

31 July 2015

Lucy Garnier
Executive Director, Local Government
Independent Pricing and Regulatory Tribunal
Review of Fit for the Future Proposals
ipart@ipart.nsw.gov.au

Our Ref: 2015/223092

Dear Ms Garnier

Manly Council's Improvement Proposal

In response to IPART's call for submissions on councils' Fit for the Future Proposals, please find attached our review of Manly Council's Improvement Proposal.

This is a pivotal time for our local government sector to consider new pathways to liveable, thriving and sustainable communities within our global city.

Warringah remains open to working with our neighbouring councils and communities - to combine all three councils in the region for greater strategic capacity, financial sustainability and a stronger future. We believe that together we can build a new future, to keep the best of what we have, enhance local identity and strengthen the local voice.

Yours faithfully



Rik Hart
General Manager

Submission to IPART

Manly Council's Fit for the Future Improvement Proposal

Warringah Council has reviewed Manly Council's Improvement Proposal (the Proposal) on the Fit for the Future reform program, and in the broader context of the ILGRP's recommendation for a Northern Beaches Council, raise the following points that would be worth clarity to ensure the best reform solution is delivered for the community.

Warringah Council is of the view that the Northern Beaches community will benefit from a single, new and revitalised council that has the capacity to meet future challenges - namely population growth, transport planning and environmental sustainability - in a holistic and collaborative way.

It is with this view to the future and with the community in mind that we make our submission. We believe that change needs to happen, reform is necessary; but it needs to be the right type of reform: one that unifies rather than splits the Northern Beaches.

Submission overview

We would like to draw IPART's attention to the following key points:

1. **Scale and capacity:** There may be a lack of clarity in some of the detail concerning Manly's scale and capacity. With the proposed \$63 million new capital works projects that Manly Council is undertaking, will this impede Manly Council's ability to 'stand alone' and be financially viable into the future?
2. **Options:** It is unclear how Manly Council has considered all merger options in their analysis and community consultation. The options favoured in the Proposal ('stand alone' or 'Greater Manly' options) don't appear to be supported by a business case analysis or community feedback and largely ignore other options (namely creating a new Northern Beaches Council or the merger of Manly and Warringah with no boundary change). Is this consistent with the recommended Methodology for Council Fit for the Future Proposals (IPART, page 50)?
3. **'Greater Manly'/'Split Warringah:** It doesn't appear that there is sufficient evidence in Proposal that would support this option as a viable merger possibility. For example, the KPMG report (commissioned by Manly and Pittwater Councils) show that this option potentially would only generate savings of NPV \$3.3 million over 10 years, compared to NPV \$34.5 million in savings for the single Northern Beaches council merger option.

SCALE AND CAPACITY

It is not clear how Manly meets the scale and capacity threshold criteria on their own:

- **Revenue base and discretionary spending**
With the upcoming and what appears to be unfunded total capital expenditure of \$63

million, are there significant limitations to Council's discretionary spend and future financial viability?

This appears to be a high-risk, high-debt approach to funding infrastructure (and lack of detail on depreciation) presents a difficult case for sound financial management, asset management and overall strategic capacity.

- **Major projects/ functions**

Manly's stated position that Council is highly skilled in carrying out multi-million dollar projects appears to only be demonstrated on local projects (Manly Oval Carpark, upgrades to Manly Boy Charlton, and improvements to Manly CBD). It is not clear how this demonstrates that they would be an effective partner for state or federal government on high level strategic projects and future developments.

- **Skilled Staff**

In the Proposal, Manly Council plans to cut staff numbers by 11% (40+ employees) during a time when more staff would likely be needed for major projects. The loss of corporate knowledge at a critical time could expose the organisation to unnecessary project risks and diminish the organisation's ability to engage with stakeholders on long term and high level strategic projects for the region.

- **Regional collaboration and advocacy**

The Proposal uses the Northern Beaches Hospital project as an example of effective advocacy by Manly Council (page 7). While we acknowledge that Manly Council potentially could have liaised with other key agencies such as NSW Health regarding the planning for the hospital itself without our knowledge, Manly Council has not participated in the larger and holistic planning forum for the Hospital Precinct Structure Plan despite numerous attempts by Warringah Council to engage with Manly in this strategic work.

The Proposal relies on SHOROC continuing as the main vehicle for regional collaboration and this is, in our view problematic given the shortfalls of this type of regional forum. A review of ROCs in NSW and WA found that:

- There are serious shortcoming and barriers to effective collaboration in the ROC model, including lack of trust and commitment, and a high incidence of opting out of arrangements.
- An unfair burden on lead councils in any ROC - usually the larger council - undertaking most of the background work in scoping shared services, and providing economies of scale to the smaller councils. Often the lead council already has sufficient scale and gains no advantage in these arrangements.
- Growing challenges for the future role of ROCs means that smaller ROCs will struggle to remain viable and have enough influence for future challenges.

A comparative analysis of Regional Organisations of Councils in NSW and WA. Alex Gooding 2012 for ACELG and NSROC.

Warringah does not believe that SHOROC is a viable alternative to local government reform. We need to seek a better model at a larger scale to have strong influence in sub-regional planning, achieve economies of scale, and be an effective partner with the NSW government and other councils.

OPTIONS

The *Independent review of structural options for Manly Council and Pittwater Council* (KPMG 2015) demonstrated that a single Northern Beaches merger option has the potential to generate the greatest economic benefit (at an estimated NPV of \$34.5 million over 10 years). This conclusion is consistent with the SGS study commissioned by Warringah in February 2015.

On the basis of both reports, we wish to highlight the following:

- The economic analysis of both KPMG and SGS clearly showed a single Northern Beaches Council to be the most sensible merger, the methodology employed by Manly Council appears to be biased towards a 'Greater Manly' option, despite this being the most costly merger option according to both the Manly/Pittwater commissioned business case (KPMG) analysis as well as the Warringah commissioned business case analysis (SGS).
- Both the KPMG and the SGS study found the no-boundary change options - ie. either Warringah and Manly merger or Warringah and Pittwater merger - to be superior to the 'Greater Manly'/'Greater Pittwater' option (In the KPMG report, this 'splitting Warringah' option was only estimated to yield a potential NPV saving of \$3.3 million over 10 years).
- The Manly-Warringah option was not presented to the community, despite economic analysis showing this option as having the second best business case. The KPMG report noted that a Manly-Warringah merge has a variety of benefits and "*should be considered as a genuine structural option*" (KPMG Part B, Appendix C, page 88), but this option is not present in Manly's Fit for the Future consultation material nor included in KPMG's Summary Report (Part A) – it was only included as an appendix to the main report (Appendix C of Part B)

'GREATER MANLY'/'SPLIT WARRINGAH

The Proposal is unable to put forward a strong case (built on business case analysis as well as community consultation) for splitting Warringah to create Greater Manly and Greater Pittwater Councils. We would like to point IPART's attention to the following shortfalls of the Greater Manly business case:

1. Does not fulfil criteria

How does the 'Greater Manly' option meet the scale and capacity threshold criteria of the Fit for the Future program? It would create two councils that would have smaller populations than Warringah. Each would also have smaller economies of scale, less capacity to achieve savings and a weaker voice with Government than Warringah currently has.

2. Lowest savings, highest risk

The KPMG study showed this to be the worst merger option, with any savings only 10% of those of a single Northern Beaches Council. Warringah's SGS business case study also found this to be the worst option, with the least potential savings of five options, and risking an additional \$179m in costs over 10 years.

3. Highest merger costs

Both KPMG and SGS found this to have the highest merger cost of any option. This results from the expense of splitting one council then engendering further costs of a double amalgamation into two other entities. These costs are higher than combining two or three entire LGAs in our region.

4. Discredited by experts and the Panel

Prof. Graham Sansom has stated that *"Dividing this (Warringah) council makes little sense ... it is fundamentally flawed"* (2014) and *"The Panel obviously saw no need for boundary changes on the northern beaches the Manly/Pittwater proposal clearly would go against the Panel's approach"* (2015).

5. No case for splitting the community

The Demographic analysis in the KPMG report indicates strong commonalities across the region. It doesn't support a position that there are two distinct north and south 'communities of interest' which would justify splitting the region into two councils. (KPMG Part A, page 17).

6. It divides strong socio-economic links in the area

Of the six strategic centres in the Sydney North subregion, Warringah is the only council that hosts two centres that are key to our region's future (A Plan For Growing Sydney 2014). These are the Northern Beaches Hospital precinct and the Dee Why-Brookvale strategic centre. How will integrated planning and management of these strategic centres be effectively managed if they are split?

7. Imbalance of assets would disadvantage the southern community

The 'Greater Manly' council and its ratepayers would be left to carry the most costly and least profitable assets to manage - two aquatic centres, Brookvale Oval, Glen St Theatre and Manly's future CBD carpark. Those assets which generate the most income would be owned by 'Greater Pittwater' – the Lakeside Holiday Park and Kimbriki Resource Recovery Centre.

8. Standards could decline and charges rise

This option would dismantle the systems and programs of one of the highest-performing and most exemplary councils in NSW, which delivers award-winning services for the lowest cost in the region. Pittwater's operating cost per capita is at least 23% higher than Warringah's; Manly's are at least 42% higher (2013-14 data from OLG 2015 Your Council – profile and performance of the NSW local government sector). This option would significantly raise the cost of delivering services to current Warringah ratepayers, comprising around 60% of the Northern Beaches population.

Conclusion

It is not clear whether the Proposal meets the NSW Government's requirements for reform. Will Manly as a 'stand alone' organisation be able to meet the required scale and capacity? It is without much doubt that the evidence suggests that a 'Greater Manly' option is fundamentally flawed. It clearly does not meet the strategic intent of the reform program and or the threshold criteria for scale and capacity.

From three business case studies, Warringah Council is of the strong belief that the community's interests are best served through a Northern Beaches Council (KPMG 2015, SGS 2013, SGS 2015):

1. **Create Northern Beaches Council (merge three councils):** The greatest benefits result from merging the three councils rather than any other merge or remaining as three separate councils.
2. **Manly-Warringah Council (merge two councils):** Is the next best viable option ie. combine Manly and Warringah.
3. **Greater Manly model:** The least favourable option for the region is to divide Warringah between the other councils, creating two new councils. There is no agency who wants to own the other half of that option, rendering this option redundant. The Manly community, according to the Proposal, has previously (2004) voiced strong concerns about boundary changes.

A Northern Beaches Council would retain the local staff expertise, local voice and cater for local needs, and yet have much greater strategic capacity and financial sustainability. It would protect, not degrade, Manly and Pittwater's strengths, bringing together the best of what we have.