements for each new merged Council (see Appendix F).

Summary of net financial impacts

Table 5-1 summarises results of the net economic and financial impact analysis. Of note is that each structural option considered in this review offers a net financial impact (or NPV).

Table 5-1: Summary of net financial impacts – Option Two and Option Three

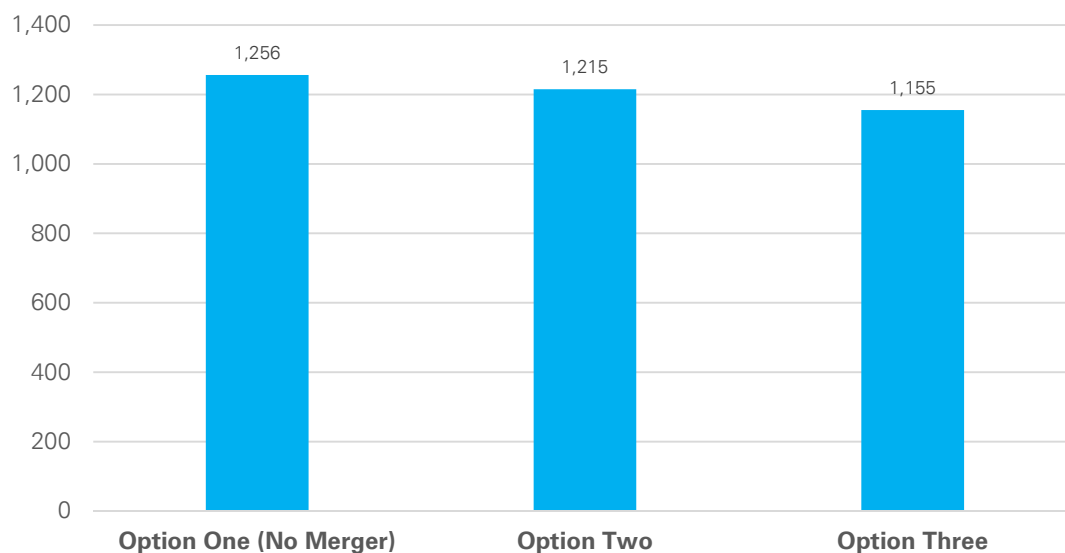
Financial Indicator	Unit	Result
OPTION TWO – Greater Manly Council & Greater Pittwater Council		
<i>Summary of results without financial assistance</i>		
PV of merger benefits	\$ million	29,221
PV of merger costs	\$ million	(25,975)
NPV	\$ million	3,246
NPV as a proportion of operating results	per cent	1.9
NPV as proportion of council size	per cent	0.2
<i>Summary of results with financial assistance</i>		
PV of merger benefits	\$ million	29,221
PV of merger costs	\$ million	(15,475)
NPV of option	\$ million	13,746
NPV as a proportion of operating results	per cent	8.1
NPV as proportion of council size	per cent	0.6
OPTION THREE – Single Northern Beaches Council		
<i>Summary of results without financial assistance</i>		
PV of merger benefits	\$ million	54,951
PV of merger costs	\$ million	(20,453)
NPV	\$ million	34,498
NPV as a proportion of operating results	per cent	20.4
NPV as proportion of council size	per cent	1.6
<i>Summary of results with financial assistance</i>		
PV of merger benefits	\$ million	54,951
PV of merger costs	\$ million	(9,953)
NPV	\$ million	44,998
NPV as a proportion of operating results	per cent	26.4
NPV as proportion of council size	per cent	2.1

Source: KPMG analysis

Summary of Staff Impacts

The Northern Beaches councils currently employ a total of 1,256 staff on a FTE basis – reflecting each council’s role as modest but important employer in local communities. The staff impacts of each structural option range from 3.3 per cent (a 41 FTE reduction) for Option Two to 8.0 per cent (a 101 FTE reduction) to Option Three. These impacts are illustrated in Chart 5-1.

Chart 5-1 Staff impacts on a FTE basis



Source: KPMG analysis

Summary of Fit for the Future benchmarks

The tables bellows provide a snapshot of performance against the Fit for the Future benchmarks for each structural option. Significantly, Manly Council, Pittwater Council and Warringah Council broadly meet the Fit for the Future benchmarks in Option One – No Merger (Table 5-2). As such, in each of the structural options considered, all Fit for the Future benchmarks are met by 2020.

Table 5-2 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.

Of note in Table 5-2 is that Manly Council and Warringah Council fall marginally short of reaching by 2020 the 'Asset Maintenance' and 'Real Operating Expenditure' benchmarks respectively. In this context it is important to briefly consider the limitations of these benchmarks:

- Asset Maintenance Ratio – A limitation of this indicator is its declining usefulness as a forward-looking indicator. Long term financial planning assumptions for most councils will set a standard level of maintenance based on what is required to maintain a desired ratio. Changes to a council structure and strategic priorities will impact on these assumptions.
- Real Operating Expenditure Per Capita – A limitation of this indicator is that it does not take into account varying community expectations of service levels provided by council. Council's with higher operational expenditure may well be responding to community demands. Further, short term increases in operating expenditure for one-off projects may disrupt the downward trend in operating expenditure per capita that is tested by this criteria.

Table 5-3 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.

Table 5-4 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.

5.1 Option One: No Merger

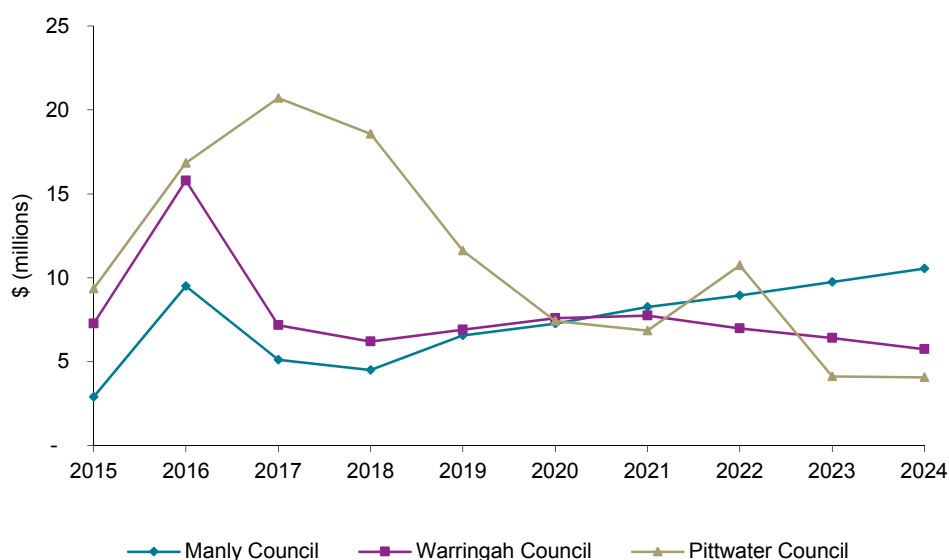
This economic financial impact sections demonstrates the strong financial positions of the Northern Beaches councils standing alone, with nearly all of the *Fit for the Future* benchmarks achieved within five years.

5.1.1 Long term financial plans

As indicated in Chart 5-2 below, Manly Council, Pittwater Council and Warringah Council and Pittwater Councils have projected positive operating results over the ten year period to 2024. Pittwater Council is projected to peak at more than \$20 million in 2017 but fall to a \$4 million operating results by 2024. Manly Council will maintain steady growth in operating results to \$10 million by 2024.

For a more detailed view of 'no merger' income statements for the 2014-2024 period, please see Appendix G.

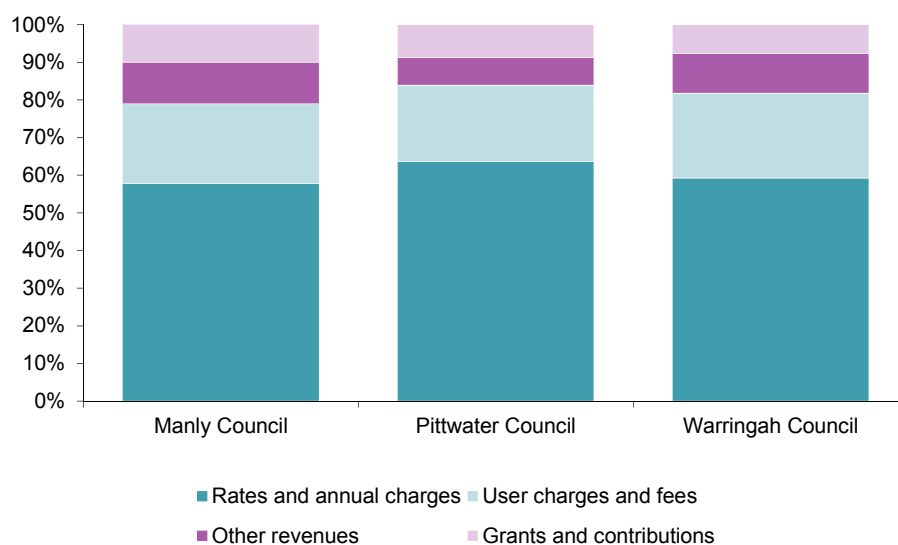
Chart 5-2: Net operating results for Manly, Warringah and Pittwater Councils



Source: Manly Council, Pittwater Council and Warringah Council

Chart 5-3 illustrates the proportional sources of revenue received by each Council during the 2013-14 fiscal year. Pittwater Council had the highest proportion of rates and annual charges revenue with 64 per cent compared to 58 per cent and 59 per cent for Manly Council and Warringah Council respectively. Manly Council had the highest proportion of other revenues (11 per cent) and grants and contributions (10 per cent), however Warringah had a similar levels with 10 per cent of revenue generated from 'other revenues' and 8 per cent from grants and contributions.

Chart 5-3: Components of council revenues, 2013-14



Source: Manly Council, Pittwater Council and Warringah Council

5.1.2 Staffing establishment

Current council employment levels of 1,256 FTEs on the Northern Beaches will be maintained with Manly Council and Pittwater Council currently employing 359 FTEs and 308 FTEs, respectively (as per 2013-14 Annual Reports).

5.1.3 Fit for the Future benchmarks

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.¹⁸ Further details on TCorp's analysis of financial sustainability in the local government sector in NSW is found in Chapter 1.

Chart 5-4 to Pittwater Council performs well across the range of indicators. It has dedicated the next three years to addressing its infrastructure backlog and reaches the benchmark of less than 2 per cent by 2018. It will continue to maintain appropriate operating performance and asset maintenance levels throughout the period.

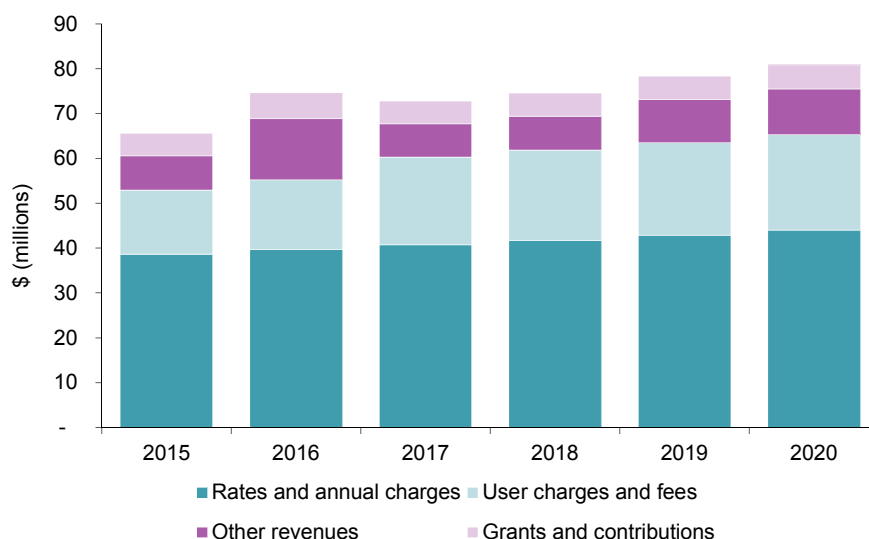
Chart 5-6 show the projected revenues and components over the fiscal period from 2014-15 to 2019-20 for each Council. Manly Council experiences a net gain on disposal of assets in 2016 which drives the increase observed in 2016. Pittwater and Warringah Councils also experience increases in revenue over the 2017-2018 period due to net gains from sale of land and from grants and contributions (section 94 contributions for the provision or improvement of amenities) and rates and annual charges increases (special rate variations). Table 5-5 through Table 5-7 show each Council's performance across the *Fit for the Future* benchmarks.

¹⁸ TCorp (2013), Financial Sustainability of the NSW Local Government Sector, published April 2013.

Manly Council

Manly Council is expected to remain a fiscally sound organisation over the period to 2020. It should be noted that Manly has a negligible Infrastructure Backlog and as such has more financial freedom to focus its efforts on other services and activities. The Council has a healthy operating performance driven by relatively high and stable own source revenue. Asset maintenance, as indicated by Council management, will likely remain just below the benchmark level on average.

Chart 5-4: Manly Council revenue and its components (2015-2020)



Source: Manly Council

Table 5-5: Financial performance indicators for Manly Council

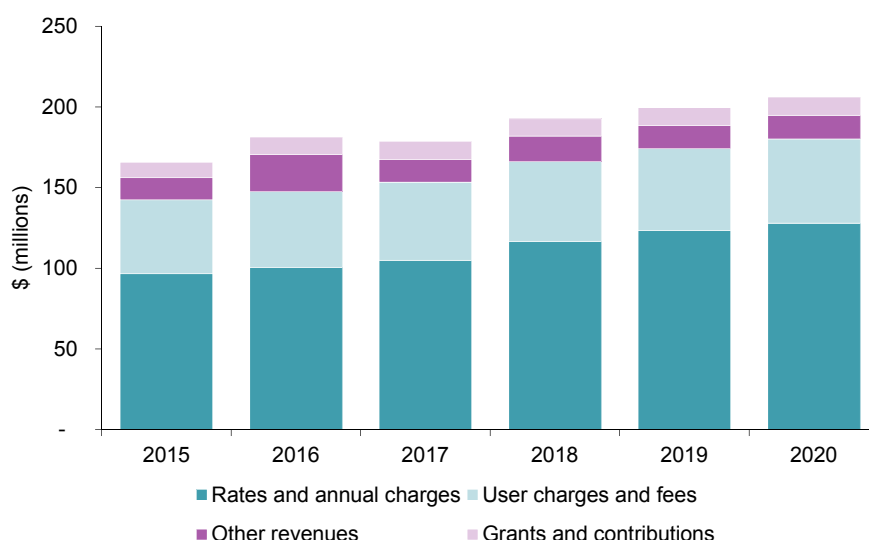
Ratio	Benchmark	Period					
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	3.8%	3.1%	6.5%	5.5%	7.8%	8.5%
Own Source Revenue	>60%	92%	92%	93%	93%	93%	93%
Building & Infrastructure Asset Renewal	>100%	91%	100%	100%	100%	100%	101%
Infrastructure Backlog	<2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset Maintenance	>100%	98%	98%	98%	98%	98%	98%
Debt Service	<20%	10.0%	9.5%	10.5%	10.3%	9.8%	9.3%
Real Operating Expenditure per capita	Declining	1,417	1,422	1,425	1,423	1,408	1,393

Source: Manly Council

Warringah Council

Warringah Council has a positive fiscal outlook with high own source revenue and a strong operating performance. Its investments in asset renewal will slow after the next two years, following the resolution of current infrastructure backlogs. Warringah is anticipating higher expenditures in the latter half of the period and will therefore see a slight increase in real operating expenditure per capita which means it does not meet the efficiency benchmark of declining real operating expenditure per capita. The increase is driven primarily by materials and contracts expenditures and may coincide with the completion of a number of capital works in early phases.

Chart 5-5: Warringah Council revenue and its components (2015-2020)



Source: Warringah Council

Table 5-6: Financial performance indicators for Warringah Council

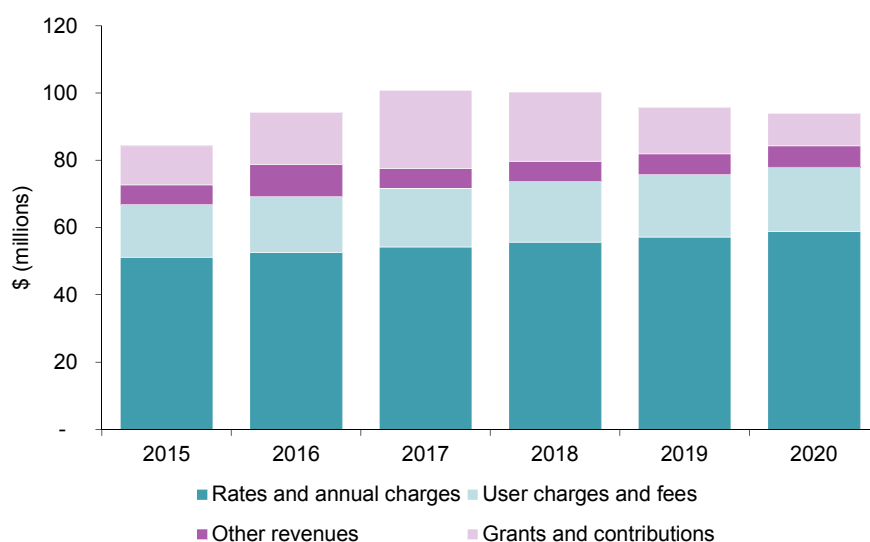
Ratio	Benchmark	Period					
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	16.5%	14.3%	8.6%	11.6%	12.9%	8.2%
Own Source Revenue	>60%	93%	94%	94%	94%	94%	94%
Building & Infrastructure Asset Renewal	>100%	150%	165%	101%	109%	105%	105%
Infrastructure Backlog	<2%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset Maintenance	>100%	103%	103%	103%	103%	103%	103%
Debt Service	<20%	0.8%	1.7%	1.7%	1.6%	1.5%	1.5%
Real Operating Expenditure per capita	Declining	1,047	1,049	1,046	1,103	1,102	1,100

Source: Warringah Council

Pittwater Council

Pittwater Council performs well across the range of indicators. It has dedicated the next three years to addressing its infrastructure backlog and reaches the benchmark of less than 2 per cent by 2018. It will continue to maintain appropriate operating performance and asset maintenance levels throughout the period.

Chart 5-6: Pittwater Council revenue and its components (2015-20)



Source: Pittwater Council

Table 5-7: Financial performance indicators for Pittwater Council

Ratio	Benchmark	Period					
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	1.2%	0.7%	1.4%	1.7%	1.7%	1.7%
Own Source Revenue	>60%	86%	83%	77%	79%	86%	90%
Building & Infrastructure Asset Renewal	>100%	111%	102%	101%	100%	100%	103%
Infrastructure Backlog	<2%	3.8%	3.1%	2.4%	1.8%	1.1%	0.5%
Asset Maintenance	>100%	128%	128%	128%	128%	128%	128%
Debt Service	<20%	2.9%	3.8%	4.2%	4.4%	4.5%	4.3%
Real Operating Expenditure per capita	Declining	1,194	1,188	1,185	1,165	1,155	1,145

Source: Pittwater Council

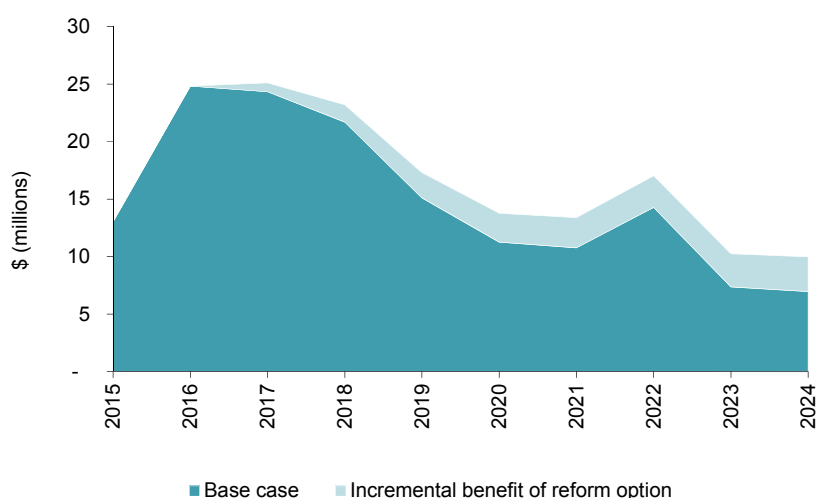
5.2 Option Two: Greater Pittwater Council & Greater Manly Council

The Greater Pittwater Council and Greater Manly Council option combines three Councils into two and offer a positive net financial impacts for the region. Despite relatively higher implementation costs (compared to Option Three), the two merged council entities will benefit from improved operating results each will meet the *Fit for the Future* benchmarks.

5.2.1 Revised financial statements

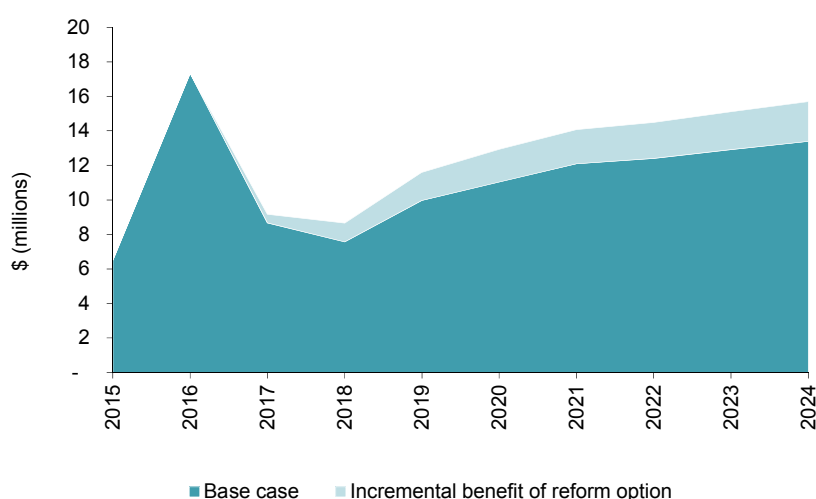
Chart 5-7 and Chart 5-8 illustrate the incremental financial impacts of Option Two over a ten year period with the majority of the costs of the structural option are incurred in the first year and the benefits accrue over the rest of the period. Revised income statements for both Greater Pittwater Council and Greater Manly Council for the 2014-2024 period are provided in Appendix G.

Chart 5-7: Net operating result for Greater Pittwater Council relative to 'no merger'



Source: Pittwater Council and Warringah Council, KPMG analysis

Chart 5-8: Net operating result for Greater Manly Council relative to 'no merger'



Source: Manly Council and Warringah Council, KPMG analysis

5.2.2 Staffing establishment

There is scope for each new merged 'entity' to generate efficiencies, including from an estimated 41 FTE council employee redundancies across the Northern Beaches region. Due to the complexity of splitting and then merging the northern and southern boundaries of Warringah, the financial model assumes that less staffing efficiencies would occur to retain some institutional knowledge of servicing Warringah residents.

5.2.3 Net financial impacts

The creation of a Greater Pittwater Council and a Greater Manly Council on the Northern Beaches offers potential financial gains for the region (see Table 5-8). 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.

Table 5-8 Summary of net financial impacts - Option Two

Financial Indicator	Unit	Result
<i>Summary of results without financial assistance</i>		
PV of merger benefits	\$ million	29,221
PV of merger costs	\$ million	(25,975)
NPV	\$ million	3,246
NPV as a proportion of operating results	per cent	1.9
NPV as proportion of council size	per cent	0.2
<i>Summary of results with financial assistance</i>		
PV of merger benefits	\$ million	29,221
PV of merger costs	\$ million	(15,475)
NPV	\$ million	13,746
NPV as a proportion of operating results	per cent	8.1
NPV as proportion of council size	per cent	0.6

Source: KPMG analysis

5.2.4 Fit for the Future benchmarks

The Greater Pittwater and Greater Manly Councils represent strong Councils in their own right but may incur significant costs of implementation in the short term. In the modelled scenario, the Greater Pittwater Council and the Greater Manly Council would each pay the equivalent costs paid by Warringah Council to merge with Manly Council. This serves to represent the difficulties of implementation and is illustrated in the fall in each new merged entities' 2015-16 fiscal year's

operating performance ratio. However, once the transition is complete, the Councils remain above the required benchmarks into the future. This ratio analysis also excludes the impact of any financial assistance provided by the NSW Government.

Table 5-9: Financial performance indicators for Greater Manly Council

Ratio	Benchmark	Period					
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	N/A	-2.8%	4.5%	3.4%	5.4%	5.9%
Own Source Revenue	>60%	N/A	93%	94%	94%	94%	94%
Building & Infrastructure Asset Renewal	>100%	N/A	138%	101%	106%	103%	104%
Infrastructure Backlog	<2%	N/A	0.0%	0.0%	0.0%	0.0%	0.0%
Asset Maintenance	>100%	N/A	100%	100%	100%	100%	100%
Debt Service	<20%	N/A	6.4%	6.0%	6.1%	5.9%	5.6%
Real Operating Expenditure per capita	Declining	N/A	1,252	1,182	1,213	1,203	1,195

Source: KPMG analysis

Table 5-10: Financial performance indicators for Greater Pittwater Council

Ratio	Benchmark	Period					
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	N/A	-3.7%	2.3%	1.9%	2.9%	3.1%
Own Source Revenue	>60%	N/A	88%	85%	87%	90%	92%
Building & Infrastructure Asset Renewal	>100%	N/A	138%	101%	106%	103%	104%
Infrastructure Backlog	<2%	N/A	1.1%	0.3%	0.0%	0.0%	0.0%
Asset Maintenance	>100%	N/A	120%	120%	120%	121%	121%
Debt Service	<20%	N/A	3.5%	3.6%	3.6%	3.6%	3.4%
Real Operating Expenditure per capita	Declining	N/A	1,170	1,103	1,121	1,112	1,105

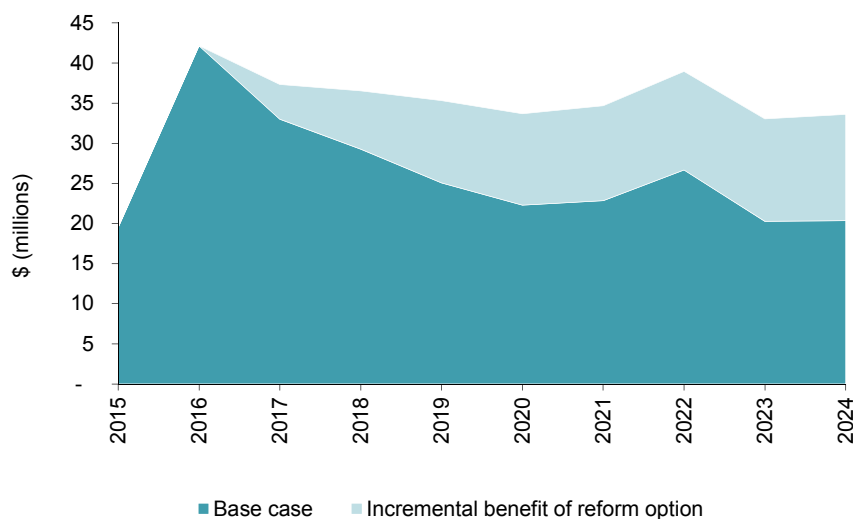
Source: KPMG analysis

5.3 Option Three: Single Northern Beaches Council

The Northern Beaches Council combines Manly Council, Warringah Council and Pittwater Council to generate the largest financial benefit over ten years. This is driven by the scale of the savings (larger FTE reductions and larger expenditure budgets to achieve efficiencies) and because it is eligible for OLG financial assistance (\$10.5 million) which boosts the NPV from \$34.5 million to \$45 million over a ten year period.

5.3.1 Revised financial statements

Chart 5-9: Net operating result for Northern Beaches Council relative to base case



Source: Manly Council, Pittwater Council, Warringah Council, and KPMG analysis

The Northern Beaches Council incurs additional costs in years 2015-16 to 2018-19, however the net operating results of the new entity exceeds the base case (the three Councils operating individually) from 2016-17 onward. By 2020 the incremental operating result from the base case is over \$11 million.

Revised income statements for a Northern Beaches Council for the 2014-2024 period are provided in Appendix F.

5.3.2 Staffing establishment

A Northern Beaches Council would gain the highest degree from staffing efficiencies with a mix of voluntary and forced redundancies bringing 1,256 council employees down to an estimated 1,155 across the region over four years. It is important to note again that this figure assumes a certain staffing structure for Warringah Council which may not be accurate. The total reform staffing reduction of 7.4 per cent for Manly Council staff and 8.7 per cent for Pittwater Council reflects the functional mix of staff in each Council and the Warringah Council staffing efficiencies assume reductions consistent with Manly Council.

5.3.3 Net financial impacts

The merger of Manly Council, Pittwater Council and Warringah Council would likely generate financial gains for the region (see Table 5-11). 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.

Table 5-11 Summary of net financial impacts - Option Three

Financial Indicator	Unit	Result
<i>Summary of results without financial assistance</i>		
PV of merger benefits	\$ million	54,951
PV of merger costs	\$ million	(20,453)
NPV	\$ million	34,498
NPV as a proportion of operating results	per cent	20.4
NPV as proportion of council size	per cent	1.6
<i>Summary of results with financial assistance</i>		
PV of merger benefits	\$ million	54,951
PV of merger costs	\$ million	(9,953)
NPV	\$ million	44,998
NPV as a proportion of operating results	per cent	26.4
NPV as proportion of council size	per cent	2.1

Source: KPMG analysis

Fit for the Future benchmarks

A single Northern Beaches Council would meet all the Fit for the Future benchmarks (Table 5-12). Implementation costs affect 2015-16 Operating Performance results, however by 2020 strong operating performance results are achieved. Funding for infrastructure renewals and asset maintenance levels are high in this scenario provided that a consolidated view of infrastructure assets and priorities is effectively implemented in the single Council.

Table 5-12: Financial performance indicators for Northern Beaches Council

Ratio	Benchmark	Period					
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	N/A	-1.2%	4.2%	4.0%	5.9%	6.4%
Own Source Revenue	>60%	N/A	90%	89%	90%	92%	93%
Building & Infrastructure Asset Renewal	>100%	N/A	138%	101%	106%	103%	104%
Infrastructure Backlog	<2%	N/A	0.1%	0.0%	0.0%	0.0%	0.0%
Asset Maintenance	>100%	N/A	111%	111%	111%	111%	112%
Debt Service	<20%	N/A	4.7%	4.7%	4.7%	4.6%	4.4%
Real Operating Expenditure per capita	Declining	N/A	1,183	1,129	1,148	1,133	1,124

Source: KPMG analysis

5.4 Additional areas for improvement to the Option One

In all of the above modelled scenarios, the activities and current suite of services each Council delivers were assumed to remain the same. While efficiencies may be achieved in reducing overlap of employees or increasing economies of scale, each program and delivery model has not been evaluated for potential opportunities for savings. Changes to a service quality, service delivery models or administration could, with a coordinated effort by Council management, improve the cost-effectiveness of service delivery.

A high level view of per capita expenditure on the Northern Beaches suggests there may be opportunities to reduce the cost of service delivery. There are, however, a number of limitations to per capita cost of service analysis, notably:

- Per capita expenditure is not an indication of the quality of services or of the community's capacity or willingness to pay for services felt to be important or desirable; and
- Net cost of service figures may be allocated across cost categories differently by councils based on the management structure and functional roles of their employees.

An estimate of 1 per cent efficiency saving on overall operating expenditure was determined to be reasonable given a merger scenario achieves a two per cent efficiency saving (see Appendix E for a full summary and sources for assumptions). While two per cent is largely attributable to enhanced scale and bargaining power from the restructured entity, a one per cent efficiency assumes a significant drive for internal change. The specific objectives and activities of this improvement scenario would be subject to Council discretion and would require strong leadership to realise the benefits. The additional costs associated with any internal initiative have not been estimated.

In the case of Pittwater Council, a one per cent efficiency saving on operational expenditures provides \$3.6 million in savings over a ten year period in net present terms. For Manly Council, the same one per cent efficiency saving provides \$3.1 million in savings over a ten year period in net present terms. These estimates are provided for indicative purposes only. Significantly, this analysis does not consider the potential costs associated with any efficiency drive that may be pursued by each council. In this context, these estimates of potential efficiency savings in a 'now merger' scenario are not directly comparable with the net financial impacts estimated for each merger option in Section 5.2 and Section 5.3.

6 Implementing structural change: issues for consideration

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.

These challenges and risks to reform success were highlighted in a 2009 survey of newly merged councils in South East Queensland.¹⁹ The findings of the survey concluded the main difficulties encountered following implementation were:

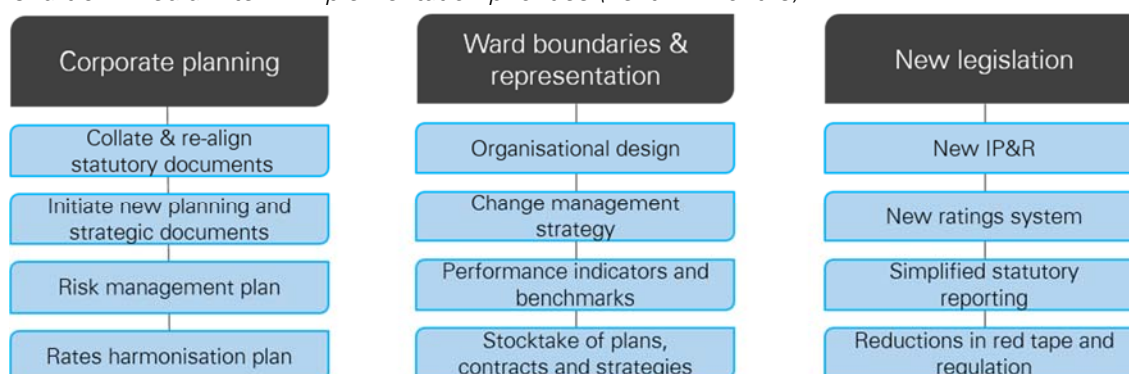
- Organisational and cultural work practice issues associated with merged council entities;
- Managing community expectations; and
- Perceived loss of local identity.

A high-level implementation plan for the merger of two or more councils on the Northern Beaches is illustrated in Chart 6-1 and Chart 6-2 below and discussed over page.

Chart 6-1 Short-term implementation priorities (next six months)



Chart 6-2 Medium-term implementation priorities (next 12 months)



Source: KPMG analysis

¹⁹ Survey conducted by the Local Government Association of Queensland (LGAQ) and referenced in: Ian Tiley and Brian Dollery (2010), *Historical Evolution of Local Government Amalgamation in Queensland*, Centre for Local Government – University of New England.

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.²⁰

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 structural option adopted by each council and endorsed by the NSW Government.

6.1.1 Due diligence

Should a commitment be made to merge councils on the Northern Beaches a comprehensive due diligence exercise would be necessary involving each of the existing councils. Collaboration between each of the councils would be required to complete a thorough due diligence, which would consider:

- Financial due diligence;
- Infrastructure due diligence
- IT due diligence; and
- HR due diligence

These potential focal areas are summarised in Table 6-1 below.

Table 6-1 Potential focal areas for due diligence

Due Diligence Focus	Considerations
Financial due diligence	<p><i>Integrity of information</i></p> <ul style="list-style-type: none"> • Consideration of integrity of financial accounting and information management systems as well as key accounting policies (such as recognition of grants and contributions, intangible assets and employee cost capitalisation). <p><i>Financial performance</i></p> <ul style="list-style-type: none"> • Analysis of key income streams and considerations of restrictions and key drivers of funding sources. • Analysis of key operating and financial KPIs and historical financial performance against budgets. • Analysis of forecast results and underlying assumptions, identifying potential areas of sensitivity. <p><i>Working capital and cash flows</i></p> <ul style="list-style-type: none"> • Analysis of operating cash flows and conversion of operating profits to cash flow. • Consideration of intra-month financing and potentiation 'Day One' funding requirements for the merged entity. • Analysis of working capital balances, and historical and future CAPEX requirements. <p><i>Balance sheet</i></p> <ul style="list-style-type: none"> • Review net debt and potential debt-like items (such as workers compensation claims and remediation liabilities).

²⁰ OLG (2015), Funding and support for councils, <http://www.fitforthefuture.nsw.gov.au/funding-and-support>, accessed 3 March 2015.

Infrastructure and technical due diligence	<ul style="list-style-type: none"> • Identification of any off-balance sheet commitments, contingencies or exposures. • Restricted assets and assets held for sale.
	<ul style="list-style-type: none"> • Physical condition of assets and costs of remediation. • Assessment of any infrastructure 'void' stemming from underinvestment in new infrastructure by existing council that may present a liability to a future merged council entity. • Potential environmental exposures.
IT due diligence	<ul style="list-style-type: none"> • Overview of financial and information management systems and assessment of 'fit-for-purpose'. • Consideration of IT integration issues and risks.
HR due diligence	<ul style="list-style-type: none"> • Key personnel and roles and overall resourcing for the new merged entity. • Potential for harmonisation of remuneration structures.

Source: KPMG analysis

6.1.2 Target operating model

Prior to reform implementation it will be important to define the target operating model of the merged council entity, especially as the existing organisational structures of the Northern Beaches councils do differ somewhat. Key phases for developing a new target operating model include:

- consensus on a high-level organisational design for the new merged council entity, that includes details relating to functional descriptions, governance and accountability, and allocation of FTE resources by division;
- consensus on a detailed organisational design, including role-by-role descriptions for all positions within the new merged entity;
- development of a comprehensive change management strategy that considers potential impacts of council mergers on employees and outlines a plan for managing variations in work practices and cultures with a supporting communication plan to support and inform staff through the change process; and
- design of new key performance indicators and benchmarks for the new merged entity, including assignment of accountabilities to each role across all teams and divisions; and
- prepare a stocktake of all existing contractual obligations and commitments, initiatives and strategies already in place that will become the responsibility of the newly merged council entity.

6.1.3 Communications strategy

An effective communications strategy will be a critical component to the reform implementation plan and needs to be sufficiently resourced and targeted to each of the key stakeholder groups – both internal and external. The communication strategy needs to identify key messages for each stakeholder group, outlining the nature of the council merger, expected timeframes and likely impact on:

- Northern Beaches residents and businesses;
- Council employees (and, where appropriate, employee unions);
- Contractors and suppliers;
- Neighbouring councils (including SHOROC member Mosman Council); and

- Relevant government agencies.

6.1.4 Corporate planning and statutory reporting

The establishment of a new merged entity will require collation and re-alignment of key strategic documents, including the development of new strategic documents and statutory reports. This includes:

- Community Strategic Plan;
- Long-Term Financial Plan;
- Asset Management Plan;
- Workforce Management Plan; and
- Local Environmental Plan.

In addition, there will be extensive list of council policies and procedures that will need to be re-drawn and agreed covering all relevant service lines and functions (e.g. parks and recreations, childcare, procurement, development approvals, legal affairs and rates). An orderly, systematic approach will be required to harmonising these policies in a newly merged council entity with priority given to addressing those policies that have the greatest risk of exposing the council, or the community, to unacceptable costs or disadvantage.

The rationalisation of the rating systems on the Northern Beaches will therefore be a key priority, with the Panel Review recommending up to two terms (or eight years) be provided to allow gradual and carefully managed integration of rating systems post-merger.

6.1.5 Ward boundaries and representation

The Panel Review recommended in its final report that the NSW Government consider allowing any new merged council entity to have an increased number of elected councillors in the first two terms post-council merger. This recommendation was aimed at alleviating concerns about the potential impact of local government reform on local representation and to reduce potential resistance to council mergers. It is not clear what 'cap', if any, will be placed on councillor numbers by the NSW Government – either during the transition phase or long-term.

Any changes to the number of elected councillors over the short or long-term will require an independent authority – such as the Local Government Boundaries Commission – to determine changes to ward boundaries on the Northern Beaches following an agreement to merge any or all of the current councils. In this context, the newly merged entity will need to consider how best to engage the community to determine the preferred number of elected councillors both during the transition phase and long-term.

6.1.6 New legislation

A key component of the NSW Government's *Fit for the Future* reform pack was a commitment to streamline the legislation that governs local councils in the State. The timeframe for phasing in a new Local Government Act is September 2016 and coincides with the next scheduled round of local government elections.

There are a wide range of planned legislative changes that will impact the operations and functions of any new merged council entity on the Northern Beaches, including:

- simplified statutory reporting requirements;
- reductions in regulation and duplication;
- revised rating systems and requirements;

- a stronger role for Integrated Planning and Reporting;
- benchmarking and measuring council performance;
- longer mayoral terms and clearer roles for council leaders; and
- greater flexibility for councils with regard to procurement and contract management.

Each of the Northern Beaches councils – regardless of its ultimate position on council mergers – therefore has a direct interest in influencing the drafting of the new Local Government Act for NSW.

Appendix A: Overview of Local government and the Northern Beaches region

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 in Australia and its institutions form part of the fabric of a community's local identity.

A.1 Overview

The role of local government in Australia has been subject to significant change and debate since the first municipal council was elected in Adelaide in 1840. While local government was rarely mentioned during the 1890s Constitutional Conventions there were more than one thousand local government authorities around Australia by 1910. More than a century later, vocal support to enshrine local government in the Australian Constitution remains strong despite unsuccessful attempts at constitutional recognition by the Whitlam Government in 1974 and the Hawke Government in 1988.

In recent decades, local governments have continued to enjoy political and financial support from the Commonwealth. In 2013-14 the Commonwealth provided \$2.289 billion in Financial Assistance Grants to local governments around Australia.²¹ At the same time, local governments are under pressure to provide the services and infrastructure communities expect in an environment of significant revenue constraint. These pressures may not be unique to just local government, with Federal and State governments grappling with similar fiscal challenges. For local government, however, the pressures are compounded by a limited revenue base and little scope to expand or increase revenue sources.

This has provided the rationale for a number of state governments to embark on local government reform programs – largely aimed at reducing the number of councils and seeking efficiencies through mergers of local councils. In New South Wales (NSW), local governments have been in the spotlight following a number of inquiries and reviews into the sector's operational and financial sustainability. Most recently, the Independent Local Government Review Panel ('the Review Panel') concluded in its Final Report *Revitalising Local Government* that mergers will "have to be part of the [reform] package".²²

The NSW Government supports a number of the report's recommendations – including to encourage voluntary local government mergers – and launched the *Fit for the Future* reform initiative in September 2014. As a result, each local government in NSW is required to make a submission by 30 June 2015 demonstrating how it will become '*Fit for the Future*' and become financially sustainable, efficient, effectively manage infrastructure and deliver services and have the scale, resources and 'strategic capacity' to govern effectively.

It is on this basis that Manly Council and Pittwater Council have commissioned this project to investigate the potential impacts of local government reform and inform respective consultations with local communities on how best to respond to the NSW Government's *Fit for the Future* reform program.

²¹ NSW Office of Local Government (2015)

²² Independent Local Government Review Panel (ILGRP), *Revitalising Local Government*, January 2014.

A.2 Local government in Australia

Local government authorities – more commonly known as local councils – are recognised as one of three tiers of government in Australia and NSW despite not being formally recognised in the Australian Constitution. Rather, local councils are established and empowered by state legislation, specifically the *Local Government Act (1993)* in NSW.

While local councils arguably have the lowest profile of the three tiers of government, they are perhaps the most accessible in terms of local representation and arguably provide the day-to-day services and infrastructure in greatest use by local communities. While the historical mantra of local councils being focused on ‘rubbish, roads and rates’ is too simplistic, traditionally the functions of local council have included:

- Household waste and recycling collections services;
- Oversight and enforcement of local regulations, including in relation to land use zoning, planning and development approvals, and food inspections;
- Local road funding and maintenance (including footpaths, cycleways and drainage), with local government responsible for more than 670,000km of roads across Australia with a replacement value of more than \$165 billion;²³
- Environmental management (such as biodiversity conservation, vegetation and weed controls) as well as noise and animal controls;
- Provision and maintenance of local facilities and amenities, including public libraries, community and cultural centres, recreational parks, golf courses, caravan parks and sporting grounds;
- Advocating on behalf of the local community on issues of state and national significance (such as major infrastructure projects);
- Responsibility for developing and implementing long term strategic and economic plans to provide a safe and vibrant local community with growing living standards and appropriate access to local services and infrastructure.

Increasingly, however, there are few distinguishing lines between the functions of each tier of government. For example, today it is common for local councils to fund and administer early childcare centres, community healthcare programs as well as youth and aged care services – functions traditionally seen as the responsibility of state and federal governments.

A.2.1 Local government revenue sources

While there may be increasingly blurred lines between the functions of each tier of government, there remain significant differences in the capacity of local councils to raise revenue vis-à-vis state and federal governments. The primary revenue sources for local councils include:

- Rates (or taxes) on residential and commercial properties, determined according to land value;
- User charges for local infrastructure (such as car parking and facility hire) and commercial services (such as commercially operated council-owned assets);
- Financial assistance grants from the Australian Government distributed to local government’s through state-based grants commissions using an agreed funding methodology;
- Levy’s on developers for contributions towards public amenities and services required as a consequence of local residential and commercial developments;

²³ Australian Local Government Association (2014), *State of Local Roads Assets Report*, November 2014.

- Income from interest on investments and dividends, as well as fines; and
- Direct project funding from Australian Government programs, such as the Roads to Recovery Program, Road Safety Black Spot program and the Building Stronger Regions Fund.

In aggregate terms, local councils around Australia raise around 80 per cent of own-source revenue, although this varies markedly council-by-council with revenue raising capacity influenced by geographic location, population size, rate base and the ability to levy user charges. On average, rates account for around 37 per cent of total local government revenue nationally – equivalent to \$14 billion in 2012-13.²⁴

There are also a number of limitations on the ability of a local council to adjust this revenue base. For example, in NSW changes in local council rates are determined by the Independent Pricing and Regulatory Tribunal (IPART) on a state-wide basis through the setting of a rate peg. It is not uncommon for 'Special Rate Variations' (SRVs) to be approved by IPART on a council-by-council basis where it is demonstrated an increase in general income above the rate peg is necessary to, for example, replace ageing infrastructure or fund growth with the local community.²⁵

Local councils also have limited control over developer contributions – which tend to be 'lumpy' in nature – and cannot be relied upon as a regular year-on-year revenue source. Likewise, financial assistance grants from State and Federal governments are often subject to changes in funding methodologies and are typically skewed toward regions of significant social and economic disadvantage.

A.2.2 Scale of local government in Australia

While often considered to have the lowest profile of the three tiers of government in Australia, the local government sector as a whole is a significant contributor to both the local and regional economy and the national economy. To give a sense of scale, there are currently 562 local councils in Australia with the sector employing more than 188,900 people nation-wide. The value of the sectors' land and fixed asset base was more than \$333 billion in 2012-13, with total expenditure sector-wide exceeding \$32.2 billion.²⁶

As shown in Table A-1, the number of local councils today reflects the century-long process of change, where population growth, improvements in technology and transport, and other factors of change have reshaped the role and scale of local government in Australia. The number of local councils has decreased significantly in NSW. In 1858, there were 10 local councils in NSW, which had increased to 324 by 1910. Today there are 152 councils in NSW employing around 49,000.²⁷

Table A-1 Number of local councils in Australia 1910 to 2015

	1910	1967	1982	1990	2000	2008	2015
New South Wales	324	224	175	176	174	152	152
Victoria	206	210	211	210	78	79	79
Queensland	164	131	134	134	157	73	77
South Australia	175	142	127	122	68	68	68

²⁴ Australian Local Government Association (ALGA, 2015), *Facts and Figures on Local Government in Australia*, updated June 2014.

²⁵ IPART (2015), *Special Variations and Minimum Rates*, http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Special_Variations_and_Minimum_Rates, accessed on 10 February 2015.

²⁶ ALGA (2015), *Facts and Figures on Local Government in Australia*, updated June 2014.

²⁷ Office of Local Government (2011), *Census of Local Government Employees*, published September 2011.

Western Australia	147	144	138	138	142	142	140
Tasmania	51	49	49	46	29	29	29
Northern Territory	-	1	6	22	69	16	17
Total	1,067	901	840	848	771	559	562

Source: Aulich et al. (2011) and each state / territory local government agency website (2015)

Table A-2 provides a comparison of the number of local government areas in capital cities in Australia relative to population and land mass. Compared to other major capital cities in Australia, Sydney has a relatively high number of local government areas although the average geographic size of each council is comparable to Melbourne. This reflects Sydney's extensive urban sprawl and geographic reach across more than 12,000km².

Table A-2 Comparison of local government across capital cities in Australia, 2013

Jurisdiction	LGAs	Area	Population (2013)	Comparator statistics	
	no.	km ²	million	population density per km ²	land area per council (km ²)
Melbourne	31	7,692	4.35m	566	248
Brisbane	6	5,950	2.24m	377	992
Perth	30	5,386	1.97m	366	180
Adelaide	18	1,827	1.29m	706	102
Hobart	5	1,357	0.51m	376	271
Darwin	3	112	0.14m	1,250	37
Sydney	43	12,138	4.76m	392	282

Source: ABS Estimated Resident Population (2013), KPMG

As a point of comparison, the largest council in Australia by population is Brisbane City Council, servicing a population of more than 1.05 million residents. In NSW the largest council by population is Blacktown City Council (325,000 residents) while the smallest by population is Urana Shire Council (1,125 residents).²⁸ The largest council in Australia by area is East Pilbara council in Western Australia, covering an area of 371,696 km² with a population of 7,954 residents and more than 3,200 km of local roads.²⁹ In NSW, the largest council by area is Central Darling (53,534 km²) and the smallest by area is Hunters Hill (5.7 km²).

A.3 Local government on the Northern Beaches

There are three local councils that make up the Northern Beaches region of Sydney – Manly Council, Pittwater Council and Warringah Council. Each council has some discretion in how they govern and manage operations. This includes the number of councillors and wards, whether mayors are popularly elected or appointed and general organisational structure. Most councils employ a general manager to lead overall functions and have a number of directors or deputy general managers overseeing major divisions.

As illustrated in Table A-3, Manly, Pittwater, Warringah and Mosman Councils have similar structures. Pittwater's mayor is appointed by its elected councillors. In regards to local

²⁸ ABS (2013), Estimated Resident Population (ERP), by Local Government Authority.

²⁹ ALGA (2015), *Facts and Figures on Local Government in Australia*, updated June 2014.

representation, Warringah Council has significantly more residents per councillor than Pittwater Council and Manly Council.

Table A-3: Governance and operations in Manly, Pittwater and Warringah Councils

Council	Councillors	Mayor	Representation	Corporate Divisions		
	no.	Elected or appointed	Residents per councillor			
Manly	9	Elected	4,900	People Place and Infrastructure	Land Use and Sustainability	Corporate Support
Pittwater	9	Appointed	6,900	Environmental Planning and Community	Urban and Environmental Assets	Corporate Services
Warringah	10	Elected	15,200	Community	Environment	Support Functions

Source: KPMG; Websites for Manly Council, Pittwater Council and Warringah Council; Representation data draws on ABS Estimated Resident Population (2013).

A brief profile of each of these regions is provided in the following sub-sections. A brief profile of Mosman Council is also provided due to its interactions with the Northern Beaches councils, including on shared services and joint procurement through the Shore Regional Organisation of Councils (SHOROC).

Manly Council

Manly Council, the southern-most council in Sydney's Northern Beaches, is a relatively small locality covering 15km² (see Map A.1). It has a population of around 44,000, which is projected to grow to almost 52,000 by 2031. It has a TCorp Fiscal Sustainability Rating of Sound with a Neutral outlook. In 2013, the Manly Council area had a Gross Regional Product (GRP) of \$2.2 billion³⁰.

Pittwater Council

Pittwater Council, located at the top of Sydney's Northern Beaches, covers approximately 90 km² (see Map A.2). It has a population of around 62,000, which is expected to grow to 82,000 by 2031. It has a TCorp Fiscal Sustainability Rating of Sound and a Neutral outlook. In 2013, the Pittwater Council area had a Gross Regional Product (GRP) of \$3.0 billion³¹.

Warringah Council

Warringah Council, stretching from Sydney's Northern Beaches to Cowan Creek, covers approximately 149 km² (see Map A.3). It has a population of around 153,000, which is expected to grow to 174,000 by 2031. It has a TCorp Fiscal Sustainability Rating of Sound and a Positive outlook. In 2013, the Warringah Council area had a Gross Regional Product (GRP) of \$7.9 billion³².

Mosman Council

Mosman Council is located in the Northern suburbs and is approximately 6 kilometres from Sydney's CBD. It covers approximately 9 km² (see Map A.4). It has a population of around 30,000, which is expected to grow to 34,000 by 2031. It has a TCorp Fiscal Sustainability Rating of Weak and a Positive outlook. In 2013, the Mosman Council area had a Gross Regional Product (GRP) of \$2.0 billion³³.

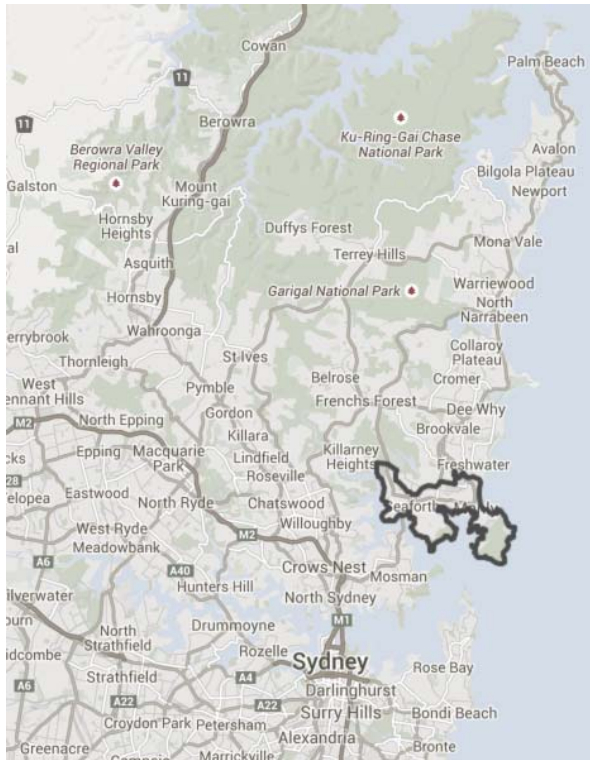
³⁰ Economy.id (2013), Economic Profile – Manly Council

³¹ Economy.id (2013), Economic Profile – Pittwater Council

³² Economy.id (2013), Economic Profile – Warringah Council

³³ Economy.id (2013), Economic Profile – Mosman Council

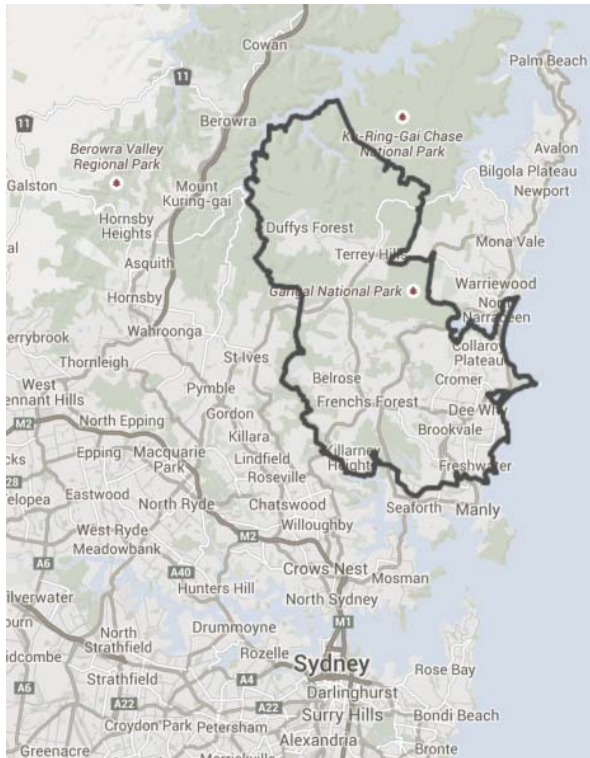
Map A.1: Manly Council



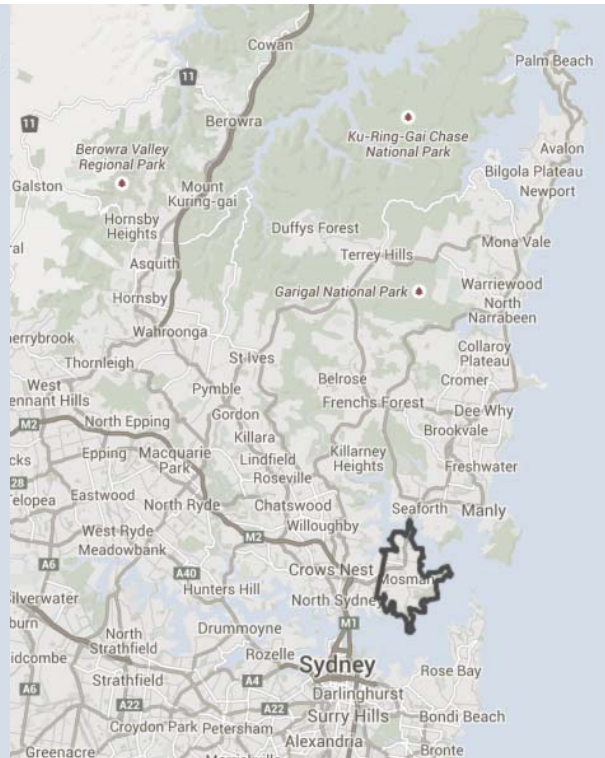
Map A.2: Pittwater Council



Map A.3: Warringah Council



Map A.4: Mosman Council



Source: Atlas.id (2015)

Shore Regional Organisation of Councils (SHOROC)

The Shore Regional Organisation of Councils (SHOROC) comprises four neighbouring councils North East of Sydney's CBD, including Mosman Council and the three Northern Beaches councils of Manly Council, Warringah Council and Pittwater Council. SHOROC is led by a Board of Mayors and General Managers from each Council and works collaboratively to:

- Advocate on behalf of the region's priorities;
- Secure funding for construction of public transport, roads and hospitals, and projects to improve business, communities and the environment; and
- Improve financial sustainability and services for the community, through regional purchasing and exploring ways to deliver shared services on a regional scale³⁴.

Voluntarily forming this partnership suggests a relatively strong shared vision for the region, however not all initiatives have been uniformly adopted by the Councils. Decisions to opt in or out are dependent on whether there is a perceived value to the needs of their constituents³⁵.

A.3.1 The Northern Beaches and the Sydney Metropolitan Plan

A number of Northern Beaches precincts of strategic significance to the state have been identified in the Sydney Metropolitan Plan known as *A Plan for Growing Sydney*. These include the Northern Beaches Hospital Precinct and the Brookvale and Dee Why Town Centres – each of these are explored in more detail in Box A-1 and Box A-2.

Box A-1 Sydney Metropolitan Plan - Northern Beaches Hospital Precinct

Northern Beaches Hospital Precinct

Northern Beaches Hospital Precinct is identified as a Strategic Centre in the Sydney Metropolitan Plan. Priorities of this strategic centre are to:

- Deliver a new Northern Beaches Hospital.
- Support health-related land uses and infrastructure around the Northern Beaches Hospital site.
- Work with council to protect capacity for employment growth beyond the Northern Beaches Hospital site.
- Work with council to provide capacity for additional mixed-use development in Northern Beaches Hospital Precinct including offices, health, retail, services and housing.
- Support the preparation of a precinct structure plan in partnership with council to guide future development of the area.
- Progress planning for road improvements supporting Northern Beaches Hospital Precinct, including underpasses on Warringah Road at Forest Way and Wakehurst Parkway.
- Progress planning for a new public transport interchange servicing Northern Beaches Hospital Precinct.
- Improve walking and cycling connections between the different parts of Northern Beaches Hospital Precinct and to its surrounding area.

Source: NSW Planning & Environment (2014)

³⁴ SHOROC (2015), SHOROC, accessed 8 January 2015, <http://shoroc.com/>

³⁵ SHOROC (2014) – Revitalising Local Government Final Report of the Independent Local Government Review Panel (2014), SHOROC Submission, March 2014.

Brookvale and Dee Why Town Centres

The town centres of Brookvale and Dee Why are identified jointly as a 'Strategic Centre' in the Sydney Metropolitan Plan. Priorities of this strategic centre are for the NSW Government to work with local council to:

- retain a commercial core in Brookvale-Dee Why, as required, for long-term employment growth.
- provide capacity for additional mixed-use development in Brookvale-Dee Why including offices, retail, services and higher density housing.
- improve walking and cycling connections between Warringah Mall, Brookvale and Dee Why.
- progress planning for a Northern Beaches bus rapid transit corridor to service Brookvale-Dee Why.

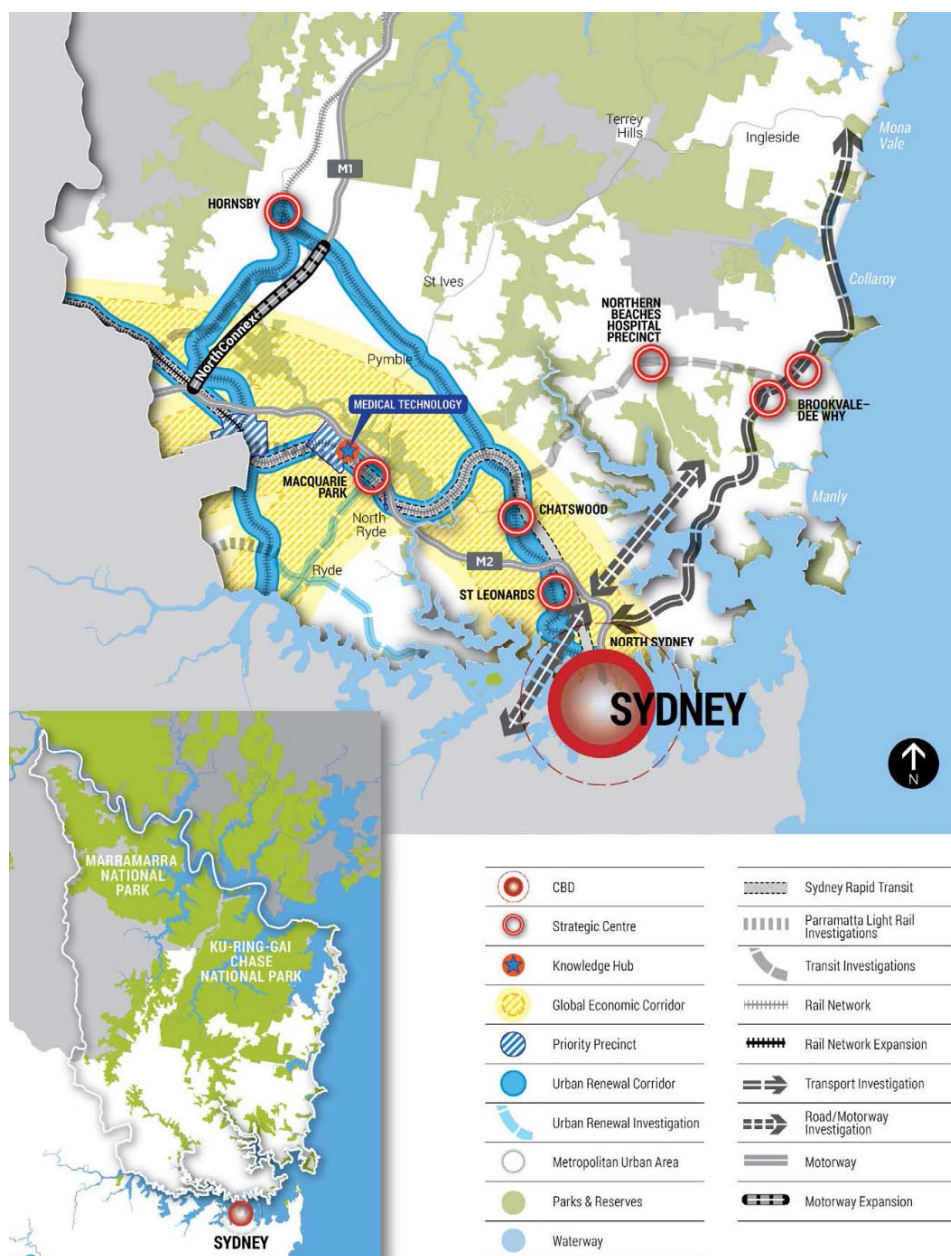
Source: NSW Planning & Environment (2014)

Map A.5 illustrates the 'North Subregion' identified in the Sydney Metropolitan Plan as being a region that will continue to be an attractive place to live, work and visit with a thriving economy. A number of priorities have been identified in the Plan that are directly relevant to the councils of the Northern Beaches and likely interactions with the NSW State Government. These priorities include:

- Improve subregional connections to facilitate a competitive economy, particularly from the Northern Beaches to Global Sydney and to the 'Global Economic Corridor' (refer Map A.5);
- Protect and enhance national and regional parks, including strategic additions to enhance bushland connectivity;
- Improve the health and resilience of the marine estate including tributaries and aquatic habitats of Pittwater; and
- Protect early strategic consideration of bushfire, flooding and coastal erosion in relation to any future development on the Northern Beaches, particularly areas prone to coastal erosion at Collaroy/Narrabeen, Mona Vale and Bilgola.³⁶

³⁶ Sydney Metropolitan Plan (2014), *A Plan for Growing Sydney*, December 2014.

Map A.5 Sydney Metropolitan Plan - North Subregion



Source: Sydney Metropolitan Plan (2014)

Appendix B: Case studies in local government reform

This section describes the experiences of local government in Australia and overseas and provides the public policy context for the NSW Government's *'Fit for the Future'* initiative.

B.1 Local government reform experiences in Australia

The role of local government in Australia has constantly evolved over the past century and, as such, reforms to the sector are often the subject of significant debate. There are a number of local government reform experiences in Australia in recent decades that can be drawn on for this analysis. The frequency and extent of attempted reform has contributed to a significant body of literature covering the various options for reform, the process of implementation, as well as some preliminary and high-level analysis on the costs and benefits of reform to the broader community.

There is, however, an absence of sufficient information and analysis that evaluates the post-reform impacts of local government reform. Specifically, no jurisdiction has undertaken a comprehensive review of whether the potential reform benefits that were stated prior to implementation were realised following implementation.

In Australia, the focus of local government reform has often centred on the merging of rural and regional councils, particularly given these councils often face the most significant challenges with regard to financial sustainability for reasons relating to both geography and demographics. Although there has been a clear financial motivation for local government reform in rural areas, these proposals have attracted significant opposition and scrutiny given the heightened economic and social importance of regional councils to local communities.

Rural and regional councils tend to cover a considerably larger geographical area, and are also less populated in comparison to Sydney metropolitan councils. The challenges rural and regional councils face (for example, declining populations and access to government services) are often in stark contrast to those of metropolitan councils. Therefore, this may render the experiences and lessons from assessments of the impact of council mergers in rural and regional Australia less applicable in the context of a metropolitan Sydney council.

There are, however, a number of local government reform initiatives that may offer insights for the NSW and Sydney metropolitan councils. These include:

- Victoria (1993);
- Queensland (2008); and
- Western Australia (2015).

B.1.1 Reform of local government in Victoria

In 1993, the Victorian Government commenced a program of local government reform. The reforms brought about substantial changes to local government, with the number of councils in Victoria declining from 210 to 78, including a fifty percent reduction of the number of councils in the Melbourne metropolitan area. Additionally, significant changes were made to the governance structures of individual councils, with the maximum number of elected representatives reduced from 21 to 12.

The Victorian Government's underlying reform objective was to ensure that local government could remain sustainable over the medium to long term. The reform implementation process was

– to a large extent – forced on councils, with the transition characterised by the replacement of 1,600 elected councillors with appointed commissioners.

The key motivation of increasing the efficiency of local government through wide scale reform was part of a broader microeconomic reform agenda aimed at enhancing state-wide productivity, decentralisation and reducing the overall size of government. In particular, councils were required to:

- implement a 20 per cent reduction in rates;
- put at least 50 per cent of council services out to tender; and
- reduce expenditure by 10 per cent between 1995 and 1997.

In addition, all councillors were elected for common three year terms rather than annual elections for one-third of councillors, with postal voting introduced. A brief outline of the key lessons from the Victorian local government reform experience is provided in Box B-1.

Box B-1 Key Impacts: Victorian Local Government Reform Experience

Summary of Reform Impacts – Victoria

A Ministerial Review of the reform several years after implementation estimated that these changes helped contribute to a saving of \$323 million in 1995-96.³⁷ The Ministerial Review of the reforms focused more on efficiencies achieved, rather than the impact of efficiencies on representation.

There were a number of key takeaways from the Victorian local government experience. Insights drawn from surveys and interviews with the 26 representative councils involved in the reforms reiterated the view that the process of amalgamation was easier to design and implement when councils were of similar geographic and population size and provided a similar range and quality of services.³⁸ Moreover, the research also found that leadership and planning of amalgamations, along with the performance management of staff were essential in responding to these programs.

Significantly, a comparison of findings from the Victorian Auditor-General's annual review of local council financial sustainability over the 2009 to 2014 period points to the relative strength of the sector in Victoria. Over this period, an average of 89 per cent of local councils in Victoria were found by the Auditor-General to have a low financial sustainability risk.³⁹ While comparisons with other jurisdictions should be approached with caution, a TCorp report in 2013 found that 22 per cent of local councils in NSW had an 'above moderate' financial sustainability rating. A report by the Queensland Audit Office in 2014 found that 53 per cent of local council had a low financial sustainability risk rating.

Source: KPMG

B.1.2 Boundary reforms in Queensland (2008)

Following the release of a detailed report of analysis and recommendations by the Local Government Reform Commission, the Queensland Government implemented a series of reforms that resulted in around three-quarters of the state's local government areas being amalgamated, and the number of councils declining from 157 to 73. In addition, restrictions were placed on the type of candidates and community members that could hold local government councillor positions,

³⁷ Hallam, R. 1996, Minister's Review, *Local Government in 1995: First Fruits of Reform*, Victorian Department of Local Government, Melbourne.

³⁸ Martin, J. 1999, *Leadership in Local Government Reform: Strategic Direction v Administrative Compliance*, Australian Journal of Public Administration, vol. 58, iss. 2, pp. 24-37

³⁹ Victorian Auditor-General (2014), *Local Government: Results of the 2013-2014 Audits*, published November 2012.

with a shift towards the imposition of minimum qualifications on candidates and the professionalisation of the industry.

While these reforms were primarily motivated by the low levels of financial sustainability across local government in Queensland, they also formed part of a broader response to the state's growth and economic expansion in preceding years, and a way to mitigate potential challenges that could stem from ongoing financial inefficiencies and economic mismanagement. Significantly, the vertical, top-down process of forced amalgamation generated strident opposition from key stakeholders as well as the broader community.

A brief outline of the key lessons from the Queensland local government reform experience is provided in Box B-2.

Box B-2 Key Impacts: Queensland Local Government Reform Experience

Summary of Reform Impacts – Queensland

In 2009, the Local Government Association of Queensland (LGAQ) commissioned a survey of amalgamated councils to develop a better understanding of the changes brought by amalgamation. Key points of interest from the survey results include:

- A clear consensus around the perceived benefits of local government reform emerged, with 78.6 per cent of merged councils participating in the survey agreeing that there was potential to achieve stronger and more efficient local government within five years.⁴⁰
- 30 of the 31 councils that voluntarily merged participated in the survey, with 79 per cent accepting there was the potential to achieve stronger more efficient local government within five years and that these benefits would outweigh the costs.
- Regional councils in particular acknowledged amalgamation enabled them to attract better qualified and experienced staff. The survey also found that larger councils generally were only able to attract more qualified and experienced staff when they were non-SEQ councils.
- Around 43 per cent of respondents nominated either cost efficiencies or strengthened financial capability as the greatest benefit of the mergers. Improvement in planning and development outcomes was also cited as a key benefit.
- Around 61 per cent of survey respondents said efficiencies could be achieved through the rationalisation of plant fleets and depot locations. This rose to 81 per cent among respondents from SEQ councils, where plant and depot rationalisation would likely be more feasible due to the smaller geographies of affected councils.
- 32 per cent of the CEOs of councils believed there would be a net benefit. Provincial councils were most positive, while regional councils were least positive about the benefits of amalgamations.
- The main difficulties associated with council mergers were identified as managing community expectations, perceived loss of local identity and organisational cultural issues associated with merged council entities.

Significantly, some five years later in March 2013, residents in the former Noosa, Livingstone, Mareeba and Douglas shires voted to de-amalgamate and form more localised centres for the delivery of services and infrastructure.

⁴⁰ Ian Tiley and Brian Dollery (2010), *Historical Evolution of Local Government Amalgamation in Queensland, the Northern Territory and Western Australia*, Centre for Local Government – University of New England, https://www.unen.edu.au/_data/assets/pdf_file/0018/25416/02-2010x.pdf, Accessed 31 January 2015

In March 2014, the Queensland Audit Office (QAO) reported that:

- 16 of the 71 local councils audited were at a high risk of becoming unsustainable due to consistently incurring substantial operating losses over the preceding four years; and
- A further 18 local councils were assessed as being at moderate risk of becoming unsustainable because of a combination of consistent operating losses, significant debt levels, or inadequate spending on asset maintenance and renewal.

This analysis by the QAO regarding the financial sustainability of local councils in Queensland, suggests that, notwithstanding the reforms of 2008, some 48 per cent of council entities are rated as having a moderate to high financial sustainability risk.⁴¹

Source: KPMG

B.1.3 Boundary reforms in Metropolitan Perth, Western Australia (2015)

In 2012, the Metropolitan Local Government Review Panel concluded a review of local government in Metropolitan Perth. The motivation for reform was underpinned by the need to meet increased pressures in the provision of essential community services to Perth's growing population. The report provides a number of insights into the potential impacts associated with the reforms, however, it is important to note that it will be important to undertake post-implementation reviews to understand the extent claimed benefits and efficiencies are realised.

The Review Panel commissioned an independent financial analysis of local governments. The analysis provided a five year snapshot of the sustainability of the 30 local governments in the metropolitan area. The financial analysis found:

- around one-third of councils in the area had financial viability concerns;
- one of the council's performance rated as 'unsustainable';
- a further ten rated as having a 'declining' financial position over the five year period;
- larger local governments tended to exhibit strong and consistent performance; and
- the most sustainable local governments tended to have stronger links to commercial and residential rateable properties.⁴²

The review highlighted the implementation of boundary reforms had the potential to improve the financial position of local governments and acknowledged the potential for efficiencies from increased economies of scale as a result of the reforms. With respect to service delivery, the review suggested that the reforms had the potential to:

- generate a more equitable distribution of resources and service delivery to residents;
- contribute to reduced duplication in service delivery and other costs; and
- increase the infrastructure used to deliver services.⁴³

In respect to implementation, the review noted that extensive planning would be required to ensure minimum disruption to front line services. The review highlighted that boundary reform would lead to a reduction in the number of local governments, and therefore may contribute to concerns within the community associated with a reduction in community engagement. The

⁴¹ Queensland Audit Office (2014), Results of audit: Local government entities 2012-2013, Report 14:2013-14, published March 2014.

⁴² Metropolitan Local Government Review, Final Report of the Independent Panel, July 2012.

⁴³ *Ibid.*

review also noted broader potential benefits associated with the greater scale of fewer local governments, for example:

- greater strategic capacity of local governments; and
- greater capacity to attract and retain high quality professional staff.⁴⁴

In response to the Metropolitan Local Government Review Panel report, the State Government announced plans in July 2013 for boundary reforms in Perth, including a planned reduction in the number of local governments from 30 to 16 with effect from July 2015. In October 2014, the State Government invited affected local governments to apply for a funding package for local government reform, including up to \$15 million in grants and up to \$45 million in subsidised loans.⁴⁵

In February 2015 the Western Australian Government announced that planned changes to Perth's metropolitan local government boundaries were on hold and changes to boundaries would only go ahead in areas where the affected councils supported the changes. These recent developments are outlined in Box B-3.

Box B-3 Recent Developments: Western Australian Local Government Reform Experience

Recent Developments in Western Australia – February 2015

In October 2014, Premier Colin Barnett and Local Government Minister Tony Simpson announced major changes to metropolitan councils that would take effect on 1 July 2015, including a planned reduction in the number of councils from 30 to 16. As required under the Local Government Act, those council's affected by mergers (as opposed to boundary adjustments) were entitled to vote on the proposed changes. The Western Australian Electoral Commission announced the following results for the polls held on 7 February 2015:

- City of Cockburn: 83 per cent of residents voted 'no' to the proposed merger;
- City of Kwinana: 88 per cent of residents voted 'no' to the proposed merger;
- Town of East Fremantle: 76 per cent of residents voted 'no' to the proposed merger;
- City of South Perth: 78 per cent of residents voted 'no' to the proposed merger; and
- Town of Victoria Park: 62 per cent of residents voted 'no' to the proposed merger.

On 10 February 2015 the WA Government put its local government reform agenda on hold. Further, it announced that boundary adjustments would only proceed if affected councils provided a supporting council resolution⁴⁶. In making the announcement, the Minister for Local Government confirmed those metropolitan councils that still wished to consider structural options were invited to continue to work with the State Government including on alternative merger scenarios.

These recent developments in Western Australia highlight the challenges governments face in generating local support for reform and the strong attachment communities have with local councils.

Source: Western Australian Government (2015)

⁴⁴ *Ibid.*

⁴⁵ WA Government (2014), *Funding package for reforming local governments*, Media Statement, 29 October 2014.

⁴⁶ WA Government (2015), *Future of LG reform now rests with councils*, Media Statement, 17 February 2015.

B.2 Local government reform experiences overseas

Systems of government vary significantly across jurisdictions. For example, China has five levels of government, federations (e.g. Australia) have three, and unitary states (e.g. New Zealand) have two. Systems of local government can also vary substantially. In New Zealand, for example, community boards are established underneath the local authority. In Paris, local government has a hybrid structure, with each municipal arrondissement having an elected council and mayor. A selection of the councillors from each arrondissement forms the Council of Paris, which elects its own mayor.

Even in the Anglosphere, with shared political heritage and culture, there are vast differences in the role of local government. For example, within Australia and New Zealand, local government is mainly involved in mainly providing services to property, whereas in other countries such as the United Kingdom and Canada, local government has a broader remit, for example, in the provision of public housing.

Varying systems of local government mean that experience from local government reform cannot necessarily be directly translated to the Australian or NSW context. These insights are, however, relevant to:

- understand the broader context to local government reform and identify lessons and limitations associated with reform experiences; and
- inform assumptions to underpin the analysis of boundary reform options with respect to both financial and non-financial impacts.

The following sections provide detailed case studies of local government reform experiences in international jurisdictions.

B.2.1 Canada – City of Toronto

Toronto is the provisional capital of Ontario, and the most populous city in Canada. In 1998, the seven municipalities that governed Toronto were amalgamated to form the City of Toronto.⁴⁷ The amalgamation went ahead despite widespread local opposition, and was primarily driven by the Provincial Government and a desire to achieve cost efficiencies. Following amalgamation, the merged entity had an annual budget of nearly \$6.0 billion and around 20,000 employees. The proposed amalgamation was announced in 1996, legislated the following year and implemented in January 1998. In addition to the amalgamation, the province legislated for the province to transfer responsibilities for some service provision to the municipality.

In October 2000, three years after the amalgamation, 87 per cent of residents polled for the Toronto Star believed that the amalgamation was the right decision, and 66 per cent believed amalgamation provides better government than the previous system.⁴⁸

The Council described the process as an “*urban success story*”, citing residents that reported that programs and services had not been interrupted and had been enhanced in some areas.⁴⁹ However, it argued that a local services realignment, which saw the Province give more responsibility to the local government, and which accompanied the amalgamation, was not working. It asserted that it had led to a deterioration of the financial sustainability of Council’s operations, as the additional responsibility for service given to municipalities was not matched by increased authority to raise revenue.

⁴⁷ City of Toronto 2001, *Building the new City of Toronto: Three year status report on amalgamation January 1998-December 2000*, Toronto, <http://www.toronto.ca/pdf/amalrpt.pdf>, accessed 31 January 2015.

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

Prior to the amalgamation, there were 106 elected officials across the seven councils. Immediately following the amalgamation, there were 57 elected officials, which was subsequently reduced to 44, due to legislation passed by the Provincial Government. The rationale for this reduction was to increase financial efficiency. The reduction in council size necessitated the redrawing of new ward boundaries.

To complement the reduction in the number of elected representatives, the legislation that created the City of Toronto allowed for the creation of Community Councils. Six Community Councils were created to address purely local issues, such as fence by-laws and the removal of trees. Council found that very few matters before Community Councils were reviewed by the full Council.

Consequently, while the reduction in the total number of elected representatives declined, which would imply a reduction in the quality of local presentation; dedicated representatives were assigned to deal with local issues. Additionally, the larger council would have had greater power in lobbying for and coordinating with the other levels of government to advance the region's interests. A summary of the reform impacts experienced by the City of Toronto is outlined in Box B-4.

Box B-4 Key Impacts: Toronto's Local Government Reform Experience

Summary of Reforms Impacts – City of Toronto

Prior to the 1998 merger of seven municipalities that governed Toronto, a shared services model was operating to reduce costs and achieve efficiencies. Across the seven municipalities around 73 per cent of gross operating expenditure was linked to programs that had been part of the shared services arrangement. The remaining 27 per cent of gross operating expenditure was linked to programs that could be targeted for efficiencies through the merger of municipalities. For these programs, a 10 per cent savings target was identified as being realistic.

In the third year post-reform, annual savings generated for these programs reached nine per cent of gross operating expenditure, or about CAD \$136 million. This was achieved from an annual saving of three per cent in the first year and eight per cent in the second year.

The majority of savings from the merger of seven municipalities were achieved through reduction in the staffing establishment. Of a workforce of nearly 20,000 full time equivalent (FTE) staff in the pre-reform workforce, there was a reduction between 1998 and 2000 of:

- nine per cent in total positions;
- 14 per cent in administration and support positions;
- 34 per cent in management positions; and
- 60 per cent in executive management positions.

Of the nine per cent total reduction to the staffing establishment, around one-third of these occurred in management or executive management positions.

Although there were substantial benefits to the amalgamation program, there were also significant costs, including upfront costs and recurrent costs. Upfront costs accounted for 4.7 per cent of annual expenditure, including for:

- facility consolidation and modification (30 per cent);
- consolidation of business information systems (30 per cent);
- redundancy costs (27 per cent);
- retraining of staff (two per cent); and
- other costs (e.g. consulting studies and the implementation of new collective agreements) (11 per cent).

Recurrent costs, included:

- harmonisation of service levels between councils (0.3 per cent of annual expenditure); and
- financing costs the upfront amalgamation costs (0.5 per cent of annual expenditure for 10 years).

Source: City of Toronto (2001)

B.2.2 New Zealand – Auckland Council

In March 2009, the Royal Commission on Auckland Governance recommended that Auckland's eight city, regional, and district councils amalgamate into a single Auckland Council. The stated intent was to enable Auckland to reach its full potential as the core driver of national economic growth. The reforms were based on four principles that guided the Commission's recommendations:

- common identity and purpose through governance arrangements should encompass the interests of the region;
- effectiveness of cost, service delivery, local democracy and community engagement;
- transparency and accountability of governance structures; and
- responsiveness to respect and accommodate diversity.⁵⁰

The local government reforms introduced a two-tier governance structure for the city of Auckland. This structure comprised:

- Auckland Council, which is responsible for the management of strategic and regional issues; and
- 21 local boards to be responsible for community engagement; shaping and monitoring local services, and bringing local perspectives to region-wide policies and plans.

The reforms also led to a reduction in the number of elected representatives in the region. Concerns about the subsequent impact on the effectiveness of representation balanced by the formation of a more powerful regional council that could better advocate for the region's interests. Further, retention of local boards continued to give residents access to a platform to voice concerns about local issues⁵¹. Box B-5 provides a summary of some of the reform impacts reported post-implementation.

Box B-5 Key Impacts: Auckland's Local Government Reform Experience

Summary of Reform Impacts – Auckland

The reforms were implemented over an 18 month period and while the primary motivation for the reforms was not financial, Auckland Council reported NZD \$81 million in efficiencies in the first year of the transition – equivalent to about three per cent of total expenditure. The Council also forecasted NZD \$1.7 billion in efficiency savings over first 10 years of operation.

Efficiency gains were achieved through the rationalisation of procurement activities. For example, prior to amalgamation, there were 78 park contracts maintained by the various entities. This has now been merged to 12. The Council expects there will be additional savings from the consolidation of services and delivery channels. Enhanced business information system integration is seen as a key enabler of achieving these savings, as this can reduce the multiple licence fees that are payable when multiple entities are independently operating.

⁵⁰ Royal Commission on Auckland Governance, Final Report, April 2009.

⁵¹ Ibid.

In addition to savings generated by the Council, the new organisational structure for the merged entity resulted in a 16 per cent reduction in staff and an annual salary saving of just over three per cent of expenditure.

Overall, there were two primary streams of savings:

- from efficiencies gained through the rationalisation of assets, procurement processes and services; and
- from the efficiencies in labour that was made possible from the first stream of savings.

Council's Annual Plan for 2013-14 observed that the cost of amalgamation was \$78 million, or around three per cent of expenditure, however, this cost was not disaggregated into upfront and recurrent costs.

The legislation that enabled the creation of Auckland Council requires the Auditor-General to review and report on the Council's service performance and one of its first reports found that there was "limited experience and knowledge about the likely ongoing cost of the new Council's operations."

Auckland Council has a model whereby council-controlled organisations are responsible for the delivery of services and activities, including road maintenance, public transport, water, and waste water. The report by the Controller and Auditor General of New Zealand two years after the transition found that in most cases, service delivery standards had been maintained or improved.

The key improvement in service delivery was a new planning system that enabled an integrated planning framework. There was also a standardisation of services and a lowering of fees and charges to the minimum rate of the previous eight entities.

Source: KPMG (2014), Controller and Auditor General of New Zealand

In December 2014, the Local Government Commission proposed the establishment of a unitary authority for the Greater Wellington region along with eight Local Boards, including three in Wellington City.

As part of the reforms, the Greater Wellington Council would take over the functions of the existing nine councils and the new council would have a shared decision-making structure. It is proposed power would be shared between the governing body (a mayor and 21 councillors) and 60 members of local boards. The mayor would be elected by voters of greater Wellington. Councillors and local board members would be elected from eight defined geographic areas.⁵²

In terms of functional powers, the mayor and councillors would be responsible for high-level decisions affecting all of Wellington. The local boards of the Wellington Region will have greater powers and broader functions than those of Auckland, and would control council budgets and decisions for local matters in established communities. For example under the proposed two-tier model, local boards will control a wide range of services currently undertaken by councils, including local transport, libraries, swimming pools, galleries, museums, environmental initiatives and heritage protection.

Plans for the future of local government in Wellington will be finalised and incorporate views from a public submission process due to end in March 2015.

⁵² NZ Local Government Commission, Wellington Region Reorganisation – Draft Proposal, 4 December 2014.

Appendix C: Alternate structural option

C.1 Merger of Manly-Warringah councils

The potential merger of Manly Council and Warringah Council presents an opportunity to achieve local council reform while minimising the perceived loss of local identity. 'Manly-Warringah' is an existing brand in popular use and reflects the strong community links that already exist in the region. Further evidence on why Option Four should be considered as a genuine structural option is outlined below.

C.1.1 Community and Governance

The creation of a Manly-Warringah Council would link Manly's town centre with more of its main residential base and retail destinations and would have a strong community focus on improving transport opportunities, childcare and community safety.

Both Manly and Warringah Councils have to employ similar housing strategies due to the general shortage of greenfield development opportunities. Combining Manly Council's knowledge of containment strategies and density could allow a Dee Why-Manly hub to develop more housing growth and economic development opportunities for residents. The Sydney Metropolitan Plan has prioritised the Dee Why-Brookvale corridor as one of state significance and Option Four may offer an opportunity to extend this economic corridor to Manly with planning responsibility being maintained under a single council.

A Manly-Warringah Council would also engage with stakeholders on transport and precinct planning for the new Northern Beaches Hospital at French's Forest. This may support efforts to develop and implement a Council-led health services strategy to take advantage of the new opportunities for allied health services planned for the new Northern Beaches Hospital. In this context, Option Four may present an opportunity for a merged Manly-Warringah Council to combine local government experience and capacity to better meet the needs of respective communities.

Table C-1 provides an approximate measure of potential local representation levels for each council on the Northern Beaches under Option Four. For Manly resident, the ratio of residents per councillor would potentially increase four-fold to 19,600 per councillor.

Table C-1 Local representation by council, using 2013 population data

	Manly Council	Warringah Council	Pittwater Council
No Merger	4,900 residents per councillor	15,200 residents per councillor	6,900 residents per councillor
Option Four	19,600 residents per councillor		<i>No Change</i>

Note: It is assumed the new Manly-Warringah merged council would maintain Warringah Council's policy of 10 elected councillors.

Source: KPMG

There is a significant risk to Pittwater communities being 'isolated' through the creation of a larger neighbouring Manly-Warringah council that may become more influential as a regional voice at the expense of Pittwater.

C.1.2 Geography and the Environment

Option Four does not involve boundary adjustments, but rather merges the entirety of two existing adjacent councils. The merger would bring together two councils of significantly different size in terms of both population and area. Warringah Council's population base is currently more than ten times that of Manly Council's and covers a geographic area 3.5 times larger.

The boundaries for the current Northern Beaches councils typically follow natural water courses and greenways to avoid splitting communities. However, catchment areas and parkland span multiple councils and are prone to competing interests on opposite sides of a Council boundary. A Manly-Warringah Council would, to some extent, alleviate these competing interests by bringing control of Manly Lagoon and Dee Why catchment areas under management control of a single council entity. In this context, Option Four may simplify ownership of some environmental assets.

A Manly-Warringah merger offers an opportunity to simplify ownership of some environmental assets on the Northern Beaches, however with Pittwater Council also having an important custodian role there will continue to be the prospect of competing environmental management policies and strategies in the region.

C.1.3 Demographic Profile

Manly Council and Warringah Council do share some common demographic features that warrant Option Four being considered as a genuine structural option. For example, reflecting the socio-economic status of the Northern Beaches region, both Manly Council and Warringah Council have higher than average levels of post school qualifications and socio-economic advantage. Manly Council and Warringah Council also have proportionally less of their population over the age of 65 compared to Pittwater Council which is excluded from Option Four.

While Warringah Council has a higher proportion of families with children than Manly Council both councils state it as a growing trend and priority in respective CSPs. Similarly, in terms of median ages, 37 and 38 respectively for Manly Council and Warringah Council, and age profiles suggest that the two areas are similar, with younger populations clustering around urban centres. In this context, the creation of Manly-Warringah Council in Option Four may be more closely aligned demographically, providing the ability to better manage the appropriate mix of services. Table C-2 provides a snapshot of key indicators.

Table C-2 Selected demographic indicators – Manly-Warringah Merger

Selected Indicator	Manly-Warringah Council	Pittwater Council
Population (2013)	196,800	62,000
Land Area (km²)	163	90
Median Age (years)	38	42
Population Density (per km²)	1207	688
Households with children (%)	35.1	38.4
Travelled to work by public transport (%)	18.4	7.9

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

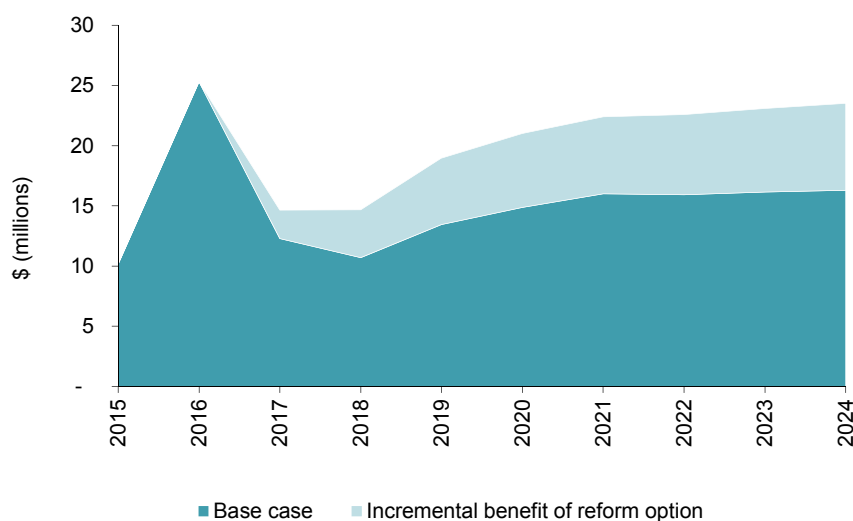
C.2 Economic and financial impact analysis of Option Four

C.2.1 Economic and financial impacts

A Manly-Warringah Council delivers incremental financial benefits to the Manly and Warringah Councils through a mix of staffing and expenditure efficiencies. The Net Present Value without financial assistance is \$16.8 million which represents 1 per cent per cent of a merged Council's operating revenue (present value).

Revised financial statements

Chart C-1: Net operating result for Manly-Warringah Council relative to base case



Source: Manly Council and Warringah Council, KPMG calculations

A Manly-Warringah merger, while negative in the first year (2015-16), the subsequent years bring an increased net operating profit. Chart C-1 illustrates the net operating profit for the two councils in the base case (dark green) and the incremental profit achieved by the merged council.

Revised income statements for a Manly-Warringah Council for the 2014-2024 period are provided in Appendix F.

Staffing establishment

A Manly-Warringah Council would gain some staffing efficiencies upon review of potential overlap in administrative and strategic positions. The staffing reduction assumptions resulted in a 5.6 per cent saving in employee wages and salary expenses. At the FTE level this results in a reduction of 20 FTE from Manly Council and a reduction of 33 FTE in Warringah Council. It is important to note that the numbers may be overestimated due to the vast majority of redundancies would be achieved at the executive and director level, where higher salaries are the norm, to help achieve the desired savings.

Table C-3: Financial performance indicators for Manly-Warringah Council

Ratio	Benchmark						
		14/15	15/16	16/17	17/18	18/19	19/20
Operating Performance	>0%	N/A	-0.9%	4.4%	3.4%	5.5%	6.0%
Own Source Revenue	>60%	N/A	93%	94%	94%	94%	94%
Building & Infrastructure Asset Renewal	>100%	N/A	148%	101%	107%	104%	104%
Infrastructure Backlog	<2%	N/A	0.0%	0.0%	0.0%	0.0%	0.0%
Asset Maintenance	>100%	N/A	101%	101%	101%	101%	101%
Debt Service	<20%	N/A	4.8%	4.5%	4.6%	4.4%	4.1%
Real Operating Expenditure per capita	Declining	N/A	1,171	1,120	1,157	1,146	1,140

Source: KPMG analysis

Financially, a Manly-Warringah Council is sound because its two constituent Councils are sound. The 2015-16 fiscal year represents the majority of the transition costs without any of the benefits and therefore provides a weaker operating performance, however all financial performance indicators are met from 2016-17 onward. These results assume no financial assistance is provided by the NSW Government to recoup some of the transition costs.

Table C-3 notes the drop in operating performance and also indicates the combined council would have no infrastructure backlog after the first year of operations. Both individual Council's performance, on asset maintenance for Manly and real operating expenditure for Warringah, is improved following a merger.

Net Present Value

NPV is the present value of all capital and operational cash flows associated with each structural option. The incremental savings and costs have been evaluated over a ten year period from 2014 to 2024.

The use of a discount rate of 9.5 per cent (NSW Treasury Guidelines in nominal terms) has been adopted – this reflects a real discount rate of 7 per cent and is considered best-practice by NSW State Government. A lower discount rate would inflate the NPVs presented in the table below.

The Manly-Warringah Council option has just over \$31 million additional savings than the base case and \$14.2 million additional costs which results in a \$16.8 million net present value. It was indicated by the NSW Government that if Councils meet a 250,000 population threshold, they could receive additional financial assistance to support transition costs, while the Manly-Warringah Council does not meet this population level, assuming it received half of the proposed \$10.5 million package (or \$5.25 million), the net present value increases to \$21.6 million over ten years.

Table C-4: Summary of financial impacts for Option Four

	Unit	Result	Benchmark	Met by 2020
<i>Option 2: Manly-Warringah Council</i>				
PV of benefits	<i>\$ million</i>	31.021	Operating Performance	✓
PV of costs	<i>\$ million</i>	(14.206)	Own Source	✓
NPV	<i>\$ million</i>	16.815	Asset Renewal	✓
NPV as proportion of council size	<i>per cent</i>	1.0	Infrastructure Backlog	✓
NPV including financial assistance	<i>\$ million</i>	21.609	Asset Maintenance	✓
Benefit-cost ratio	<i>number</i>	2.18	Debt Service	✓
Population of new entity	<i>number</i>	191,000	Real Operating Expenditure	✓

Source: KPMG analysis

Appendix D: Sub-Regional Analysis of the Northern Beaches

DEMOGRAPHIC PROFILES INTRODUCTION

Why is this important?

- Demographic trends have profound implications for council services, revenue, infrastructure utilisation and future infrastructure needs, expenditure patterns and almost all other aspects of local governance.
- Analysis of demographic trends will provide important insights into the current and future pressures local councils will face from the communities they serve.
- Changes in demographics directly influence council's priorities and forward planning – from long-term financial plans, community strategic plans and economic development strategies.
- A comparative summary of statistics for the four local councils on the Northern Beaches shows a number of key similarities and differences that will have an impact on council operations and priorities.
- The key themes explored in the following demographic analysis include:
 - **Communities of interest**
 - **Service complexity and delivery**
 - **Transport infrastructure and maintenance**

DEMOGRAPHIC PROFILES COMMUNITIES OF INTEREST

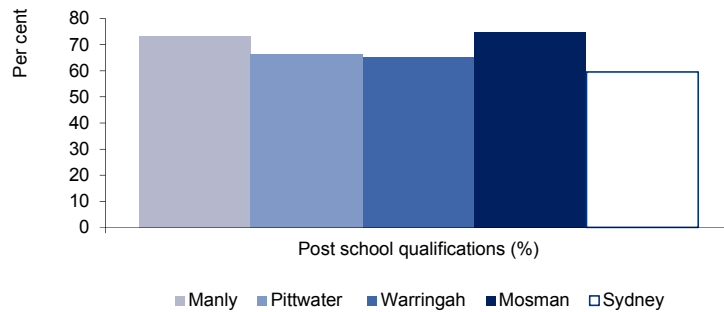
Why is this important?

- Communities of interest is often a consideration when evaluating local government reform, however a common definition or measurement framework is not readily apparent. According to a discussion paper for the SA Department of Local Government, **a community of interest encompasses the ability to meet the community's 'physical and human services', and the 'elected body's capacity to represent shared interests of its members'.**
- This demographic analysis considers indicators across education, family dynamics, levels of disadvantage, wealth and housing.
- The communities of the Northern Beaches are all relatively advantaged comparative to the rest of Sydney, with high levels of education and youth engagement. Manly and Mosman have lower proportions of families with children, which may impact the types of services targeted at this demographic.
- Mosman Council area has the highest average personal income among Northern Beaches communities. Property prices are also high – a key determinant of a council's rate base and revenue stream.

	Manly	Pittwater	Warringah	Mosman
Post school qualifications / engaged youth	High across Northern Beaches region			
Families with children	Below average	Below average	Above average	Below average
Socio-economic advantage	High across Northern Beaches region			
Personal income	High	Above average	Above average	Very high
Rental housing (%)	Greater than avg.	Less than avg.	Less than avg.	Greater than avg.
Social housing (%)	Greater than 2%	Less than 1%	Greater than 2%	Less than 1%

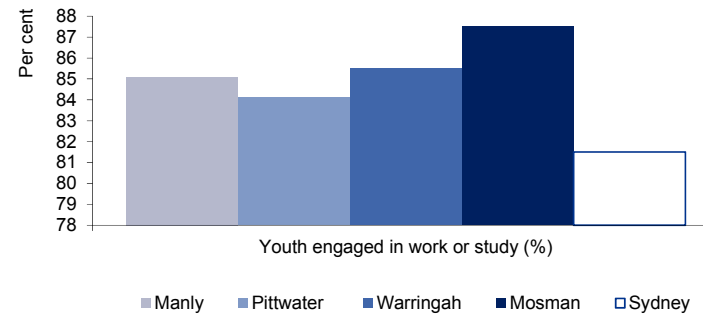
DEMOGRAPHIC PROFILES FAMILIES AND EDUCATION

Post school qualifications



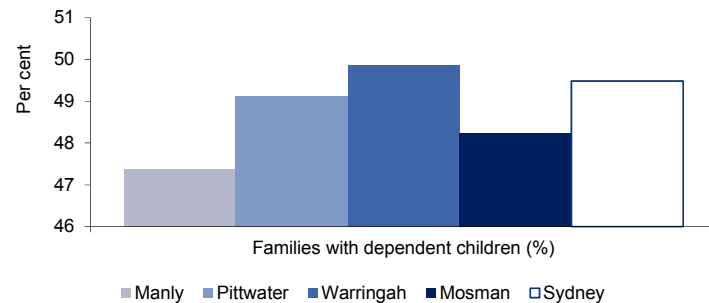
Source: Australian Bureau of Statistics, National Regional Profiles (2012)

Youth aged 15 to 19 engaged in work or study



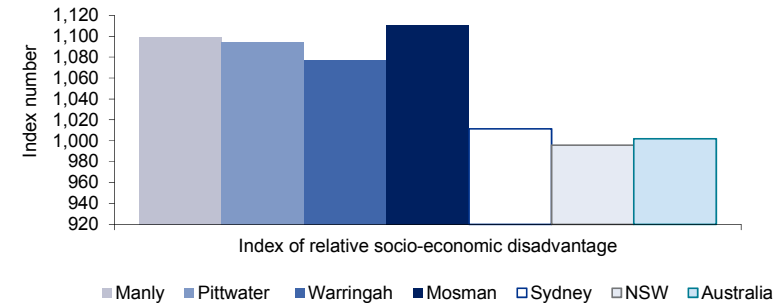
Source: Australian Bureau of Statistics, National Regional Profiles (2012)

Families with dependent children



Source: Australian Bureau of Statistics, National Regional Profiles (2012)

Index of relative socio-economic disadvantage



Source: Australian Bureau of Statistics, Census of Population and Housing 2011

DEMOGRAPHIC PROFILES WEALTH

Low income households (less than \$600 per week)

MANLY



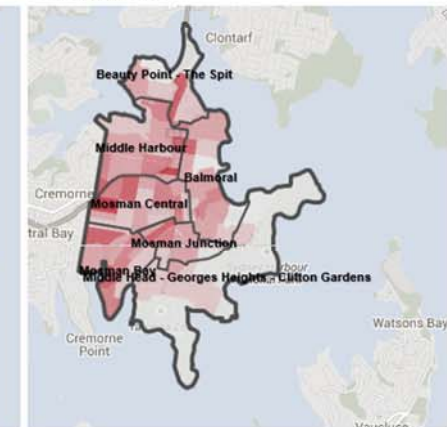
PITTWATER



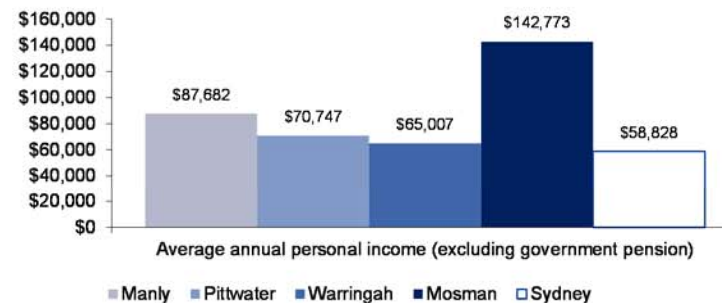
WARRINGAH



MOSMAN



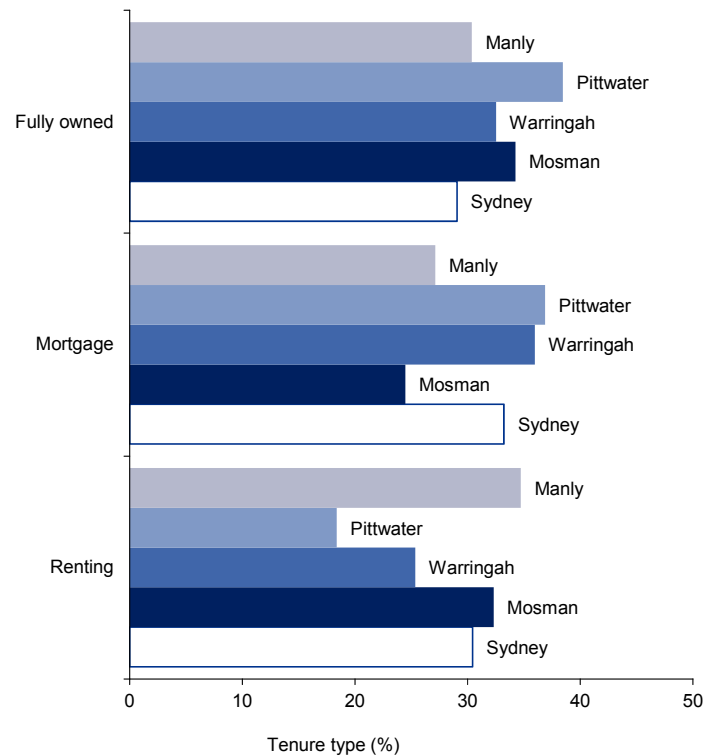
Average annual personal income (excluding government pension)



Source: Atlas ID 2014, Australian Bureau of Statistics, National Regional Profiles (2012)

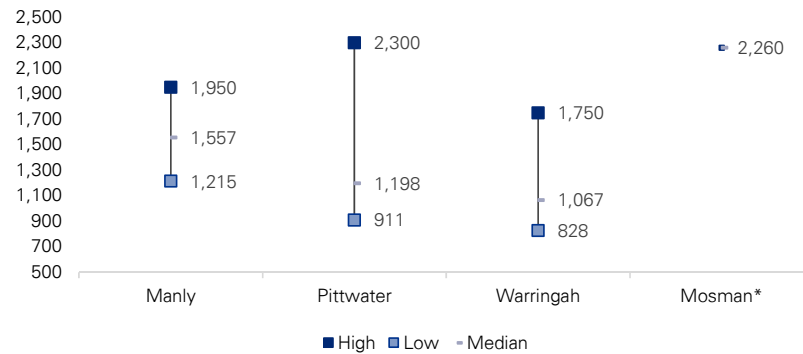
DEMOGRAPHIC PROFILES HOUSING

Housing tenure



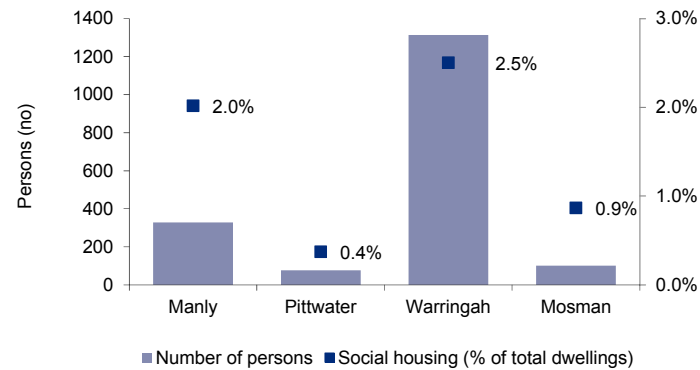
Source: Australian Bureau of Statistics, Census of Population and Housing, 2011

Median suburb house prices



Note: High and low represent the suburbs with the highest and the lowest median house price within each LGA
Source: Domain.com.au, Property Guide 2014 *No detailed suburb data available for Mosman

Social housing usage and proportion of total dwellings



Source: Australian Bureau of Statistics, Census of Population and Housing, 2011

DEMOGRAPHIC PROFILES SERVICE COMPLEXITY AND DELIVERY

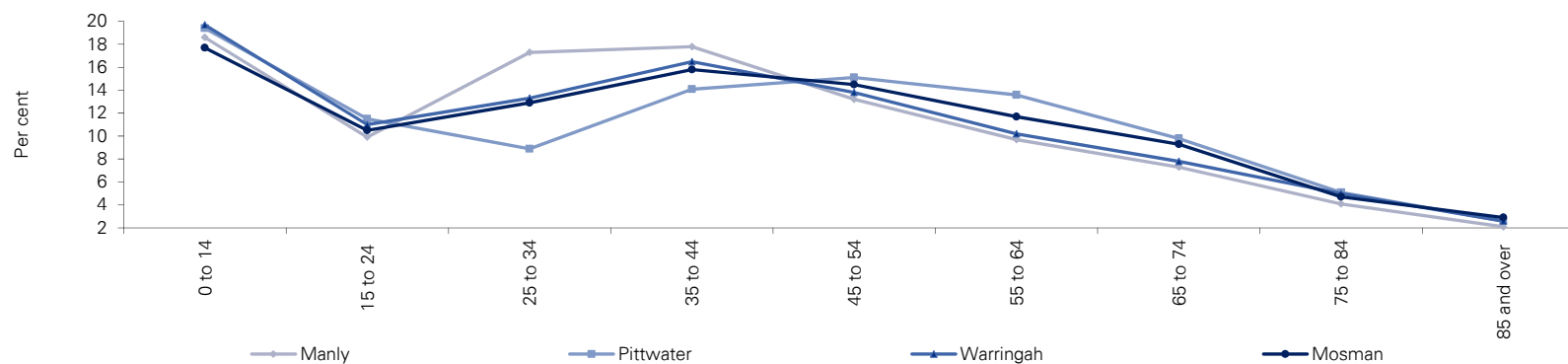
Why is this important?

- Factors such as **age**, **population density** and **diversity** have an impact on the type and level of services in demand.
- Pittwater has the highest proportion of aged residents, particularly age groups above 45. This, combined with health and leisure activities associated with ageing, will inform the **type and accessibility of services** councils provide. Mosman and Warringah also have an ageing population and will need to evolve Council services to best meet the needs of these residents.
- Manly residents represent highly in the age distributions between 25 and 44 years of age. Service needs for this age group are diverse, for example Manly Council promotes business efforts to be a centre for entertainment and tourism. Manly and Mosman are smaller and more dense areas compared to Pittwater and Warringah which engenders differences in **local planning laws** and regulations, and also impacts **road congestion, traffic flow management** and **asset management**.
- There are no large variances in service complexity related to English as a second language between Councils.
- Mosman Council has the highest level of residents who are new to their homes, which means there may be lower levels of attachment to the local government area.

	Manly	Pittwater	Warringah	Mosman
Age	Greater 24-44 yrs	Greater 65+ yrs	Matches average	Greater 65+ yrs
High density vs urban sprawl	High Density	Urban Sprawl	Urban Sprawl	High Density
Does not speak English at home	All Councils less than half the Greater Sydney average			
Transiency	Neutral	Neutral	Least transient	Most transient

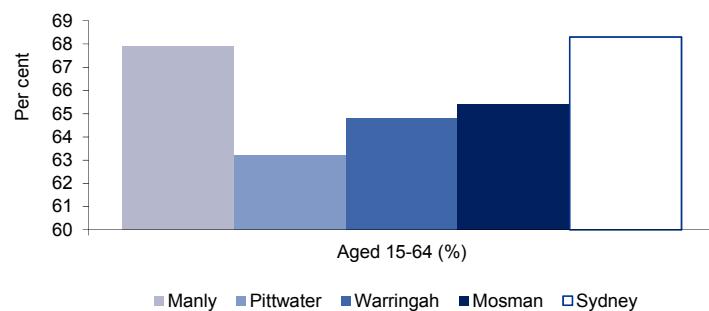
DEMOGRAPHIC PROFILES AGE

Age distribution by LGA



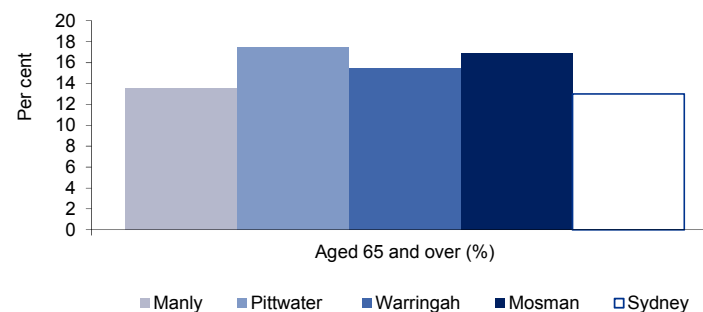
Source: Australian Bureau of Statistics, National Regional Profiles (2012)

Aged 15-64 (%)



Source: Australian Bureau of Statistics, National Regional Profiles (2012)

Aged 65 and older (%)



DEMOGRAPHIC PROFILES DENSITY

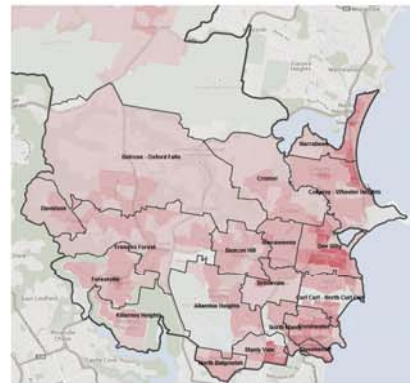
MANLY 3,021 persons/km²



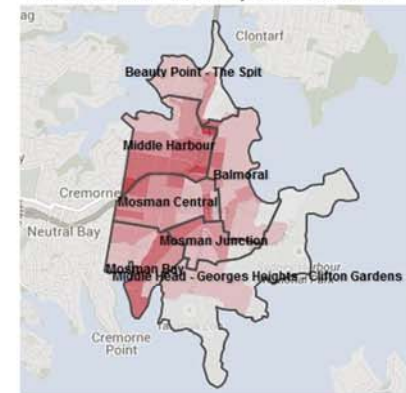
PITTWATER 678 persons/km²



WARRINGAH 1,006 persons/km²



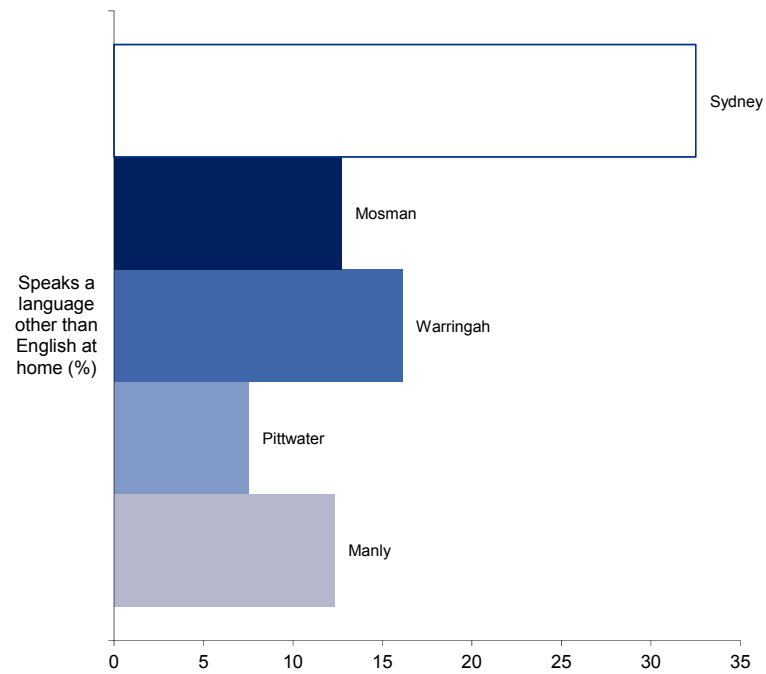
MOSMAN 3,422 persons/km²



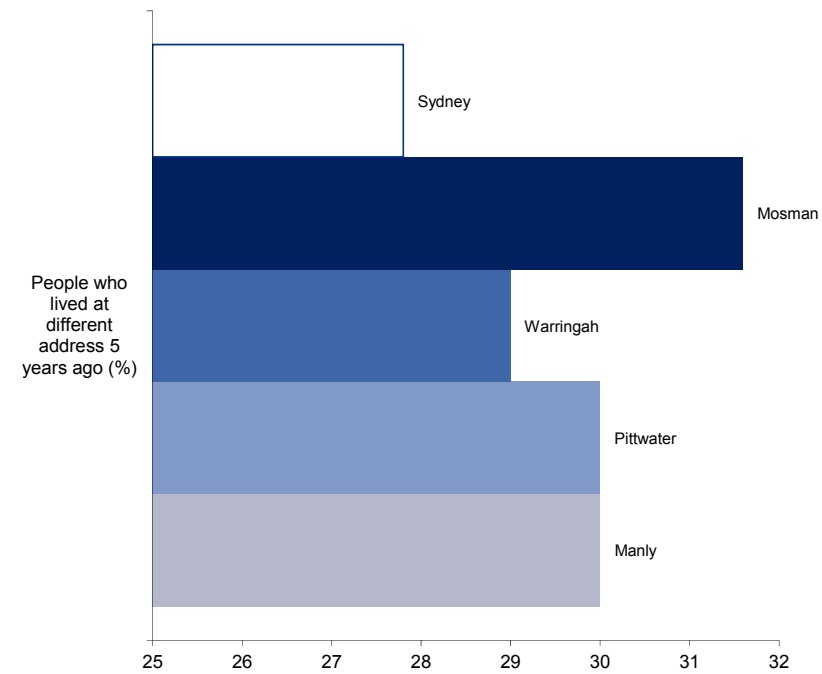
Source: Atlas ID 2014

DEMOGRAPHIC PROFILES DIVERSITY

Speaks a language other than English at home (%)



Residents who lived at a different address 5 years ago (%)



Source: Australian Bureau of Statistics, National Regional Profiles (2012)

DEMOGRAPHIC PROFILES TRANSPORT INFRASTRUCTURE AND MAINTENANCE

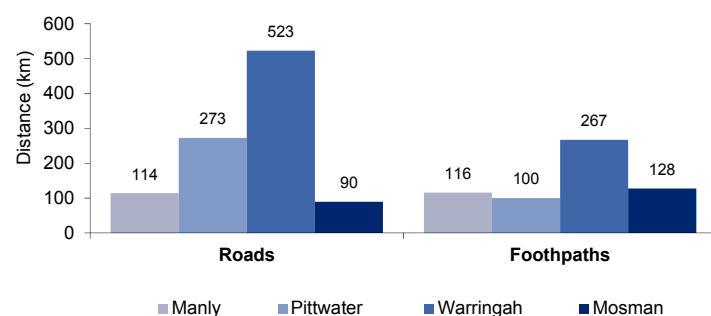
Why is this important?

- Transport infrastructure and maintenance represent some of the largest council expenditures.
- The extent and level of road and footpath maintenance is highly variable between Councils and has an impact on capital works program priorities.
- Population growth will also have an impact on the usage and maintenance of public infrastructure, with increasing preference for public transport over long distances and active transport for shorter distances.
- Due to proximity to the CBD and public transport, Manly and Mosman have less roads to maintain but have higher public and active transport usage. However, Pittwater boasts the highest share of active transport usage with over half the population of residents traveling to work by one method.
- Population growth is anticipated to be slower in the Northern Beaches than the rest of Sydney with Pittwater is anticipating the largest growth in population to 2031.

	Manly	Pittwater	Warringah	Mosman
Roads (km)	Low	High	High	Low
Public transport (%)	High	Low	Low	High
Active transport (%)	High	High	Low	High
Population growth	Less than 1.5% annual growth to 2031			

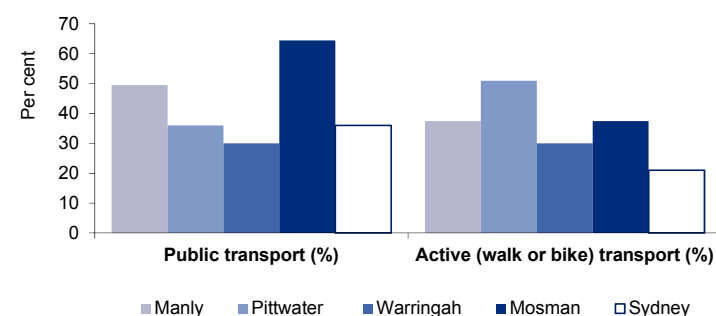
DEMOGRAPHIC PROFILES TRANSPORT INFRASTRUCTURE AND MAINTENANCE

Roads and footpaths



Source: Council Asset Management Plans

Public transport and active (walk / bike) transport share of population



Source: Australian Bureau of Statistics, National Regional Profiles (2012)

Population growth to 2031

LGA	2011	2031	Total % change	Annual % change
Manly	42,800	53,600	25.2%	1.1%
Pittwater	60,450	77,600	28.3%	1.2%
Warringah	148,400	179,600	21.0%	1.0%
Mosman	29,350	35,350	20.4%	0.9%
Sydney Metropolitan Area	4,286,300	5,861,850	36.8%	1.6%

Source: NSW Department of Planning and Environment, State and Local Government Area Population Projections: 2014 Final

Appendix E: Financial analysis – Methodology and key assumptions

This appendix provides detailed information on the approach and supporting assumptions used to undertake the financial analysis of structural options. For each cost and benefit stream associated with structural options, this appendix provides:

- the approaches used to estimate impacts, developed with respect to the scope and scale of available data; and
- supporting assumptions required to undertake the analysis with available data, developed with respect to insights from the comparative study and consultations with Manly Council and Pittwater Council.

Manly and Pittwater Councils were able to provide more data on staff salaries, wages and leave entitlements as well as facility data than Warringah Council. This necessitated some additional supporting assumptions to the approach taken for the other two councils but the overall approach and assumptions were applied in a consistent manner. Where there were additional data limitations or insufficient evidence to suggest a change from the status quo (for example, in the case of facility rationalisation) we have excluded the potential impact from the analysis.

For the purposes of improvement scenarios, there was insufficient data to estimate the impacts of individual benefit and cost streams, as was undertaken for the merger options. However, assumptions were made with respect to potential aggregate benefits and costs based on the analysis of service level data and comparative study.

E.1 Financial benefit and cost streams

Major financial cost and benefit streams, along with the approach to estimating these for the Northern Beaches councils, are outlined in Table E-1.

Table E-1: Approach to quantify major cost and benefit streams

	Approach	Data source(s)
1. Benefit streams		
<u>Direct staffing efficiencies(all options)</u>		
Avoided salaries and wages expenditure	<p>Description:</p> <p>Detailed staffing establishment data by branch and division were analysed by using a standard process model that identifies the functional type of a particular role.</p> <p>Efficiencies were estimated as percentage reductions to the current FTE establishment by functional type. Estimated efficiencies were disproportionately allocated to strategic and support functions, where there are naturally higher economies of scale compared to customer-facing operations.</p> <p>Division level efficiencies were cross-checked against evidence from the comparative study in respect to aggregate staffing efficiencies achieved through other amalgamations.</p> <p>The timing of staffing reductions was assumed to take place over a four year period to account for a three year period under which no forced redundancies can occur.</p>	<p>Manly Council and Pittwater Council staffing establishment data.</p> <p>FTE establishment of Warringah Council.</p> <p>Annual salaries and wages expenditure (including on-costs) for Manly Council, Pittwater Council and Warringah Council.</p>
	<p>Assumption(s):</p> <p>Overall staffing efficiencies were estimated at between 4 per cent and 9 per cent of the establishment, based on the scenario modelled. As noted above, reductions at the functional level varied from 50 per cent to 2 per cent based on the reasonableness of achieving any efficiencies.</p> <p>Comparative Study:</p> <p><i>Toronto (1998):</i> Merger savings stemmed primarily from reductions in the staffing establishment, and between 1998 and 2000 there was a reduction of 9 per cent of total positions, 14 per cent in admin and support positions, 34 per cent in management positions, and 60 per cent in executive management positions.</p> <p><i>Auckland (2009):</i> New organisational structure of the Council resulted in a 16 per cent reduction in staff.</p> <p>Other assumptions</p> <p><i>Nominal salaries and wages growth rate</i> – 3.1 per cent per annum, the average level used by the Northern Beaches Council in their long term financial projections.</p> <p><i>Labour costs</i> – The on-cost multiplier (15.4 per cent) for the Public Administration and Safety industry was calculated from Labour Costs, Australia, 2010-11 (ABS).</p>	<p>City of Toronto 2001, <i>Building the new City of Toronto: Three year status report on amalgamation January 1998- December 2000</i></p> <p>Controller and Auditor General of New Zealand 2012, <i>Auckland Council: Transition and emerging challenges</i></p> <p>Council long term financial projections.</p> <p>ABS 2012, Cat. No. 6348.0, <i>Labour Costs, Australia, 2010-11</i>.</p>

	Approach	Data source(s)
<u>Other operational efficiencies(all options)</u>		
Efficiency savings in 'Materials and contracts' expenses	<p>Description:</p> <p>Detailed cost items within 'Materials and contracts' from Council financial statements were reviewed to determine the scope of applicability of efficiency savings.</p> <p>For example, Materials and Contracts expenditures for the Kimbriki Environmental Enterprises joint venture were not eligible for efficiencies because it was assumed that these efficiencies would have previously been explored.</p> <p>The assumed value of efficiency savings, estimated as a proportion of eligible 'Materials and contracts' expenses, was applied to projected 'Materials and contracts' expenses from respective Council Long Term Financial Plan projections.</p>	Manly Council, Pittwater Council and Warringah Council 2013-14 financial statements and respective Long Term Financial Plans (2014-2024).
Efficiency savings in 'Other expenses'	<p>Detailed cost items within 'Other expenses' from Council financial statements were reviewed to determine the scope of applicability of efficiency savings.</p> <p>For example, Other expenditures related to Bad and Doubtful Debts or Interest on Bonds and Deposits were not eligible for efficiency savings.</p> <p>The assumed value of efficiency savings, estimated as a proportion of eligible 'Other expenses', was applied to projected 'Other expenses' from respective Council Long Term Financial Plan projections.</p>	Manly Council, Pittwater Council and Warringah Council 2013-14 financial statements and respective Long Term Financial Plans (2014-2024).
	<p>Assumption(s):</p> <p>It was conservatively assumed that there would be an efficiency saving of 2 per cent of applicable expenses.</p> <p>Comparative Study:</p> <p>The Auckland case study experience suggested a 3 per cent saving following amalgamation however it was felt that this may be too optimistic given the efforts to date by SHOROC with regard to procurement and the relative scale differences – Auckland was a merger of seven metropolitan councils and may therefore be able to drive more efficiencies than the three councils in the Northern Beaches.</p>	
<u>Facility rationalisation</u>		
Avoided annual facilities expenditure	Operational data for community facilities, including annual revenue, expenditure, and utilisation, were used as the basis to identify opportunities for asset rationalisation. However, due to a lack of data, a	N/A

	Approach	Data source(s)
Forgone annual user charges revenue from facilities	<p>consistent approach to selecting facilities could not be applied and was therefore excluded as a component of any benefits (avoided expenditure) or costs (foregone annual usage revenue).</p> <p>There may be additional financial benefits of merging councils should opportunities for asset rationalisation be pursued. There would be net benefits provided that:</p> <ul style="list-style-type: none"> the facility's operational costs exceeded its operational revenue; and there is an equivalent facility of suitable proximity to residents within the newly merged council area. 	
2. Cost streams		
<u>Upfront costs (all options)</u>		
Redundancy costs	<p>Description:</p> <p>Redundancy costs were estimated based on:</p> <ul style="list-style-type: none"> the estimated staffing efficiencies by branch (see above); average salaries and accruals (annual leave and long service leave) by division from Manly and Pittwater Councils; and an assumption about the average tenure of employees (based on turnover rates) to determine the redundancy liability as a function of annual salaries. <p>Assumption(s):</p> <p>According to data from the NSW Fair Work Ombudsman, redundancy pay periods range from 4 to 12 weeks pay depending on staff tenure.</p> <p>Staff tenure was estimated with respect to the average employee turnover rate of 10.9 per cent across each of the councils). The estimated tenure was assumed to be consistent across all divisions.</p> <p>Average annual leave and long service leave accruals per FTE were applied to the estimated redundancy pay package.</p> <p>No additional premiums for voluntary redundancies were assumed in the model.</p>	<p>Manly Council and Pittwater Council staffing establishment data.</p> <p>FTE establishment of Warringah Council.</p> <p>NSW Fair Work Ombudsman (2014), Redundancy pay and entitlements (other)</p> <p>Manly Council Community Strategic Plan Beyond 2024 - Resourcing Strategy</p> <p>Warringah Council Workforce Plan 2013-17</p>
Facility consolidation	Data were not available to directly estimate these costs, however, evidence from comparative study was available that related to:	Council long term financial projections.
IT consolidation		

	Approach	Data source(s)
Staff retraining costs	<ul style="list-style-type: none"> • aggregate upfront costs of amalgamation as a function of total annual expenditure; and • the distribution of the total upfront cost by cost type. 	
Other costs		
	<p>Assumption(s):</p> <p>Total upfront costs were estimated at 4.7 per cent of total annual expenditure and apportioned across cost types based on Toronto's comparative study:</p> <ul style="list-style-type: none"> • Facility consolidation: 30 per cent of total upfront cost; • IT consolidation: 30 per cent of total upfront cost; • Retraining: 2 per cent of total upfront cost; and • Other transition costs: 11 per cent of total upfront cost. <p>Each merger option's total upfront cost varied slightly from the 4.7 per cent of total annual expenditure due to the assumptions underpinning the redundancy package (above).</p>	
<u>Recurrent costs (all options)</u>		
Service level harmonisation	Evidence on the costs associated with service level harmonisation were available from international examples in the comparative study, however, there was insufficient information on the comparability of the cost of service to the Australian context. Therefore, it was determined that there was insufficient information to quantitatively estimate these costs.	N/A
Cost of debt financing for upfront costs	<p>Description:</p> <p>The cost of debt associated with financing the upfront cost of reform was determined by considering the reasonableness of Manly Council and Pittwater Council funding the costs from its free cash flow. This determination was made with respect to the financial data provided by Councils.</p> <p>Where the upfront cost of reform was determined to be financed from Council's cash and cash equivalents, the value of forgone interest on those cash and cash equivalents was estimated.</p>	<p>Council long term financial projections.</p> <p>RBA 2015, <i>Indicator Lending Rates</i>.</p> <p>RBA 2015, <i>Interest Rates and Yields – Money Market</i></p>
Forgone interest on cash or cash equivalents		

	Approach	Data source(s)
	<p>Assumption(s):</p> <p><i>Basis to seek debt financing</i></p> <p>The upfront cost to implement options was compared against projected cash and cash equivalents in Council long term financial projections.</p> <p>Where requirements were less than 10 per cent of cash and cash equivalents, it was assumed that Councils would finance the implementation out of its cash and cash equivalents.</p> <p><i>Cost of debt</i></p> <p>The cost of debt was assumed to be the current weighted average small business lending rate, published by the Reserve Bank of Australia (RBA) (6.6 per cent per annum).</p> <p><i>Investment returns</i></p> <p>Due to the variation in Council assumptions regarding the return on cash and cash equivalents, investment returns were assumed to be consistent with the RBA's published cash rate target (interbank overnight cash rate) which stands at 2.3 per cent per annum.</p>	
Timing	<p>Assumption(s):</p> <p><i>Staffing efficiencies</i></p> <p>It was noted from consultations with Manly Council and Pittwater Council that forced redundancies would not occur in the first year of implementation. Council was not permitted to enact forced redundancies until three years after the structural change. To account for this, a phased introduction of the costs and benefits associated with staffing efficiencies was adopted. Combined with a natural attrition of approximately 11 per cent, 25 per cent of the redundancies were assumed to occur each year over the four year period from 2015 to 2019.</p> <p><i>Costs</i></p> <p>The costs of a merger were assumed to commence in the 2015-16 fiscal year with the exception of redundancy costs which were assumed to occur evenly over the four year period to 2018-19.</p> <p><i>Benefits (savings)</i></p> <p>The benefits of a merger were assumed to commence in 2016-17, the first year of a newly elected Council and the presumed first year of any newly formed entity.</p> <p>Staffing efficiencies were however phased in as noted above.</p>	Consultations with Manly Council and Pittwater Council

	Approach	Data source(s)
Option specific considerations	<p>Assumption(s):</p> <p><i>Kimbriki Environmental Enterprises</i></p> <p>The joint venture owned by Manly, Mosman, Pittwater and Warringah Councils was often cited as an example of strong cooperation across the Northern Beaches. While noting from consultations its important impact on the region, it was assumed that the impacts associated with the JV would not change in any of the merger scenarios. The relative ownership percentages of each Council were obtained and used to control for each Council's share of the operating expenditures.</p> <p><i>Option 4: Greater Manly and Greater Pittwater Councils</i></p> <p><i>Split of population</i></p> <p>Under the proposed boundary adjustments to create a north and south Council in the Northern Beaches, the approximate reallocation of Warringah's population between the two new councils was 50.5%:49.5% in favour of Greater Pittwater.</p> <p><i>Impact analysis</i></p> <p>Due to the complexities associated with splitting a currently functioning Council in two, there were additional costs and muted savings for this option.</p> <ul style="list-style-type: none"> • <i>Costs</i> – The upfront costs associated with facility and IT consolidation, staff retraining and other transitional expenses were incurred by both the Greater Manly entity and the Greater Pittwater entity as if they were merging with the entire Warringah Council (as opposed to the costs of merging with a council half that size). • <i>Benefits (savings)</i> – To account for the additional organisational complexity the proportional staffing reductions achieved by Warringah Council's north and south aligned employees were half those potentially achieved by merger with a Council of a similar scale. 	Consultations with Warringah Council, Manly Council and Pittwater Council
Other assumptions	<p><i>Inflation</i></p> <p>A simple rate of 2.5 per cent was used over the ten year period to be consistent with historical RBA target band of between 2 and 3 per cent. The NSW Local Government index rate is 2.47 per cent.</p> <p><i>Discount rate</i></p> <p>A 9.5 per cent nominal discount rate (7 per cent in real terms) was used to maintain consistency with the NSW Treasury Guidelines for government business cases.</p>	<p>RBA (2014), Inflation Target, <www.rba.gov.au/Inflation></p> <p>NSW Treasury (2007), <i>NSW Government Guidelines for Economic Appraisal</i></p>

Source: KPMG.

Table E-2: Approach to calculating Fit for the Future financial metrics

Approach		Data source(s)
Financial sustainability		
Operating performance ratio	Total continuing operating revenue (exc. capital grants and contributions) less operating expenses <hr/> Total continuing operating revenue (exc. capital grants and contributions) Benchmark: Greater than or equal to break-even average over 3 years	Council long term financial projections
Own source revenue ratio	Total continuing operating revenue less all grants and contributions <hr/> Total continuing operating revenue inclusive of capital grants and contributions Benchmark: Greater than 60 per cent average over 3 years	Council long term financial projections
Building and infrastructure asset renewal ratio	Asset renewals (building and infrastructure) <hr/> Depreciation, amortisation and impairment (building and infrastructure) Benchmark: Greater than 100 per cent average over 3 years Assumption(s): Building and infrastructure renewals and depreciation figures for those same assets was provided by Chief Financial Officers from each Council and represent their budgeted expenditures over the 2014-2024 period.	Council long term financial projections Consultations with Manly Council, Warringah Council and Pittwater Council.
Effective infrastructure and service management		

	Approach	Data source(s)
Infrastructure backlog ratio	<p>Estimated cost to bring assets to a satisfactory condition (Condition Level 3)</p> <hr/> <p>Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets</p> <p>Benchmark: Less than 2 per cent</p> <p>Assumption(s):</p> <p>Each council presents their infrastructure backlog in Special Schedule 7 of their annual financial statements. A number of assumptions were required to consistently forecast backlog value and its relationship to projected asset renewal spending:</p> <ul style="list-style-type: none"> • Asset renewal spending that services level 4 and 5 assets – 80 per cent of asset renewal expenditure was assumed to go towards the betterment of Class 4 and 5 assets each year. This serves to reduce the numerator of the Infrastructure Backlog ratio. The remainder goes to maintain assets that already exceed level 3 asset quality. • Proportion of WDV of infrastructure that falls below level 3 – It is assumed that each year, a small proportion (0.4 per cent) of total WDV of infrastructure falls below level 3 condition. • Growth in WDV of infrastructure – Each year it is assumed that the WDV of infrastructure grows at the same rate as the projected annual rate of growth in total Infrastructure, Property, Plant and Equipment stock. 	<p>Council long term financial projections</p> <p>Consultations with Manly Council and Pittwater Council.</p>

	Approach	Data source(s)
Asset maintenance ratio	Actual asset maintenance	Council long term financial projections Consultations with Manly Council and Pittwater Council.
	Required asset maintenance Benchmark: Greater than 100% average over 3 years Assumption(s): Where Councils did not provide specific guidance as to their budgeted asset maintenance expenditure, the following assumptions were used: <ul style="list-style-type: none"> • Required asset maintenance – A three year historical analysis determined the average ratio of required asset maintenance as a proportion of the WDV value of Infrastructure. • Projected level of actual asset maintenance – A three year historical analysis determined the average actual maintenance as a proportion of required asset maintenance. This historical relationship was used as an indication of the Council's likely asset maintenance policy and was confirmed by both Manly Council and Pittwater Council to be reflected in their Long Term Financial Plans. 	
Debt service ratio	Cost of debt service (interest expense & principal repayments) Total continuing operating revenue (exc. capital grants and contributions) Benchmark: Greater than 0% and less than or equal to 20% average over 3 years	Council long term financial projections
Efficiency		
Real operating expenditure per capita	Real operating expenditure Population Benchmark: A decrease in real operating expenditure per capita over time Assumption(s): Population growth forecasts were assumed to be in line with NSW Local Government Area Population Projections which forecast population growth from 2011 to 2031. Operating expenditure was deflated according to an inflation rate of 2.5 per cent.	Council long term financial projections NSW Department of Planning and Environment (2014)

E.2 Data limitations

Over the course of the engagement, extensive data collection was undertaken to inform the financial analysis and all four Councils within the SHOROC region shared their long term financial projections and core assumptions. Limitations have been identified through the analysis and have been considered in the development of the financial modelling and the reporting of the results, and are outlined within the following sub sections:

Consistency in reporting

Local councils in NSW have reporting responsibilities as public entities under Australian Accounting Standards and have a Local Government Code of Accounting Practice and Financial Reporting which assists councils in interpreting and applying the appropriate policies.

That said, each Council is different in how it structures its operations, delivers services and meets community priorities. This may lead to some variations in how Councils prepare their long term financial projections, account for infrastructure backlog and report their per service expenditures. As noted frequently throughout the report, the financial figures only tell one side of the story. The results of our analysis are therefore subject to the accuracy of the data provided by Councils.

Detailed employee data

In the absence of detailed employee data, benefit and cost streams for direct staffing efficiencies for Warringah Council were limited to higher level analysis based on publicly available financial data. To ensure consistency in assumptions and the basis of the analysis, financial impacts for Warringah Council were estimated with reference to ratios calculated in the more detailed analysis for Manly Council and Pittwater Council.

The approach for these impacts is outlined in further detail in Table E-3.

Table E-3: Approach to estimating staffing efficiency impacts for Warringah Council

	Approach
1. Benefit streams <i>Avoided salaries and wages expenditure</i>	Estimated reductions in salaries and wages (including on-costs) for Manly Council were calculated as a proportion of projected total salaries and wages expenditure (including on-costs). This ratio was applied to total projected salaries and wages expenditure (including on-costs) for Warringah Council (found in Long Term Financial Plan). Use of the ratio of the monetary value of staffing efficiencies compared to the ratio of FTE reductions recognised that the distribution of staffing efficiencies was disproportionately allocated to functional divisions and management roles, for which salaries tend to be greater than average.
2. Cost streams <i>Redundancy costs</i>	Estimated redundancy costs (including redundancy payments, annual leave accruals, and long service leave accruals) for Manly Council were calculated as a proportion of the total upfront cost of amalgamation. This ratio was applied to the total estimated upfront cost of merger for Warringah Council.

Source: KPMG.

E.3 Fit for the Future Benchmarks

The following section summarises the seven Fit for the Future benchmarks, including the overall objective of the benchmark and any inherent limitations.

Operating performance ratio

The operating performance ratio seeks to measure a council's ability to generate sufficient funds to meet expenditure requirements for the delivery of services and infrastructure. An important consideration is that the ratio is assessing a council's operating performance, therefore capital grants and contributions are excluded from this ratio.

The *Fit for the Future* benchmark is for the operating performance ratio to be greater than or equal to a break-even (zero) average over a three year period. It is noted that better practice for councils should be to set internal benchmarks greater than a 'break even' operating position in the long run to prevent deterioration of their financial positions.

The NSW Government has included the operating performance ratio in the *Fit for the Future* assessment with the view that an operating deficit may be appropriate in the short-term but not in the long term. Sustained operating deficits indicate that a council may be funding some of its current operations through capital grants and contributions and/or additional debt, possibly at the expense of future generations of ratepayers.⁵³

Own-source revenue ratio

The own-source revenue ratio measures the degree of a council's reliance on external funding sources such as grants and contributions. In essence, the indicator measures "fiscal flexibility and robustness" and the portion of ordinary income that is directly controlled by council.

The *Fit for the Future* benchmark is for own source revenue to be greater than 60 per cent of operating revenue averaged over a three-year period.

A limitation of this indicator is it is sensitive to capital grants and contributions which tend to be notoriously 'lumpy' over time and therefore is not an entirely consistent measure across councils over time.

Building and infrastructure asset renewal ratio

The building and infrastructure asset renewal ratio measures the extent to which annual asset renewals expenditure matches the cost associated with asset depreciation for the year.

The *Fit for the Future* benchmark is for building and infrastructure asset renewal ratio to be greater than 100 per cent averaged over a three-year period. A ratio below 100 per cent indicates an increasing infrastructure backlog as existing assets are deteriorating faster than they are being renewed.

A limitation of this indicator is it is highly sensitive to how councils estimate depreciation expenses. Assumptions underpinning depreciation calculations may vary significantly over time and across similar councils. Also, depreciation is an accounting estimate and not necessarily a real reflection of an asset's degradation.

Infrastructure backlog ratio

The infrastructure backlog ratio measures the estimated cost to bring assets to a satisfactory condition as a proportion of the total value of infrastructure, building, structure and depreciable land improvements assets.

⁵³ IPART 2014, *Review of Criteria for Fit for the Future – Final Report*, September 2014.

The *Fit for the Future* benchmark is for an infrastructure backlog ratio less than two per cent averaged over a three-year period. This is widely viewed as an ambitious target and if where the threshold is not met, it will be important to at least demonstrate council's are moving toward it over time.

A limitation of this indicator is the data source stems from a non-audited item (Special Schedule 7) and is therefore not measured consistently across councils. This raises questions regarding the reliability of the indicator which, perhaps, may be better used to establish a trend line rather than as an accurate measure of infrastructure backlogs across councils.

Asset maintenance ratio

The asset maintenance ratio measures the actual asset maintenance expenditure relative to the required asset maintenance expenditure. The indicator shows whether a council is meeting all maintenance requirements, all allowing some assets to degrade.

The *Fit for the Future* benchmark is for an asset maintenance ratio greater than 100 per cent averaged over a three-year period. This is the same benchmark adopted by TCorp and is considered to be a sound indicator of whether a council is maintaining or reducing its infrastructure backlog.

A limitation of this indicator is its declining usefulness as a forward-looking indicator. Long term financial planning assumptions for most councils will set a standard level of maintenance based on what's required to maintain a desired ratio. Changes to a council structure may have differing effects on these assumptions.

Debt service ratio

The debt service ratio measures the "appropriate and affordable" level of debt servicing by councils. The indicator has been included in the *Fit for the Future* criteria to address whether councils use a combination of council finances and borrowings to reduce any infrastructure backlog.

The *Fit for the Future* benchmark is for debt service ratio greater than zero and less than or equal to 20 per cent averaged over a three-year period. The use of loan borrowings was considered to be integral to 'fit for the future' councils with sufficient 'strategic capacity' to partner with the State Government.

A limitation of this indicator is that an assessment of a council's debt service ratio needs to consider the broader context of a council's financial performance. Similarly, this indicator does not account for what purposes a Council is accruing debt and whether borrowings are being used to fund long life infrastructure assets.

Real operating expenditure per capita

The real operating expenditure per capita indicator is the sole criterion used to measure 'efficiency' by examining trends in a council's 'real operational expenditure per capita' over a period of time.

The *Fit for the Future* benchmark is for the real operating expenditure per capita to decrease over time – that is, achieve a downward trend. Importantly, this benchmark does not depend on comparison of performance across councils, but rather involves comparing a council's performance against itself over time with a view to generating efficiency dividends.

A limitation of this indicator is that it does not take into account varying community expectations of services levels provided by council. Council's with higher operational expenditure may well be responding to community demands for increased service levels.

Appendix F: Revised income statements

Table F-0-1: Income statement projections for Manly Council, \$'000 (Option 1 – No Merger)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	38,689	39,657	40,736	41,755	42,860	44,055	45,283	46,547	47,846	49,182
User charges and fees	14,290	15,609	19,584	20,088	20,684	21,297	21,929	22,587	23,264	23,962
Interest and investment revenue	1,224	835	702	719	2,519	2,919	3,579	4,019	4,519	5,069
Other revenues	6,401	6,562	6,710	6,878	7,064	7,255	7,451	7,674	7,904	8,141
Grants and contributions provided for operating purposes	4,538	4,583	4,632	4,681	4,791	4,905	5,021	5,171	5,327	5,486
Grants and contributions provided for capital purposes	430	1,180	431	432	440	448	457	472	481	491
Net gains from the disposal of assets	-	6,239	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<i>Total income from continuing operations</i>	65,572	74,665	72,795	74,553	78,358	80,879	83,720	86,470	89,341	92,331
Expenses from continuing operations										
Employee benefits and on-costs	30,173	31,630	33,291	34,339	35,369	36,430	37,523	38,725	39,966	41,246
Borrowing costs	2,967	3,287	3,143	3,936	3,799	3,659	3,519	3,406	3,242	3,117
Materials and contracts	14,415	14,679	14,912	15,067	15,511	15,970	16,440	16,925	17,425	17,939
Depreciation and amortisation	9,010	9,208	9,409	9,615	9,807	10,002	10,201	10,455	10,715	10,982
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	6,115	6,353	6,923	7,097	7,318	7,544	7,780	8,014	8,254	8,502
<i>Total expenses from continuing operations</i>	62,680	65,157	67,678	70,054	71,804	73,605	75,463	77,525	79,602	81,786
Net operating result for the year	2,892	9,508	5,117	4,499	6,554	7,274	8,257	8,945	9,739	10,545

Source: Manly Council

Table F-0-2: Income statement projections for Pittwater Council, \$'000 (Option 1 – No merger)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	51,156	52,639	54,218	55,682	57,211	58,870	60,578	62,334	64,142	66,002
User charges and fees	15,747	16,509	17,455	17,975	18,496	19,033	19,585	20,153	20,737	21,339
Interest and investment revenue	1,438	1,480	1,524	1,565	1,611	1,657	1,705	1,755	1,806	1,858
Other revenues	3,186	3,278	3,376	3,466	3,567	3,670	3,776	3,886	3,999	4,115
Grants and contributions provided for operating purposes	4,316	4,014	4,608	4,461	4,590	4,724	4,861	5,001	5,147	5,296
Grants and contributions provided for capital purposes	7,288	11,367	18,572	16,066	9,109	4,838	4,191	8,155	1,591	1,611
Net gains from the disposal of assets	344	4,077	159	163	168	173	178	183	188	194
Other	816	840	865	888	914	940	968	996	1,025	1,054
<i>Total income from continuing operations</i>	84,290	94,204	100,777	100,267	95,666	93,906	95,842	102,463	98,635	101,468
Expenses from continuing operations										
Employee benefits and on-costs	29,508	30,664	31,585	32,439	33,314	34,214	35,138	36,239	37,375	38,547
Borrowing costs	950	1,180	1,288	1,257	1,198	1,143	1,088	1,013	924	840
Materials and contracts	16,792	17,242	17,826	18,318	18,989	19,693	20,423	21,181	21,967	22,782
Depreciation and amortisation	9,108	9,368	9,645	9,902	10,189	10,484	10,788	11,101	11,423	11,754
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	18,583	18,907	19,717	19,783	20,357	20,947	21,555	22,180	22,823	23,485
<i>Total expenses from continuing operations</i>	74,941	77,362	80,061	81,698	84,047	86,481	88,991	91,714	94,512	97,409
Net operating result for the year	9,349	16,842	20,716	18,569	11,619	7,424	6,851	10,749	4,122	4,060

Source: Pittwater Council

Table F-0-3: Income statement projections for Warringah Council, \$'000 (Option 1 – No Merger)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	96,520	100,587	104,960	116,534	123,336	127,905	131,836	135,934	140,125	144,322
User charges and fees	45,886	47,052	48,424	49,677	50,896	52,121	53,424	54,808	56,168	57,543
Interest and investment revenue	3,325	3,114	3,041	2,907	3,030	3,288	3,465	3,597	3,680	3,706
Other revenues	10,144	10,402	10,705	10,620	10,880	11,142	11,421	11,717	12,008	12,302
Grants and contributions provided for operating purposes	7,752	8,115	7,653	7,804	8,106	8,741	8,409	8,627	8,951	9,611
Grants and contributions provided for capital purposes	3,143	2,948	3,034	3,113	3,189	3,266	3,347	3,434	3,519	3,606
Net gains from the disposal of assets	298	9,379	315	2,146	331	339	347	356	365	374
Other	96,520	100,587	104,960	116,534	123,336	127,905	131,836	135,934	140,125	144,322
<i>Total income from continuing operations</i>	167,068	181,597	178,132	192,801	199,768	206,802	212,249	218,473	224,816	231,464
Expenses from continuing operations										
Employee benefits and on-costs	62,100	64,071	66,154	68,304	70,523	73,164	75,901	78,740	81,682	84,733
Borrowing costs	1,052	1,605	1,614	1,622	1,630	1,638	1,646	1,654	1,661	1,667
Materials and contracts	60,283	62,206	63,081	75,702	78,114	80,754	82,159	85,315	88,041	91,128
Depreciation and amortisation	15,722	16,712	18,226	18,698	19,676	20,149	20,653	21,188	21,714	22,246
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	20,636	21,201	21,892	22,276	22,928	23,498	24,142	24,596	25,303	25,941
<i>Total expenses from continuing operations</i>	159,793	165,795	170,967	186,602	192,871	199,203	204,501	211,493	218,401	225,715
Net operating result for the year	7,275	15,802	7,165	6,199	6,897	7,599	7,748	6,980	6,415	5,749

Source: Warringah Council

Table F-6: Income statement projections for Greater Pittwater Council, \$'000 (Option 2)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	99,897	103,434	107,222	114,531	119,495	123,461	127,154	130,980	134,904	138,883
User charges and fees	38,919	40,270	41,909	43,062	44,198	45,353	46,563	47,830	49,101	50,397
Interest and investment revenue	3,117	3,052	3,060	3,033	3,141	3,318	3,455	3,571	3,664	3,730
Other revenues	8,308	8,531	8,782	8,829	9,061	9,297	9,544	9,803	10,063	10,327
Grants and contributions provided for operating purposes	8,230	8,112	8,473	8,402	8,684	9,138	9,107	9,358	9,667	10,149
Grants and contributions provided for capital purposes	8,875	12,855	20,104	17,638	10,719	6,487	5,881	9,889	3,368	3,432
Net gains from the disposal of assets	495	8,814	318	1,247	335	344	353	363	373	383
Other	816	840	865	888	914	940	968	996	1,025	1,054
<i>Total income from continuing operations</i>	168,657	185,909	190,732	197,630	196,547	198,339	203,025	212,790	212,165	218,355
Expenses from continuing operations										
Employee benefits and on-costs	60,868	62,471	63,868	65,191	66,533	68,686	70,909	73,360	75,895	78,518
Borrowing costs	1,481	3,220	3,332	3,305	3,250	3,199	3,148	3,077	2,992	2,911
Materials and contracts	47,234	48,656	48,963	55,721	57,583	59,590	61,010	63,327	65,458	67,798
Depreciation and amortisation	17,047	17,807	18,849	19,344	20,125	20,659	21,218	21,801	22,388	22,988
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	29,004	37,314	30,611	30,869	31,762	32,433	33,355	34,199	35,188	36,160
<i>Total expenses from continuing operations</i>	155,635	169,468	165,622	174,429	179,252	184,568	189,640	195,764	201,921	208,375
Net operating result for the year	13,023	16,441	25,110	23,200	17,295	13,771	13,386	17,026	10,243	9,980

Source: Pittwater Council, Warringah Council, KPMG calculation

Table F-7: Income statement projections for Greater Manly Council, \$'000 (Option 2)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	86,467	89,449	92,692	99,440	103,913	107,369	110,543	113,836	117,209	120,623
User charges and fees	37,004	38,900	43,554	44,679	45,878	47,097	48,374	49,718	51,068	52,446
Interest and investment revenue	2,870	2,376	2,207	2,158	4,019	4,547	5,294	5,800	6,341	6,904
Other revenues	11,422	11,711	12,009	12,135	12,450	12,770	13,105	13,474	13,848	14,231
Grants and contributions provided for operating purposes	8,375	8,600	8,420	8,544	8,804	9,232	9,184	9,441	9,758	10,244
Grants and contributions provided for capital purposes	1,986	2,639	1,933	1,973	2,019	2,065	2,114	2,172	2,223	2,276
Net gains from the disposal of assets	148	10,882	156	1,062	164	168	172	176	181	185
Other	-	-	-	-	-	-	-	-	-	-
<i>Total income from continuing operations</i>	148,272	164,557	160,972	169,991	177,245	183,248	188,785	194,616	200,627	206,908
Expenses from continuing operations										
Employee benefits and on-costs	60,913	62,917	65,159	66,790	68,407	70,711	73,094	75,634	78,263	80,982
Borrowing costs	3,488	5,220	5,081	5,878	5,745	5,609	5,473	5,364	5,203	5,081
Materials and contracts	44,256	45,472	45,387	51,688	53,299	55,036	56,183	58,197	60,016	62,026
Depreciation and amortisation	16,793	17,481	18,431	18,871	19,547	19,976	20,424	20,943	21,464	21,994
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	16,330	24,156	17,750	18,110	18,648	18,987	19,537	19,990	20,575	21,133
<i>Total expenses from continuing operations</i>	141,779	155,245	151,808	161,336	165,646	170,320	174,710	180,129	185,521	191,216
Net operating result for the year	6,493	9,312	9,164	8,655	11,599	12,928	14,075	14,488	15,106	15,692

Source: Manly Council, Warringah Council, KPMG calculations

Table F-5: Income statement projections for Northern Beaches Council, \$'000 (Option 3)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	186,365	192,883	199,914	213,971	223,407	230,830	237,697	244,815	252,113	259,506
User charges and fees	75,923	79,170	85,463	87,740	90,076	92,451	94,938	97,548	100,169	102,844
Interest and investment revenue	5,987	5,429	5,267	5,191	7,160	7,864	8,749	9,371	10,005	10,633
Other revenues	19,731	20,242	20,791	20,964	21,511	22,067	22,648	23,277	23,911	24,558
Grants and contributions provided for operating purposes	16,606	16,712	16,893	16,946	17,487	18,370	18,291	18,799	19,425	20,393
Grants and contributions provided for capital purposes	10,861	15,495	22,037	19,611	12,738	8,552	7,995	12,061	5,591	5,708
Net gains from the disposal of assets	642	19,695	474	2,309	499	512	525	539	553	568
Other	816	840	865	888	914	940	968	996	1,025	1,054
<i>Total income from continuing operations</i>	316,930	350,466	351,704	367,621	373,792	381,587	391,811	407,406	412,792	425,263
Expenses from continuing operations										
Employee benefits and on-costs	121,781	123,932	126,055	127,381	128,604	132,836	137,208	141,965	146,887	151,978
Borrowing costs	4,969	8,026	7,999	8,768	8,580	8,394	8,206	8,027	7,781	7,578
Materials and contracts	91,490	94,127	94,350	107,409	110,882	114,626	117,193	121,524	125,474	129,823
Depreciation and amortisation	33,840	35,288	37,280	38,215	39,672	40,635	41,642	42,744	43,852	44,982
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	45,334	56,680	48,693	49,311	50,742	51,421	52,892	54,189	55,762	57,293
<i>Total expenses from continuing operations</i>	297,414	318,053	314,376	331,083	338,480	347,912	357,140	368,449	379,756	391,654
Net operating result for the year	19,516	32,413	37,328	36,538	35,312	33,675	34,670	38,957	33,035	33,609

Source: Manly Council, Pittwater Council, Warringah Council, KPMG calculation

Table F-0-4: Income statement projections for Manly-Warringah Council, \$'000 (Alternate Option)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income from continuing operations										
Rates and annual charges	135,209	140,244	145,696	158,289	166,196	171,960	177,119	182,481	187,971	193,504
User charges and fees	60,176	62,661	68,008	69,765	71,580	73,418	75,353	77,395	79,432	81,505
Interest and investment revenue	4,549	3,949	3,743	3,626	5,549	6,207	7,044	7,616	8,199	8,775
Other revenues	16,545	16,964	17,415	17,498	17,944	18,397	18,872	19,391	19,912	20,443
Grants and contributions provided for operating purposes	12,290	12,698	12,285	12,485	12,897	13,646	13,430	13,798	14,278	15,097
Grants and contributions provided for capital purposes	3,573	4,128	3,465	3,545	3,629	3,714	3,804	3,906	4,000	4,097
Net gains from the disposal of assets	298	15,618	315	2,146	331	339	347	356	365	374
Other	-	-	-	-	-	-	-	-	-	-
<i>Total income from continuing operations</i>	232,640	256,262	250,927	267,354	278,126	287,681	295,969	304,943	314,157	323,795
Expenses from continuing operations										
Employee benefits and on-costs	92,273	94,448	96,892	98,691	100,448	103,952	107,577	111,413	115,384	119,495
Borrowing costs	4,019	6,218	6,083	6,884	6,755	6,623	6,491	6,386	6,229	6,110
Materials and contracts	74,698	76,885	76,736	89,309	92,119	95,168	97,013	100,595	103,770	107,313
Depreciation and amortisation	24,732	25,920	27,635	28,313	29,483	30,151	30,854	31,643	32,429	33,228
Impairment	-	-	-	-	-	-	-	-	-	-
Net losses from the disposal of assets	-	-	-	-	-	-	-	-	-	-
Other expenses	26,751	35,121	28,930	29,482	30,348	30,764	31,636	32,318	33,256	34,134
<i>Total expenses from continuing operations</i>	222,473	238,592	236,277	252,680	259,153	266,659	273,571	282,355	291,068	300,281
Net operating result for the year	10,167	17,670	14,650	14,674	18,973	21,022	22,398	22,588	23,089	23,514

Source: Manly Council, Warringah Council, KPMG calculation

