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Council Boundary Review SUBMISSION

Merger Proposal: Pittwater Council, Part Warringah
Council

Warringah Council, February 2016

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Executive summary

A single council on the northern beaches is the model best able to deliver on the NSW Government's plans for efficient, effective and sustainable local government.

The northern beaches is clearly a single region – geographically and culturally. A single council would deliver the greatest efficiencies at the lowest cost and lowest risk. It would reduce meaningless boundaries and fragmentation of authority and allow for full coordination of common planning and environmental issues, including the NSW Government's strategic centres in *A Plan for Growing Sydney*.

The merger proposals to split Warringah to form two Councils on the northern beaches are not endorsed by Warringah Council or its community. Warringah Council recommends that the Delegate and Boundaries Commission reject the proposals on economic, cultural, environmental, strategic and geographic grounds.

The proposals are not reflective of the sound body of work undertaken in recent years by the NSW Government's own Independent Local Government Review Panel (ILGRP), IPART, and three independent financial studies – nor are they reflective of community sentiment.¹

Since 1969 there have been four Local Government Boundaries Commission inquiries of the northern beaches. All of them supported a single council on the northern beaches and rejected proposals to split the region.

The united area would be a more rational planning and administrative area and common policies, standards, requirement, rates, charges and fees would be better for all concerned²

The analysis in this submission highlights the following significant inequalities and impacts of the merger proposals:

- **Reduced ability to integrate planning and development.** The Warringah Road transport corridor to the Global Economic Corridor, and the Northern Beaches Hospital Precinct connection to the Dee Why and Brookvale strategic centres, would be split over two councils
- Two new councils which would both be in **financially weaker positions** than Warringah currently is
- **Inequalities between the northern and southern councils** as a result of a combination of a disproportional allocation of high cost regional assets to the south; disproportional allocation of income producing assets to the north; as well as a disproportional allocation of borrowings to the south
- **Significant unfunded capital works projects**, particularly in the southern council

The Government's merger proposals primarily focus on improving the financial sustainability of the smaller councils in the region at the expense of Warringah Council and its community. In short, 155,000 Warringah residents and ratepayers would be paying the price for the proposed mergers.

¹ Three independent studies were completed in 2015 by Ernst & Young (commissioned by the NSW Government); KPMG (commissioned by Manly and Pittwater Councils); SGS (commissioned by Warringah Council). Community sentiment has been measured through extensive consultation from late 2014 and throughout 2015 and includes an independent community survey of all northern beaches residents undertaken by Jetty Research.

² The Manly-Warringah District. Local Government Boundaries Commission, November 1977.

Of particular concern is the impact of the proposal on the strategic capacity of local government. Splitting the northern beaches into two would erode the ability to achieve economies of scope and specialisation and is likely to jeopardise the capacity of local government to work effectively with the NSW Government on achieving regional objectives of the Sydney Metropolitan Plan (*A Plan for Growing Sydney*), namely in regards to effectively coordinating housing, jobs and transport across the northern beaches. Our future generations would be paying the price for poorly coordinated growth.

The inclusion of Mosman LGA in the southern merger proposal is based on the Government's recently announced population target for local government areas of 150,000. There is no 'community of interest' or geographic cohesion that justifies this merger. The southern merger proposal is not supported by Mosman Council or its community. The statement in both merger proposals that *"this option was the preferred merger option...for three of the four councils impacted by the proposal"*³ is incorrect and has been emphatically rejected by Mosman Council.

³ *Merger Proposal: Pittwater Council Warringah Council and Merger Proposal: Manly, Mosman Warringah* Page 6

1. Introduction

If local councils are to develop this broad concern for the quality of life in their community, and are to be brought into a proper relationship with other levels of government, they should themselves operate over reasonably large areas, and have the human and material resources to carry out major functions.

Inquiry into Local Government Areas & Administration in NSW, 1973: page 50

1.1 PURPOSE

This submission identifies impacts on the long term sustainability of local government from the NSW Government's merger proposals and intention to split the northern beaches region.

1.2 BOUNDARIES COMMISSION INQUIRIES

Local government reform for the northern beaches has been subject to Boundaries Commission inquiries since the late 1960's, where a single council on the northern beaches consistently has been found to be the favoured model. The main reasons cited are community of interest, geographic cohesion, long term planning considerations and economies of scale. The Boundaries Commission further considered that the costs – financial and non-financial - of splitting the region by far out-weighed the benefits.⁴ (Refer to **Appendix 1** for a summary of findings and recommendations from Boundaries Commission inquiries 1969 to 1991).

On the first and second occasions the Commission recommended that Manly should be amalgamated into Warringah to create a single new council on the northern beaches peninsula (where Warringah at the time included 'A Riding' – now known as Pittwater Council) – to achieve greater economies of scale and provide more effective and efficient local government for the peninsula.

On the third occasion the Boundaries Commission rejected a proposal to create a separate Pittwater Council because the proponents "*failed to clearly establish positive benefits sufficient to overcome the dislocation, discontinuity and expense inevitably involved in such a move*".⁵

The fourth inquiry by the Boundaries Commission found that there was no administration necessary to establish a separate Pittwater Council, and recommended that a poll of A Riding (Pittwater) residents be undertaken to test whether the residents in that area wanted a separate Council – after which a proper referendum of the whole of Warringah was intended. This never happened and Warringah residents were never polled. Pittwater was officially declared by Hon. G Peacocke in 1992 - despite the poll itself being deemed invalid, as it only represented 48% of electors in A Riding.

The Hon. Dorothy Isaksen, member of Labor and Government Whip from 1995 to 1999, commented in Parliament: *The overriding administrative failure in the entire exercise, however,*

⁴ Reports from Boundaries Commission: 1970; 1973 (general inquiry into local government reform); 1977; 1979; and 1991

⁵ As quoted by Hon Dorothy Isaksen in Hansard (16 March 1994)

must be attributed to the Boundaries Commission of the day, first, for not ensuring that a full feasibility study and independent financial costing were produced; and, second, for not putting in place appropriate guidelines and procedures for the secession to occur, including the apportionment of staff, assets and liabilities.⁶

In the absence of a full feasibility study into the proposal to split the northern beaches, Warringah has concerns that the Government may be repeating past mistakes which would leave an entrenched and complicated legacy for future generations.

1.3 BACKGROUND

The NSW Government's Fit for the Future reform program was launched in September 2014 with the aim of ensuring the long term financial viability and strategic capability of the local government sector.

Councils across NSW submitted their proposals to IPART in June 2015, addressing the 'Fit for the Future' criteria regarding scale, capacity and financial health.

On the basis of an independent business case analysis commissioned by Warringah in 2015 as well as outcomes from an independent community survey and community engagement, Warringah's submission was based on a preferred merger option for the creation of a single new council for the northern beaches region from Manly, Pittwater and Warringah councils. This position was consistent with the findings and preferred merger option of the ILGRP as recommended to the NSW Government.⁷

In the absence of a merger agreement with Manly and Pittwater (who had resolved to 'stand alone') Warringah submitted an 'Improvement Proposal' and also included a vision and blueprint for one, new Northern Beaches Council organisation as per the ILGRP's recommendation.

Figure 1: Proposed mergers on northern beaches and Mosman



⁶ As quoted by Hon Dorothy Isaksen in Hansard (16 March 1994)

⁷ Final SGS Report on northern beaches- Local Government Structural Change – Sept 2013; Independent LG Review Panel – Final Report - Oct 2013 (Sansom Report)

IPART determined that all three northern beaches councils were not 'fit' as they did not meet the scale and capacity criteria.

On 17 November 2015 Warringah Council, on the basis of extensive community consultation, confirmed its support for a single new council on the northern beaches and submitted this merger preference to the NSW Government. This resolution still stands.

The Government announced its plans to split the northern beaches region into two local government areas (and including Mosman in the southern council) on 18 December 2015, and formally released its merger proposals on 6 January 2016.

The Government's proposal to split the region would create two new councils both smaller than Warringah is now at 155,298 (ERP 2014), and both failing the original Fit for the Future criteria of scale and capacity.

Despite this, the *Merger Proposal: Pittwater Council and Warringah Council (part)* claims that the proposal is 'broadly consistent with the Independent Pricing and Regulatory Tribunal's (IPART) 2015 assessment that each of these two councils is 'not fit' to remain as a standalone entity'.⁸ Warringah notes that the *Merger Proposal: Manly Council, Mosman Municipal Council and Warringah Council (part)* does not include a similar claim and Warringah questions how it is possible for the proposed two smaller councils to meet the scale and capacity criteria when Warringah was deemed by IPART to have insufficient scale?

This submission examines the long term impacts the NSW Government would hand to the two new councils should it decide to proceed with the current merger proposals despite a history of four separate Government inquiries that have disproven the merit of such a proposition for the region; the advice of the ILGRP; the findings from three independent financial merger studies (Ernst & Young, KPMG and SGS), and strong community opposition to splitting the northern beaches.

⁸ *Merger Proposal: Pittwater Council Warringah Council (part)* – NSW Government January 2016: page 4

2. Sustainable Local Government

Warringah Council has been named one of NSW's most progressive and innovative city or regional councils after taking out the state's oldest and most prestigious local government award at the Local Government NSW Annual Conference in Sydney. Warringah Council was selected as the 2015 metropolitan winner of the A. R. Bluett Memorial Award, established in 1945 to recognise greatest relative progress of high achieving and progressive councils in NSW.

Warringah Council takes out prestigious award, Local Government NSW Media Release 13 October 2015

In the interests of present and future generations and with the strong and unequivocal support of our community, Warringah Council maintains that the best local government model for the region is to create a single northern beaches council that effectively and efficiently can deliver on the NSW Government's plans for growing Sydney while protecting our natural environment – our bushland, coasts and waterways.

This submission examines the NSW Government's proposal from a long term sustainability perspective relating each aspect – financial, environmental, governance and community – to the specific criteria for the boundary review as per the *Local Government Act 1993*, Section 263(3).

The only S263(3) criteria that will not be considered as part of this submission is S263(3) (e3) regarding 'the impact of any relevant proposal on rural communities in the areas concerned'.

Warringah notes that the criteria relating to community attitudes (S263(3)(d)) is intended to reflect the Delegate's public consultation process, including the public inquiry. A brief overview of Warringah's consultation is provided for convenience and further information can be made available upon request.

DEFINITION

For the purposes of this submission, sustainable local government is defined as:

The ability of a council or councils to access and optimise all of its resources and capabilities to best serve its community, now and into the future.[...]

Sustainability performance refers to how well councils provide quality service to their communities, manage their resources, and ensure long-term economic, social, environmental and cultural sustainability

(Local Government Sustainability Objectives and Indicators, Local Government Division, Department of Premier and Cabinet (Dec 2011): page 6)

2.1 Economic and financial impacts

The State Government analysis does not specifically assess the financial impact of the separation dissynergies and one-off costs associated with separating the Warringah Council. Council mergers which necessitate a separation of a Council are likely to be complex undertakings considering the implications on staff, processes, systems, infrastructure, contracts and in-flight projects.

Ernst & Young 11 February 2016 (The statement by Ernst & Young should be read in full – please refer to Appendix 2)

Three independent expert studies concluded that splitting Warringah Council into two components and combining one component with Manly Council and the other component with Pittwater Council to form two new Councils was the worst option examined for local government reform on Sydney's northern beaches as it provided the least savings and the highest transition costs. While this analysis did not include Mosman Council, its inclusion would not cause significant change in the conclusions.

All studies concluded that the creation of a single council on the northern beaches by combining Manly, Pittwater and Warringah Councils was the best option as it provided the most savings and the best net benefit.

These identical conclusions were established independently of one another and were each derived from the application of different methodology and assumptions.

Table 1: Conclusions of business case studies

	SGS (Feb 2015)	Ernst & Young (Oct 2015)	KPMG (April 2015)
Most savings	Northern Beaches Council	Northern Beaches Council	Northern Beaches Council
Best net benefit	Northern Beaches Council	Northern Beaches Council	Northern Beaches Council
Least savings	Split Warringah	Split Warringah	Split Warringah
Highest transition costs	Split Warringah	Split Warringah ⁹	Split Warringah ¹⁰

Recent and more detailed modelling of the merger proposal highlights significant inequalities and risks in the proposed division which will result in:

- A disproportionate allocation of high cost regional assets to the south
- A disproportionate allocation of income producing assets to the north
- Less effective and efficient service delivery
- A disproportionate allocation of rateable properties to the south particularly in respect of residential flat buildings

⁹ Merger options that involve the splitting of a council are more complex to implement, with a higher level of merger integration costs. This would be in the order of 4 times annualised expenditure savings, in contrast to 3 times for mergers of complete LGAs (Ernst & Young 2015: pages 40,43).

¹⁰ "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." (KPMG Part B page 60-61)

The modelling also highlights significant inequalities and risks which would result in:

- Significantly higher domestic waste charges for Warringah ratepayers
- Significant unfunded capital works projects
- A disproportionate allocation of borrowings to the south
- Significantly higher costs from splitting Warringah than would be incurred to create a single new council on the northern beaches

*S263(3) (a) the **financial advantages or disadvantages** (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned*

2.1.1 CONTEXT: ECONOMIES AND DISECONOMIES OF SCALE, SCOPE AND SPECIALISATION

Each of the business cases (SGS, Ernst & Young and KPMG) identifies that some level of economies of scale would be achieved from reducing the number of councils. These savings would be created from the removal of duplicate back office and administrative functions, streamlining senior management roles, efficiencies created by greater purchasing power, and a reduction in the overall number of elected officials.

Each of the business cases identified that the greatest economies of scale would be achieved by creating a single new council on the northern beaches. What was not effectively considered in some of the business cases was the impact of diseconomies resulting from splitting Warringah to form two smaller councils.

The NSW Government's merger proposal does not recognise the loss of current economies and diseconomies generated by the differences in services currently provided by the existing four Councils. While net economies would be created by the formation of a single council on the northern beaches this will not be the case where two councils will be formed by splitting Warringah.

To effectively analyse the economies and diseconomies it is not only necessary to take account of economies of scale but also the economies of scope (lower average costs result from complementary services into a single entity delivering a variety of services) and economies of specialisation (where an organisation grows as does its ability to employ specialised resources and utilise them in undertaking specialised activities).

The net financial savings identified in the Government's merger proposals is at **Table 2** below.

Table 2: Net savings over 20 years (NPV applied)

	Manly, Mosman and Southern Warringah	Pittwater and Northern Warringah
Gross savings and (costs):		
Employee savings	\$42m	\$26m
Materials and Contracts	\$12m	\$10m
Reduction of elected officials	\$2m	\$1m
Gross costs (ICT, transition, redundancy and other costs)	(\$9m)	(\$8m)
Net savings:	\$47m	\$29m

Source: NSW Government merger proposals January 2016

2.1.1.1 IMPACT: LIMITATION OF FINANCIAL MODELLING ASSUMPTIONS FOR LOCAL GOVERNMENT MERGER PROPOSAL

The NSW Government has released the results of its financial analysis as well as the assumptions relied on for the economic modelling¹¹, but has not provided the full report. Ernst & Young were engaged by Council in part to review the financial modelling assumptions relied on by the NSW Government in the merger proposals. Ernst & Young noted certain limitations in scope existed given the availability of data and information and the expediency of the exercise that was performed. These limitations included:

- Unavoidable limitations in the consistency, accuracy and availability of data used, given that the financial data used in the analysis was limited to publicly available council data and therefore required assumptions and extrapolations to be made
- Amalgamation savings and one-off costs were based on top-down analysis and comparable benchmarks with limited or no inputs from the individual councils
- Where councils were required to be split, high-level assumptions were made to divide the financials so that the amalgamation assumptions could be applied¹².

Additional limitations were also identified in relation to the separation and amalgamation assumptions for Warringah Council, that could impact the accuracy of the financial projections made.

- Income and expenditure for the north and south Warringah regions has been split based on population. Whilst this is a valid proxy for some income and expense lines, there are material assets in each area which may have a significant impact on the income and expenditure and should potentially be adjusted for e.g. Kimbriki Resource Recovery Centre, Brookvale Oval, Warringah Aquatic Centre
- The Warringah asset base, including buildings, roads and stormwater infrastructure, has been apportioned by land area (sq km). The northern area is approximately five times larger than its southern area but a fair portion of the northern area is bushland with low population and asset density. The majority of Warringah's assets are not located in the northern area and hence a different proxy for the apportionment of asset base may be required to achieve a more accurate split e.g. asset location
- The NSW Government analysis does not specifically assess the financial impact of the separation dissynergies and one-off costs associated with separating Warringah Council. Council mergers which necessitate a separation of a Council are likely to be complex undertakings considering the implications on staff, processes, systems, infrastructure, contracts and in-flight projects. A two-stage process of separation and the amalgamation is required, including determining how and where to separate Warringah Council and then separating those elements (commercially, financially and operationally) and integrating those parts into the two new councils
- The public information mentions that a 50% reduction in amalgamation staff reduction savings (i.e. 3.7% instead of 7.5%) is to be applied where a merger involves a council being split. The reduction in savings' percentage is supported by likely dissynergies that may arise. However, high-level management analysis of the staff costs indicates that the reduced saving assumption may not have been applied to calculate the southern council and northern council staff savings. If this is the case, this could have a significant implication on the overall financial outcome projected and so should be clarified

¹¹ Outline of Financial Modelling Assumptions for Local Government Merger Proposals: Technical Paper 19 January 2016

¹² Ernst & Young, Letter to Warringah Council February 2015

- The current Warringah Council is larger than the two new proposed councils to be formed through the amalgamation of the northern and southern areas. The economies of scale that drives the 3% 'materials and contracts' expenditure savings may therefore not be applicable for these two particular council mergers i.e. existing economies of scale in Warringah Council contracts may be lost
 - Transition one-off costs may be understated for Warringah Council, specifically: separating Warringah council, where no separation one-off costs have been provided for
 - Information Communication Technology (ICT), where the allowance for the northern council and southern council (\$3.35m each for a metropolitan cluster with a 30% contingency) is limited to integration of email systems, business applications to enable basic reporting, single website and limited data migration. In addition to this a more thorough system integration may be required to drive operational effectiveness and be an enabler of the remaining amalgamation savings¹³.

The impact of these limitations suggest the savings in the merger proposals have been significantly overstated and are discussed in detail below.

2.1.1.2 IMPACT: LOSS OF CURRENT ECONOMIES OF SCALE

Warringah Council currently has a larger population than that proposed in the new northern council (Pittwater Council and Warringah Council – part). The net financial savings of \$29 million over 20 years in the merger proposal is based on broad modelling assumptions which are not appropriate to this proposal which effectively reduces scale and capacity. Accordingly, there is no reasonable basis to suggest that savings of this size from economies of scale are likely to be achieved.

The merger proposal doesn't recognise diseconomies of scale associated with differences in services currently provided by the existing two councils and a reduction of scale of those services across a broad range of areas such as libraries, child care, strategic planning, lagoon management and bushland management.

As noted earlier, the assumptions of savings from staff reductions for a council being split is half (or 3.7 per cent) of the savings achieved in a normal 'whole' council merger scenario.¹⁴ The merger proposal estimates gross savings for staff efficiencies of \$26 million over 20 years in the new northern council. The detailed models have not been provided to support the savings in the merger proposal and on review it appears that the overall staff efficiencies assumption has not been applied appropriately and therefore the savings would be overstated by \$13 million.

A 3% savings on materials and contracts expenditure is assumed in the model based on a merged council having greater purchasing power and receiving larger discounts than the original individual councils.¹⁵ As Warringah Council is currently larger than the proposed new councils and therefore already has greater purchasing power, this is highly unlikely to be achievable and as a minimum the savings would be overstated by \$3.5 million. As noted above a significant number of services will be of a reduced scale for the proposed Council lessening purchasing power and significantly weakening the likelihood that existing purchasing economies can be maintained.

¹³ Ernst & Young, Letter to Warringah Council February 2015 – as at **Appendix 2**

¹⁴ Outline of Financial Modelling Assumptions for Local Government Merger Proposals: Technical Paper 19 January 2016: page 8

¹⁵ Outline of Financial Modelling Assumptions for Local Government Merger Proposals: Technical Paper 19 January 2016: page 2

2.1.1.3 IMPACT: CREATION OF DISECONOMIES OF SCALE

A single council on the northern beaches would allow the expansion of existing economies of specialisation currently achieved by Warringah, particularly in the areas of planning, technological innovation, continuous improvement and higher standards of governance through functions such as the internal ombudsman. Under the merger proposal a number of these costs would as a minimum be duplicated and there is no guarantee that all these economies could be continued. A particular example is in the area of urban design as a result of separating the strategic centres at Frenchs Forest and Dee Why/Brookvale.

It may be suggested that diseconomies may be addressed by the creation of management committees of the proposed northern and southern councils to either jointly manage services or for one council to manage services on behalf of both new councils. However, by its very nature these management approaches will carry additional costs and inefficiencies which would reduce the level of service currently provided to customers.

Specific examples of the diseconomies which would be created by the merger proposal are provided below.

- **BEACH SERVICES:** Dee Why and Long Reef is a contiguous strip of beach coastline within Warringah spanning from the Dee Why Headland to Long Reef Headland. Warringah's professional lifeguards currently manage this stretch of beach both in terms of risk to swimmers and other users. The proposed boundary effectively dissects this area with the boundary line running down the north side of Dee Why Lagoon. This results in the beach area having no natural boundary or landmark to distinguish the division and creates long-term risk difficulties both in day to day beach management and major events such as New Year's Eve fireworks, Surf Carnivals and Australia Day.
- **ROADS AND TRAFFIC:** The Roads and Traffic area deal with the asset management and future planning of infrastructure assets generally within the road reserve allocation. Currently the boundaries between Warringah Council and its neighbours are well defined by geographic features such as lagoons, creeks, waterways, state roads and national parks. While there are bridges at some of the boundaries, the ownership is clear with one council being responsible for all the renewal and maintenance requirements.

Where boundaries are defined through a road reserve, this will add significant cost to the management of the asset in terms of renewal, maintenance and the operation of the asset. There will also be additional difficulty undertaking longer term transport strategies around boundaries. There is also the issue with planning, prioritising and funding new road infrastructure.

- **STRATEGIC PLANNING:** Currently planning for the strategic centres at Frenchs Forest, Dee Why-Brookvale and connectivity of the transport corridor along Warringah Road is managed by a single council. Under the Government merger proposal, two councils would manage parts of the Northern Beaches Hospital Precinct strategic centre with the northern council taking approximately 90% of the area.

The Dee Why-Brookvale strategic centre is proposed to be located in the southern local government area. There is an immediate additional layer of bureaucracy created with two councils having to develop planning strategies that are consistent with their councils' intent but not necessarily each other. The Warringah Road corridor is also split between the north and south proposals and significant collaboration between councils would be required to ensure the best interest of the local communities are met.

- **NATURAL ENVIRONMENT:** Warringah's Natural Environment Unit has achieved a level of specialisation through current scale and capacity that sees it take a lead role in a number of areas of environmental management on the northern beaches. Natural assets are managed by teams of experts that have developed specialisations in their respective fields. It is not a case of simply dividing these experts, because they bring different specialities to bear in managing the asset.

Specialisation: For example, while a number of staff manage bush regeneration contracts, only one of these is a senior ecologist. Sending this ecologist to one entity or another will either mean the remaining entity has to reduce the level of service in this area (e.g. through loss of development assessment expertise, and a loss of research expertise), or duplicate it, producing a higher net cost from the current position (e.g. by having to recruit another similarly experienced ecologist to retain the same level of service).

Another example is Warringah's lagoon specialist who is the only staff member undertaking ecological research on the four coastal lagoons. Under the proposal, three lagoons would go to one entity, and one lagoon to the other. Again, the solution is either to duplicate the role, or accept that one or more of the lagoons will no longer have the same level of specialised management. This occurs across a number of positions in Natural Environment and necessarily equates to a loss of service or the need to duplicate resources which will drive up operating costs.

- **EMERGENCY MANAGEMENT:** Existing emergency management arrangements with the NSW State Emergency Service (SES) and Rural Fire Service (RFS) are based on the current council boundaries. Manly Council has a standalone SES branch, however is not part of an RFS district. Warringah and Pittwater Councils have a shared SES district and also a shared RFS district. Changes to the boundaries will create complexities in how the emergency services are administered.

The northern council would have a reduced SES district compared with the Warringah-Pittwater district; however the southern council would effectively have two SES districts operating - part of the current Warringah-Pittwater district and the standalone Manly district. If a new district is created, this duplicates the existing district.

In the case of the RFS, the changes are more significant. Manly Council is not currently serviced by the RFS; this role is undertaken by NSW Fire & Rescue. The merger proposal would mean (as with the SES) splitting the Warringah-Pittwater district into a smaller district. However, the southern council would need to determine with the RFS whether to have a relationship with the RFS at all or whether the southern part of Warringah would now be managed as the rest of Manly is, by NSW Fire & Rescue.

The existing Warringah-Pittwater district equity and assets would all be vested in the northern council and therefore, unless the southern council develops an agreement with the RFS, the service costs of the RFS would fall to the northern council and be spread over a smaller population base which in turn would mean increased costs for ratepayers.

In all cases, the emergency levies will need to be re-determined, funding allocations to councils for hazard reduction activities would change and the southern council may not be able to access RFS mitigation funding, and completely new operational and management agreements will need to be prepared for the SES and RFS (and possibly the creation of brand new districts which will be an administrative burden on the State and possibly a financial burden on the community/councils). There are no obvious efficiencies associated with these significant changes.

2.1.1.4 IMPACT: TRANSITION AND AMALGAMATION COSTS

The merger proposal does not recognise the financial impact of splitting Warringah. Council mergers which necessitate a separation of a larger council are complex undertakings considering the implications on staff, processes, systems, infrastructure, contracts and current projects. A staged process of separation and then amalgamation would be required: planning the separation of separate Warringah Council (initial due diligence); implementation of the separation (commercially, financially and operationally, staffing); and then integration of the split parts of Warringah Council with the two new councils.

The separation challenges will be different for each service. For example Warringah operates four branch libraries and the merger proposals would place two of the branches in the northern and two in the southern council. The library collection is shared amongst four branches through a floating collection. Substantial costs and disruption arise from splitting the collection and integrating it across two new councils. In dividing the collection consideration would need to be given to:

- the collections in existing councils for compatibility and equity
- the best division of collections to serve the community size and interests and avoid duplications and substandard collections
- the capacity of branch libraries in the proposed new council to house the collections. Presently 60% of the Warringah collection is at the Dee Why and Warringah Mall branches which would be in the southern council.

One-off transition costs included in the merger proposal fall far short of the costs which are likely to be incurred. No separation one-off costs have been provided for. Ernst & Young estimated the separation cost would be in the order of \$3 – 5.2m. There is some allowance, \$3.35m (including 30% contingency), for cost associated with Information and Communications Technology (ICT) however this is limited to integration of email systems, business applications to enable basic reporting, single website and limited data migration.

2.1.1.5 IMPACT: SPLITTING WARRINGAH COUNCIL'S INCOME AND EXPENSES

The merger proposal assumes that the income and expenses of Warringah Council will be apportioned to the two new councils based on the population split of 49.8% north and 50.2% south. Whilst this may be a sound assumption for some items it does not accurately reflect a number of items which will have a significant impact on the income and expenditure. For example, the location of material assets in each area will result in a disproportional allocation of net income and net expenditure e.g. Kimbriki Resource Recovery Centre, Brookvale Oval and Warringah Aquatic Centre.

There are fundamental issues of using population as a proxy for the splitting of income and expenses. This is highlighted by **Tables 3 to 6** below.

Table 3 provides a breakdown of Warringah Council's rates and the number of rateable properties based on the NSW Government's merger proposals and **Table 4** shows the percentage splits.

TABLE 3	\$			No.		
	TOTAL	NORTH	SOUTH	TOTAL	NORTH	SOUTH
<u>Residential</u>						
Minimum	15,974,029.85	4,255,249.08	11,718,780.77	18,965	5,052	13,913
Ad Valorem	47,589,728.43	25,378,061.25	22,211,667.18	33,741	18,948	14,793
Postponed	6,280.89	2,409.17	3,871.72	18	9	9
	63,570,039.17	29,635,719.50	33,934,319.67	52,724	24,009	28,715
<u>Business</u>						
Minimum	2,226,582.01	910,530.38	1,316,051.63	2,059	842	1,217
Ad Valorem	12,246,543.95	4,979,119.44	7,267,424.51	1,821	616	1,205
Storage Units - Minimum	80,848.00	0.00	80,848.00	163	-	163
Storage Units - Ad Valorem	705.46	0.00	705.46	1	-	1
Warringah Mall	706,450.85	0.00	706,450.85	1	-	1
	15,261,130.27	5,889,649.82	9,371,480.45	4,045	1,458	2,587
TOTAL RATES	78,831,169.44	35,525,369.32	43,305,800.12	56,769	25,467	31,302

TABLE 4	\$ %			No. %		
	TOTAL	NORTH	SOUTH	TOTAL	NORTH	SOUTH
<u>Residential</u>						
Minimum	25.13%	26.64%	73.36%	35.97%	26.64%	73.36%
Ad Valorem	74.86%	53.33%	46.67%	64.00%	56.16%	43.84%
Postponed	0.01%	38.36%	61.64%	0.03%	50.00%	50.00%
	100.00%	46.62%	53.38%	100.00%	45.54%	54.46%
<u>Business</u>						
Minimum	14.59%	40.89%	59.11%	50.90%	40.89%	59.11%
Ad Valorem	80.25%	40.66%	59.34%	45.02%	33.83%	66.17%
Storage Units - Minimum	0.53%	0.00%	100.00%	4.03%	0.00%	100.00%
Storage Units - Ad Valorem	0.00%	0.00%	100.00%	0.02%	0.00%	100.00%
Warringah Mall	4.63%	0.00%	100.00%	0.02%	0.00%	100.00%
	100.00%	38.59%	61.41%	100.00%	36.04%	63.96%
TOTAL RATES	100.00%	45.07%	54.93%	100.00%	44.86%	55.14%

These tables show that the southern council would have a greater share of rateable properties and income from (both residential and business). However, the merger proposal does not consider the location of ratepayers or population density of each area. **Table 4** above shows there would be a disproportional allocation of rateable properties to the south in respect of residential flat buildings (73.36% of minimum residential rates) and also in respect of business properties (63.96%). This results in inequalities between the new councils due to the higher costs in providing services to high density areas such as residential flat buildings and business which are largely located in the south.

Table 5 provides a breakdown of Warringah Council's Domestic Waste Charges and the number of domestic waste services based on the NSW Government's merger proposals and **Table 6** shows the percentage splits. Again, this reflects the same fundamental issues with a disproportional allocation of domestic waste services to the southern council which is faced with higher operational costs associated with providing services to residential units.

TABLE 5	\$			No.		
	TOTAL	NORTH	SOUTH	TOTAL	NORTH	SOUTH
Domestic Waste	24,191,303.00	11,337,105.00	12,854,198.00	54,845	25,111	29,734

TABLE 6	\$ %			No. %		
	TOTAL	NORTH	SOUTH	TOTAL	NORTH	SOUTH
Domestic Waste	100.00%	46.86%	53.14%	100.00%	45.79%	54.21%

A separation model has been developed to estimate the allocation of Warringah's surplus from Continuing Operations before Capital Grants and Contributions over 20 years to more accurately assess the split between the proposed new northern and southern councils. The model was assessed by Ernst & Young and found to be robust.

The details of the review undertaken by Ernst & Young is at **Appendix 2** and includes the methodology used by Warringah Council to prepare the financial separation model. The results from the model show a significant inequality between the two new councils (**Table 7**) with the majority of the projected surpluses falling to the north.

TABLE 7	Consolidated	North	South
	NPV 20 Years	NPV 20 Years	NPV 20 Years
Surplus/(Deficit) from Continuing Operations before Capital Grants & Contributions	\$63.4m	\$57.5m	\$5.9m

Source: Based on Warringah Council information from financial separation model
Note: For NPV, a discount rate of 9.5% is used and a CPI of 2.5% which is consistent with the KPMG 'Outline of Financial Modelling Assumptions for Local Government Merger Proposals'.

As noted above, the merger proposals would create significant inequalities between the new councils. The southern council would have a greater share of residential flat buildings and businesses with associated higher costs; but would receive a significantly smaller share of Warringah's surplus as a result of a disproportionate share of income producing assets going north and high cost assets going south.

2.1.1.6 IMPACT: SPLITTING WARRINGAH COUNCIL'S ASSETS

The merger proposal splits Warringah's infrastructure assets, including buildings, roads and stormwater infrastructure, based on the proportion of Warringah's current land area (150 sq. km) to be transferred to each of the two new councils (124sq. km north and 26 sq. km south). As a result it assumes that 83% of infrastructure assets are in the new northern council and 17% in the new southern council. This would result in an Asset Base division of \$0.7bn to the southern council and \$1.0bn to the northern council.

This assumption is unsound as a fair proportion of the northern area is bushland with low population and asset density and the majority of Warringah's infrastructure assets are not located

in the northern area. Specifically, it does not take into consideration the location of individual assets and their respective values. Based on the actual location of the assets, \$0.2bn of the Asset Base has been incorrectly allocated to the northern council. The division of the Asset Base based on actual location would be the \$0.9bn to the southern council and \$0.8bn to the northern.

The same methodology (proportion of Warringah's current land) has been used to allocate the infrastructure backlogs for each of the proposed new Councils. This does not reflect the actual assets which require expenditure to bring them back to a satisfactory standard. As a result the southern councils infrastructure backlog is understated.

*S263(3) (e1) the impact of any relevant proposal on the **ability** of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities*

2.1.2 CONTEXT: FINANCIAL SUSTAINABILITY

As detailed in the above section the split of Warringah is highly likely to result in a significant inequality in the proportion of Warringah's surplus between the new northern and southern councils. Any split would reduce both councils ability to be financially viable

In December 2015 Council undertook a *Strategic Review; the risks of splitting Warringah (Strategic Review – see **Appendix 4**)*. This questions the ability of either council to maintain a sustainable position over the longer term using current rate paths. While this review presented a strategic and financial analysis of the proposal by Manly and Pittwater Councils which differs from the NSW Government's merger proposals the underlying issues creating diseconomies of scale, scope and specialisation remain the same.

The *Strategic Review* found that gross economies would equate to \$37m using a 9.5% discount rate. As detailed above after applying assumptions as stated in the KPMG 'Outline of Financial Modelling Assumptions for Local Government Merger Proposals' the gross savings in the merger proposals would equate to \$52m with the difference principally related to the inclusion of Mosman.

What hasn't been included in merger proposals are the diseconomies resulting from splitting Warringah to form two Councils that are smaller than the current size of Warringah. The *Strategic Review* found diseconomies of \$167m using a discount rate of 7% which equates to \$133m using a discount rate of 9.5%. On the basis of these diseconomies neither of the merger proposals are financially sustainable. The net result is that combined the two councils would be \$4M per year worse off for the next 20 years in present value terms.

2.1.2.1 IMPACT: LEVEL OF DEBTS

Warringah currently has no debt whereas Pittwater Council's borrowings at 30 June 2015 were \$15.7 million with further borrowings planned. Warringah's northern residents will therefore be disadvantaged by the levels of debt that they will inherit impacting on both financial sustainability and the lack of surpluses available to fund new capital works.

2.1.2.2 IMPACT: FUNDING OF NEW WORKS

The impact on new capital works arising from the inequality of the surplus and the level of debt could be extensive. Warringah's projected surpluses over each of the ten years of the Long Term Financial Plan are required to supplement shortfalls in Developer Contributions to fund new works, for example, the Dee Why Town Centre redevelopment and revitalisation. These major works are located in the new southern council. However with the inequality of projected surpluses toward the north, there will be a significant funding shortfall which is likely to result in the works being financially unsustainable.

The merger proposals do not consider the allocation of Capital Works included in Warringah Council's Long Term Financial Plan. Currently, the Long Term Financial Plan has 62% of works planned for the southern portion of Warringah as shown in the following table.

Table 8: Capital expenditure

Year	Capital Expenditure		
	North \$'000	South \$'000	Total \$'000
10 Years to 2024/25	142,489	230,190	372,679
% Allocation	38%	62%	100%

*S263(3) (e2) the impact of any relevant proposal on the **employment of the staff** by the councils of the areas concerned*

2.1.3 CONTEXT – EMPLOYMENT OF STAFF

The merger proposal will have a significant impact on the employment of staff as the majority of the savings are suggested to result from the removal of back office, administrative functions and senior management roles. The lack of detail in the merger proposals as to how this will occur, particularly in ensuring that staff will have fair and equitable access to apply for positions in both the new organisations, is likely to have a detrimental impact on the health and wellbeing of staff.

2.1.3.1 IMPACT: WARRINGAH COUNCIL EMPLOYEES AND MERIT BASED RECRUITMENT

Warringah staff are in a significantly different position to the other merger councils in that it appears they will be allocated between the northern part proposed to be merged with Pittwater and the southern part to be merged with Manly and Mosman.

The development of appropriate organisational structures for the northern and southern councils would be a highly complex undertaking which can only be fully implemented after the election of new councillors. If interim arrangements result in Warringah staff being transferred to either the northern or southern council before there is a clear understanding of changes to systems, processes and service delivery structures, they would be significantly disadvantaged.

In these circumstances there is no guarantee that an existing Warringah employee would not be allocated to the northern council when their skills and experience may be more suitable to a role in the southern council. Presently it is unclear whether Warringah staff will have an opportunity to

apply for permanent establishment positions in both the northern and southern councils. If this is not the case, Warringah staff would be significantly disadvantaged and opportunities for the new organisations to recruit the most suited candidates for the positions may be lost.

Likewise, while a Warringah staff member's position may be appropriate for the scale and mix of services currently provided by Warringah Council, it may not necessarily be the case in the new councils. In all merger proposals other than those involving the split of Warringah, the scale of the new council would be larger than that which currently exists. However, as the northern and southern councils will both be smaller than Warringah, and may have less specialisation, staff members will be significantly disadvantaged as the existing delivery model may no longer be appropriate.

These issues are already impacting morale of Warringah staff. Staff at the other councils subject to merger will be transferred upon proclamation as a collective - with comfort that they are all in the same situation.

The *Local Government Act* 1993 provides that the opportunity for appointment to roles is based on internal appointment with a closed merit process of preference for staff in the roles at the new entity. This means Warringah staff that are unsuccessful in gaining a permanent position within the transferred council will not have an opportunity to apply for a role in the other new council. This would decrease their chance for continued permanent employment after the employment protection period.¹⁶

2.1.3.2 SUMMARY OF IMPACTS – FINANCE AND STAFF

Specific impacts of the proposal on the financial health of local government on the northern beaches are summarised below:

- The creation of two new councils, both smaller than Warringah is now, would entail significant losses of economies of scale, scope and specialisation
- The proposals would entail rate rises for Warringah residents which effectively would be subsidising the costs associated with the mergers
- The proposals would create inequities across the region
- A 'best case scenario' for the new councils in terms of financial performance within the next 20 years, would be for them to achieve the current level of financial health enjoyed by Warringah and recognised by TCorp
- Current innovative systems, processes and people are likely to be lost due to the complexities of the split and the indivisible (and intangible) nature of many of the organisational systems and corporate knowledge
- The uncertainties regarding splitting Warringah's staff between the two new councils may have wide implications in terms of staff morale, productivity and may also impact upon the ability of the new councils to attract and recruit the best candidates for positions.

In summary, the current proposal would significantly impact on both new councils' financial health and viability. While there may potentially be savings from reduction of back-office and administration costs, these savings have been overstated in the merger proposals and are likely to

¹⁶ *Local Government Act*, Sect 354G, Lateral transfer of non-senior staff Clause (2), (3), (4), (5)

be eroded by the significant costs associated with firstly splitting an organisation and then seeking to create two new entities.

The poorer financial performance of both new councils would in turn affect the strategic capacity of each of the new organisations as the ability to invest in innovation, continuous improvement, integrated systems and a resilient and productive organisational culture would be constricted by financial limitations.

2.2 Impacts on the built and natural environment

It is critical not to repeat the mistakes of the past – dispersed housing growth that resulted in a sprawling and poorly connected city, complicated by unique geographic constraints. Planning for Sydney's inevitable population growth has never been more important.

A Plan for Growing Sydney, NSW Government 2014: page 14

How well would the proposed local government model be able to deliver on the NSW Government's plans for growing Sydney?

How would the Government propose to deliver the Northern Beaches Hospital Precinct and related transport and infrastructure upgrades on time and within budget when having to negotiate with two councils, each with different priorities, systems and processes – and each undergoing significant organisational upheaval associated with having to split systems, assets and corporate knowledge?

Would funding for the development of the Northern Beaches Hospital Precinct (for the benefit of the whole peninsula) be readily accepted by a northern community that is well known for its village based development ?

These are just some of the complex questions that have not been sufficiently explored in the merger proposal.

With its narrow focus on creating lean organisations, the Government is overlooking the fundamental question of how to create *better* local government.

The drive and rationale for the ILGRP's recommended grouping of councils on the northern beaches was based on strengthening the strategic capacity of local government to deliver a consolidated approach to:

- regional services and planning – delivering on *A Plan for Growing Sydney*
- health services – supporting infrastructure throughout the northern beaches
- economic development – focus on strategic centres and their connectivity
- housing – coordinate supply and balance with environmental considerations
- transport – development of masterplans and delivery of infrastructure
- sporting facilities – regional approach to provision of facilities
- population shifts – accommodating interchange¹⁷.

This section will analyse the impacts of the proposal on the ability of the proposed new councils to effectively work with the NSW Government to achieve its objectives for the region, and for Sydney. The section will firstly outline the planning context and then examine the S263(3) (b) criteria regarding communities of interest and geographic cohesion from two perspectives: a general perspective on the merits of the proposal in terms of 'communities of interest' and geographic cohesion; followed by an analysis of the specific impacts of the proposal on key strategic and planning issues for the northern beaches region.

¹⁷ *Northern Beaches regional grouping options*, Independent Local Government Review Panel 2015: page 5
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2.2.1 CONTEXT

Sydney is growing at an unprecedented rate. By 2031, Sydney's economic output will almost double to \$565 billion a year and there will be 689,000 new jobs. In the next 20 years, Sydney's population will grow by 1.6 million people.¹⁸

The Government's housing target for northern beaches (Warringah, Pittwater and Manly) is 17,300 by 2031 (the target for Mosman is 600 by 2031).¹⁹ Equivalent targets for employment is 19,500 new jobs for northern beaches region and 1,300 for Mosman by 2031.²⁰

To achieve these targets the Government has identified 'strategic centres' (shown as red rings in **Figure 2**) that play a pivotal role in the growth of Sydney. The success of the strategic centres hinges on their connection to other growth areas and to the 'Global Economic Corridor' (highlighted in yellow in Figure 2)

Three strategic centres have been identified for the northern beaches region: Northern Beaches Hospital Precinct, Dee Why and Brookvale. It is clear from the map that these areas are relatively isolated, the main transport corridors to the centres being limited to Warringah Road and Pittwater Road.

Transport, infrastructure, housing and commercial development will be critical to the growth of these areas and to Sydney as a whole – and they are especially critical at this time with the Northern Beaches Hospital precinct project being well underway.

As recognised by the NSW Government, the Greater Sydney Commission, ILGRP, and IPART these issues cannot be solved in isolation (i.e. by councils that 'stand alone') but must be approached from a regional perspective. However, the present proposal seeks to split the northern beaches and create two new entities within the same geographic region and community of interest.

It is likely that an additional layer of governance would be required (compared to the single northern beaches model or Warringah Council standing alone) to manage housing, transport and environmental issues, adding a whole new set of complexities and start-up costs to two unstable administrations.



¹⁸ A Plan for Growing Sydney, NSW Government 2014: page 4

¹⁹ Draft Subregional Strategy, NSW Government 2007, North East Subregion – NSW Department of Planning, Sydney: page 50

²⁰ Ibid: page 22

2.2.2 IMPACTS - GENERAL

*S263(3) (b) the **community of interest and geographic cohesion** in the existing areas and in any proposed new area*

Warringah Council believes that 'community of interest' should be used as a concept which defines geographical areas and to use locality boundaries based on geographical features in planning matters.²¹ The geography, the natural/built environment, and communities of interest are strongly linked.

The community vision and values of northern beaches emphasise the natural environment. The more urban Mosman community, separated from the northern beaches by a body of water and in closer proximity to the Sydney CBD, expresses a vision with an emphasis on its rich heritage and sense of pride.

The proposal to split the northern beaches and include Mosman in the southern council goes against the Government's own advice from the ILGRP and is not consistent with other significant classifications and groupings (for example the Australian Bureau of Statistics Statistical Subdivisions).²²

The merger proposals seem to acknowledge that Mosman is not a part of the northern beaches community of interest. The proposal for the southern council recognises the self-contained nature of the northern beaches area and makes reference to a range of northern beaches institutions, regional services and facilities – institutions that, as the names imply, service the northern beaches geographical region (not Mosman):

- Northern Beaches Hospital; Northern Beaches TAFE Campus;
- Manly-Warringah Sea Eagles,
- Warringah Children's Services – which also manages Manly Council's family day care service;
- Northern Beaches Lifeline;
- Surf Life Saving Australia (Northern Beaches Branch)
- Radio Northern Beaches;
- Northern Beaches Community College.²³

The only conceivable 'community of interest' between the northern beaches and Mosman of any relevance to the proposal is SHOROC. However, even SHOROC makes a clear distinction between the northern beaches and the north shore: "*A partnership of Councils planning & advocating for Sydney's Northern Beaches & North Shore*".²⁴ SHOROC is not a network of members with equal and joint interests in regional development, but one of members with only a limited degree of overlapping interests which to some extent, can be pursued jointly.

In summary, it is clear that there is no 'community of interest' or geographic cohesion that would justify the current proposal's intention of splitting the northern beaches and including Mosman in the southern council.

COMMUNITY VISION AND VALUES (as per the Community Strategic Plans)

Pittwater: To be a vibrant sustainable community of connected villages inspired by bush, beach and water

Manly: where natural environment and heritage sustain and complement a vibrant cosmopolitan and community lifestyle.

Warringah: Leading the community, protecting our environment, creating our future

Mosman: Proud to be Mosman; Protecting our Heritage; Planning our Future; Involving our Community

²¹ Suggestions Submission to the Redistribution Committee for New South Wales, Liberal Party of NSW, 2015: page 16

²² The local government areas of Manly, Pittwater and Warringah make up the ABS Northern Beaches Statistical Subdivision. By contrast, Mosman belongs to the North Sydney-Mosman ABS Subdivision.

²³ Merger Proposal: Manly Council, Mosman Municipal Council, Warringah Council (part), NSW Government 2016: p 15 and 16.

²⁴ <http://shoroc.com/>

2.2.3 IMPACTS – ADDRESSING THE OBJECTIVES OF ‘A PLAN FOR GROWING SYDNEY’

The proposal will have profound impacts on the new councils’ ability to work with the NSW Government in planning for the future and delivering on the following main objectives of the *Plan for Growing Sydney*.

- a. **‘Connectivity and Transport:** make it easier for Sydney’s residents to move between their homes, their jobs, the centres where they shop and use local services, and their open spaces;
- b. **Housing:** make a wider variety of housing available to suit the changing make-up of the population - more than one million people will be over the age of 65 years and almost the same number under the age of 15 years by 2031;
- c. **Infrastructure and strategic centres:** deliver new infrastructure which supports our community as it grows, and strategic infrastructure that also strengthens the economy;
- d. **Environment:** recognise our highly prized environment – the harbour, the coast, our mountains, parks and open spaces – and how to safeguard these places.’²⁵

a. Connectivity, Transport and Infrastructure

The Warringah Road transport corridor is critical to the realisation of the Government’s *A Plan for Growing Sydney* – especially as the Northern Beaches Hospital Precinct is being constructed and is already relatively isolated from other centres. This is clearly illustrated in **Figure 2** above from *A Plan for Growing Sydney*. It is also clear that Warringah Road is a critical link to the rest of Sydney.

To further isolate the Northern Beaches Hospital Precinct, and locate it within another local government area that has no linkages to the Dee Why - Brookvale strategic centre, contradicts the core planning principle of “*creating efficient links into centres and between centres to help people get jobs, schools, universities, shops and leisure activities*” and will hinder both areas’ economic development.²⁶

As illustrated in **Figure 3** below, the *NSW Long Term Transport Masterplan* also identifies the east-west link between Dee Why-Brookvale and the Northern Beaches Hospital Precinct as one of Sydney’s main demand corridors, linking the Dee Why-Brookvale Strategic Centre to the Northern Beaches Hospital Precinct through to Chatswood.²⁷

The *NSW Long Term Transport Masterplan* notes that well planned linkages between these strategic centres allows for a simplified connection between different modes of transport to increase choice for customers and to provide more diverse travel opportunities.

COMMUNITY PRIORITIES

The northern beaches priority concerns match those of Mosman’s. The top priorities for all affected LGAs are transport, traffic management, public transport, development, housing and overpopulation.

For example, the research findings from Warringah’s community survey found:

Residents indicated that the major challenges still revolve around the issue of getting around in or getting out of the LGA and the impact that an increased population will have on the road and transport networks

(Sources: Warringah’s community surveys (Micromex 2011-2015); 2015 Warringah Council Business Survey; Mosman Council Community Research 2014; MOSPLAN2013-2023; Pittwater Council Community Strategic Plan Research (Micromex 2014); Manly Council CSP 2015).

²⁵ *A Plan for Growing Sydney*, NSW Government 2014: page 4

²⁶ Principle 3 states the importance of connecting centres. Ibid: page 11.

²⁷ *NSW Long Term Transport Masterplan*, Transport for NSW 2012: page 44

Furthermore, accessible and affordable transport between strategic centres is essential in maintaining social and economic linkages providing the opportunity to gain work, obtain an education and become active and engaged members of the community.

Figure 3: Sydney's main demand corridors (excerpt)



Warringah Road is currently at capacity and must be upgraded to accommodate the Northern Beaches Hospital Precinct development. The NSW Government has recognised the importance of this corridor by seeking to invest over \$500m in infrastructure upgrades to maintain and enhance the East-West connectivity from Brookvale, Dee Why through Northern Beaches Hospital Precinct to Chatswood. The connection to Chatswood is the link to Sydney's Rail Infrastructure and a "gateway" to other employment and commercial destinations.

The Government's merger proposals would disconnect the Northern Beaches Hospital Precinct strategic centre from the rest of the region's strategic centres (Dee Why - Brookvale). This contradicts the Government's own planning principles used to guide Sydney's growth and foregoes opportunities for integrated, long-term planning and the ability to establish meaningful connections and synergies between the three centres.²⁸

The Government's proposed boundaries would split Warringah Road across the two new councils and in doing so splitting interests between council areas, risking the potential for Warringah Road to fulfil its potential to provide the vital connection between the three centres and Chatswood.

Any future transport planning and decision making for the Warringah Road corridor would be the subject of two separate council processes each with differing priorities, systems, reporting requirements and delegations without

'COMMUNITIES OF INTEREST'

*Ease of travel and communication is an important consideration when attempting to establish electoral boundaries. When a number of different localities need to be incorporated into an electorate, preference should be given to grouping those that are **connected by major transport corridors**, railways or other major roads. All efforts should be made to avoid creating Divisions where different parts would have difficulty communicating with one another.*

[...] The physical features of any electorate provide an invaluable guide in drawing electoral boundaries, as they generally complement the key considerations of community of interest and ease of communication.

(Suggestions Submission to the Redistribution Committee for New South Wales, Liberal Party of NSW, 2015: pages 16 and 17)

²⁸ This is recognised in the Industrial Precinct Review (Hill PDA 2015: pages 67 and 105) in which the opportunities for agglomeration (e.g. ability to specialise and use other services to complement business activity) from having all strategic centres under the management of one council is identified: "One council managing all strategic centres will ensure a more integrated and co-located approach to achieve more sustainable urban outcomes".

considering NSW Government agencies own processes. Experience from other parts of Sydney where government agencies have sought to negotiate transport planning issues with more than one council highlights the difficulties in understanding local community issues and reaching good, regional outcomes (as opposed to piecemeal compromised solutions) – even when dealing with already well-established councils.²⁹

The development of the Northern Beaches Hospital (and the Precinct Structure Plan) by Warringah Council is well advanced. Transport and infrastructure planning is critical, and it is critical now. It will not only impact on the provision of health services to the northern beaches region, but also impact on broader scaled economic growth.

Transport infrastructure consistently ranks as a number one priority across all councils affected by the merger proposal and with transport links to/from and in between centres it is a fundamental priority of the NSW Government when planning Sydney's growth; it is simply an issue that cannot be dealt with in isolation.

Any enhancement of the East/West corridor will have flow-on effects with respect to the Pittwater Road, Condamine Street, and Military Road transport corridor. The provision of other feasible alternatives to access greater Sydney and the CBD via improved connections with Chatswood and the rail network can have a flow on effect of less traffic along the coastal corridor. Similarly the development of the B-Line Bus Rapid Transit project has potential to move car drivers to public transport, free up road space, and generally improve access for Mosman residents.

Ensuring integrated transport planning around the Northern Beaches Hospital Precinct is critical to the linkages and synergies between the strategic centres. This is best achieved by maintaining the Warringah Road corridor within one local government area in order to satisfy the NSW Government's own planning principles - or better still, through the creation of a single northern beaches council for the region as recommended by ILGRP.

b. Housing

The northern beaches community has concerns regarding the potential implications of population growth and increased housing density on the natural environment and our transport networks.

There is a need to balance a growing population with environmental values. The region will also need to balance the need for affordable, diverse housing options with retaining the character of our neighbourhoods.

In the merger proposal for the southern council it is noted that:

*The Government has considered the merger options for this area of Sydney and is proposing a new council for the southern, higher density part of the Northern Beaches of Sydney. It is also proposing a new council for the northern part of the Northern Beaches area of approximately the same size in population, **but capturing a more peri-urban part of the Northern Beaches** [Warringah's emphasis].³⁰*

However, the merger proposals do not consider how to align the need to accommodate growth – namely through Northern Beaches Hospital Precinct strategic centre - with the peri-urban character of Pittwater. Placing the Northern Beaches Hospital Precinct and hence projected large scaled commercial and residential growth in the northern council, on the border to the southern council, is

²⁹ The most well-known of these examples is Parramatta Road, where the failure of a number of renewal projects over the last 10 to 20 years (largely) has been attributed to the complexities of negotiation between many (nine) different Councils and many different government agencies - each with different systems, processes, requirements and interests. This example has often been cited as being a driver for local government reform.

³⁰ Merger Proposal: Manly Council, Mosman Municipal Council, Warringah Council (part), NSW Government January 2016: page 6

problematic. It goes against the vision, planning intentions, planning instruments and community sentiment of Pittwater.³¹

Frenchs Forest will look very different in 10-20 years. Density is bound to increase and this may set new development and planning precedents within an area prefers to be known for its 'village based' urban character.

Warringah Council has been approached by many land owners involved in the Northern Beaches Hospital Precinct who wish to undertake significant development or 'optioning' of land in the area expecting to be 'up-zoned'. Development proposals of mixed commercial/residential significantly larger than existing development have been proposed for the Northern Beaches Hospital Precinct.

In contrast, the southern proposal includes the more densely populated areas of Dee Why, Brookvale and Manly Vale including the Dee Why Town Centre which has development of 18 storeys in height under construction.

While the Warringah community shares concerns about the impact of population growth on the environment, the area's history and present Master Planning (Dee Why and Brookvale) allows greater flexibility in planning terms, as well as in terms of community engagement and management of stakeholder expectations.

c. Environment

The northern beaches community and Mosman share concerns that the housing and population growth in the region will have a long term and irreversible negative impact on the natural environment.

Environmental values are evident in each of the northern beaches councils' vision statements (as per their Community Strategic Plans) – with Mosman placing more emphasis on the sense of individual identity and heritage in their vision, while their operational programs reflect a strong focus on ongoing environmental management.

The northern beaches community has a strong expectation that bushland, coasts, waterways and lagoons are effectively managed for the benefit of future generations and holds councils accountable for delivering on their commitments.

Economies of scale have allowed Warringah Council to invest heavily in establishing a highly skilled, well-resourced and efficient environmental management system which enables it to efficiently deliver on commitments and shoulder responsibility for managing and investing in the bulk of environmental assets in the region.

For example, Warringah is the lead agency on the following key environmental initiatives.

- Warringah manages the floodplain risk study program and ecological assessments for all four lagoons on the northern beaches on behalf of Manly and Pittwater Council, as well as managing the bulk of lagoon flood mitigation activities for the community.
- Warringah is the majority shareholder in Kimbriki Environmental Enterprises Pty Ltd (KEE) along with our neighbouring councils and is one of the few regions in NSW with the capability to manage its own waste into the future.

³¹ It is Pittwater's stated vision to be: *"a vibrant sustainable community of connected villages inspired by bush, beach and water"*. The planning vision for the area is defined in the Development Control Plan (page 67): *Future growth of Pittwater must conserve, protect and enhance the natural environment and beauty of the area. [...] The built environment shall not extend above existing ridgelines, and shall remain below existing tree canopy levels [...] A vital array of interrelated land uses should be encouraged within the village centres, yet maintain their village feel and community focus"*.

- Warringah manages the Rural Fire Service (RFS) budgets on behalf of Warringah and Pittwater Councils, and also provides the regional emergency control facilities for the RFS, SES, Coastal Patrol and Local Emergency Management Control.

The merger proposals would entail a missed opportunity to efficiently scale environmental expertise in the northern beaches and effectively manage the catchments and waterways within what is a contiguous geographical area with shared environmental assets, values and community interests.

*S263(3) (c) the **existing historical and traditional values** in the existing areas and the impact of change on them*

As noted in the Government's merger proposal, Pittwater (formerly known as 'A Riding') came into existence 20 years ago (1992) following secession from Warringah Council. As indicated in the introductory section of this submission, the secession followed many years of government inquiry into structural reform for the region. The main reasons for the residents of Pittwater to advocate for a secession were perceptions of inequitable spending on infrastructure as well as inappropriate development.

The merger proposals as presented would re-create these issues for residents of both areas.

2.2.4 SUMMARY OF IMPACTS – BUILT AND NATURAL ENVIRONMENT

In summary, the current proposal would entail substantive impacts not only to the economic and social cohesion and development of the region, but to the Government's plans for the future of Sydney as well as support for the reform process itself amongst a disenchanted community.

Impacts of the proposal on the built and natural environment of the northern beaches and Mosman are summarised below.

- Disconnection of Northern Beaches Hospital Precinct strategic centre from the strategic centres of Dee Why and Brookvale and potential loss of synergies
- Warringah Road split across two local government areas making negotiation regarding current works, community expectations and long term planning challenging for the NSW Government
- Future medium to high density residential and commercial growth for Northern Beaches Hospital Precinct not aligned with peri-urban character of Pittwater
- Impacts on the environment through loss of economies of specialisation, loss of corporate knowledge and arising complexities from 'management by committee' approach to management of northern beaches natural environment – particularly regarding management of catchments, coasts, lagoons and waterways
- Potential for community resistance given the shared value of protecting the natural environment
- Compared to a single regional council model or Warringah Council continuing its present operations and services (many of which are regional), likely requirements for an additional layer of governance to jointly manage planning and environmental considerations

2.3 Governance

The Manly, Warringah and Pittwater communities are very closely linked in culture and character and therefore there is no need for three separate councils.

Jill (community member), April 2015

2.3.1 CONTEXT

*S263(3) (e) the requirements of the area concerned in relation to **elected representation** for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area*

Warringah Council believes that the most effective and efficient government model for the region is to create a single new council on the northern beaches, comprised of Manly, Pittwater and Warringah. Warringah suggests that 12 Councillor plus one popularly elected Mayor would be the best and most efficient representation model for the northern beaches.³²

A popularly elected mayor would enhance political leadership and stable governance of council and is consistent with the NSW Government's own ILGRP which supported mandatory direct election of mayors in all metropolitan councils. It would avoid the mayoralty being determined by lot and also give the residents a democratic voice in choosing their mayor.

The Warringah community has access to other effective engagement mechanisms such as public forums at Council meetings, strategic and operational committees, community engagement activities as well as Warringah's one stop customer service centre. Having a variety of ways the community can engage with council is important to residents of the northern beaches.³³

2.3.1 PRINCIPLES - GOVERNANCE

*S263(3) (e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into **wards***

Warringah believes that each of the new councils, if established, should be divided into three wards with three councillors representing each ward and with a popularly elected Mayor.

³² Based on the population figures in (2014) in the merger proposals, this would entail a ratio of approximately 20,300 residents per Councillor – a similar ratio to that of Blacktown's at 21,000. (Merger Proposal: Mosman Municipal Council, Warringah Council (part), NSW Government 2016: page 12)

³³ Random telephone survey of 1,200 residents of the northern beaches found 8% of respondents annually make direct contact with elected representatives, but around 49% contact staff. Jetty Research (2015)

S263(3) (e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented

As noted earlier, access to local elected representatives should be complemented by other structures and system to support healthy democracy so councils can better respond to the needs of local voices and the wider community at a higher more strategic level. The following principles recognise key drivers of community satisfaction in our region, and should be used to devise a robust system for each council.

- Community governance - embedding a strong community influence in decision-making and policy-making by establishing strategic and operational committees, and recognising the role of local community bodies in local place-making
- Robust community engagement using a comprehensive spectrum of techniques to inform, consult, involve and collaborate with the community; including more contemporary online and social media engagement
- A strong culture of customer service, responsiveness and accountability, along with systems and staff training to respond to community needs
- Effective systems of customer service and information, supported by growing online services and mobile technology

This is also in line with the ILGRP's approach of combining these elements, along with wards and local forums, to maintain a sense of local identity and place in merged councils.³⁴

³⁴ ILGRP (2013) Revitalising Local Government - Final report of ILGRP. Page 78

2.4 Community attitudes

“Benefits of a unified northern beaches outweighs all other scenarios. It would improve the quality of living here to have equal access and benefits across the peninsula, and make it worth paying the exorbitant costs to live here”

Collaroy resident, April 2015

Under the merger proposals the Warringah community would be more than 50% of the population of the two new councils, and is a voice that ought to be taken seriously. Failing to listen to the Warringah community means failing to listen to the majority of people in either of the new proposed LGAs.

Council has consulted with the community on the reforms. IPART noted that Warringah *conducted extensive community consultation across three northern beaches LGAs through various media, including random telephone surveys and social media.*³⁵

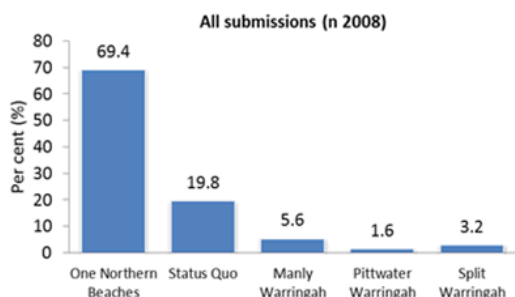
The community was presented with five merger options for the northern beaches. None of the options included Mosman LGA. The inclusion of Mosman LGA was not considered a logical grouping by the ILGRP, IPART or the northern beaches community. The two council model below involved splitting Warringah and merging part with Manly and Pittwater.

S263(3) (d) the attitude of the residents and ratepayers of the areas concerned

Warringah received over 7,600 submissions as part of consulting on the reforms including:

- 1,200 residents from Manly, Pittwater and Warringah involved in a representative survey - October 2014
- 600 Warringah residents involved in a random representative survey - June 2015
- 2,008 online or written submissions up to June 2015
- Over 3,407 messages from Warringah residents since July 2015
- Hundreds of comments on social media

The community overwhelmingly supports uniting the northern beaches above any other option:



Why a single council is supported

- Increased efficiency
- Reduced costs and bureaucracy
- Unification of the northern beaches community
- Enhanced regional services and facilities
- Access to all northern beaches facilities
- Stronger ability to tackle regional problems.

Jetty Research 2014/Micromex Research 2015

³⁵ *Assessment of Council Fit for the Future Proposals: Local Government, Final Report, IPART October 2015*

These results support data from two representative telephone surveys by Jetty Research (2014) of residents from Manly, Pittwater and Warringah as well as Micromex Research (2015) which demonstrated strong support for a single council and limited support for a two council model involving splitting Warringah.

Since July 2015, a further 3,407 submissions have been received with 98.5% saying:

Please unite the northern beaches to form one new, effective and efficient Northern Beaches Council.

I do not support my rates being wasted on making two new, less efficient Councils and splitting the northern beaches.

Proceeding with the merger proposals in their current form without listening to the community risks the long term sustainability of local government in the region. There are a number of examples in Queensland of where the community has been left worse off because of forced mergers in 2008. The Queensland Government has been forced to reverse its decision and allow the councils to demerge. This is a costly and disruptive exercise for the councils and the community and shouldn't be repeated in NSW.

3. Other Factors

S263(3) (f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.

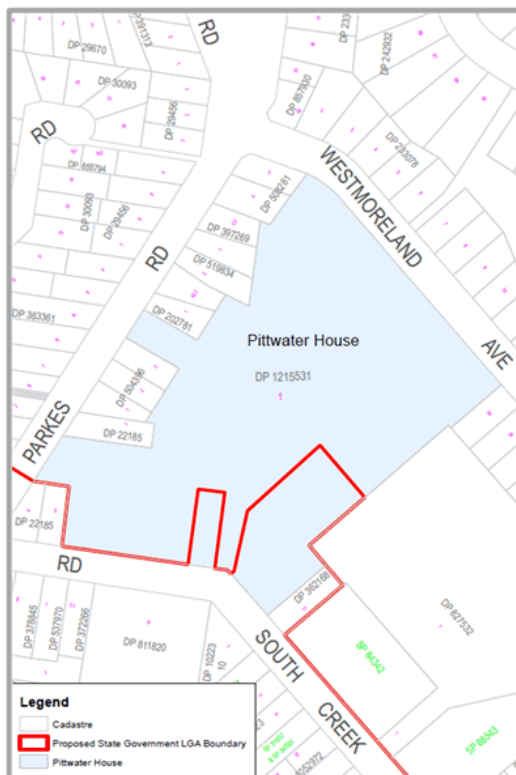
Warringah has identified other areas that both would have an impact on the ability of the new councils to provide efficient and effective service:

- 1) Technical planning considerations – impacts on integrated planning
- 2) Naming of the new councils – impacts on organisational culture

3.1 TECHNICAL PLANNING CONSIDERATIONS

The Government's proposed boundary follows suburb boundaries, rather than natural boundaries (i.e. ridges and creek lines). This is problematic as it can inhibit integrated planning and lead to poorer environmental and community outcomes. It may also impact on future growth by introducing unnecessary planning complexities across key growth areas.

Figure 4: Example of technical anomaly (Pittwater House on South Creek Rd)



In addition, a review has identified technical anomalies related to the proposed boundary that would impact on both councils' ability to provide efficient and effective planning services. An example of a technical anomaly is provided in **Figure 4** with more detailed analysis contained in **Appendix 3**.

Other technical anomalies relate to Warringah's current LGA boundaries. For example, the following marinas are located in two local government areas

- Middle Harbour: Roseville Chase Marina
- Cowan Creek: Empire Marina Bobbin Head
- Cottage Point: Kiosk & Boat hire

3.2 NAMING OF THE NEW COUNCIL

The northern beaches is the only region in the Sydney metropolitan area that will split down the middle, making the merger process much more complex and the outcomes more unpredictable than would be the case of amalgamating whole council areas.

As outlined in this submission, there are a range of tangible and quantifiable costs of firstly splitting one Council and then creating two new councils in the region. These costs are significantly higher than for mergers of two whole local government areas and would lead to poorer outcomes.

Neither this submission, nor the Government's Proposal have fully considered the unpredictable and intangible costs associated with building new organisational culture. Indeed, these are complex change management issues that largely fall beyond the scope of the Delegate's brief.

Nevertheless, knowing that certain issues – such as the naming of a new Council - have the potential to cause significant disruption, complications and possible delays, it may be worth considering how best to manage this situation pre-emptively.

Experience from Australia (i.e. the creation of Greater Hume council) as well as overseas (UK, Northern Ireland, Denmark) indicates that one of the most controversial aspects of council amalgamations, along with determining a suitable location for the Council Chambers and head office, is the naming of the new entities. The symbolism, sense of identity and strong emotional attachment often comes as a surprise to decision-makers and frequently causes delays and disruption to the amalgamation process (even where this process is a relatively straightforward case of amalgamating two whole LGAs).

4. Conclusion

Warringah Council, the ILGRP, and IPART have favoured the one northern beaches council model over the past four years of the reform planning process and agree with the NSW Premier Mike Baird that local government reform is a once in a generation opportunity. Warringah however disagrees with the logic, financial benefits and flawed approach by the Government's merger proposals.

Local government reform has been considered by the Boundaries Commission on four separate occasions. While the review criteria may have changed, the conclusions remain the same: the best and least costly model for local government in the region is the creation of a single new northern beaches council.

There has never been any evidence to suggest that splitting the northern beaches region is worth the significant costs involved.

Current evidence from ILGRP, IPART, Ernst & Young, KPMG and SGS supports these findings and all show that the current merger proposals would be the most costly and least efficient reform option for the northern beaches.

The Proposals would create two councils that would be weaker financially and strategically than Warringah currently is. This is not a good starting point for delivering on the NSW Government's plans for growing Sydney.

Now is the time to ensure that local councils have the scale and capacity so they can be effective partners for the Government in tackling the complex problems of population growth, transport, housing and environmental management.

To achieve sustainability (not just financial efficiency) Warringah urges the Delegate and Boundaries Commission to revisit the recommendations by the ILGRP and put forward an option that does not undermine the strength of the sector; split up one of the best performing councils in NSW to its ratepayers distinct disadvantage; nor ignore community sentiment and traditional values.

APPENDICES

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Appendix 1

Boundary Commission inquiries 1969-1991

2

1

Boundary Commission inquiries 1969-1991

Recommendations and key findings from:

- Report of Local Government Boundaries Commission 1970
– on proposals involving the Municipality of Manly and the Shire of Warringah
- Report of the Committee of Inquiry into LGAs and Administration in NSW 1973
- Local Government Boundaries Commission 1977
– The Manly-Warringah District Report, November 1977
- Local Government Boundaries Commission 1979
– Manly Warringah District, June 1979

Note: the report from the Boundary Commission inquiry 1991 is not available

SUMMARY OF BOUNDARIES COMMISSION FINDINGS AND RECOMMENDATIONS

INQUIRY	FINDINGS	RECOMMENDATIONS
<p>Report of the Local Government Boundaries Commission</p> <p>1970</p> <p>On Proposals Involving the Municipality of Manly and the Shire of Warringah</p> <p>(Warringah included Pittwater at this stage)</p>	<ul style="list-style-type: none"> Satisfied that the best interests of the people of Manly and Warringah would be served by the union of the two areas to form a new Municipality. (p22) Status quo of separate Manly and Warringah councils has greater operating costs of those estimated for a single northern beaches council (p22) <p>Proposal 1 – Split A Riding to create Pittwater:</p> <ul style="list-style-type: none"> A disservice to Warringah & A Riding (p22) Anticipate would cause continuing problems of boundary issues for the region (p22) Would add even further to the costs of local Government (p22) Ratepayers would be significantly affected by the costs (p22) The Boundaries Commission recommended against this (p22) <p>Proposal 2 – adjust Warringah's southern boundary to add part to Manly:</p> <ul style="list-style-type: none"> Unfair to ratepayers in C Riding (southern Warringah) (p22) Will cost ratepayers unnecessarily (p22) <p>Proposal 3 – Unite Warringah and Manly as single councils for the region</p> <ul style="list-style-type: none"> Best interest of the people of Manly & Warringah (including A Riding) to unite the two areas to form a new Municipality (p22) Not a considered reasonable and equitable solution to change the boundary lines from one area to another, therefore the Commission believes the boundary line should now be removed (p22) 	<ul style="list-style-type: none"> Commission recommended that Proposal No 1 – Splitting A Riding should not be approved Proposal no. 2 for transfer of a number of acres of Warringah to Manly should not be approved Proposal no. 3 for the union of Warringah and Manly be approved, creating a single northern beaches council

INQUIRY	FINDINGS	RECOMMENDATIONS
Report of the Committee of Inquiry into Local Government Areas & Administration in NSW 1973 (General review of local government reform across NSW)	<ul style="list-style-type: none"> Review demonstrated the need for basic change in local government areas in NSW (p49) Financially inefficient to continue with existing no. of areas; only economically viable if substantially reduce numbers (p49) Good system of local government implies effective powers of decision making (p50) All major decisions affecting a local community, made by other levels of government, must first consider the views of the council and community they are accountable to (p50) Consider a viable basic unit of Local Government with a tier of "regions" (p50) Not one ideal size for a local government. Must have regard for the particular circumstances such as geographical features, population and distribution (p50,51) Local government suffers from too many small uneconomic areas, duplication of assets (p52) Too many meaningless boundaries results in fragmentation and problems in development & planning, which instead need far stronger integration (p52) 	<ul style="list-style-type: none"> Unanimously viewed the need for basic change in local government If council areas were stronger they could achieve greater technical competence

INQUIRY	FINDINGS	RECOMMENDATIONS
<p>Local Government Boundaries Commission November 1977</p> <p>The Manly-Warringah District Report</p> <p>(Warringah included Pittwater at this stage)</p>	<ul style="list-style-type: none"> • Uniting the two council areas into one would reduce rates (p4) • Rates reduction would be accompanied by better services such as: social & recreational; planning; uniform standards of policies, procedures & fees (p4) • It would also reduce waste charges, improve pensioner rate rebates & eliminate library charges (p4) • Financial advantage is only one of many matters to be considered in a possible union but it is capable of factual and objective evaluation (p4) • The Panel considered there is convincing evidence in favour of uniting into one council, the main advantages being – <ul style="list-style-type: none"> ➢ Technical & engineering staff would be responsible for all activities in their respective districts and would operate from the Dee Why office. ➢ Council representatives would be reduced in numbers based on average ratios of council members to populations ➢ More rational for planning & administration, common policies and rates. Would be better for all concerned; ➢ Community services are in greater demand & Warringah's comprehensive program & specialised staff provide the service without additional cost ➢ Provides strong regional basis for the library; higher quality & more diverse services; more efficient & effective use of funds. Would rationalise & centralise book purchases and cataloguing ➢ Reduced Garbage charges ➢ Reduced annual rate charges ➢ Centralised main depot with sub-depots at Warriewood and Manly. Existing Manly depot would be sold (p5) 	<p>In examining the region with separate councils of Manly and Warringah:</p> <ul style="list-style-type: none"> • The two council areas are compatible in all respects, physical, social, cultural, economic & administrative. The strong natural boundaries make the region an ideal geographic unit for integrated planning, development, administration & community of interest (p4) • Unifying under one council would reduce staff but they would be able to perform at equal or better standards in making decisions; using modern equipment; and up-to-date management practices and methods. <p><u>Conclusions</u> (p50)</p> <p>Had Manly-Warringah been a single council there would be the following benefits –</p> <ul style="list-style-type: none"> • Considerable savings in administration and reduced rates • Services would be as good and in some cases better • Overall social, recreation & town planning for the peninsula would be facilitated • Eliminates need for joint council committees; thus reducing delays & administrative effort • Uniform development & building construction conditions for the region instead of the existing wide disparity of technical standards, policies, procedures & fees • Manly residents would benefit by eliminating library charges & improving pensioner rebates.

INQUIRY	FINDINGS	RECOMMENDATIONS
<p>Local Government Boundaries Commission, June 1979 -</p> <p>Manly-Warringah District</p> <p>Explanatory Notes relating to a financial & Engineering Survey & Report of the Council of the Municipality of Manly & The Shire of Warringah undertaken by members of the Local Government Boundaries Commission's Advisory Panel</p> <p>(Warringah included Pittwater at this stage)</p>	<ul style="list-style-type: none"> • Comparison was made between the actual situation in 1976 or two separate administrations with a unified administration for the whole Manly-Warringah peninsula (p20) • Convincing evidence in favour of a uniting Manly & Warringah into one council for the northern beaches. • Main advantages being – <ul style="list-style-type: none"> ➢ The united area would be a more rational planning & administrative area ➢ Common policies, standards, requirements, rates, charges & fees would be better for all concerned; ➢ Community services will be in greater demand and Warringah's comprehensive program and specialised staff would be available to the united area without additional cost; ➢ Strong basis for regional-scale library services, with higher quality & more diverse services, a more effective and efficient use of funds. ➢ Reduced garbage charges ➢ Rates reductions which could be distributed equitably (p20 & 21) 	<ul style="list-style-type: none"> • Union of the two Council areas into a single council for the region has strong financial advantages and would reduce the annual rates. • The strong natural boundaries make it an ideal geographic unit for integrated planning, development, administration and community of interest. • The cost reduction would be accompanied by services as good or better than for the separate areas; better social recreation & town planning; reduction of delays & administrative effort; uniform standards, policies, procedures & fees • Manly residents would enjoy reduced garbage charges, more liberal pensioner rate rebate & elimination of library charges. • Concluded that a unified and reduced staff would have been able to perform at equal or better standards.

1969-70

PARLIAMENT OF NEW SOUTH WALES

REPORT
OF THE
**LOCAL GOVERNMENT BOUNDARIES
COMMISSION**
ON
**PROPOSALS INVOLVING THE MUNICIPALITY
OF MANLY AND THE SHIRE OF WARRINGAH**

Ordered to be printed, 6 August, 1970

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CONCLUSION

Mr Commissioner Barden regrettably passed away before this report was written. Prior to his death however discussions had taken place and the other two Commissioners are satisfied that the views they have expressed and the conclusions reached would have been supported by Mr Barden.

Mr A. R. McFarland was appointed to the Commission following the death of Mr Barden. He has examined the evidence submitted to the inquiry and has joined with the other two Commissioners in the preparation and presentation of this report. He concurs with the comments, conclusion and recommendation.

* * * * *

In the introduction to its comments the Commission briefly set out the task which faced it; whether to increase the number of local government administrations in the Manly-Warringah peninsula from three (including the Mackerell County Council) to four; to maintain the status quo and/or enlarge the Manly Municipality and still retain three local government bodies or to create one council by uniting Manly and Warringah in which case the Mackerell County Council would become a department of the new Municipality of Manly-Warringah. The Commission appreciates that in regard to Mackerell County Council the Minister may decide to seek the views of the Electricity Authority should he find the Commission's recommendations acceptable.

The Commission's comments in regard to the three proposals are of a greater length than usual but the mass of evidence presented to the Commission was far in excess of the usual, too, which has resulted in a somewhat long and delayed report.

The Commission is satisfied that the best interests of the people of Manly and Warringah would be served by the union of the two areas to form a new Municipality.

In spite of Councilor Creagh's enthusiasm for the new Shire of Pittwater and the well prepared and lengthy case he presented and the argument which followed the Commission is convinced that it would do a disservice to the people of the Warringah Shire and the people of "A" Riding in particular if it found in favour of the new Pittwater Shire proposal.

Had it favoured the creation of Pittwater, it would then, to have been consistent, had to find in favour of extending the Municipality of Manly and by so doing set the pattern for an application in due course for the possible division of the residue of "C" and "B" Ridings.

For the Commission to have made a decision along these lines would have been irresponsible and the result would have been that the status quo would have been maintained and the problems of the peninsula in regard to boundaries would have remained unsolved.

The fact too that the estimated operating cost for three separate local government administrations would be greater than for a single council covering the whole area has influenced the Commission in its recommendation. The subsequent creation of possibly two more municipalities which was mentioned on several occasions at this inquiry by the advocates for smaller councils would add even further to the total cost of local government administration in the Manly-Warringah peninsula. In the interests of the ratepayers this could not be justified. As indicated in this and other reports to the Minister the Commission is firmly of the opinion that the people who pay are entitled to the best local government at the best possible price and that the peoples' interests must be paramount in the consideration of adjusting boundaries.

During the course of the inquiry and possibly due to certain questions asked by the Commission the idea was canvassed if the Commission would agree to the union of Manly and "C" and "B" Ridings of Warringah to form a new municipality and to create "A" Riding a separate shire. While such a suggestion would have gone far beyond modification to the Commission's terms of reference the Commission nevertheless felt that it should advise the Minister that had it been a proposal before the Commission it could not have received its recommendation because of the reasons already stated in this report against the formation of "A" Riding as a separate shire.

Apart from the conclusions already stated in regard to creating Pittwater and extending Manly the Commission would have been most unfair to the ratepayers of the southern part of "C" Riding to add them to Manly so that Manly might remain a more viable unit.

This could not be considered a reasonable and equitable solution to arbitrarily take people from one area where they are satisfied and paying lower rates and place them elsewhere, when, by transferring the smaller municipality to the larger the people residing in the smaller municipality would also gain financially and be on equal terms with their neighbours on the other side of the boundary line—a boundary line which the Commission believes should now be removed.

* * * * *

LOCAL GOVERNMENT BOUNDARIES COMMISSION**RECOMMENDATION**

The Commission recommends that:

- (a) the proposal (No. 1) submitted by certain electors of "A" Riding of the Shire of Warringah for the constitution of "A" Riding as a separate shire which was published in *Government Gazette* No. 74 of 29-7-66 should not be approved;
- (b) the proposal (No. 2) submitted by the Manly Municipal Council for the transfer of 1781 acres of the Shire of Warringah to the Municipality of Manly which was published in *Government Gazette* No. 6 of 20-1-67 should not be approved; and
- (c) the proposal (No. 3) submitted by the Warringah Shire Council, and supported by Councillors G. C. Anderson and R. J. D. Legg, for the union of the Shire of Warringah and the Municipality of Manly which was published in *Government Gazette* No. 21 of 3-3-67 should be approved.

G. I. FERRIS,
Chairman.
1st June 1970.

C. N. YABSLEY,
Member.
1st June 1970.

The Honourable, the Minister for Local Government.

REPORT
of the
COMMITTEE OF INQUIRY
into
LOCAL GOVERNMENT AREAS
AND
ADMINISTRATION IN NEW SOUTH
WALES
1973

SYDNEY.

20th December, 1973.

His Excellency,
Sir Arthur Roden Cutler, V.C., K.C.M.G.,
K.C.V.O., C.B.E., K.St.J.,
Governor of New South Wales.

May it please your Excellency.

By Executive Council minute dated 15th December, 1971,
we were appointed a Committee to inquire into and report
whether

- (a) present local government areas; and
- (b) the provisions of the Local Government
Act, 1919, relating to the administration
of council business;

are the most appropriate to secure proper economical and
efficient local government having regard to present-day
conditions and up-to-date management practices and, if
not, to make recommendations as to what changes are
necessary or desirable in order to secure, promote, and
facilitate proper economical and efficient local government.

We have completed our inquiries as directed and have the
honour to submit the following report. Our report is
unanimous, subject to a note of dissent by one member on
certain points.

THE NEED FOR CHANGE

p.49

After reviewing the evidence placed before us, the Committee members are unanimously of the view that there is a need for basic change in local government areas. We are not impressed by the views of those who are satisfied with the present system, and who see as the only need of local government a further infusion of finance from the Australian and New South Wales Governments.

Present local government areas are not the most appropriate to secure proper economical and efficient local government. We believe that there is a serious need to create areas more strongly based economically than many that now exist, and this can only be achieved by a substantial reduction in the present number of areas.

Only in this way is there any hope of reversing the trend towards centralisation, a trend fostered by public demand for services which local government has been too weak to provide. In our view local government in New South Wales, and in Australia generally, is at the crossroads. Unless a system of local government is created which enables councils to assume greater responsibilities in decision-making and to become less dependent upon other levels of government, then the power of local communities will continue to decline and the trend to centralisation will be further accelerated.

The Role of Local Government

In making our recommendations, we must have regard to the role that local government is expected to play in the overall machinery of government.

Local government should not in our view, be restricted to local administration of routine functions, with an alderman or councillor just around the corner to "take-up" a complaint about unemptied garbage tins or a pot-hole in the road, important in their own way as these matters are.

An effective system of local government can play an important part in enhancing the quality of our lives.

If structured to grapple effectively with the problems which face our urban areas and countryside, with its scope extended to include some functions now in the hands of nominated bodies, and with the grip of central government relaxed, local government could help to produce a society more democratic in the widest sense of that term.

50

We believe that a good system of local government implies elected councils with effective powers of decision-making in a broad field of community activity, accountable to the local people rather than to a central authority. It also implies that the elected council should openly debate major issues relating to the local community. Where decisions on matters affecting the local community are made at other levels of government, then it should be apparent to all that such decisions are made only after considering the views of the council.

If local councils are to develop this broad concern for the quality of life in their community, and are to be brought into a proper relationship with other levels of government, they should themselves operate over reasonably large areas, and have the human and material resources to carry out major functions.

Three other general points should be made at this stage, before a more detailed analysis of the defects of the existing system is undertaken.

The first is that we consider our main task is to establish a viable basic unit of local government. This responsibility could be sidestepped by recommending some kind of two-tier system, which would enable the basic units to stay much as they are while interposing between State and local government a further tier of "regions". We discuss this point again later, but we wish to state firmly now that there is no substitute for reform at the "grass-roots".

The second point is that, while we think most existing areas are too small, we do not believe there is any one ideal size for a local government area. We agree with the view of the Royal Commission on Local Government in England that there is no special virtue in any one population figure. Any structure must have regard, not only to the particular circumstances of the country for which the structure is to be designed, but also to varying circumstances within

that country. It must take into account such matters as geographical features, population and its distribution, community of interest, functions to be undertaken, and opportunities for public participation. In our detailed recommendations for area changes we have had these considerations continually in mind. In particular, the pattern suited to country areas, with their great distances and small towns, cannot be the same as that which is appropriate to the closely interconnected suburban communities of metropolitan areas.

Thirdly, there are certain cases where we have recommended union, even though one or other of the local councils concerned might be considered already to be performing efficiently within its own area. There is no question that some existing councils have performed creditably, and it might be thought that in such areas no justification existed for interfering with their status. However, we cannot limit our consideration to individual areas taken in isolation. Our recommendations must take account of what is best for local government as a whole, and this we have tried to do, even if this from time to time has involved changes affecting some particular areas which in themselves could be considered as viable units.

The Present Situation

At present there are 90 municipalities, 133 shires and 53 county districts to administer the local government affairs of some 5 million people in New South Wales. In certain cases two shires, a municipality and a county district exist to administer the affairs of populations around 20,000. Often three, and sometimes more, headquarters of local government bodies are located in the one town. In two cases the offices of two councils are housed in the one building, separated only by a corridor. In the Richmond River District, there are four municipalities, seven shires and three county districts to look after the local government affairs of some 80,000 people situated in an area of some 3,264 square miles.

While the scheme put forward in a personal capacity by Mr. Stevens, the Town Clerk of Lismore, for the re-organisation of the Richmond River Valley, and that proposed by the Orange City Council for the Central West, may not be acceptable in the present climate of thinking,

nevertheless we believe they have very correctly underlined the weakness of the present organisation of local government areas in many parts of the State.

In short, local government suffers from the existence of too many small uneconomic areas, resulting in fragmentation of authority, unnecessary duplication of assets, the under-utilisation of plant, equipment and human resources, and inability to provide the varied kinds of expertise required by local councils in the modern world.

Fragmentation of Authority

We have already referred to this. It is reflected, for example, in:

- (i) too many meaningless boundaries, in rural areas an outmoded distinction between municipality and shire, and in large urban and suburban complexes too much unnecessary fragmentation in situations where there are common problems of planning and development and where far closer co-operation and integration are needed to deal with these problems;
- (ii) a tendency of local councils to lose functions, or not to develop adequately activities open to them under existing local government legislation;
- (iii) great variations in resources and population between local areas, which in turn tends to mean that the stronger councils have central controls imposed on them which are often only made necessary because of the poorer standards of the weaker units.

Grants

There is also a tendency of some councils, especially the shire councils, to become heavily dependent on grants from other levels of government.

At the present time local councils in New South Wales receive the following grants:

THE MANLY-WARRINGAH DISTRICT

WARRINGAH

REPORT FOLLOWING A SURVEY OF THE
MUNICIPALITY OF MANLY AND
THE SHIRE OF WARRINGAH

MANLY

LOCAL GOVERNMENT BOUNDARIES COMMISSION

NOVEMBER, 1977

UNION OF THE TWO COUNCIL AREAS WOULD REDUCE THE ANNUAL RATES CHARGES BY ALMOST \$350,000 IN 1976.

THE REDUCTION WOULD BE ACCOMPANIED BY SERVICES AS GOOD OR BETTER THAN FOR THE SEPARATE AREAS; BY BETTER SOCIAL RECREATION AND TOWN PLANNING; BY REDUCTION OF DELAYS AND ADMINISTRATIVE EFFORT; BY UNIFORMITY IN STANDARDS, POLICIES, PROCEDURES AND FEES AND FOR MANLY RESIDENTS BY A REDUCTION IN GARBAGE CHARGES, MORE LIBERAL PENSIONER RATE REBATES AND ELIMINATION OF LIBRARY CHARGES.

Over recent years increasing complexities of life and community demands have caused local government councils to expand their services beyond the basic services related to property use and into new services related more to the cultural, socio-economic and physical well being of people. This trend is evident in Manly and Warringah and is likely to continue.

In examining the Manly-Warringah area, a comparison has been made between the actual situation in 1976 of two separate administrations, in that year with a unified administration for the whole Manly-Warringah peninsula. The Panel has concluded that a unified and reduced staff would have been able to perform at equal or better standards making decisions at appropriate levels and using modern equipment and up-to-date management practice and methods.

The Panel considers the two areas are compatible in all respects, physical, social, cultural, economic and administrative. The strong natural boundaries make Manly-Warringah an ideal geographic unit for integrated planning, development, administration and community of interest.

Financial advantage is only one of many matters to be considered in a possible union, but it is capable of objective evaluation and factual expression. Many other aspects are subject to personal prejudices, preferences, views and opinions of groups or individuals and not capable of being readily evaluated objectively.

The Panel has examined the financial implications of union in detail under every heading of income and expenditure in the Annual Statements of Accounts. It has leaned to the conservative side in assessing savings through union.

The Panel's assessments of the financial effects of union are based on the following assumptions -

- a unified Manly-Warringah administration would be located in the existing Warringah offices at Dee Why, suitably enlarged, the cost being met by sales of Manly property;
- the existing Manly office building would be sold but facilities for payments and a free direct telephone communication to Dee Why would be provided at the Manly library;

5.

- based on the average ratios of Council members to population in a representative group of councils, the united council would have 15 members rather than the present total of 24 for both councils;
- the same works programmes as in 1976 would have been carried out;
- Manly would be the fourth engineering district, district engineers would be responsible for all engineering activities in their respective districts and together with all technical staff would operate from the Dee Why offices;
- the main depot, including the transport workshop, would be at Cromer Street, Dee Why, with sub-depots at Warriewood and Manly; part of the existing Manly depot would be sold.

The Panel considers there is convincing evidence in favour of a union of Manly and Warringah the main advantages being -

- the united area would be a more rational planning and administrative area and common policies, standards, requirements, rates, charges and fees would be better for all concerned;
- community services will be in greater demand and Warringah's comprehensive programme and specialised staff would be available to the united area without additional cost;
- the united area would provide a strong regional basis for the library with higher quality and more diverse services and more effective and efficient use of funds; Particular savings would be made in rationalisation and centralisation of book purchases and in central cataloguing; Manly's charge for books of fiction would be eliminated;
- the garbage charge for the Manly area would be reduced by \$6 per annum;
- the effect of union of the two Council areas would be to reduce the annual rate charges by a total of almost \$350,000; this reduction could be distributed equitably through a suitable combination of minimum and differential rates.

A summary of income and expenditure is shown in the Table below -

MANLY – WARRINGAH DISTRICT

EXPLANATORY NOTES RELATING TO A FINANCIAL
AND ENGINEERING SURVEY AND REPORT OF THE
COUNCIL OF THE MUNICIPALITY OF MANLY AND
THE SHIRE OF WARRINGAH UNDERTAKEN BY
MEMBERS OF THE LOCAL GOVERNMENT BOUNDARIES
COMMISSION'S ADVISORY PANEL - NOVEMBER, 1977

LOCAL GOVERNMENT BOUNDARIES COMMISSION, JUNE, 1979

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WARRINGAH LIBRARY SERVICE



W09407901

SUMMARY OF REPORT

UNION OF THE TWO COUNCIL AREAS WOULD REDUCE THE ANNUAL RATES CHARGES BY ALMOST \$350,000 IN 1976.

THE REDUCTION WOULD BE ACCOMPANIED BY SERVICES AS GOOD OR BETTER THAN FOR THE SEPARATE AREAS; BY BETTER SOCIAL RECREATION AND TOWN PLANNING; BY REDUCTION OF DELAYS AND ADMINISTRATIVE EFFORT; BY UNIFORMITY OF STANDARDS, POLICIES, PROCEDURES AND FEES AND FOR MANLY RESIDENTS BY A REDUCTION IN GARBAGE CHARGES, MORE LIBERAL PENSIONER RATE REBATES AND ELIMINATION OF LIBRARY CHARGES.

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The Panel considers the two areas are compatible in all respects, physical, social, cultural, economic and administrative. The strong natural boundaries make Manly-Warringah an ideal geographic unit for integrated planning, development, administration and community of interest.

Financial advantage is only one of many matters to be considered in a possible union, but it is capable of objective evaluation and factual expression. Many other aspects are subject to personal prejudices, preferences, views and opinions of groups or individuals and not capable of being readily evaluated objectively.

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- the same works programmes as in 1976 would have been carried out;

21

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- the effect of union of the two Council areas would be to reduce the annual rate charges by a total of almost \$350,000; this reduction could be distributed equitably through a suitable combination of minimum and differential rates.

A summary of income and expenditure is shown in the Table below:-

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SUPPLY OF DETAILED INFORMATION
BY COUNCILS

Since Councils do not keep their accounts in exactly the same way, for the purpose of this study, the Panel found it necessary to adjust accounts within the overall framework of the Annual Statements. So that this could be done, the Panel had to analyse accounts in detail. This involved frequent references to the Councils as the need for additional information became apparent. It is realised that the Panel's requests for this information have imposed a burden on Council staffs, and the Panel would like to express its appreciation of the co-operation and assistance received from the two Councils in the Panel's endeavours to present the financial facts.

BASIS OF REPORT

The report has been prepared on the following bases:-

- the base year for accounts is 1976; this being the latest year for which Statements of Accounts were available when the study commenced;
- union had been effected some time prior to 1976, and the united area was a "going concern" in that year;
- the reduced staffs employed were capable of administrative performance standards equal to, but not necessarily better than, those actually attained by the individual separate Councils; and
- where there are differing policies or practices being employed by the two Councils, the policy or practice more economically favourable to the community has been adopted in respect of a united area.

STAFFS FOR UNITED AREA

The staff structures estimated to be necessary in a united area are based on:-

- a study of staffs of existing councils with work loads similar to that of a united area;
- the expectation that decisions will be made at appropriate levels of administration;
- the expectation that modern equipment will be used;
- the expectation that up-to-date management practices will be employed.

ADMINISTRATION

The Panel considers that the main administrative offices would be located in the existing Warringah Shire Civic Centre at Dee Why, which would be enlarged as necessary. It anticipated that the existing Manly Council office building would be sold.

Appendix 2

Ernst & Young

Assessment of Warringah Council's
Separation Model Assumptions



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Mr Rik Hart
General Manager
Warringah Council
Civic Centre, 725 Pittwater Road
Dee Why, Australia, 2099

11 February 2016

Re: EY's assessment of Warringah Council (WC) separation model assumptions

Dear Rik

In accordance with your instructions, we have prepared a report on the basis described in our engagement agreement dated 1 December 2015 and engagement agreement addendum dated 22nd January 2016 ("Engagement Agreement") to assist in assessing the key separation assumptions in the financial separation model prepared by management. This financial separation model outlines the allocation of Warringah's revenue and expenses between the two mergers proposed by the NSW Department of Premier and Cabinet ("State Government") which is supported by a range of operational and commercial assumptions.

Purpose of our report and restrictions on its use

This report was prepared on the specific instructions of Warringah Council solely for the purpose outlined above and should not be used or relied upon for any other purpose. Notwithstanding the terms and conditions of our Engagement Agreement, it has been mutually agreed that this Report may be shown to the Pittwater/Warringah (part) and Manly/Mosman/Warringah (part) merger Delegates and to the Councillors of Warringah Council and will continue to be subject to those agreed terms. We understand that the Delegates may decide to include this letter and our assessment in their public submission as part of the Boundaries Commission process, and, as agreed, we consent to this disclosure.

In the permissible situations where the letter is shared, it needs to be done in its entirety. Any other references, extracts, distribution or public submissions of this letter should not be made unless first receiving permission from EY in writing.

We accept no responsibility or liability to any person other than Warringah Council, or to such party to whom we have agreed in writing to accept a duty of care in respect of this report, and accordingly if such other persons choose to rely upon any of the contents of this report they do so at their own risk.

Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the

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Page 2

Engagement Agreement and provided at Appendix A. Our scope of work does not contemplate that we will or have formed any conclusions or views on the merits of the decision to create two new Councils; rather, our work was intended to focus on the support of the key separation assumptions in management's financial model. We did not develop or revise the underlying assumptions within the model, which was the responsibility of management.

Our work in connection with this engagement is of a different nature to that of an audit or a review of information, as those terms are understood in Australian Auditing Standards. All the information we have received is the responsibility of Warringah Council. We have not sought to establish the reliability of the information given to us except as specifically stated in the report. Consequently, we give no assurance on such information.

Our work commenced on 27 January 2016 and was completed on 2 February 2016. Therefore, our report does not take account of events or circumstances arising after 2 February 2016 and we have no responsibility to update the report for such events or circumstances.

There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of any projected results.

We would like to put on record our appreciation for the support provided to our teams in conducting this assessment.

Kind Regards



Larni de Courtenay

Partner
Ernst & Young
Transaction Advisory Services

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EY's assessment of Warringah Council ("WC") financial separation model assumptions

1. Overview

As part of the NSW Department of Premier and Cabinet ("State Government") announcement on council amalgamations, it has been proposed that Warringah Council be split, with a defined northern area amalgamated with Pittwater Council (the "Northern Council") and the remaining southern area amalgamated with the Manly and Mosman councils (the "Southern Council"). The State Government proposed boundary generally follows suburb boundaries.

The financial separation model provided by WC reflects the allocation of Warringah's 'Surplus/ (Deficit) from Continuing Operations before Capital Grants & Contributions over 20 years'.

Table 1: Management projection of NPV Outcome of the State Government scenario

	Consolidated	North	South
	NPV 20 Years	NPV 20 Years	NPV 20 Years
Surplus/(Deficit) from Continuing Operations before Capital Grants & Contributions	\$63.4m	\$57.5m	\$5.9m

Source: Based on Warringah Council information from financial separation model

Note: For NPV, a discount rate of 9.5% is used and a CPI of 2.5% which is consistent with the KPMG 'Outline of Financial Modelling Assumptions for Local Government Merger Proposals'.

2. Management's approach to assessing the financial impact of the Warringah separation

The approach taken by management to prepare the financial separation model included:

- Working with internal managers of the various service and corporate areas (approximately 29 areas in total) to consider the feasibility of the proposed State Government boundary.
- Undertaking and documenting analysis for each service and corporate area to assess how the income and expenditure lines would be separated for the State Government's boundary scenario under the two merger proposals.
- Based on the analysis, determine income and expenses allocations to be applied to provide proforma income statements for the north and south areas of Warringah.
- Apply business assumptions to separate income and expenses for the 10 year period of Warringah's Long Term Financial Plan and extrapolating to calculate the 20 year Net Present Value of the net surplus for the north and south areas of Warringah.

The assessment performed by management does not consider the financial impact of potential synergies or dissynergies resulting from the Warringah Council separation or the proposed Southern and Northern amalgamations.

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The work undertaken by management resulted in a consolidated proforma income statement for the proposed northern and southern areas of Warringah.

3. Description of work undertaken by EY

EY was engaged to assess the key separation assumptions in the financial separation model. The steps undertaken by EY include:

- High level examination of the WC financial model; 'Consolidated final budget by service'.
- Discussion with WC finance management team on the process and approach undertaken to create the financial model.
- Discussion of the supporting separation allocation assumptions by service and corporate area. This was primarily facilitated by interviewing the finance team; however, where more detail was required the service or corporate team members were interviewed.
- Where assumptions were identified in the model as not being supportable, management was notified and these assumptions were then discussed with and reconsidered by management and, where applicable, updated in the model by the management team.
- Separately, EY also considered the public information released by the State Government and their advisors in relation to the amalgamation and documented potential key limitations in relation to the WC assumptions.

Within this scope of work EY did not specifically consider:

- Determining the assumptions to be used for the split of Warringah Council.
- The accuracy of the raw source data supporting the key allocation assumptions in Warringah Council's working papers.
- The logical integrity and accuracy of the financial separation model.
- The accuracy or impacts of the financial benefits of the mergers as detailed by the State Government and their advisors.

4. EY's key findings in relation to the separation model assumptions

The process undertaken by WC management to prepare the financial separation model was observed by EY to have been robust. This is supported by:

- Consideration of the appropriate allocation proxy for each key income and cost type by service and corporate area, whether it be the rate revenue split or a more accurate allocation driver.
- Involvement of service and corporate leads to drive the bottom-up analysis for determining logical and supportable allocation percentages by area.
- The level of supporting working paper documentation substantiating the allocation assumptions by area.
- Engaging EY to provide robust challenge to the allocation assumptions and iterating the model to reflect the feedback, as appropriate, to increase the overall accuracy of the process.

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EY's assessment of the separation assumptions in the financial model highlighted various items that were presented to WC for consideration. Where appropriate, WC management updated the model to address these points.

5. Assessment of potential limitations of the State Government amalgamation assumptions in relation to Warringah Council

The State Government, in conjunction with their advisors, assessed the potential financial impacts of selected council mergers, including the implications for the Warringah Council. Warringah is proposed to be split into two separate areas, incorporating the northern area with Pittwater Council and the southern area with the Manly and Mosman councils.

The public information released by the State Government drew on a series of assumptions to estimate the potential savings and one-off costs of council mergers. As would be expected from this type of exercise, certain limitations in scope existed given the availability of data and information and the expediency of the exercise that was performed. These limitations included:

- Unavoidable limitations in the consistency, accuracy and availability of data used, given that the financial data used in the analysis was limited to publicly available council data and therefore required assumptions and extrapolations to be made.
- Amalgamation savings and one-off costs were based on top-down analysis and comparable benchmarks with limited or no inputs from the individual councils.
- Where councils were required to be split, high-level assumptions were made to divide the financials so that the amalgamation assumptions could be applied.

In regards to the Warringah Council split, the following key financial metrics have been provided as part of the information released to date by the State Government.

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Table 2: State Government's projection Net savings over 20 years (NPV applied)

	Manly, Mosman and Southern Warringah	Pittwater and Northern Warringah
Gross savings and costs:		
Employee savings	\$42m	\$26m
Materials and Contracts	\$12m	\$10m
Reduction of elected officials	\$2m	\$1m
Gross costs (ICT, transition, redundancy and other costs)	(\$9m)	(\$8m)
Net savings:	\$47m	\$29m

Source: NSW Government merger proposals January 2016

In relation to the separation and amalgamation assumptions included for Warringah Council, we have identified the following additional limitations that could impact the accuracy of the financial projections made, including;

- Income and expenditure for the north and south Warringah regions has been split based on population. Whilst this is a valid proxy for some income and expense lines, there are material assets in each area which may have a significant impact on the income and expenditure and should potentially be adjusted for e.g. Brookvale Oval.
- The Warringah asset base, including buildings, roads and stormwater infrastructure, has been apportioned by land area (sq km). The northern area is approximately five times larger than its southern area but a fair portion of the northern area is bushland with low population and asset density. The majority of Warringah's assets are not located in the northern area and hence a different proxy for the apportionment of asset base may be required to achieve a more accurate split e.g. asset location.
- The State Government analysis does not specifically assess the financial impact of the separation dissynergies and one-off costs associated with separating the Warringah Council. Council mergers which necessitate a separation of a Council are likely to be complex undertakings considering the implications on staff, processes, systems, infrastructure, contracts and in-flight projects. A two-stage process of separation and the amalgamation is required, including determining how and where to separate WC and then separating those elements (commercially, financially and operationally) and integrating those parts into the two new councils.
- The public information mentions that a 50% reduction in amalgamation staff reduction savings (i.e. 3.7% instead of 7.4%) is to be applied where a merger involves a council being split. The reduction in savings' percentage is supported by likely dissynergies that may arise. However, high-level management analysis of the staff costs, based on the publically available information and assumptions, indicates that the reduced saving assumption may not have been applied to calculate the Southern Council and Northern Council staff savings. If this is the case, this could have a significant implication on the overall financial outcome projected and so should be clarified.
- The current Warringah Council is larger than the two new proposed councils to be formed through the amalgamation of the northern and southern areas. The economies of scale that drives the 3%

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'materials and contracts' expenditure savings may therefore not be applicable for these two particular council mergers i.e. existing economies of scale in WC contracts may be lost.

- Due to the necessary high-level nature of the exercise completed by the State Government and their advisors, the staff reduction savings' percentage, primarily expected through back office rationalisation, has likely been applied to the entire Manly staff cost base. Manly insource the waste collection activities with the related staff complement being a significant portion of the overall headcount. The Manly staff savings may therefore be overstated as a consequence.
- Transition one-off costs may be understated for Warringah Council, specifically in relation to:
 - Separating Warringah council, where no separation one-off costs have been provided for
 - ICT, where the allowance for the Northern Council and Southern Council (\$3.35m each for a metropolitan cluster with a 30% contingency) is limited to integration of email systems, business applications to enable basic reporting, single website and limited data migration. In addition to this a more thorough system integration may be required to drive operational effectiveness and be an enabler of the remaining amalgamation savings

Management propose that these limitations are considered preceding the separation of Warringah Council.

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Appendix A: Scope of Work

Scope of work

Our scope of work ("Services"), as per Engagement addendum dated 22 January 2016, is outlined below:

1. Review the updated separation model (splitting Warringah Council into North and South regions) commenting on the key separation assumptions and allocation of KPMG synergies to each region
2. Where required, interview select Warringah Council management to discuss the supporting separation assumptions included in the model and potential limitations (interviews expected to be limited to the finance team)
3. Consider the stated limitations documented in the KPMG report that outlines the potential synergies of Warringah Council amalgamation and comment on these and any additional limitations identified
4. Prepare a brief memo outlining the key findings (estimated to be 2-5 pages)

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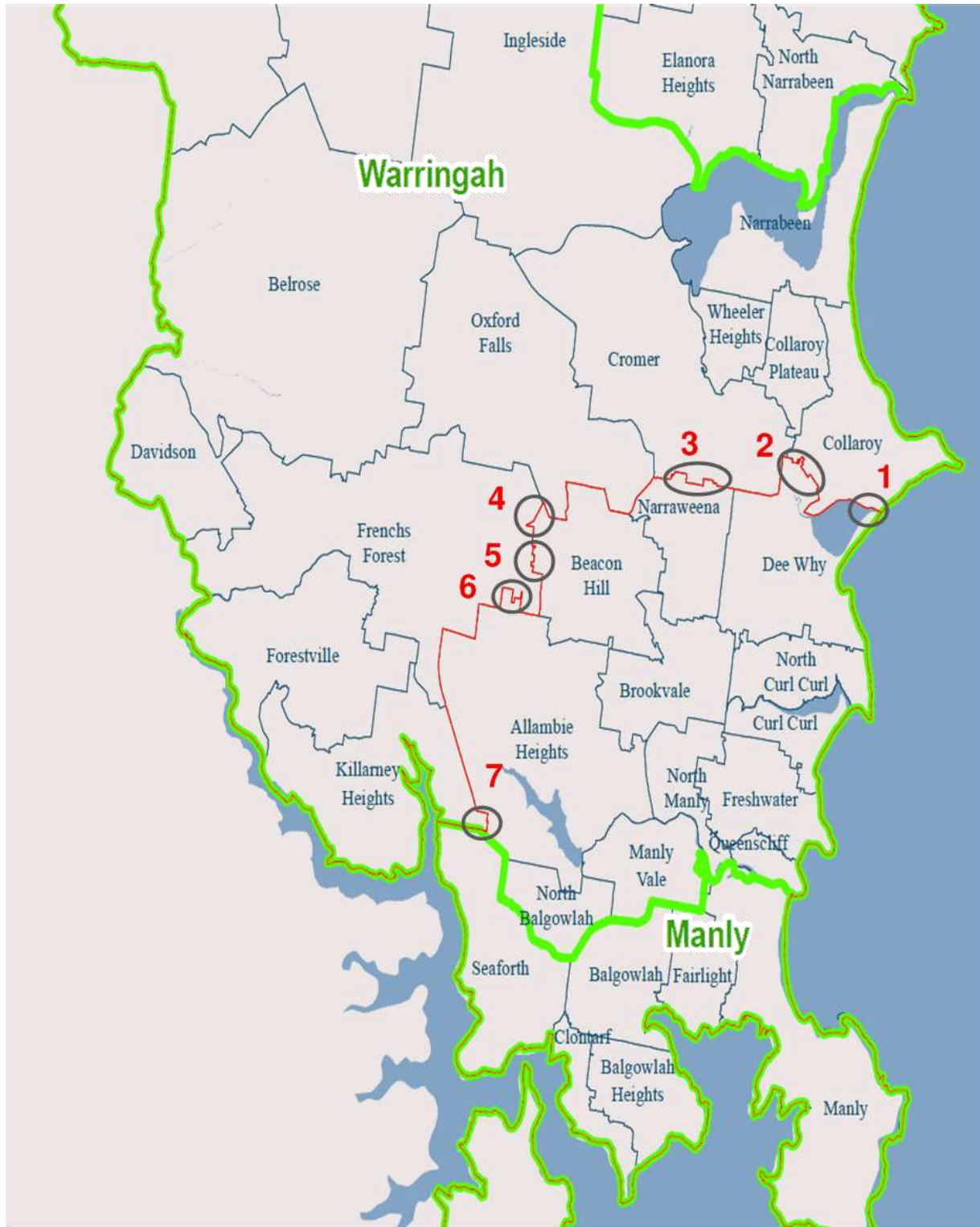
Appendix 3

Technical anomalies –

Reference map and individual site maps

APPENDIX 3

Technical Anomalies - Reference Map



Dee Why Lagoon and Dee Why/Long Reef Beaches – Dee Why / Collaroy



NSW Government Proposal Issues

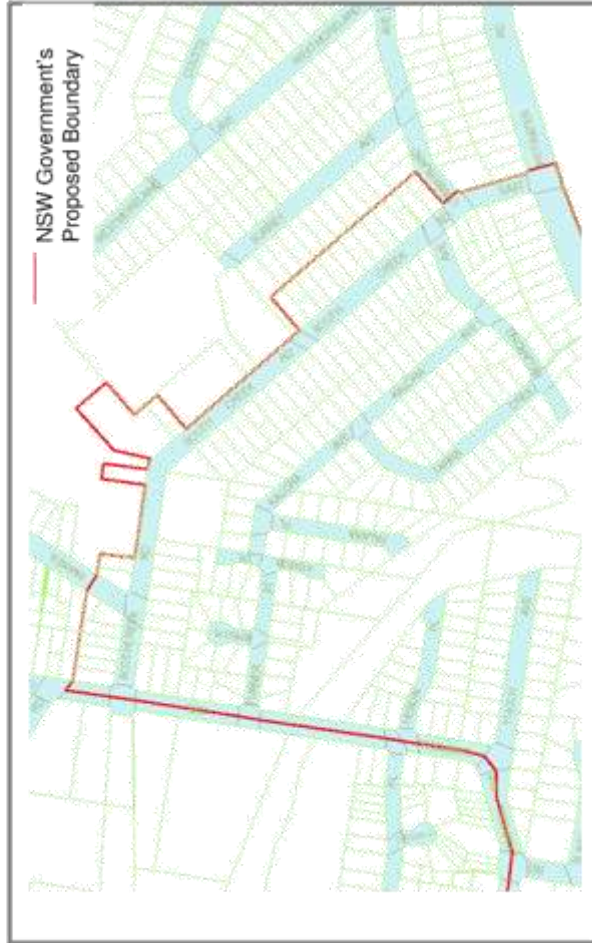
The NSW Government's proposed boundary would split Dee Why Lagoon and the Dee Why/Long Reef Beaches.

This would cause the following issues:

- No cohesive environmental management of lagoon
- Compromises strategic planning of environmental aspects of the area
- Unclear lifeguard responsibilities along the beach
- Compromises maintenance of assets in the lagoon area and Pittwater Road

Map Ref **1**

Lynwood Avenue and Campbell Avenue – Cromer / Collaroy



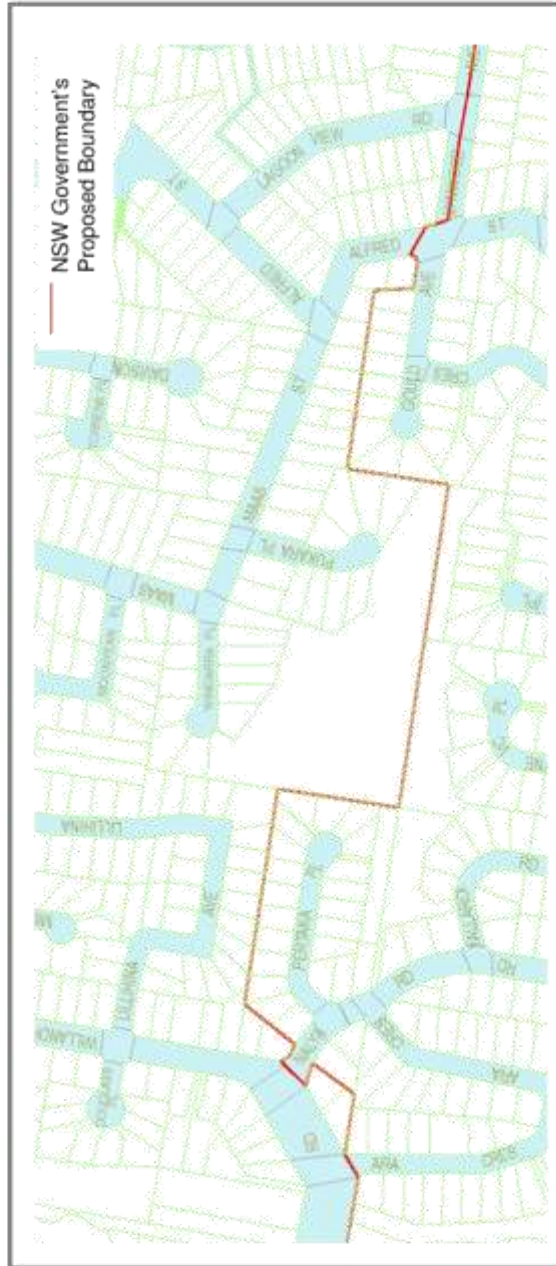
NSW Government Proposal Issues

Under the proposed boundary, neighbouring properties facing South Creek Road would be in different LGAs, leading to strategic and operational issues for the properties.

In particular, the proposed boundary splits Pittwater House School between different LGAs.

Map Ref **2**

Willandra Road and Nalya Road – Cromer / Narraweena



NSW Government Proposal Issues

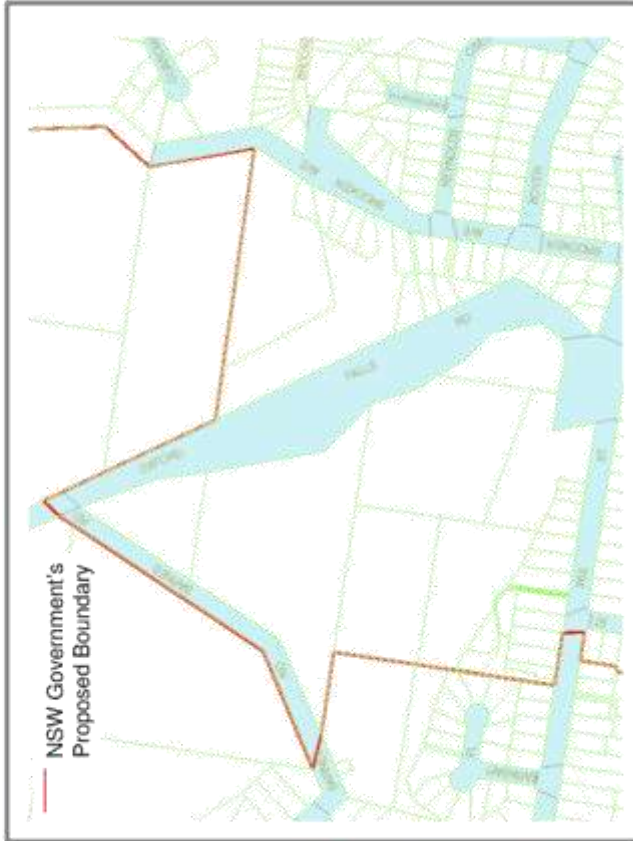
The proposed boundary splits Lillihina Reserve into two LGAs, causing the following issues:

- Ineffective operation and management of the reserve
- Community title stormwater basin is separate, leading to negative environmental outcomes

In addition, neighbouring properties facing Willandra Road would be in different LGAs, leading to strategic and operational issues for the properties.

Map Ref **3**

Oxford Falls Road and Iris Street – Beacon Hill / Frenchs Forest



NSW Government Proposal Issues

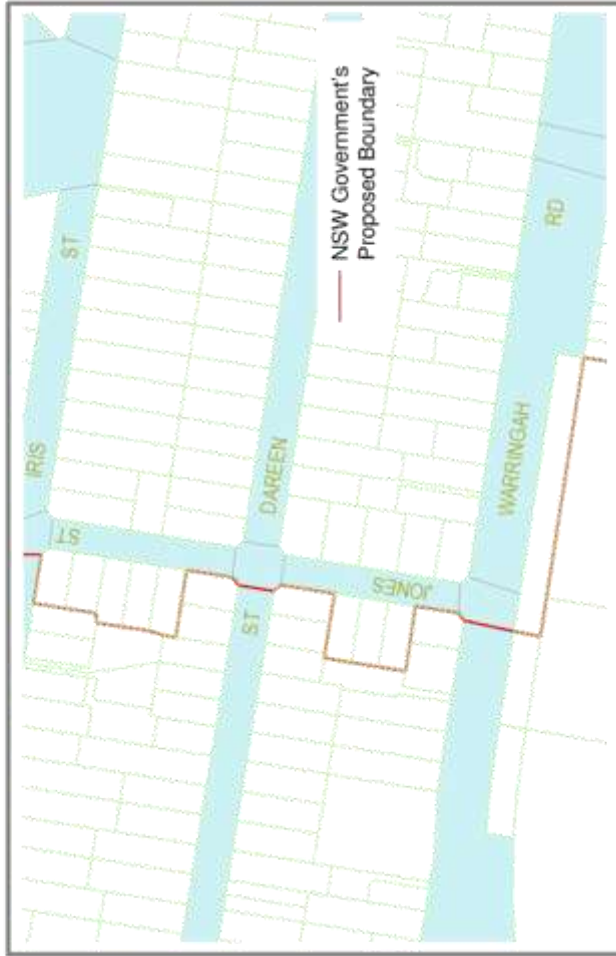
The proposed boundary splits an area covered by Warringah Local Environmental Plan 2000, an older local environmental plan currently under strategic review.

This may result in an inconsistent or delayed planning outcomes for the lands south of Barnes Road and Oxford Falls Road.

Neighbouring properties facing Iris Street would also be in different LGAs, leading to strategic and operational issues for the properties.

Map Ref **4**

Warringah Road and Jones Street – Beacon Hill / Frenchs Forest



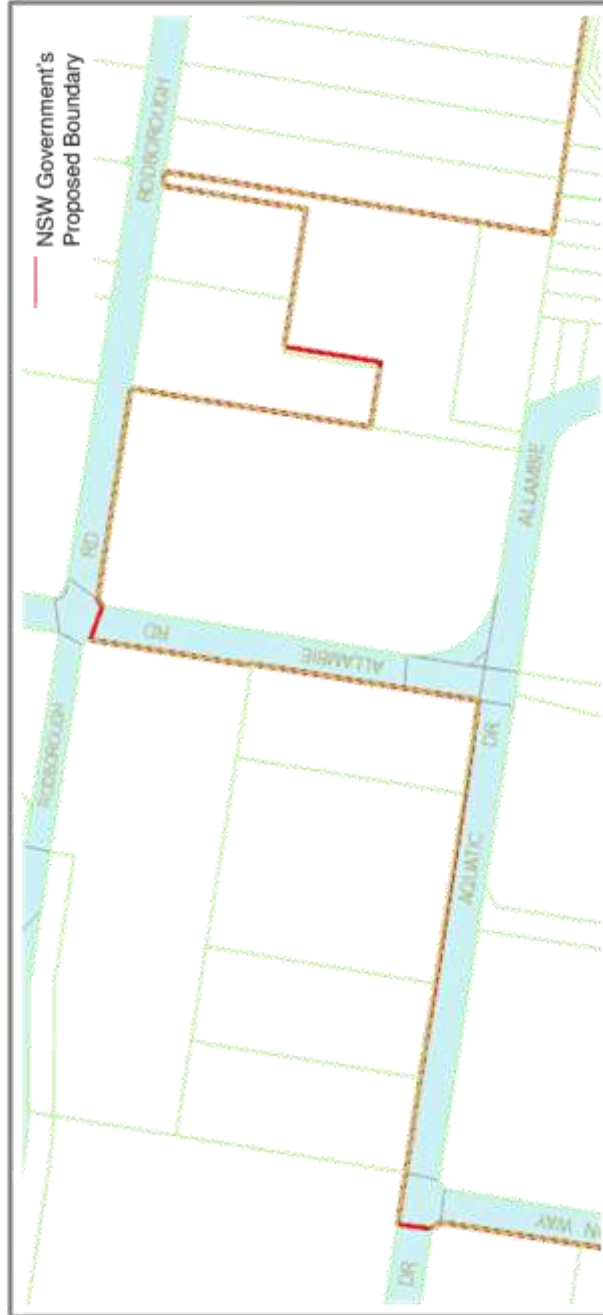
NSW Government Proposal Issues

The proposed boundary would separate neighbouring properties facing Jones Street into different LGAs, leading to strategic and operational issues for the properties.

The southern edge of Warringah Road is currently a reserve owned by the RMS and part of an ongoing road widening. Additional road reserves for the same purpose would be split into different LGAs, and may cause issues in the future in meeting infrastructure needs.

Map Ref **5**

Allambie Road and Aquatic Drive - Frenchs Forest Business Park



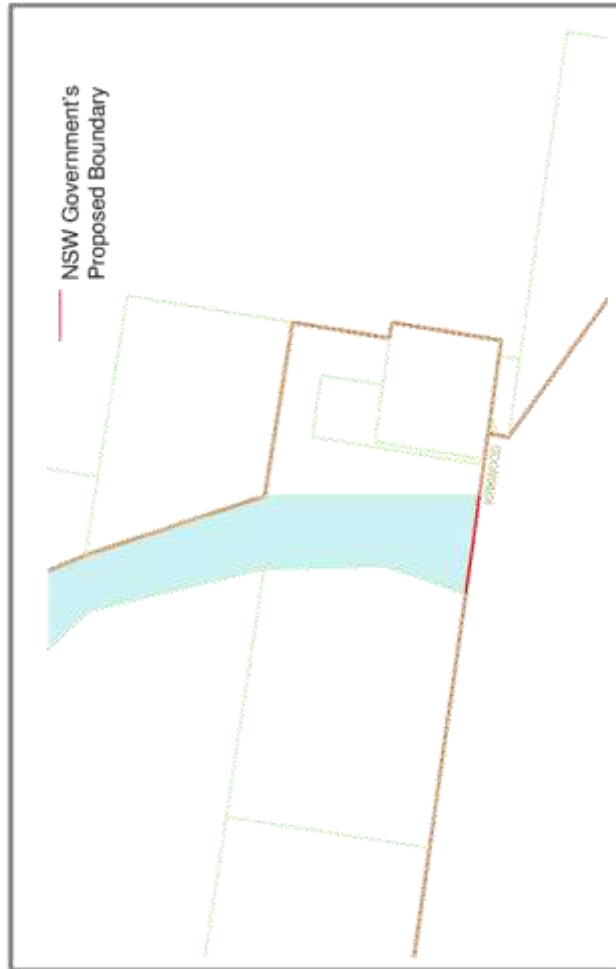
NSW Government Proposal Issues

Area is zoned B7 as part of a strategic centre associated with the Northern Beaches Hospital.

The proposed boundary splits this area across different LGAs, which may lead to inconsistencies, conflicts or delayed outcomes for this potential growth centre.

Map Ref **6**

Manly War Memorial Park - Manly Dam



NSW Government Proposal Issues

Three land parcels contiguous with Manly Dam would be located in the proposed northern council, separated from the remainder of the park. This may present operational and land management issues for the two councils.

Map Ref **7**

Appendix 4

Warringah Council –

Strategic Review:
The risks of splitting Warringah

Strategic review: the risks of splitting Warringah

December 2015

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Executive Summary

“Dividing up Warringah would be a financial, social and logistical nightmare lasting years.”

Professor Graham Sansom, November 2015

This report presents a strategic and financial analysis of the proposal by Manly and Pittwater Councils to ‘split Warringah’ to form two Northern Beaches councils which would be materially smaller than Warringah. The allocation of rateable properties and population numbers has been based on the proposal by Pittwater Council.

The evidence against dividing the northern beaches community is robust and the conclusions are clear the split would produce two councils that are materially smaller than Warringah failing the NSW Government’s own scale and capacity criteria. In addition it would significantly dilute the economies of scale, scope and specialisation that are currently achieved by Warringah and which would only be further improved by one Northern Beaches council.

This is consistent with the findings of the reports prepared by SGS for Warringah Council, KPMG for Manly and Pittwater Councils and Ernst & Young for IPART.

All concluded that the split Warringah option has the highest merger costs and the lowest net financial benefit of all scenarios analysed for the northern beaches.

The strategic analysis highlights significant inequalities and risks in the proposed division which will result in:

- an inappropriate separation of the planning of the Strategic Centres for the Northern Beaches as identified in the NSW Government ‘A Plan for Growing Sydney’ (Dec 2014)
- a disproportional allocation of high cost regional assets to the south
- a disproportional allocation of income producing assets to the north
- an inability to integrate planning and development, resulting in less than optimal planning decisions
- less effective and efficient service delivery
- a disproportional allocation of rateable properties to the south particularly in respect of residential flat buildings

The strategic analysis also highlights the proposed split would significantly erode strategic capacity and fail to meet the NSW Government’s intention to provide scale and capacity to better partner with other levels of government in providing key infrastructure and social services.

As two Northern Beaches councils formed by splitting Warringah would be materially smaller than Warringah’s current size there would be a significant decrease in their ability to achieve economies of specialisation particularly in the areas of planning, implementation of technological innovation, the ability to sustain a continuous improvement culture and the higher standards of governance achieved through functions such as those of an internal ombudsman.

The financial analysis highlights significant inequalities and risks which will result in:

- The need for significant rate increases for ratepayers in the north but even greater increases for ratepayers in the south to maintain existing service levels enjoyed by the Warringah community
- Significantly higher domestic waste charges for Warringah ratepayers
- Projected Deficits from Continuing Operations before Capital Grants and Contributions which is financially unsustainable
- Significant unfunded capital works projects
- a disproportional allocation of borrowings to the south
- Significantly higher costs from splitting Warringah than would be incurred to create one Northern Beaches Council

A protracted exercise to determine how to divide the staff, assets and operations of Warringah will be required as a result of any proposed split. The separation and transition costs have not been factored into the financial analysis. These costs would only further exacerbate the projected deficits and the need for further rate increases.

Significant inconsistencies currently exist in the preparation of the long term financial plans of the three existing Northern Beaches councils and the degree of rigour in the assessment of these plans. This is highlighted by the fact that only Warringah's long term financial plan is subject to an independent assurance review by its auditors.

The business case highlights significant concerns with the projected forecasts provided by Manly Council in its current long term financial plan both in terms of its operations and capital works program.

To date, the assessment of local governance models for the northern beaches has been a comparative exercise only, focussed on relative not absolute costs and assumptions. To make a decision of this magnitude without a robust business case and appropriate due diligence would be against the interest of the Northern Beaches community.

By comparison the case for one Northern Beaches council as recommended by IPART is supported by the reports prepared by SGS for Warringah Council, KPMG for Manly and Pittwater Councils and Ernst & Young for IPART demonstrating that it provides the most savings and best net benefits to the Northern Beaches community.

Ernst & Young has reviewed the Business Case and provided feedback to ensure it has been prepared on a sound basis (2015).

Introduction

The split would effectively be saying that the interests of the communities of Pittwater and Manly are more important than those of Warringah. Under the Local Government Act, this proposition must be tested by an independent inquiry. It's not a decision for the government to take in advance

Professor Sansom, November 2015

PURPOSE

This report provides a comprehensive financial and strategic analysis of the 'split Warringah' option proposed by Manly and Pittwater Councils: where Warringah would be split and suburbs distributed to Pittwater Council to the north and Manly Council to the south.

This analysis is essential, because a split of Warringah has not previously been analysed in adequate detail. This is because the preferred option in each of the reports to date (ILGRP and IPART) has been for one Northern Beaches Council.

Given the potential significant strategic and financial impact that such a decision would have on the Warringah community it would not be appropriate to proceed with any structural reform in the region without such an analysis.



BACKGROUND

The proposal to split Warringah has been put forward by Manly and Pittwater Councils without any consultation with either Warringah Council or its Community. No analysis has been provided as part of this proposal which in any way analyses the strategic or financial impacts for the Warringah Community.

The need for local government reform was acknowledged across the sector when, in 2011, the NSW Government held the “Destination 2036” forum involving representatives from all councils and local government peak bodies (Dubbo, August 2011).

The forum highlighted growing issues within the sector, primarily with financial sustainability, service delivery, effective planning, governance and State-local relationships. It was collectively acknowledged that councils must be strengthened so that they can be capable partners for State Government in long term planning.

Following Destination 2036, the Government commissioned significant investigations into the financial health and sustainability of the local government sector as well as potential amalgamation options:

- **Financial Sustainability:** Financial Sustainability of the NSW Local Government Sector (Treasury Corporation, April 2013)
- **Infrastructure management:** Local Government Infrastructure Audit, NSW Premier and Cabinet (Auditor General, June 2013)
- **Amalgamation case research:** Assessing Processes and Outcomes of the 2004 Local Government Boundary Changes in NSW (Tate Report/ILGRP, January 2013)
- **Community characteristics:** NSW Local Government Areas: Similarities and Differences (National Economics/ILGRP March 2013)
- **Community level governance:** Community Level Governance (McKinlay Douglas/ILGRP, July 2013)
- **Legislation:** Local Government Acts Taskforce - A New Local Government Act for NSW (Office of Premier and Cabinet, October 2013)
- **Amalgamation options and recommendations:** - Revitalising Local Government (Independent Local Government Review Panel, October 2013)
- **Assessment report – Fit for the Future:** Assessment of Council Fit for the Future Proposals (IPART, October 2015)

KEY REFORM DOCUMENTS

Destination 2036 Action Plan:

- Pros and cons of alternative governance models
- Alternative structural models, including key features and potential applicability
- Barriers and incentives to encourage voluntary amalgamation or boundary adjustment

ILGRP Options to improve the sustainability and effectiveness of local government and drive key strategic directions of Destination 2036 Action Plan

IPART Assessment of council submissions on Fit for the Future

Government Response to the Panel's final recommendations

FINDINGS OF THE INDEPENDENT LOCAL GOVERNMENT REVIEW PANEL (THE PANEL)

An Independent Panel was established by the NSW Government in 2012 and tasked with developing solutions for a stronger and more effective system of local government. From extensive consultation and research into finances, service delivery, local government boundaries and decision-making models, the Panel submitted a total of 65 recommendations in its final report in 2013.

Recommendations regarding structural reforms included:

- Recommended specific groupings of councils for mergers or Joint Organisations based on projected population, close functional interaction, economic/social links and the need for integrated planning
- Reduction of the number of Councils (in Sydney from 41 councils to 18) in order to improve:
 - metropolitan **governance** of Sydney as a global city
 - **strategic capacity** of councils as capable partners for the State
 - **efficiency** and economies of scale
 - **services and innovation**
- Incentives, barriers and mechanisms for mergers
- Options to maintain local identity and representation such as Community Boards
- Mechanisms for a stronger partnership with the State for metropolitan governance

The Panel also recommended amalgamations be formed from the whole of two or more existing local government areas rather than splitting a council as these types of mergers “can be disruptive, and transition costs may place a heavy strain on new organisations” (ILGRP Final Report - page 73).¹

FIT FOR THE FUTURE CRITERIA AND ROADMAP

Scale and Capacity: ‘Threshold criteria’, comprising 10 elements from the Panel’s report. Relates to population size and strategic capacity of Council to undertake long term planning. Unable to meet this criteria, councils would be considered ‘unfit’ by the NSW Government.

Sustainability: Demonstrate long term financial viability, in which sufficient funds are generated over the long term to provide the recommended level of services and infrastructure for communities.

Effective Infrastructure and Service Management: Demonstrate an ability to effectively manage and maintain infrastructure and assets.

Efficiency: Ability to deliver services and infrastructure at good value for money.

¹ The Panel’s position was informed by the ‘Tate Report’: *Assessing Processes and Outcomes of the 2004 Local Government Boundary Changes in NSW* (Tate Report/ILGRP, January 2013). This was a study into the 2004 amalgamations in NSW. It cited numerous examples of poorly designed amalgamations involving splitting a council to enlarge another, without properly accounting for division of assets, liabilities, staff and rating sources.

FIT FOR THE FUTURE

In response to the Panel's final recommendations and in keeping with the objectives of Destination 2036, the Government launched the Fit for the Future reform program in September 2014.

Fit for the Future required all Councils to submit a proposal to the Government that is consistent with or superior to the Panel's recommendations regarding structural change. The proposals were to demonstrate how, via voluntary mergers or other improvement measures, Councils intended to meet the Fit for the Future criteria. Many councils incorporated a comparative analysis of different merger options for their region. Warringah commissioned SGS Economics to undertake an independent study that would supplement a previous preliminary study from 2013; Manly and Pittwater jointly commissioned KPMG for their analysis.

RECOMMENDED POSITION

THE PANEL'S RECOMMENDED MODEL FOR THE NORTHERN BEACHES

"Amalgamate Manly, Pittwater and Warringah on the rationale of projected population, close functional interaction and economic/social links and a need for integrated planning." (ILGRP Final Report p. 105)

The Panel found that a single northern beaches council would strengthen financial position of the region, address infrastructure backlogs and provide a more robust rating base.¹

Consistent with the Panel's recommended model for structural change, Warringah Council resolved that the preferred merger option is to combine Warringah, Manly and Pittwater Councils to create a new council on the northern beaches that can better meet future planning challenges for the region and be a stronger partner for NSW Government.

In reaching this position, Council agreed with the Panel's analysis of the strong regional planning interests, shared identity and communities of interest across the northern beaches, as well as the initial comparative business case study (SGS 2013). The strong common community of interest across the northern beaches is well documented.²

Manly and Pittwater maintained a preferred position of standing alone throughout the process and as result Warringah was unable to reach a voluntary merger agreement with Manly and Pittwater.

Accordingly, Warringah submitted an Improvement Proposal to the Government consistent with IPART's guidelines.

The proposal was assessed by IPART as being 'unfit,' as were Manly and Pittwater's stand-alone Improvement Proposals, on the grounds that the northern beaches councils all failed to meet the scale and capacity criteria.

² Northern Beaches Regional Grouping Options, ILGRP 2013; and *Similarities and Differences*, National Institute of Economic and Industry Research, NSW Local Government 2013

Previous studies

Option Three [a single northern beaches council] may represent 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...best placed to coordinate the Northern Beaches Hospital Precinct... to harmonise environmental planning and strategies across the region ... a more powerful and influential advocate for the interests of the region.

KPMG Part A p17-18

To date, three business case analysis have assessed the relative merit of different structural models for the northern beaches (SGS 2015 - commissioned by Warringah; KPMG 2015 – jointly commissioned by Manly and Pittwater 2015; and Ernst & Young 2015 – commissioned by IPART). These were coarse analysis intended to provide an indication of potential merit of options.

In all three studies the boundary of the split was undefined, and calculations regarding the split Warringah option were based on a 50-50 split of the Warringah population. The location of assets, liabilities and income sources was not considered.

The split Warringah proposition would create two councils that are smaller than Warringah and as such would fail the scale and capacity threshold criteria. Hence, further detailed financial and strategic analysis was not conducted.

Interestingly, despite the application of different methodology and assumptions, the previous studies have all reached the same conclusion on the relative merit of merger options:

- A single northern beaches council provides the greatest benefits, well above other options
- Merging the whole of Warringah and Manly LGAs provides moderate benefits, and
- Splitting Warringah provides the least benefits by far, and was considered by all studies to have the highest transition costs due to the complexity of such a separation and merge.

RELATIVE MERIT OF OPTIONS

An overview of the studies' conclusions regarding relative merit of each option is shown in Table 1 below. Table 2 provides an overview of Council endorsed positions regarding mergers.

Table 1: Conclusions of business case studies

	SGS (Warringah)	KPMG (Manly and Pittwater)	Ernst & Young
Most savings	Northern Beaches Council	Northern Beaches Council	Northern Beaches Council
Best net benefit	Northern Beaches Council	Northern Beaches Council	Northern Beaches Council
Least savings	Split Warringah	Split Warringah	Split Warringah
Highest transition costs	Split Warringah	Split Warringah ³	Split Warringah ⁴

Table 2: Overview of Council endorsed preferred merger options

	Warringah	Pittwater Manly (separate resolutions)
Council Resolutions regarding final merger position	Northern Beaches Council	Split Warringah

While each study arrived at the same overall conclusions, the methodologies and assumptions differ significantly, as outlined in the section below. These differences in approach lead to significant variation in the costs and savings derived from the options, however all concluded the same result.

KEY FINDINGS

The three independent studies all found that the split Warringah model has the highest costs, least savings and is slower to comply with the Fit for the Future criteria. The south council was found to be disadvantaged with weaker performance than the north council, and would not achieve the asset maintenance benchmark of >100% by the 2019/20 target year (Table 3).

All studies further found that a merger of the three councils into a new single council for the region would deliver the most savings, have the lowest transition costs and meet all Fit for the Future financial benchmark criteria well within the timeframe and earlier than for other options (Table 4). The single northern beaches merger option would most likely meet the Fit for the Future benchmarks a number of years earlier than the north council in the split Warringah option.

³ "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." (KPMG Part B page 60-61)

⁴ Merger options that involve the splitting of a council are more complex to implement, with a higher level of merger integration costs. This would be in the order of 4 times annualised expenditure savings, in contrast to 3 times for mergers of complete LGAs (Ernst & Young pp 40,43).

Table 3: Overview of key findings – Split Warringah

	SGS	KPMG	Ernst & Young
Transition costs	\$5.5m ⁵	\$26.0m	4 x annualised expenditure saving ⁶
Merger net savings/(loss) (NPV)	(\$179m) 10 yrs	\$3.2m	(\$248m) to \$43m over 20 years ⁷
Net savings/(loss) after debt and asset backlog addressed (NPV)	(\$248m) 10 yrs	-	-
Compliance with FFF financial benchmark criteria by 2019/20	-	South: non-compliant North: Complies by 2018/19	-

Table 4: Overview of key findings – Northern Beaches Council

	SGS	KPMG	Ernst & Young
Transition costs	\$3.8m ⁸	\$20.5m	3 x annualised expenditure saving
Merger net savings/(loss) (NPV)	\$234m 10 yrs	\$55.0m gross (\$34.5m net)	\$103m to \$328m over 20 years ⁹
Net savings/(loss) after debt and asset backlog addressed (NPV)	\$165m 10 yrs	-	-
Compliance with FFF financial benchmark criteria by 2019/20	-	Complies by 2016/17	-

In addition to higher transition costs and reduced savings, it is also highly probable that the split option would take significantly longer to implement and, given the complexities of this merger/separation option, would not be likely to be completed before the local government election in September 2016.

METHODS AND ASSUMPTIONS

The previous studies by SGS, KPMG and Ernst & Young were based on publicly available information applied in different algorithms in their preferred method of economic modelling. The studies report that they did not include a financial analysis based on detailed data of all three councils' services, facilities or staffing establishment.

An overview of the key limitations for each report is provided below. A more comprehensive list of differences in approach, and the scope for each report, can be found in the Appendices.

⁵ Covers integration of systems and processes. Staff redundancy costs assumed to be offset by natural staff attrition.

⁶ Such mergers involving splitting councils were regarded by the NSW Parliamentary Budget Office, as being of "very high" complexity in their costing of council mergers, and attract a higher merge costing by Ernst & Young (EY p 7).

⁷ Net merger savings after all EY standardisation adjustments, and sensitivity testing of 7% NPV at 2017 (EY p 56)

⁸ Covers integration of systems and processes. Staff redundancy costs assumed to be offset by natural staff attrition

⁹ Net merger savings after all EY standardisation adjustments, and sensitivity testing of 7% NPV at 2017 (EY p 56)

STATED LIMITATIONS

The following limitations were stated within each report by the authors.

SGS Report¹⁰

- The scope of the report is limited to a high-level strategic financial appraisal
- The calculation of merger/ transition one-off costs is limited to those associated with systems and processes only and excludes redundancy costs. Costs are calculated assuming a percentage of current operating expenses from a UK case study (Cornwall Council case study)
- Reference council (best in class) approach taken to estimate merger costs and benefits. This assumes that the lowest cost council reflects best practice and that the merged council's costs will converge around this target
- Per capita cost savings (synergies) have only been applied to cost categories identified by SGS as likely to achieve economies of scale
- Costs to achieve service level harmonisation not assessed
- Risks and issues associated with each merger option not assessed
- In relation to SGS' Option 5, which described dividing Warringah between Pittwater and Manly, the assessment of incremental ongoing costs was calculated by extrapolating higher per capita costs than existed in Manly and Pittwater (compared to Warringah) to the Warringah residents. The approach taken was limited and not supported by a more detailed assessment of the incremental cost drivers

KPMG Report¹¹

- Limitations in the consistency and depth of data provided including consistency in reporting between councils and provision of detailed employee data
- Limited consultation held with Warringah Council in order to review the options; therefore, only high level analysis could be conducted, particularly in relation to employee analysis
- Communities were not consulted in relation to attitudes and preferences for local government reform
- Implementation considerations outlined at a high level only and a more detailed implementation plan and risk assessment would be required to support a final decision on structural options
- Evidence on the costs associated with service level harmonisation is not available in Australia, therefore these costs were not quantified at all
- In order to assess the 'Fit for Future' benchmarks, additional input was required from councils, which was not received. Therefore, a number of high level assumptions were made. In addition, there were a number of limitations associated with each benchmark

¹⁰ 'Local Government Structural Change – Options Analysis: Supplementary Study', SGS Economics & Planning, February 2015

¹¹ 'Independent review of structural options for Manly Council & Pittwater Council', KPMG, April 2015

- In relation to KPMG's option 2, which describes dividing Warringah and combining with Manly and Pittwater respectively, analysis indicates that the Warringah Council population has been split 57:43, while the revenue is split 50:50. The approach appears inconsistent.
- The cost position for option 2 does not take into account additional costs (dissynergies) for separating the Warringah Council and therefore the overall new position may be lower.

EY IPART Report¹²

- The report relied on the evidence provided by IPART, 2013/14 operating expenses of the relevant local councils and other publically available information in relation to the council merger business cases
- Reliance was also placed on the information presented within the submitted and reviewed business cases and an audit of the available information was not undertaken
- No direct consultations were undertaken with Sydney metropolitan local councils or the authors of the relevant merger business cases. Therefore, analysis does not take into account the specific operating circumstances and business characteristics of each of the local council merger scenarios examined, which is typically important in identifying the extent to which merger cost savings may be achievable in any particular instance
- Work in connection with this assignment was of a different nature to that of an audit or a review of information, as those terms are understood in Australian Auditing Standards applicable to audit and review engagements. The report was based on inquiries of and discussions with IPART, a review of the business and other documents made available to EY, and analytical procedures applied to data provided
- EY assessed the ILGRP preferred merger options (and 5 variations around those options) and reviewed 29 merger business cases presented by the councils. It was undertaken as a desktop exercise and EY relied on the information submitted in the relevant merger business cases. As a result, there may be findings or information not included in this report, or EY's investigations may not have revealed all relevant matters. The reliance that can be placed on the report may therefore be limited in that regard
- A top-down review of the available evidence was conducted to estimate potential costs and benefits. Typically in a merger the merits of the options would be assessed through a detailed bottom-up review of the costs, benefits and risks of a merger
- There were large variances in the level of detail provided in the submitted merger business cases, which required a number of financial adjustments to be made in order to facilitate more effective comparison between business cases
- Limited empirical evidence available regarding cost savings associated with local council amalgamations
- Only operating expenditure was considered, as an assessment of capital expenditure was identified as best to undertake in consultation with council management

¹² 'Fit for the future: Review of Business Case Estimates of Merger Net Benefits for Sydney Metropolitan Councils', EY, October 2015

Additional limitations / exclusions

The following limitations or exclusions were identified across all reports:

- Separation one-off costs have not been assessed through the three reports. These separation one-off costs would only be relevant to the option of splitting Warringah into a North and South region for amalgamation with Pittwater and Manly respectively.
- The separation one-off costs would impact the financial projections for this option

Financial and Strategic Impact Analysis

This section examines the proposed 'split Warringah' option in detail, on the basis of modified and adjusted assumptions. The financial analysis will provide a clearer picture of what this option is likely to entail in terms of long term financial viability of a "North" and a "South" Council option.

Only reliable and comparable primary data sources have been used in the analysis: ABS Census information and ERP projections, OLG Comparative Data and Analysis, and each Council's current long term financial plans.

FINANCIAL MODEL

A financial model was developed to identify the financial impact of the proposal by Manly and Pittwater Councils to "split Warringah" to form two Northern Beaches Councils.

The model includes split allocations and the synergy (the estimated cost benefits from the decrease in Councils from three to two) and dissynergy impacts (the estimated additional costs related to moving from one larger and two smaller Councils to two medium sized Councils). As two Northern Beaches councils formed by splitting Warringah would be materially smaller than Warringah's current size there would be a significant decrease in their ability to achieve economies of specialisation particularly in the areas of planning, implementation of technological innovation, the ability to sustain a continuous improvement culture and the higher standards of governance achieved through functions such as those of an internal ombudsman.

The model has been prepared on the basis of splitting Warringah to create two new councils with Pittwater and Manly. Should Mosman also be included the projected rate increase for Warringah residents would still be required.

DATA SOURCES

Population analysis and projections: [id profile forecast data](#). The id. profile data is sourced directly from the Australian Bureau of Statistics.

Comparative data: [The Office of Local Government \(OLG\)](#) is the main data source regarding comparative data on financial profile and performance – which in turn is based on data submitted by each individual Council.

[Warringah Long Term Financial Plan](#) – this document sets out the long term financial commitments of Council.

[Manly Long Term financial plan](#) – this document sets out the long term financial commitments of Council.

[Pittwater Delivery Program and Budget 2015 – 2019](#): this document sets out the long term financial commitments of Council.

Major Works: planned capital works for each local government area as reported in each council's Long Term Financial Plan (See Appendices).

KEY ASSUMPTIONS

The financial model was developed using the following assumptions:

1. Existing service level currently being provided to Warringah residents will be maintained
2. Default allocation split was based on residences in the North and South split as per the suburb split proposed by Pittwater Council and equates to 37.82%:62.18% (N:S). The following table identifies the current Warringah suburbs by a North and South split as per Pittwater's resolution.

Table 5: Warringah suburbs split

North	South
Belrose	Allambie Heights
Collaroy	Beacon Hill
Collaroy Plateau	Brookvale
Cromer	Curl Curl
Cottage Point	Dee Why
Davidson	Forestville
Duffys Forest	Freshwater
Frenchs Forest	Killarney Heights
Ingleside	Manly Vale
Narrabeen	Narraweena
Oxford Falls	North Balgowlah
Terrey Hills	North Curl Curl
Wheeler Heights	North Manly
	Queenscliff

3. Where applicable the default split was adjusted by the service/corporate area's owner based on a more appropriate proxy
4. Synergies were included where there was clear supporting insight or information available on the services and functions for Manly and Pittwater Councils
5. Dissynergies were included where Warringah provides a higher level of service to its ratepayers. The costs to provide this service or function were assumed to be replicated for Warringah residents in the Northern and Southern Councils.
6. An approximation for employee costs of \$100k per annum fully loaded was consistently applied to calculate the employee synergies and dissynergies. However where senior roles were being considered (particularly in relation to synergies), the actual fully loaded employee costs were used
7. The assumption for on-costs related to employment was 20% loading of base salary

The financial model does not currently consider the impact of one-off separation costs (for the split of Warringah) and the one-off integration costs (for the establishment of the Southern Council and the Northern Council).

It is estimated that one-off separation costs could range from \$3.2m to \$5.2m. This does not include any legal costs relating to disputes between the Northern and Southern councils associated with the division of Warringah's assets, liabilities, contracts and commitments.

While the Government had stated they would provide \$10m to Councils to assist with amalgamation costs, this was limited to Council's who had agreed to voluntary amalgamation by 18 November 2015. There have been no funds specified for either forced amalgamations or the splitting of councils.

As no agreement was reached Government funding would not currently be available to cover the separation and integration costs of splitting of Warringah, exposing ratepayers to 100% of the costs

Further detail regarding separation and integration considerations is provided in the Appendices.

KEY FINDINGS

The financial analysis highlights significant inequalities and risks which will result in:

- Additional costs of \$71.399m over 10 years and \$117.825m over 20 years (as shown in Table
- The need for additional significant rate increases for ratepayers in the north of 8.1% but even greater increases for ratepayers in the south of 13.6% to maintain existing service levels enjoyed by the Warringah community (excludes approved rate increase of 9.5% in 2016/17)
- Projected Deficits from Continuing Operations before Capital Grants and Contributions which is financially unsustainable
- Significantly higher costs from splitting Warringah than would be incurred to create one Northern Beaches Council

Table 6: Dissynergies costs

	Employee Costs \$'000	Materials & Contracts \$'000	Other Expenses \$'000	1 st Year Total \$'000	NPV 10 Years \$'000	NPV 20 Years \$'000
Gross saving (Synergy)	3,010	374	146	3,530	27,446	45,291
Gross cost (Dissynergy)	(9,803)	(2,748)	(162)	(12,713)	(98,845)	(163,116)
Net position	(6,793)	(2,374)	(16)	(9,183)	(71,399)	(117,825)

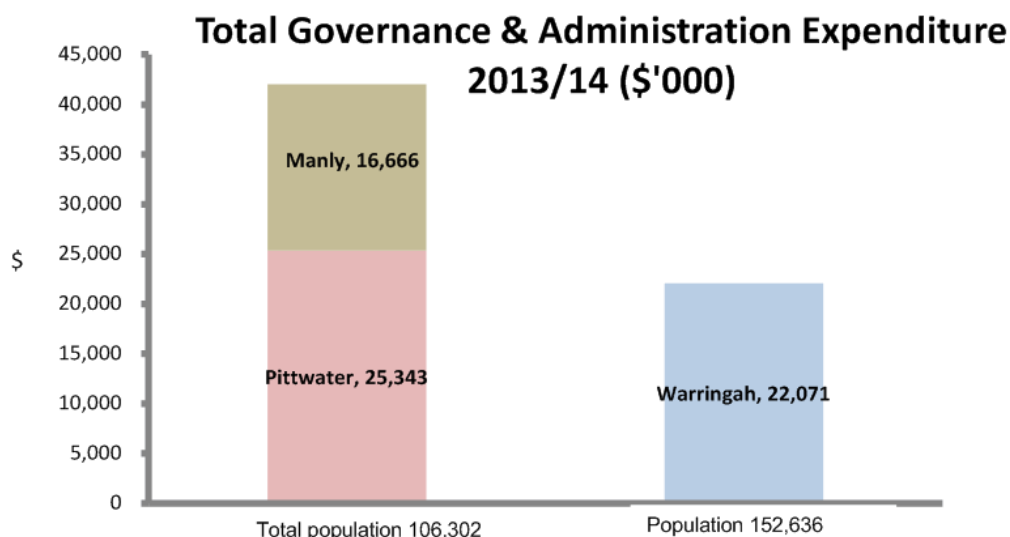
Note: For NPV, a discount rate of 7% is used and CPI of 2.5%

OFFICE OF LOCAL GOVERNMENT COMPARATIVE DATA

The Office of Local Government's 2013/14 Comparative Data provides the community with important information on Local Government in NSW. The data used is sourced from council's own financial statements and grants returns.

The 2013/14 expenditure per capita data highlights the efficiencies currently achieved within Warringah Council's Governance & Administration expenditure. Warringah's average spend per capita was \$144.60 which is significantly lower than Manly's \$376.79 and Pittwater's \$408.30. This allows Warringah to direct more of the community's money toward providing services including the maintenance of roads, bridges, footpaths and the environment.

The following graph illustrates the extent of the efficiencies gained. The combined spend of Manly and Pittwater in 2013/14 was almost double that of Warringah despite Warringah servicing a community with a population of 152,636 which is 44% greater than the combined population of Manly and Pittwater of 106,302.



MANLY AND PITTWATER LONG TERM FINANCIAL PLANS

Significant inconsistencies currently exist in the preparation of the long term financial plans of the three existing Northern Beaches Councils and the degree of rigour in the assessment of these plans. This is highlighted by the fact that only Warringah's long term financial plan is subject to an independent assurance review by its auditors.

The projected forecasts provided by Manly Council in its current long term financial plan both in terms of its operations and capital works program appear to be quite optimistic. Income from User Charges & Fees is anticipated to increase by 77% from \$13.858m in 2014/15 to \$24.587m in 2024/25. In contrast, expenditure in relation to Materials & Contracts is anticipated to decrease by

2% from \$17.284m in 2014/15 to \$16,955m in 2024/25. Over the same period Cash and Investments are forecast to increase by \$56.83m from \$46.269m in 2014/15 to \$103.101m in 2015/16.

Three major capital works projects, New Aquatic Centre (\$11.185m in 2015/16), Manly Oval Car Park (\$34m in 2015/16 & 2016/17) and Manly 2015 Public Domains (\$8.4m between 2015/16 and 2018/19), are listed in Manly Council's long term financial plan and forecast to be completed over the next 2 to 4 years. The current financial projections for these appear to be optimistic given the size and complexity of the projects.

It has been difficult to provide an adequate assessment of Pittwater Council's long term financial projections as they are not presented in accordance with the Integrated Planning and Reporting format.

SUMMARY OF STRATEGIC IMPACTS

The financial and strategic impacts of splitting Warringah are interlinked: the loss of economies of scale and weakened financial sustainability that would be the result of splitting Warringah, would also impact on economies of specialisation and scope hereby making it difficult for both new councils to properly resource key strategic initiatives into the future.

This situation would be compounded by the disruption and organisational uncertainty during a time of complex transitioning to two new entities.

The loss of specialist strategic positions, operational and service disruption, and the reduced capacity to resource key strategic projects would impact both new councils' ability to be capable partners for the NSW Government in delivering its long term goals as identified below.

Inappropriate separation of planning of the Strategic Centres on the Northern Beaches

A Plan for Growing Sydney, released in December 2014, is the NSW Government's plan for the future of the Sydney Metropolitan Area over the next 20 years. The Plan provides key directions and actions to guide Sydney's productivity, environmental management, and liveability – including the delivery of housing, employment, infrastructure and open space.

Warringah contains two of the six regional strategic centres (Dee Why/Brookvale and Frenchs Forest Hospital Precinct), which are projected for future growth in Sydney's North subregion. Manly and Pittwater do not have strategic centres and no other local government area in this subregion has two centres.

The proposed split Warringah option would see the planning for Dee Why/Brookvale and Frenchs Forest Strategic Centres split between the northern and southern councils. The southern council would inherit Dee Why/Brookvale strategic centre and the northern council Frenchs Forest strategic centre. Based on the existing suburb boundary of Frenchs Forest a parcel of industrial land on the eastern end of Aquatic Drive currently in the Frenchs Forest study area would be part of the Southern council.

There are linkages between the Strategic Centres that need to be developed if the region is to achieve the housing and jobs targets of the Government. To date Warringah has had a dedicated team of specialists working with the Government and related agencies in planning for the development of the strategic centres to ensure they complement each other. The delivery of the Hospital Structure Plan (Frenchs Forest) and master planning for Brookvale would be at risk under this proposition.

By splitting Warringah, the planning of the Strategic Centres for the Northern Beaches region as identified in the NSW Government 'A Plan for Growing Sydney' (Dec 2014) would be significantly impacted as the two regional strategic centres would be inappropriately separated. This would exacerbate the long term strategic challenges facing the region and compromise the long term growth of Metropolitan Sydney.

Loss of ability to integrate planning and development

Critical to the development of the strategic centre is Warringah Road. This is the major arterial road that connects the strategic centres and also provides a link for the region to the Global Economic Corridor and the centres of North Sydney, Chatswood and Macquarie Park.

Infrastructure Australia found that Warringah Road (Narraweena to Chatswood) is the third worst road in the country for congestion costing \$2.18 million (Australian Infrastructure Audit Report, Vol 2 P143). To maximise the potential of the Frenchs Forest Strategic Centre (Northern Beaches Hospital Precinct) congestion on Warringah Road needs to be addressed as part of the planning of the centres. Splitting the centres as proposed will fragment this as Warringah Road to Chatswood would be the responsibility of both the northern and southern councils.

Splitting Warringah would impact on both new Councils' ability to integrate planning and development, resulting in less than optimal planning decisions, particularly regarding future infrastructure planning.

SUMMARY OF FINANCIAL IMPACTS

Disproportional allocation of high cost regional assets to the South

There is \$273 million worth of major works projects currently underway or projected for the northern beaches. Two projects are located in the northern half of the northern beaches, equalling a capital cost of \$90 million. Six projects are located in the southern half with a capital cost of \$183 million. (See Appendices).

Disproportional allocation of income producing assets to the North

Kimbriki Environmental Solutions operates on land that is owned by Warringah Council. As such Warringah receive rental income of \$2.6 million per year from the site. This rental income is forecast to rise to \$5.5 million in 2019/20 following the commissioning of an Alternate Waste

Technology facility to deal with the regions putrescible waste. Under the split the Northern Council would inherit Kimbriki and the annual rental income.

Less effective and efficient service delivery

A simple example of the loss of efficiencies and effectiveness is domestic waste where the standard charges for the current financial year are Warringah – \$364, Pittwater - \$580 and Manly \$640. Based on the split suggested by Manly and Pittwater Councils, 20,847 rateable properties would be split North and 33,998 South. This alone could cost existing Warringah ratepayers at least \$100m over 10 years. (See Appendices)

A further example is the governance and administration costs per capita of each of the councils. Based on the Office of Local Government's published Comparative Data for 2013/14 the costs per capital are Warringah – \$144.60, Pittwater - \$408.30 and Manly \$376.79. The split would produce two councils which are materially smaller than Warringah significantly diluting the economies of scale, scope and specialisation achieved by Warringah which could be further enhanced by a united northern beaches.

A disproportional allocation of rateable properties south particularly in respect of residential flat buildings

The split Warringah proposition would result in a 25%/75% split between north and south of residential rateable properties on the minimum rate (refer to Appendix 3). This reflects that the south would inherit more units and therefore higher density. Generally providing services to high density areas are more expensive, for example provision of domestic waste services.

Conclusion

*We will guarantee reduced red tape, more stable
rates, better services and infrastructure and local
representation maintained*

Minister Toole, 20 October 2015

Manly and Pittwater Councils have put forward a proposition to split Warringah, hereby ignoring the Government's reform objectives.

The analysis demonstrates how detrimental a split Warringah merger option would be for the northern beaches community: this option would result in rate rises and reduced and inequitable financial sustainability across the region. It would also entail a loss of strategic capacity – putting at risk the Government's ability to effectively deliver on its growth plan for Sydney.

This analysis confirms in unequivocal and absolute terms what the Government's own experts, as well as previous comparative studies, have already strongly indicated: that splitting Warringah is not a viable option for the northern beaches.

The financial analysis highlights significant inequalities and risks which will result in:

- Additional costs of \$71.399m over 10 years and \$117.825m over 20 years
- \$70.4m in operational deficits over 10 years before Capital Grants and Contributions (combined deficit of Northern and Southern Councils)
- The need for significant rate increases for ratepayers in the north of 17.6% (inclusive of approved rate increase of 9.5%) but even greater increases for ratepayers in the south of 23.1% (inclusive of approved rate increase of 9.5%) to maintain existing service levels enjoyed by the Warringah community
- Higher annual waste charges - currently Warringah \$360, Pittwater \$530 and Manly \$630
- Significant unfunded capital works projects
- \$3.2-5.2m in separation costs to 'Split Warringah' (excludes legal costs relating to disputes)
- \$20m in integration costs to establish two new councils (\$10m each) according to NSW Government

This report is focussed on the financial and strategic aspects of a split Warringah merge proposition, based on best available data and robust financial modelling. It is beyond the scope of this analysis to consider community sentiment towards a split Warringah proposition and the community should be consulted on this proposition.

Detailed analysis should be conducted if the Government were to consider this proposition any further.

REFERENCES

DEMOGRAPHIC REFERENCES

Population analysis and projections
[id profile forecast data](#) (sourced directly from the Australian Bureau of Statistics)

Department of Planning
[Department of Planning home](#)

Comparative data: financial profile and performance
[The Office of Local Government \(OLG\)](#)

KEY FINANCIAL DOCUMENTS

Warringah Long Term Financial Plan
[Warringah Long Term Financial Plan 2015-2025](#)

Manly Long Term Financial Plan
[Community Strategic Plan Beyond 2025](#)

Pittwater Delivery Program and Budget 2015 – 2019
[Delivery Program and Budget](#)

Pittwater's proposal
[Response to NSW Government on Pittwater Council's Final Position on Local Government Reform](#)

LOCAL GOVERNMENT REFORM
[Fit for the Future criteria and roadmap](#)

[Destination 2036 Action Plan](#)

[ILGRP 2014 Revitalising Local Government: Final Report of the NSW Independent Local Government Review](#)

[Assessing Processes and Outcomes of the 2004 Local Government Boundary Changes in NSW](#)

[NSW Government Response to the Panel and Taskforce Recommendations](#)

IPART Homepage
[IPART Home](#) – Assessments, submissions and reports

IPART Assessment methodology
[IPART 2015 Methodology for Assessment of Council Fit for the Future Proposals](#)

Strategic review: the risks of splitting Warringah

December 2015

APPENDIX

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APPENDIX 1

Differences in approach (SGS, KPMG, EY)

A) SGS ECONOMICS AND PLANNING

A.1 Scope

To support the continued discussions with the neighbouring councils in exploring the potential for creation of a new council on the Northern Beaches, SGS Economics and Planning was asked in 2015 to update and extend its 2013 study. The scope of this work was to undertake a high level strategic financial appraisal for a status quo option as well as merger options to create one or two councils to serve the region.

In contrast to the 2013 study which used the 2011-12 data, this study is based on the 2013-14 financial data and projections from the most recent Long Term Financial Plan (LTFP) published by councils.

The options assessed in this study are described in the table below.

Option	LGAs	Population 2011*	Population 2031^
1. Status Quo: three separate councils	Manly Pittwater Warringah	39,748 57,154 140,741	51,900 82,000 173,500
2. New Northern Beaches Council	Warringah + Manly + Pittwater	237,643	307,400
3. New Council: combine Warringah and Manly	Warringah + Manly	180,489	225,400
4. New Council: combine Warringah and Pittwater	Warringah + Pittwater	197,895	255,500
5. Two new councils formed by dividing Warringah between Pittwater and Manly	Manly with half Warringah AND Pittwater with half Warringah	110,000 127,000	138,650 168,750

A.2 Stated limitations

Limitation	Detail	Reference
Scope limitations	Scope limited to a high-level strategic financial appraisal	Page 7
Only some transition costs assessed	Only transition costs associated with systems and processes included	Page 3
	Costs not included in analysis: <ul style="list-style-type: none"> Costs associated with redundancies (assumed to be offset by savings from staff natural attrition in the first 3 years) Incentive funding from the government on offer for 	Page 13

Limitation	Detail	Reference
	voluntary mergers	
Calculation of transition costs	Transition costs are calculated assuming a percentage of current operating expenses from a UK case study (Cornwall Council case study)	Page 3
Reference council approach taken to estimate merger costs and benefits ie. the council which currently achieves the best economies of scale	Assumes that the lowest cost council reflects best practice and that the merged council's costs will converge around this target Warringah's current governance cost has been used as a basis for estimating the new governance costs under option 5	Page 3
Per capita cost savings only applied to cost categories likely to achieve economies of scale	It is assumed that the following services are subject to economies of scale: <ul style="list-style-type: none"> • Governance • Administration • Public order and safety • Environment • Recreation and culture • Transport and communication 	Page 10

A.3 Additional limitations

Limitation	Detail	Reference
No separation costs considered	Some transition costs assessed, however one-off separation costs have not been discussed in relation to Option 5 specifically	n/a
Costs to achieve service level harmonisation not assessed	The reference approach taken to estimate merger costs and benefits does not take into account the affect that this could have on service standards and the potential cost which could be incurred to achieve service level harmonisation	n/a
Risks and issues associated with each merger option not assessed	Neither quantitative nor qualitative data provided in relation to risks and issues of each specific merger option	n/a
Approach to assessing incremental savings	In relation to SGS' Option 5, which described dividing Warringah between Pittwater and Manly, the assessment of incremental ongoing costs was calculated by extrapolating higher per capita costs than existed in Manly and Pittwater (compared to Warringah) to the Warringah residents. The approach taken was limited and not supported by a more detailed assessment of the incremental cost drivers	n/a

B) KPMG

B.1 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 modeling 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 to the implementation of structural change

B.2 Stated limitations

Limitation	Detail	Reference
Differences in consistency and depth of reporting and data provided by each council	Limitations in the consistency and depth of data provided including consistency in reporting and provision of detailed employee data	Page 10 Page 19
	Each council may have different methods for example in relation to: <ul style="list-style-type: none"> • Preparing long term financial projections • Accounting for infrastructure backlog • Reporting their per service expenditure • Estimating infrastructure depreciation 	Page 10 Page 12 Page 19
Limited Warringah information available	Detailed employee data received from Manly and Pittwater, however not all employee data provided by Warringah. Where data was missing, higher level analysis provided based on publicly available FTE establishment data and an assumed staffing structure for Warringah	Page 10 Page 19 Page 62
	Warringah was not involved in validation process undertaken for review. Only high-level discussion held with senior management at project commencement and data clarification where required	Page 13
No consultation with communities	Communities not consulted in relation to attitudes and preferences for local government reform	Page 9
Limited implementation risks and issues assessment	Implementation considerations outlined at a high level only and a more detailed implementation plan and risk assessment would be required to support a final decision on structural options	Page 9 Page 22 Page 65
Costs to achieve service level harmonisation not assessed	Evidence on the costs associated with service level harmonisation not available in Australia, therefore these costs were not quantified	Page 108
Limitations of 'Fit for the	In order to assess a number of benchmarks, additional	Page 21

Limitation	Detail	Reference
Future' benchmarks	input was required from councils, which was not received. Therefore a number of high level assumptions have been made	
	Benchmark 1: Operating performance ratio Assesses a council's operating performance, therefore capital grants and contributions are excluded from this ratio	Page 115
	Benchmark 2: Own-source revenue ratio This indicator is sensitive to capital grants and contributions and therefore can be an inconsistent measure across councils over time	Page 115
	Benchmark 3: Building and infrastructure asset renewal ratio A limitation of this indicator is it is highly sensitive to how councils estimate depreciation expenses and assumptions underpinning depreciation calculations may vary significantly over time and across similar councils	Page 115
	Benchmark 4: Infrastructure backlog ratio A limitation of this indicator is the data source stems from a non-audited item and is therefore not measured consistently across councils	Page 115
	Benchmark 5: Asset maintenance ratio A limitation of this indicator is its declining usefulness as a forward-looking indicator	Page 116
	Benchmark 6: Debt service ratio 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	Page 116
	Benchmark 7: Real operating expenditure per capita Use of this indicator fails to take into account varying community expectations of service levels provided by council and the community's capacity and willingness to pay for services. Councils with higher operational expenditure may well be responding to community demands 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	Page 53 Page 64 Page 116

B.3 Additional limitations

Limitation	Detail	Reference
Efficiencies and costs	Staffing efficiencies driven by the Toronto and Auckland	Page 20

Limitation	Detail	Reference
benchmarked using international case studies	case studies	Page 105
	Council expenditure efficiencies driven by the Auckland case study	Page 20
	Cost savings based on a percentage of total annual expenditure and apportioned across cost types based on the Toronto case study	Page 20
	Assumptions include: <ul style="list-style-type: none"> Facility consolidation: 30% IT consolidation: 30% Retraining: 2% Other transition costs: 11% 	
No examination of alternate reform options outside those developed in report	Only three structural options considered: <ol style="list-style-type: none"> No merger Greater Pittwater Council and Greater Manly Council Single Northern Beaches Council 	Page 40
No separation costs considered	Implementation considerations and costs have been assessed at a high level, however one-off separation costs have not been discussed	
Inaccurate redundancy assumptions made	Assumed that redundancy pay periods will range from 4 to 12 weeks' pay. Based on Warringah Management interviews, it is likely that redundancy pay periods will range from 25 to 30 weeks and therefore these costs will be higher	Page 107
Consistency of assumptions	In relation to KPMG's option 2, which describes dividing Warringah and combining with Manly and Pittwater respectively, analysis indicates that the Warringah Council population has been split 57:43, while the revenue is split 50:50. The approach appears inconsistent.	n/a
Not accounting for dissynergies	The cost position for option 2 does not take into account additional costs (dissynergies) for separating the Warringah Council and therefore the overall new position may be lower.	n/a

C) ERNST AND YOUNG

C.1 Scope

EY has been instructed by IPART to:

- Model and estimate the long term costs and benefits in Net Present Value (NPV) terms, of the 8 council merger combinations in the Sydney Metropolitan Area identified as preferred merger options as outlined in the ILGRP report. In addition, IPART has requested EY undertake similar analysis for other sets of mergers: Botany Bay, Randwick, Waverley and Woollahra Councils (without the City of Sydney Council)
- Gosford and Wyong Councils, Bankstown and Canterbury Councils, Hawkesbury and the Hills Councils – these three merger scenarios did not form part of the ILGRP's preferred options but the Panel recommended that they be further explored
- Randwick and Waverley Councils, and Auburn, Burwood and Canada Bay Councils – these are not part of the ILGRP's preferred options but these councils have put forward voluntary merger proposals and business cases that IPART would like to further explore
- Review and critique the merger business case models that have been put forward by Local Councils in Sydney. This includes providing an NPV estimate of the business cases, and reviewing and critiquing IPART's staff assessment of council merger business cases.

In essence, the task is to provide a comparative financial analysis of the merger proposals to inform IPART's response to the Government.

C.2 Stated limitations

Limitation	Detail	Reference
Quality of information available for analysis	Report relies on the evidence provided by IPART, 2013/14 operating expenses of the relevant local councils and other publically available information in relation to the council merger business cases	Page 3 Page 4
	Reliance has been placed on the information presented within the business cases and an audit of the available information has not been undertaken	Page 4
	No direct consultations with Sydney metropolitan local councils or the authors of the relevant merger business cases. Therefore, analysis does not take into account the specific operating circumstances and business characteristics of each of the local council merger scenarios examined, which is typically important in identifying the extent to which merger cost savings may be achievable in any particular instance	Page 4
	Work in connection with this assignment is of a different nature to that of an audit or a review of information, as those terms are understood in Australian Auditing Standards applicable to audit and review engagements. The report is based on inquiries of and discussions with IPART, a review of the business and other documents made available to EY, and analytical procedures applied to data provided	Page 4
	EY assessed the ILGRP preferred merger options (and 5 variations around those options) and reviewed 29 merger business cases presented by the councils. It was undertaken as a desktop exercise and EY relied on the information submitted in the relevant merger business cases. As a result, there may be findings or information not included in this report, or EY's investigations may not	Page 4

Limitation	Detail	Reference
	have revealed, all relevant matters. The reliance that can be placed on this report may therefore be limited in that regard	
Top-down review of the available evidence to estimate potential costs and benefits	Typically in a merger the merits of the options would be assessed through a detailed bottom-up review of the costs, benefits and risks of a merger	Page 3 Page 6
Adjustments made to data	Variance in the level of detail provided in the submitted merger business cases, which has required EY to make adjustments where necessary Examples: <ul style="list-style-type: none"> No NPV calculation Net merger cash flow provided with no split between benefits and costs Level of discount rate applied Real rather than nominal terms 	Page 9
	Business cases standardised to facilitate more effective comparison between them	Page 53
	After adjustments, substantial variations remain between the merger business cases for KPMG and SGS	Page 11
Limited empirical evidence available regarding cost savings associated with local council amalgamations	The extent to which cost savings have been achieved in previous local council reforms may be difficult to measure particularly over the longer term as any cost savings generated are most likely to have been re-directed towards service expansion over that timeframe	Page 5
Only operating expenditure considered	Assessment of capital expenditure identified as best to undertake in consultation with council management	Page 40

C.3 Additional limitations

Limitation	Detail	Reference
Financial review of costs and benefits only	Qualitative costs and benefits of merger not discussed	Page 62
No separation costs considered	Implementation considerations and costs have been assessed at a high level, however one-off separation costs have not been assessed, as the report was based on reviewing the business cases of KPMG and SGS	n/a

APPENDIX 2

Major Works – north and south

There are \$273 million worth of major works projects currently underway or projected for the northern beaches. Two projects are located in the northern half of the northern beaches, equalling a capital cost of \$90 million. Six projects are located in the southern half with a capital cost of \$183 million.

MAJOR WORKS - NORTH

Frenchs Forest Hospital Precinct: an \$80 million project underway in accordance with the NSW Government 'A Plan for Growing Sydney.' Currently underway.

Warringah Aquatic Centre: a \$10 million project to improve the financial sustainability of this asset and meet current and future community needs. Currently awaiting capital funding.

MAJOR WORKS - SOUTH

Dee Why Town Centre: a \$65 million project underway in accordance with the NSW Government 'A Plan for Growing Sydney.' Currently underway.

Brookvale Park and Oval: a \$25 million project to upgrade the aging facility and meet community needs. Federal Government has committed \$10 million towards this project, but the remainder is unfunded.

Brookvale Strategic Centre: a \$40 million project in development in accordance of the NSW Government 'A Plan for Growing Sydney.' Infrastructure requirements will be determined following completion of the structure plan in 2015-16.

Manly Oval Carpark: a \$34 million project developed in accordance with the NSW Government 'A Plan for Growing Sydney.'

Manly Public Domain works: an \$8 million project developed in accordance with the NSW Government 'A Plan for Growing Sydney.' Works are underway in 2015-16.

Andrew Boy Charlton Swim Centre: and \$11 million project developed in accordance with the Commonwealth National Sport and Active Recreation Policy Framework. Works are underway in 2015-16.

FRENCHS FOREST HOSPITAL PRECINCT - \$80 million

Frenchs Forest Hospital Precinct is identified as a Strategic Centre in the NSW Government 'A Plan for Growing Sydney' (Dec 2014). Warringah Council is preparing a Precinct Structure Plan to guide future development. The plan will identify appropriate land-use, taking into account environmental, social, economic, traffic, transport and accessibility issues. The plan will also guide integration of the new hospital into the surrounding Frenchs Forest area, including provision of amenity, enabling economic and employment growth, and improving walking and cycling connections.

Key links: [NSW Department of Planning and Environment A Plan for Growing Sydney page126](http://yoursaywarringah.com.au/hospital-precinct-structure-plan-frenchs-forest)
<http://yoursaywarringah.com.au/hospital-precinct-structure-plan-frenchs-forest>

WARRINGAH AQUATIC CENTRE - \$10 million

A Site Development Strategy has been prepared to improve the financial sustainability and meet current and future community needs of the Warringah Aquatic Centre. The centre is an aging facility that is running at an operational loss. The centre provides an important regional resource and closing the centre is not supported by the community and stakeholders. Works to achieve the desired level of service include: a refurbished 50m pool, a leisure water area and adventure slides.

Key links: [Warringah Aquatic Centre Site Development Strategy 2013](#)
[Council resolution regarding findings of Aquatic Centre Site Development](#)

DEE WHY TOWN CENTRE - \$65 million

Dee Why is identified as a Strategic Centre in the NSW Government 'A Plan for Growing Sydney' (Dec 2014). Priorities include retaining and growing commercial activity, providing long-term employment growth, providing capacity for additional mixed-use development, improving walking and cycling connections and progressing a Northern Beaches bus rapid transit corridor.

The Dee Why Town Centre Masterplan was developed to deliver the strategic centre, including:

- Key open space provided by expansion and development of Walter Gors Park: children's playgrounds, water features, nature play, bicycles circuit, grass activity area with table tennis tables, potential café site, exercise area, outdoor kitchen and dining
- Town centre traffic improvements: new traffic facilities, road widening, signal adjustments, streetscape improvement and development of bus rapid transport interchange.

Key links: [NSW Department of Planning and Environment A Plan for Growing Sydney page126](#)
[Dee Why Town Centre Masterplan and major projects](#)
[Capital Works Delivery Program](#)

BROOKVALE PARK AND OVAL - \$25 million

Brookvale Oval is an aging facility. Warringah Council has resolved to maintain and upgrade the oval to provide a regional sporting venue for professional sport and community use, ensure the Oval remains the home of the Manly Warringah Sea Eagles and seek financial self-sufficiency for the oval. Proposed works include a new grandstand and facilities. A design is yet to be developed. The Federal Government has committed a \$10 million grant towards this project, but the remainder is unfunded.

Key links: [Brookvale Park Visioning 2010](#)

BROOKVALE STRATEGIC CENTRE - \$40 million

Brookvale is identified as a Strategic Centre in the NSW Government 'A Plan for Growing Sydney' (Dec 2014). Priorities include retaining and growing commercial activity, providing long-term employment growth, providing capacity for additional mixed-use development, improving walking and cycling connections and progressing a Northern Beaches bus rapid transit corridor.

Warringah Council is currently working with the community and local businesses to deliver a Brookvale Structure Plan that will include long term objectives for enabling growth, including: jobs and businesses, residential development and community spaces and transport. Once complete, the Structure Plan will direct development and capital investments to support the Strategic Centre. This includes local road improvements, drainage works, open space improvements (including pocket parks, play equipment) and community centres.

Key links: [NSW Department of Planning and Environment A Plan for Growing Sydney page126 Brookvale Vision and Masterplan](#)

MANLY OVAL CARPARK - \$34 million

The development of Manly Oval carpark responds to the NSW Government of “A Plan for Growing Sydney” and is part of Manly Masterplan 2015. Priorities include strengthening the competitive economy of Sydney by protecting Sydney Harbour as a working harbour and improving subregional connections.

Manly Oval carpark works are central to achieving these priorities by providing 500 car spaces for commuter parking and access to Sydney. The development will also improve the amenity of the area by removing cars and encouraging walking and cycling through provision of safe cycle facilities and parking.

Key links: <http://www.planning.nsw.gov.au/~media/Files/DPE/Plans-and-policies/a-plan-for-growing-sydney-2014-12.ashx>
<http://www.manly.nsw.gov.au/council/manly2015---revitalise-manlys-cbd/>

MANLY PUBLIC DOMAIN WORKS - \$8 million

Manly Village Centre is scheduled to undergo significant revitalisation works to meet the priorities of the NSW Government “Plan for Growing Sydney”. The works will renew urban centres, provide and enable economic activity, protect unique natural areas and enhance opportunities for public access to the coastline. The works include upgrades to Manly Library, including: rooftop gardens and multi-purpose spaces for a new community hub, construction of a piazza, streetscape developments, footpath widening, bike lanes, community seating and improved street lighting.

Key links: <http://www.planning.nsw.gov.au/~media/Files/DPE/Plans-and-policies/a-plan-for-growing-sydney-2014-12.ashx>
<http://www.manly.nsw.gov.au/council/manly2015---revitalise-manlys-cbd/>

ANDREW BOY CHARLTON SWIM CENTRE - \$11 million

The Andrew Boy Charlton Swim Centre is undergoing redevelopment in accordance with the Australian Government’s National Sport and Active Recreation Policy Framework. Renewal of the ageing outdoor swimming pool and provision of a sports and recreation facility will meet the Framework’s requirement to encourage and promote public participation in recreation and enhance public health.

The redevelopment involves upgrading the existing pool, construction of a new heated lap pool, spectator seating, a program pool, children’s play and leisure pool, spa pool/sauna/steam room, a gymnasium, kiosk, crèche, change rooms and public toilets, administration building, co-generation energy plant, parking and landscaped gardens.

Key links: <http://www.health.gov.au/internet/main/publishing.nsf/Content/nsarpf#priority>
<http://www.manly.nsw.gov.au/attractions/swim-centre/whats-on-the-horizon/>

APPENDIX 3

Rates

The proposed split of Warringah along the lines proposed by Manly and Pittwater Councils would produce significant disparities for Warringah ratepayers who are split to a Southern Council:

- Average Residential Rates – Warringah \$1,206, Manly \$1,289, Pittwater \$1,520
- Stormwater Management Charge – Warringah \$Nil, Manly \$25, Pittwater \$25
- Voluntary Pensioner Rates Rebate – Warringah \$150, Manly \$20 to \$30, Pittwater \$150

TABLE A	\$		
	TOTAL	NORTH	SOUTH
<u>Residential</u>			
Minimum	15,974,029.85	4,023,619.33	11,950,410.52
Ad Valorem	47,589,728.43	20,402,601.13	27,187,127.30
Postponed	6,280.89	2,132.01	4,148.88
	63,570,039.17	24,428,352.47	39,141,686.70
<u>Business</u>			
Minimum	2,226,582.01	857,542.27	1,369,039.74
Ad Valorem	12,246,543.95	4,531,517.56	7,715,026.39
Storage Units - Minimum	80,848.00	0.00	80,848.00
Storage Units - Ad Valorem	705.46	0.00	705.46
Warringah Mall	706,450.85	0.00	706,450.85
	15,261,130.27	5,389,059.83	9,872,070.44
TOTAL RATES	78,831,169.44	29,817,412.30	49,013,757.14

No.		
TOTAL	NORTH	SOUTH
18,965	4,777	14,188
33,741	15,119	18,622
18	8	10
52,724	19,904	32,820
2,059	793	1,266
1,821	535	1,286
163	-	163
1	-	1
1	-	1
4,045	1,328	2,717
56,769	21,232	35,537

TABLE B	\$ %		
	TOTAL	NORTH	SOUTH
<u>Residential</u>			
Minimum	25.13%	25.19%	74.81%
Ad Valorem	74.86%	42.87%	57.13%
Postponed	0.01%	33.94%	66.06%
	100.00%	38.43%	61.57%
<u>Business</u>			
Minimum	14.59%	38.51%	61.49%
Ad Valorem	80.25%	37.00%	63.00%
Storage Units - Minimum	0.53%	0.00%	100.00%
Storage Units - Ad Valorem	0.00%	0.00%	100.00%
Warringah Mall	4.63%	0.00%	100.00%
	100.00%	35.31%	64.69%
	100.00%	37.82%	62.18%

No. %		
TOTAL	NORTH	SOUTH
35.97%	25.19%	74.81%
64.00%	44.81%	55.19%
0.03%	44.44%	55.56%
100.00%	37.75%	62.25%
50.90%	38.51%	61.49%
45.02%	29.38%	70.62%
4.03%	0.00%	100.00%
0.02%	0.00%	100.00%
0.02%	0.00%	100.00%
100.00%	32.83%	67.17%
100.00%	37.40%	62.60%

APPENDIX 4

Domestic Waste Charges

The proposed split of Warringah along the lines proposed by Manly and Pittwater Councils would produce significant disparities for Warringah ratepayers who are split to a Southern Council:

- Standard Domestic Waste Charge – Warringah \$364, Manly \$640, Pittwater \$580
- Voluntary Pensioner Domestic Waste Rebate – Warringah \$44, Manly \$Nil, Pittwater \$Nil

TABLE A	\$		
	TOTAL	NORTH	SOUTH
Domestic Waste	24,191,303.00	9,329,474.00	14,861,829.00

No.		
TOTAL	NORTH	SOUTH
54,845	20,847	33,998

TABLE B	\$ %		
	TOTAL	NORTH	SOUTH
Domestic Waste	100.00%	38.57%	61.43%

No. %		
TOTAL	NORTH	SOUTH
100.00%	38.01%	61.99%

APPENDIX 5

Financial model

Budget 2015-2025	Consolidated - North									
	2015-2016 \$'000	2016-2017 \$'000	2017-2018 \$'000	2018-2019 \$'000	2019-2020 \$'000	2020-2021 \$'000	2021-2022 \$'000	2022-2023 \$'000	2023-2024 \$'000	2024-2025 \$'000
Income from Continuing Operations										
Rates & Annual Charges	38,251	39,744	43,131	45,171	47,327	48,709	50,149	51,620	53,089	54,636
User Charges & Fees	25,155	25,835	26,506	27,169	27,821	28,517	29,230	29,960	30,679	31,446
Interest & Investment Revenues	983	1,109	1,045	1,148	1,132	1,045	1,141	1,135	1,119	1,096
Other Revenues	8,641	8,870	8,965	9,189	9,410	9,645	9,886	10,133	10,376	10,636
Grants & Contributions - Operating Purposes	3,189	2,776	2,779	2,866	3,069	2,871	2,866	2,957	3,158	2,957
Grants & Contributions - Capital Purposes	1,434	1,214	1,245	1,277	1,307	1,340	1,373	1,408	1,441	1,477
Gains on Disposal of Assets	83	85	1,911	90	92	94	97	99	101	104
Total Income from Continuing Operations	77,735	79,633	85,581	86,909	90,158	92,310	94,767	97,313	99,964	102,352
Expenses from Continuing Operations										
Employee Benefits & On-Costs	(28,805)	(29,655)	(30,497)	(31,351)	(32,229)	(33,131)	(34,206)	(35,315)	(36,459)	(37,639)
Borrowing Costs	(643)	(968)	(954)	(939)	(924)	(909)	(895)	(880)	(866)	(854)
Materials & Contracts	(28,930)	(29,343)	(30,043)	(32,208)	(34,615)	(35,421)	(36,516)	(37,697)	(39,010)	(39,967)
Depreciation & Amortisation	(6,621)	(7,244)	(7,493)	(7,710)	(8,474)	(8,733)	(8,999)	(9,273)	(9,544)	(9,833)
Other Expenses	(10,603)	(10,876)	(11,170)	(11,426)	(11,729)	(12,009)	(12,330)	(12,602)	(12,933)	(13,244)
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Share of Interest in Joint Ventures	-	-	-	-	-	-	-	-	-	-
Internal Charges	(69)	(70)	(56)	(91)	(93)	(95)	(98)	(100)	(102)	(105)
Overhead Allocation	(740)	(760)	(779)	(799)	(818)	(838)	(859)	(881)	(902)	(925)
Total Expenses from Continuing Operations	(76,410)	(78,916)	(80,991)	(84,523)	(88,881)	(91,138)	(93,902)	(96,747)	(99,816)	(102,567)
Surplus/(Deficit) from Continuing Operations	1,325	717	4,590	2,385	1,277	1,173	864	566	148	(215)
Surplus/(Deficit) from Continuing Operations before Capital Grants & Contributions	(1,864)	(2,059)	1,812	(481)	(1,792)	(1,698)	(2,027)	(2,392)	(3,010)	(3,172)

Budget 2015-2025	2015-2016 \$'000	2016-2017 \$'000	2017-2018 \$'000	2018-2019 \$'000	2019-2020 \$'000	2020-2021 \$'000	2021-2022 \$'000	2022-2023 \$'000	2023-2024 \$'000	2024-2025 \$'000
Income from Continuing Operations										
Rates & Annual Charges	62,566	64,839	70,376	73,670	77,157	79,405	81,748	84,143	86,532	89,049
User Charges & Fees	25,115	25,793	26,463	27,125	27,776	28,470	29,182	29,912	30,630	31,395
Interest & Investment Revenues	1,526	1,729	1,620	1,785	1,762	1,767	1,774	1,766	1,741	1,704
Other Revenues	5,274	5,411	5,335	5,469	5,600	5,740	5,883	6,031	6,175	6,330
Grants & Contributions - Operating Purposes	4,813	4,481	4,484	4,574	4,884	4,594	4,633	4,739	5,047	4,753
Grants & Contributions - Capital Purposes	2,604	2,241	2,299	2,357	2,413	2,474	2,536	2,599	2,661	2,728
Gains on Disposal of Assets	9,210	140	144	148	151	155	159	163	167	171
Total Income from Continuing Operations	111,107	104,634	110,722	115,127	119,744	122,605	125,917	129,352	132,953	136,131
Expenses from Continuing Operations										
Employee Benefits & On-Costs	(42,138)	(43,288)	(44,519)	(45,766)	(47,047)	(48,364)	(49,933)	(51,552)	(53,222)	(54,945)
Borrowing Costs	(719)	(514)	(545)	(578)	(612)	(649)	(688)	(729)	(773)	(819)
Materials & Contracts	(39,316)	(39,984)	(40,931)	(44,178)	(47,841)	(48,943)	(50,500)	(52,189)	(54,092)	(55,416)
Depreciation & Amortisation	(9,413)	(10,396)	(10,768)	(11,085)	(11,436)	(11,791)	(12,154)	(12,528)	(12,899)	(13,293)
Other Expenses	(13,134)	(13,469)	(13,838)	(14,146)	(14,521)	(14,868)	(15,264)	(15,602)	(16,012)	(16,397)
Loss on Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Share of Interest in Joint Ventures	-	-	-	-	-	-	-	-	-	-
Internal Charges	53	54	83	30	30	31	32	33	34	34
Overhead Allocation	740	760	779	799	818	838	859	881	902	925
Total Expenses from Continuing Operations	(103,927)	(106,837)	(109,738)	(114,924)	(120,609)	(123,746)	(127,648)	(131,686)	(136,063)	(139,912)
Surplus/(Deficit) from Continuing Operations	7,180	(2,203)	984	203	(865)	(1,140)	(1,732)	(2,334)	(3,110)	(3,781)
Surplus/(Deficit) from Continuing Operations before Capital Grants & Contributions	2,368	(6,684)	(3,499)	(4,371)	(5,750)	(5,735)	(6,365)	(7,074)	(8,157)	(8,534)

APPENDIX 6 – Separation and integration considerations

Dividing Warringah between Manly and Pittwater - separation and integration considerations

1. Introduction

Overview

There is a proposal to split Warringah Council ("WC") into two separate areas, incorporating approximately 63% into Manly Council and 37% into Pittwater Council (on a residencies basis). The process of splitting WC is expected to incur a number of one-off separation costs, as well as integration costs, for WC, Manly and Pittwater Councils.

It is estimated that one-off separation costs could range from \$3.2m to \$5.2m. This does not include any legal costs relating to disputes between the Northern and Southern councils associated with the division of Warringah's assets, liabilities, contracts and commitments.

While the Government had stated it would provide \$10m to Councils to assist with amalgamation costs, this was limited to Councils who had agreed to voluntary amalgamation by 18 November 2015. There have been no funds specified for either forced amalgamations or the splitting of councils.

As no agreement was reached, Government funding would not currently be available to cover the separation and integration costs of splitting of Warringah.

WC has prepared various documents and analysis outlining key areas where separation costs may be incurred by WC, as well as indications about expected integration considerations. Interviews were held with WC Business Services and Corporate Services line managers (29 in total) to provide input into the separation costs schedule and high-level integration considerations.

Purpose of document

This memo covers the following four areas:

- i. To provide high-level, key separation issues and risks related to the separation of WC and integration into Manly Council and Pittwater Council
- ii. To provide an overview of the key separation areas and the estimated one-off costs if WC was to be separated into a North and South region to be incorporated into Pittwater and Manly respectively
- iii. To comment on the potential timing of any separation and integration program
- iv. To provide a high-level overview of key integration considerations in relation to Warringah North and South regions being combined with Pittwater and Manly respectively

Limitations

In relation to the integration considerations, the associated integration one-off costs have not been estimated due to their dependence on future decisions to be taken by Manly and Pittwater in designing and implementing service delivery models.

2. Key separation and wind up considerations

There are a number of challenges related to separating WC and winding it up, whilst simultaneously integrating with both Manly and Pittwater Councils. These challenges are greater than when just integrating two or more councils, under either of the following strategies:

- ▶ Simply rolling one council into another council's legal entity
- ▶ Creating a new legal entity and transferring assets/liabilities from two or more councils to the new entity.

We explore some of the specific challenge below.

a. Added complexity

There is added complexity related to the splitting of a council that does not exist in an integration. Effectively, there is a need to agree on Council boundaries, which assets/people/liabilities go North and South (separation), and then for the receiving councils to determine how those parts fit into their operations (integration). Specific challenges in relation to complexity and the additional step of separation include;

- ▶ Pittwater, Manly and Warringah Councils will all need to work together constructively to achieve agreement on the legal, contractual, operational split of WC's assets/liabilities. This need for negotiation and agreement adds significant complexity to the process, as well as time.
- ▶ All assets need to be accounted for, and either:
 - Transferred, at an agreed valuation, to the accepting council; or
 - Identified and wound up/decommissioned
- ▶ Agreement will need to be reached in relation to current projects, including road improvements, capital works and grant-funded initiatives - which party will oversee projects and initiatives until completion and determining whether they should or could be stopped or separated
- ▶ The process for winding up Warringah Council would need to be determined

b. Contractual issues

Issues in relation to contracts are made more challenging when an entity is being wound up, particularly within tight timeframes. The issue around contractual transfer where an entity no longer exists is more challenging to undertake. Contract break costs and change of control clauses create additional separation costs, whilst outstanding litigation and other proceedings can cause significant issues.

c. Additional program management

There is a need for additional program management in relation to the separation, as well as program management of the integration for Manly and Pittwater Councils. This was the case in Queensland when Allconnex was disaggregated, and was also experienced on the wind up of Country Rail Infrastructure Authority and its integration into Transport for NSW.

d. Shared assets

Many assets have been built within WC that are difficult to separate and would have to be shared between two future councils, creating potential ongoing issues.

e. Natural geographical boundaries

Similarly, there are natural geographic boundaries between WC areas and the areas of Manly and Pittwater that will create both one-off separation issues and ongoing operational challenges. These include creeks, lagoons, bushland and parklands.

3. Key timing considerations

The time to undertake a council split and then integrate it seamlessly with two other Councils may be extremely challenging to conduct within a six month period.

The key areas that will create timeline challenges are:

- ▶ Gaining agreement between three parties on which assets/liabilities/employees/costs should transfer to which parties and then working to develop a plan to transfer the asset, then transferring them through appropriate instruments
- ▶ Identification, management and resolution of legal or commercial disputes between the councils that may arise in relation to separation and integration
- ▶ Employee consultation and/or transfer requirements
- ▶ IT integration (infrastructure, applications and services)
- ▶ Due diligence process including contractual diligence and transfer
- ▶ Activities that are required to be completed under the Act
- ▶ Consultation and communication with ratepayers
- ▶ Rating revaluation process

APPENDIX 7

Service level differences

NOTES

- These service level descriptions assume that service standards across the two new Councils would be maintained at current Warringah levels
- This is ordered according to service areas in Warringah's Delivery Program, each being a discrete business unit providing direct services to the community.
- Those units that provide back office services are grouped under Corporate Support or Good Governance service areas – these drive the organisation's governance, resourcing, systems, facilities, resilience and accountability.

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DEFINITIONS

The concepts of economies of scale, economies of scope, and economies of specialisation have been used to determine the service levels and potential risks in each business area.

These concepts can be defined as follows:

- **Economies of scale** - Conditions under which an increase in output (the quantity of goods and services produced) results in a reduction in per unit costs. These conditions arise where the production of goods or services includes large fixed costs, so that as output increases, the unit costs decline, as the fixed costs of production are spread over a larger base.
- **Economies of scope** - This is achieved where the delivery of more than one type of good or service by a single organisation delivers a lower average cost of production than if those services were provided by separate organisations. This generally results where complementary production processes are combined into a single entity.
- **Economies of specialisation** - As the size of organisations grows so does their capacity to employ specialised resources and utilise them in undertaking specialised activities.

(Local Government Structural Change – Options Analysis Supplementary Study, SGS 2015: 8)

Certification

Warringah service delivery overview:

The assessment and issuing of certificates, management of registers and proactive inspections for:

- Fire safety compliance inspections, certificates and notices/orders
- Principal Certifying Authority (PCA) functions for Construction Certificates and inspection of ~400 pool safety barriers
- Assessment of ~200 Building Certificates
- Public health programs for cooling towers, skin penetration, on-site sewage systems, public pools
- 'Risk based' inspection program of food premises and temporary or mobile food vendors

Warringah's 655 food premises (regulated premises) are regularly inspected based on a risk based interval inspection program.

AT RISK

- Increased exposure to liability on fire and pool safety from loss of specialist to undertake assessments and inspections (specialisation)
- Proactive 'risk based' food inspection program to manage public health risks at 655 food premises (scope)

Children's Services

Warringah service delivery overview:

Support services for children 0 to 12 years and their families including:

- Four long day care centres – 254 places per day (increasing to 275 places per day in 2016)
- Five vacation care services – 300 places per day
- Occasional Care Centre at Brookvale
- Family Day Care with 53 Educators and approximately 152 children per day across the Manly and Warringah Local Government Areas
- Supporting children with additional needs or at risk
- A program of events, information and referral services
- Support for Aboriginal services, family and community education and vulnerable families

AT RISK

- Economies of scale from the current centralised administration and booking system would be lost:
 - North – two long day care centres and one vacation care centre
 - South – two long day care centres, four vacation care centres and occasional care centre
- Focus on regulatory compliance with specialisation of knowledge (economies of specialisation)
- Higher child care fees

Community Services

Warringah service delivery overview:

Services for the community include:

- Nine beaches patrolled seven days a week by professional lifeguards, with extended seasons
- Bookings and management of 26 community centres
- Extensive youth services program – including youth art events; dances for young people with a disability; youth development events; Brewarrina youth exchange, special events, parenting programs, youth advisory council; and allocated space at YOYOs youth centre
- Comprehensive Aged and Disability Services including information and referral
- Community capacity building program through an annual Community Development and Cultural Grants program
- Arts and cultural program - management of Warringah Creative Space including the art studios; art shows and exhibitions; art bombs'; workshops; Art Prizes; Artist in Residence Program.

AT RISK

- Coverage of beaches seven days a week by professional lifeguards
- Direct service provision for target groups in the community (e.g. youth, aged, disability and multicultural) in favour of providing an information and referral service
- Dilution of community and cultural grant funding for community groups operating in Warringah

Compliance Services

Warringah service delivery overview:

The investigation and enforcement of:

- Environmental pollution - air, noise, land and water
- Unhealthy conditions – asbestos, overgrown vegetation etc
- Solid fuel heaters assessments
- Unauthorised building works and land use
- Illegally dumped waste
- In-house management and enforcement of parking infringements
- Management of abandoned vehicles
- Dog attacks and uncontrolled roaming
- Internal review, on request, of penalties issued

AT RISK

- Effective investigation and enforcement of: pollution incidents, unauthorised building and unauthorised land use (Loss of specialisation)
- Increased focus on parking infringements to raise revenue - less discretion used in issuing an infringement due to plate recognition technology (Loss of specialisation and economies of scale)

Cultural Events

Warringah service delivery overview:

Opportunities for the community to celebrate, strengthen cultural diversity, foster creativity and reflect the values of our heritage via:

- Events
 - NYE Family Fireworks, Dee Why
 - Brookvale Show, Brookvale
 - Christmas by the Beach, Dee Why
- Cultural programs
 - Australia Day Celebrations
 - Warringah Art Prize
 - Local Government Week School Tours, Civic
 - Anzac Day
- Festivals
 - Stony Range Spring Festival
 - Guringai Festival

49 Major Events delivered in 2014/15

AT RISK

- Loss to local economies from major events at Narrabeen, Brookvale and Dee Why
- Loss of economies of scope and specialisation to provide a wide array of community event and program activities

Development Assessment

Warringah service delivery overview:

Assessment of Development Applications and provision of advice on development proposals and planning controls.

Service also includes:

- Collaboration with specialised development engineering teams for assessing stormwater, flooding, and traffic impacts
- Online tool for assessment of applications and public tracking of progress
- An independent panel for major Development Application determinations,
- Dedicated Planning Officer for providing advice to applicants prior to submitting their applications (Duty Officer)
- One of the fastest DA processing times in NSW for past three years (49 days – 2014/15)

AT RISK

- Effective assessment of the impacts of development applications on stormwater, flooding and traffic on development applications (Loss of specialisation)
- Dedicated specialised planning position for advice prior to submitting applications (Loss of economies of scope)
- Independent expert panel determining major development applications (Loss of specialisation and independence)
- Support for an electronic assessment tool that facilitates faster processing of applications and allows the community to monitor progress (specialisation)
- An increase in the average DA processing time (scale)
- Greater cost to the south council with a higher proportion of DAs (scope)

Glen Street Theatre

Warringah service delivery overview:

A regional performing arts facility that provides:

- A venue for use by professional performing art presenters, community groups, schools and corporate users
- Annual subscription season of professional performing arts
- Professional theatre shows for children of all ages (Kidsplay)
- Literary lunches
- Dining, bar and catering services to patrons and users of the theatre
- A cultural hub of entertainment with a library, restaurant/café, playground and external amenity space

AT RISK

- The ability to continue to subsidise the operation of the centre as income from rates would be lower with fewer rateable properties

Information and Libraries

Warringah service delivery overview:

Resources and community programs for information and education:

- Four branch libraries and support for three community libraries
- Mobile outreach service
- Multiple communal spaces
- Collections and resources in a range of formats
- Services for target groups
- Concierge service and professional assistance
- Local history and studies collection
- Host family history volunteer group

AT RISK

- Loss of economies of scale from a centralised administration system
- Loss of scope to provide services and programs to specific target groups
- Loss of mobile service
- Loss of scope to provide a concierge service and professional assistance in the use of library services and resources

Natural Environment Services

Warringah service delivery overview:

Specialised environmental management, planning and engineering services including:

- Sustainability programs tailored for community, schools and business
- Manage bushland biodiversity, species recovery, pest control, research in 1,200 ha.
- Manage coastal stability and ecology at 14 beaches and 4 headlands
- Manage #1 at-risk coast in Sydney and the State's first Coastal Zone Management Plan (CZMP), with ongoing monitoring and research.
- Manage the region's largest stormwater network, valued at \$506 million
- Manage urban water cycle/ water quality: 230 km of creeks, lagoons, Manly Dam
- Lagoon health monitoring and research of Sydney's four remaining coastal lagoons
- Manage the region's flood programs for all three councils with a comprehensive Floodplain Management Plan
- Entrance clearance of Narrabeen Lagoon on behalf of Warringah and Pittwater
- Reserve trust manager of Narrabeen Lagoon State Park, for Warringah & Pittwater
- Administers the Warringah-Pittwater Rural Fire Service
- Partnerships with agencies, universities and Co-operative Research Centres

AT RISK

- Increased risk of stormwater, flood and coastal risks – due to disparity of assets and risk between north and the south (scope and specialisation)
- Reduced capacity to respond to and plan for regional natural disasters (scale)
- Reduced lagoon and biodiversity scientists and programs (specialisation)
- Reduced environmental resilience and more pressure on threatened species
- Loss of existing partnerships with leading agencies and universities (scope)

Park, Reserves and Foreshores

Warringah service delivery overview:

A holistic approach to asset management planning that includes:

- Delivery of new and renewal of existing assets based on asset condition and customer response.
- Maintenance of bulk of the northern beaches' sportsfields, parks, reserves, foreshores assets
- Sport and recreational planning including active engagement with sports to optimise use of our sportsfields.
- Venue management including licensing and bookings of open spaces
- Proactive management of trees in parks and road reserves
- Grants program for local sporting groups to fund capital works

AT RISK

- Loss of specialist asset and recreational managers (scope) to optimise the condition and use of 130 playgrounds, 41 sportsgrounds, 10 regional parks and nine rock pools.
- Loss of economies of scope to respond to emergency events (such as the April east coast low) from parks maintenance crews.
- Proactive inspection of trees to effectively manage public safety
- The ability to subsidise the maintenance of Brookvale Oval to an NRL standard with fewer rateable properties and lower rates income
- Dilution of the capital assistance grants for sporting groups operating in Warringah

Roads and Traffic

Warringah service delivery overview:

A safe and well maintained road network and public places including:

- Maintenance and renewal of road pavements, associated road infrastructure, bus shelters, cycle ways and footpaths
- Delivery of streetscape improvements, footpaths, road resurfacing and traffic facilities
- Maintenance of the stormwater drainage system
- Cleaning of shopping centres, roads, beaches and reserves plus street sweeping
- Field staff and contractors provide real-time infield reporting on asset data and works progress via integrated mobile solutions

AT RISK

- Loss of specialist engineers to effectively manage the current portfolio of assets - 480km of road, 887km of kerb and gutter and 302 km of footpath
- Loss of economies of scope to respond to emergency events (such as the April east coast low) from roads maintenance crews
- Efficiencies from staff and contractors using mobile solutions to report infield on asset data and work progress (systems integration)

Strategic Planning

Warringah service delivery overview:

An integrated approach to planning for the community across multiple disciplines and includes:

- Maintenance of land use planning policies for the Warringah local government area including the assessment of Planning Proposal applications
- Development of proactive policies influencing regional land use planning including the development of the regions two Strategic Centres at Brookvale/Dee Why and Northern Beaches hospital precinct at Frenchs Forest.
- Analysis and response to State and Federal Government planning initiatives
- Specialist Transport Planning, Asset Planning, Environmental Sustainability, Economic Development and Urban Design Services advice

AT RISK

- Integrated delivery of the strategic centres at Brookvale/Dee Why and Frenchs Forest which will be split between the proposed northern and southern councils (scope)
- Reduced capacity for planning specialisations such as urban design or an integrated transport planning program (scope and specialisation)

Warringah Aquatic Centre

Warringah service delivery overview:

A multi-purpose facility providing aquatic and land-based experiences for the community, including:

- A 50m indoor Olympic pool, indoor diving pool and 25 m outdoor lap pool
- Water safety, water fitness, yoga and pilates, learn-to-swim, aqua and deep water aerobics, diving, competitive and social swimming, coaching programs and water polo
- Open 363 days per year, with water temperature that meets community expectations
- A carnival destination with electronic timing services and grandstand seating for 1,000 spectators
- Capability to host State, National and Olympic titles and trials
- Caters to schools, associations and swimmers, including 35% from outside Warringah

AT RISK

- The ability to subsidise the operation of the centre with fewer rateable properties and lower rates income

Waste Services

Warringah service delivery overview:

An efficient domestic waste collection service including:

- garbage collection weekly
- paper and bottles recycling collection on alternate weeks
- vegetation collection fortnightly
- bulky household goods collection biannually
- Waste Education to thousands of residents to reduce environmental footprints - popular community workshops, school programs, campaigns
- Standard domestic management charge 2015/16 = \$364

Commercial waste service is provided to local business and schools.

AT RISK

- Higher service costs due to a loss in economies of scale if split into North and South councils
- Significantly higher costs in the South due to the large number of home units. Under the split 41% of Warringah dwellings going to the South council would be home units compared to 21% to the North council
- Continuity of service to residents as the existing contract expires in June 2018 (subject to options to extend to 2021) and the proposed boundary of the new councils does not align with the existing runs

CORPORATE SUPPORT

Including Business Units:

- Customer Service
- Business Excellence
- Enterprise Risk and Internal Audit
- Information Management and Technology
- Buildings, Property and Spatial Information
- Marketing and Communications
- Human Resources
- Procurement
- Legal
- Finance

Customer Service

Warringah service delivery overview:

An integrated approach to customer service that includes:

- One stop shop customer service environment that includes a front of house service counter (including Duty Planner) and a call centre
- 24/7 customer service assistance
- A single telephone number for all enquiries
- A convenient online request a service facility
- Multi-skilled service team to handle all types of customer inquiries and applications

AT RISK

- Over 90% of customer enquiries resolved within initial contact
- More customer enquiries referred to service areas to resolve as a result of a loss of economies of scope and scale

Business Excellence

Warringah service delivery overview:

A dedicated function comprising Lean Six Sigma trained specialists who support all areas of the organisation. Service delivery includes:

- Driving a proactive and positive culture of continuous improvement, excellent customer service, and striving for excellence
- Facilitating business improvement and change management initiatives to deliver time, cost and quality improvements
- Facilitating the documentation of business processes to support knowledge management and reduce organisational risk
- Facilitating the organisation-wide PRINCE 2 project management framework
- Delivering an internal cultural program that engages, empowers and rewards staff in making small incremental improvements to their daily work.

AT RISK

- A reduced focus on - and loss of specialisation for - the delivery of proactive programs that support continuous improvement and knowledge management
- Loss of specialisation in driving efficiency gains and improving the customer experience, including during times of change, such as amalgamation

Enterprise Risk and Internal Audit

Warringah service delivery overview:

Systemised and proactive management of business risks through:

- The design and delivery of a comprehensive Enterprise Risk Management (ERM) framework (including policy, procedures, risk registers and templates) that has a top-down focus – integrated with other organisational processes to effectively and consistently manage risks, and inform business planning
- An Internal Audit (IA) program that is fully aligned with the ERM framework and is responsive to our key strategic risks – outsourced to the international accounting firm Ernst & Young
- The design and implementation of a bespoke Business Continuity & Incident Management (BC&IM) program – proven to be effective and integrated with the NSW combat agencies (Police, SES and Rural Fire Service)

AT RISK

- Loss of specialisation and loss of scope for effective management of risks (Enterprise Risk & Business Continuity)
- Loss of better practice assurance and improvement advice, overall integrity and effectiveness of internal audit, and full integration with the organisation's strategic risks (Internal Audit)

Information Management and Technology

Warringah service delivery overview:

A strategic and scalable approach to ICT that supports operational activities, enables delivery of services to the community and provides direct access to information and services by the community.

Services include:

- Information Management (Records): incoming and outgoing records management, GIPA applications, hardcopy files and privacy management
- Dedicated Print Room for brochures, flyers, mail outs, business papers
- Dedicated Business Analysts who facilitate systems, processes and workflow improvements; interface between business and IT development specialists; project manage the implementation of business appropriate solutions
- IT support for all staff and manage Council's IT infrastructure and telephony
- Manage software applications (including configuration upgrades and databases) and software development including integration and reporting

In detailed discussion with Snowy River, Brewarrina and a number of other councils to deliver IT services to other councils (this is on hold until after NSW Government deliberations)

AT RISK

- Over \$5M invested in the upgrade and ongoing improvement of Council's core IT systems that streamline manual processes, enhance reporting and reduce duplication of effort – *the systems are effective and a source of real business advantage*¹
- Separation of knowledge and skills that are required to support and maintain specialised systems
- Economies of specialisation such as Business Analysts and Applications and Development
- Capability to integrate systems, develop in-house business solutions, streamline processes and systems and deliver IT services to other councils
- Disaggregation of data and records to the north and south

¹ NSW local government operational and management effectiveness report – FY14, *PwC and Local Government Professionals, Australia NSW 29 April 2015*

Buildings, Property and Spatial Information

Warringah service delivery overview:

Integrated approach to management of Council land, buildings and customer needs which includes:

- Fully integrated spatial and asset systems
- Effective maintenance programming with real-time contractor engagement and response via mobile solutions infield
- Proactively identifying opportunities for building and land utilisation
- Specialist resourcing of asset management and strategy
- Engaging the commercial sector on property needs and opportunities
- Specialised assessment of building condition, function, use and required renewals
- Management of 26 community centres, nine surf lifesaving clubs, Brookvale Oval buildings, Warringah Recreation Centre and PCYC.

AT RISK

- Focus on proactive property and asset management (scope)
- Efficiencies from staff and contractors using mobile solutions to report infield on asset data and work progress (scale)
- Systems integration and efficiencies delivered across the business from having a fully integrated spatial and asset system (specialisation)
- Renewal of assets so future generations are not burdened

Marketing and Communications

Warringah service delivery overview:

Strategic delivery of integrated community engagement, marketing and communications, which includes:

- Community engagement, community engagement training, and research
- Community information services Newsletter, e-newsletter, website, intranet/knowledge management system, application management and delivery
- Community engagement via social media

AT RISK

- Loss of specialisation and a reduced focus on proactive programs that support organisational services and programs
- High levels of community satisfaction
- High quality digital services and communications to the community via new technologies and social media

Human Resources

Warringah service delivery overview:

A multidisciplinary team of in-house specialists to support a high performance culture and safe work and learning environment by delivering:

- A Work Health and Safety Management System endorsed by WorkCover – Warringah Council holds a self-insurance licence from WorkCover
- Workforce and EEO Management Plans and programs
- Training including tailored in-house e-learning programs for the workplace
- Recruitment and selection management
- HR System and purpose built performance management system

AT RISK

- Increase in workplace accidents and workers compensation payments (currently average \$250,000pa) as a result of a reduced focus on proactive best practices WHS systems, processes and training (specialisation)
- Loss of WorkCover Self Insurers Licence and additional costs for premiums plus each new council maintaining a WorkCover approved Injury Management System with dedicated staff while existing claims remain open (specialisation)
- Increased staff turnover, absenteeism and reduced focus on continuous improvement from a reduced focus on programs and training that support a high performing organisation with a positive culture (ranked 3rd Council in Australia on business (results from Insync Culture survey database 2014)
- Integrated HR systems and specialist to reduce administration and provide external benchmarking capacity for the organisation (scale)
- Specialist recruitment resource partnering with business units to support the recruitment of a high quality workforce (specialisation)
- Loss of specialist employee relations advice and support to mitigate workplace disputes

Procurement

Warringah service delivery overview:

A model that supports transparency, value for money and minimises risks associated with public sector procurement by providing:

- Procurement procedures, strategies, proactive training and advice
- Contemporary templates, manuals and guidelines to ensure consistency in procurement practices across business units
- Specialist advice and assistance in tenders and contracts
- Aggregated purchasing power and reputation to encourage competition.
- 25 Tenders awarded in 2014/15 (including \$70m Waste Contract)

AT RISK

- Disaggregation of purchasing power as a result of a reduction in economies of scale
- Reduced focus on proactive minimisation of probity risks and best practice procurement via contemporary training, advice, manuals and templates (specialisation)

Legal

Warringah service delivery overview:

An in house service with contracts a network of specialist advisors to provide:

- Transactional legal services and advice
- Proactive risk management advice
- Proactive strategic policy and operational legal advice to assist in effective service delivery by all Council business units

AT RISK

- Proactive risk management and strategic policy advice that supports sound decision making and protects Council and ratepayers (scope)

Finance

Warringah service delivery overview:

A model that provides a diverse range of finance/accounting services to the organisation:

- Transactional accounting services including Rates, Treasury & Banking, Payroll, Accounts Receivable, Grants & Other Revenue and Accounts Payable
- Business Support including strategic planning & budgeting, financial management and statutory reporting, financial modelling and business case assessment, taxation obligations, management accounting, system administration support & development, asset & capital expenditure administration and reserves administration
- Insurance and project accounting including insurance management & reporting, project accounting and process improvement

AT RISK

- Integration between the Long Term Financial Plan and asset management plans
- Specialist systems and reporting to meet the diverse needs of the business and external agencies
- Monthly reporting to the community on Council's financial performance
- Yearly surplus and sound financial management

GOOD GOVERNANCE

Including:

- Governance
- Corporate Planning
- Internal Ombudsman

Governance

Warringah service delivery overview:

Support to the elected Council and executive including:

- Administrative support for meetings of Council and committees including briefings
- Executive and administrative support to the Mayor and Councillor
- Maintenance of the Policy Register including policy development and review
- Manage the Delegations and Pecuniary Interests processes
- Administrative support for staff committees

AT RISK

- Live web cast of Council meetings.
- The provision of a dedicated executive support to the Mayoral Office (specialisation)

Corporate Planning

Warringah service delivery overview:

Development of suite of Integrated Planning and Reporting documents in consultation with the community via an online tool including:

- Community Strategic Community Plan
- Delivery program and annual operational plan
- Quarterly and annual reporting on progress on the operational plan
- Monthly reporting to the community of finances and progress of projects

Other key roles include:

- Responding to the NSW Government's local government reform agenda
- Policy development

AT RISK

- Monthly reporting of finances and project updates

Internal Ombudsman

Warringah service delivery overview:

An integrated approach to organisational integrity, ethics and accountability which includes:

- Complaints assessment and management
- Proactive training, education and awareness in organisational integrity, ethics and accountability
- Proactive guidance, mentoring and support to Councillors and management
- Proactive fraud and corruption risk management prevention
- Interagency liaison with ICAC, NSW Ombudsman, Office of Local Government, NSW Police.

AT RISK

- Independent guardian against corruption and bullying
- Support for ethics, integrity and accountability in council (specialisation)

Attachment 3

Decisions of Warringah's Strategic Reference Groups 17 February 2016 regarding the Government's merger proposals

Strategic Reference Groups:

- A Connected Environment
- Environment, Conservation and Overall Sustainability
- Open Space and Recreation
- Vibrant Connected Communities

6.1 LOCAL GOVERNMENT REFORM: MERGER PROPOSALS AFFECTING WARRINGAH COUNCIL

DECISION

That the A Connected Environment Strategic Reference Group does not support the merger proposals as presented by the Minister for Local Government and supports One Northern Beaches Council for the following reasons:

- There has been no logic for going away from the amalgamation reports *Criteria (b), (d), (e1)*
- Transport (east/west) *Criteria (a), (d), (e1)*
- Business interests *Criteria (a), (b), (d), (e1)*
- Manage centres (Dee Why, Brookvale, Frenchs Forest Hospital) *Criteria (a), (b), (c), (d)*
- Connectivity *Criteria (a), (b), (d), (e1)*
- Regional programs e.g. waste collection *Criteria (a), (b), (d), (e1)*
- Data management *Criteria (a), (d), (e1)*
- Staff *Criteria (e2), (d)*
- Catchment management (Manly Dam) *Criteria (b), (d), (e1)*
- Boundary inconsistency (services etc.) *Criteria (a), (d), (e1)*
- Road asset management *Criteria (a), (d), (e1)*
- Planning (land use, permissible use) *Criteria (a), (d), (e1)*
- Costs *Criteria (a), (d), (e1)*
 - Brookvale Oval
 - Kimbriki Environmental Enterprises
 - Dee Why development (S94 ability to fund DY)
- Scale/ Capacity 150,000 residents – lowest *Criteria (a), (d), (e1)*
- Identity (locality) still will have this *Criteria (b), (d)*
- Eventually will end up as one council anyway *Criteria (a), (b), (d), (e1)*
- Governance – representation – okay *Criteria (d), (e3)*
- School catchment – community of interest *Criteria (b), (d)*
- Democratic involvement with split of two councils *Criteria (e), (d)*

Factors from s263(3) of the Local Government Act 1993 the Delegate will consider

6.1 LOCAL GOVERNMENT REFORM: MERGER PROPOSALS AFFECTING WARRINGAH COUNCIL

DECISION

That the Environment, Conservation and Overall Sustainability Strategic Reference Group does not support the merger proposal as presented by the Minister for Local Government for the following reasons:

- a) Does not deliver geographic cohesion impacting on total catchment management biodiversity (e.g. wildlife corridors) sustainability, climate change responsiveness environmental development controls (e.g. flood) *Criteria (a), (b), (c), (d), (e1)*
- b) Does not deliver integrated environmental management across the Northern Beaches peninsula *Criteria (a), (b), (c), (d), (e1)*
- c) Does not deliver co-ordinated economic development across the Northern Beaches peninsula *Criteria (a), (d), (e1)*
- d) Divides community representation and associated advocacy for Warringah residents and Northern Beaches peninsula as a whole *Criteria (a), (b), (d)*
- e) Loss of voice for Warringah residents on regional issues such as transport and road corridors that affect all residents of the Northern Beaches peninsula *Criteria (a), (b), (d)*
- f) Inequitable distribution of financial impact to Warringah ratepayers over time *Criteria (a), (d), (e1)*
- g) Inequitable distribution of assets and resourcing leading to a net loss of efficiency of service delivery for managing Warringah assets (e.g. stormwater) *Criteria (a), (d), (e1)*
- h) Lost opportunity to make strategic land use planning decisions for a geographically cohesive region (e.g. Northern Beaches peninsula) *Criteria (a), (b), (d),*
- i) Historical values of the area do not support combining Mosman with Manly and the southern areas of Warringah *Criteria (c), (d)*

Factors from s263(3) of the Local Government Act 1993 the Delegate will consider

**6.1 LOCAL GOVERNMENT REFORM: MERGER PROPOSALS AFFECTING WARRINGAH
COUNCIL****DECISION**

The Open Space and Recreation Strategic Reference Group does not support the merger proposals as presented by the Minister for Local Government for the following reasons:

- a) Any division of the peninsula is a poor outcome and divides the Northern Beaches
Criteria (a), (b), (c), (d), (e1)
- b) There is a "common community" of interest across the Northern Beaches which is not reflected in the boundaries in the merger proposal
Criteria (b), (d)
- c) Sport is played regionally across the Northern Beaches and any merger proposal needs to be based on achieving a regional approach for sporting users in term of the ground allocation, maintenance standards, fees and licence and hire agreements
Criteria (a), (b), (d), (e1)
- d) The Northern Beaches is naturally bound by National Parks in the west and on three sides by water bodies which reflect the recreational, environmental and ecological values of the area. The Merger Proposal does not follow any natural boundaries and will not improve management of the natural environment
Criteria (a), (b), (c), (d), (e1)

Factors from s263(3) of the Local Government Act 1993 the Delegate will consider

**6.1 LOCAL GOVERNMENT REFORM: MERGER PROPOSALS AFFECTING WARRINGAH
COUNCIL****DECISION**

The Vibrant Connected Communities Strategic Reference Group do not support the merger proposals as presented by the Minister for Local Government for the following reasons:

- Division of assets *Criteria (a), (b), (e1)*
- Duplication of services *Criteria (a), (b), (e1)*
- The splitting of cultural communities *Criteria (b), (c)*
- Regional assets and the hierarchy that sit under those assets and the complexities of funding eg Glen Street Theatre, WAC, Manly Swim Centre *Criteria (a), (e1)*
- Staff will no longer be motivated and there will be a loss of quality staff and corporate knowledge *Criteria (a), (e2)*
- Dis-economies of scale *Criteria (a), (e1)*
- The disconnection of council's current youth, ageing, multicultural strategies in the community and particularly the impact of the split on multicultural communities within Warringah who rely very heavily on Council for information. Council is often the first port of call for new citizens in this area. *Criteria (b), (c), (e1)*

Factors from s263(3) of the Local Government Act 1993 the Delegate will consider

Note that a quorum was not achieved for this committee meeting.