

**Financial Analysis:**

**Manly Council**

**Pittwater Council**





**Warringah Council**

MARCH 2016

# COUNCIL PROFILE

An overview of the current performance of the three existing councils and the projected performance of the new proposed entity is provided in Figure 1 below.

Figure 1: Council profiles

	Manly Council	Pittwater Council	Warringah Council	New Council
				
<b>Population</b> (2014)	44,786	63,338	155,289	263,413
<b>Area</b>	14 sq km	90 sq km	149 sq km	254 sq km
<b>Operating Revenue</b> (2013–14)	\$64.3m	\$77.1m	\$156.4m	\$373.6m (projected 2019–20)
<b>Operating Result</b> (2013–14)	\$4.6m	\$4.7m	\$11.3m	+\$14.3m projected improvement to 2019–20 operating results
<b>Asset Base</b>	\$353.6m	\$374.0m	\$813.0m	\$1.5bn
<b>Infrastructure Backlog</b>	0 per cent	5 per cent	2 per cent	2 per cent

Sources: Australian Bureau of Statistics, Department of Planning and Environment, Office of Local Government, Council Long Term Financial Plans.

Note: Totals may not sum due to rounding. Estimates of the new council's operating performance and financial position is based on an aggregation of each existing council's projected position as stated in respective Long Term Financial Plans (2013–14). In addition, it is assumed efficiency savings are generated from a merger, and this is reflected in the projected 2019–20 operating result for the new council.

# KEY ANALYSIS

## Financial Benefits of the Proposed Merger

Analysis by KPMG in 2016 shows the proposed merger has the potential to generate a net financial saving of \$111 million to the new council over 20 years. Gross savings over 20 years will primarily be due to:

- streamlining senior management roles (\$27 million);
- removal of duplicate back office and administrative functions (\$75 million);
- efficiencies generated through increased purchasing power of materials and contracts (\$19 million); and
- a reduction in the overall number of elected officials that will in turn reduce expenditure on councillor fees (\$4 million).

In addition, the NSW Government has announced a funding package to support merging councils. Should a council initiated or subsequent government merger proposal proceed instead of an original Government proposed merger, consideration will be given to funding the merger in the same way. A potential funding package of \$25 million has been used as the basis for financial analysis of this proposed merger. The implementation costs associated with the proposed merger (for example, information and communication technology, office relocation, workforce training, signage, and legal costs) are expected to be surpassed by the accumulated net savings generated by the merger within a three-year payback period.

Overall, the proposed merger is expected to enhance the financial sustainability of the new council through:

- net financial savings of \$111 million to the new council over 20 years;
- achieving efficiencies across council operations through, for example, the redeployment of duplicated back office roles and administrative functions, and streamlining senior management;
- establishing a larger entity with revenue that is expected to reach \$425 million per year by 2025;
- an asset base of approximately \$1.5 billion to be managed by the merged council; and
- greater capacity to effectively manage and reduce the \$35 million infrastructure backlog across the area by maintaining and upgrading community assets.

## Impact on Rates

Each of the three councils has previously indicated it may seek, or has recently received approval for, a Special Rate Variation (SRV) from the Independent Pricing and Regulatory Tribunal:

- Manly Council previously indicated it may seek an SRV of 2.2 per cent over a one-year period in 2017–18;
- Pittwater Council received approval for a cumulative SRV of 12.1 per cent over a three-year period from 2011-12; and
- Warringah Council has an approved cumulative SRV of 7.9 per cent over a four-year period from 2014-15.

The savings generated by a merger may enable the new council to reduce its reliance on rate increases to fund community infrastructure.

## Local Representation

The ratio of residents to elected councillors in each of the three existing councils is different. This reflects the variation in resident populations. While the proposed merger will change the ratio of residents to elected councillors, the ratio, based on councillor numbers in the existing councils, is likely to be broadly similar to those currently experienced in other Sydney councils, including the more populous Blacktown City Council (Table 1). For the purpose of analysis of merger benefits, it is assumed that the new council will have the same number of councillors as Warringah Council, as this has the largest number of councillors of the councils covered by this proposed merger.

Some councils in NSW have wards where each ward electorate elects an equal number of councillors to make up the whole council. Community views on the desirability of wards for an expanded council will be sought through the consultation process.

Table 1: Changes to local representation in Manly, Pittwater and Warringah

Council	Number of councillors	Number of residents (2014)	Residents per councillor
<b>Manly Council</b>	9	44,786	4,976
<b>Pittwater Council</b>	9	63,338	7,038
<b>Warringah Council</b>	10	155,289	15,529
<b>Merged council</b>	10*	263,413	26,341
<b>Blacktown City Council</b>	15	325,139	21,676

\*Manly, Pittwater and Warringah communities will have an opportunity to shape how a new merged council will be structured, including the appropriate number of elected councillors. Fifteen elected councillors is the maximum number currently permitted under the NSW Local Government Act (1993). Source: Australian Bureau of Statistics, Estimated Resident Population 2013; and NSW Office of Local Government, Council Annual Data Returns (2013-14).

## Local Economy

The local economy is characterised by:

- levels of household income above the Sydney metropolitan average of \$89,210, with the average household income in Manly at \$117,784, while in Pittwater it is \$104,887 and in Warringah it is \$101,173;
- levels of unemployment below the Sydney metropolitan average rate of 5.4 per cent per annum, with Manly at 2.0 per cent, Pittwater at 2.4 per cent and Warringah at 3.0 per cent;
- slightly lower employment growth rates compared to the Sydney metropolitan average of 1.6 per cent, with Manly at 1.2 per cent, Pittwater at 1.4 per cent and Warringah at 1.3 per cent;
- levels of post-school qualifications above the Sydney metropolitan average of 59 per cent, with Manly at 73 per cent, Pittwater at 66 per cent and Warringah at 65 per cent; and
- a similar industry sector across the council areas with professional, scientific and technical services the main industry across the area.

Table 2 below provides a snapshot of the local business profile of each council. More than 30,100 local businesses across the area contribute more than 121,600 jobs to the local economy.

Table 2: Local business and employment profile

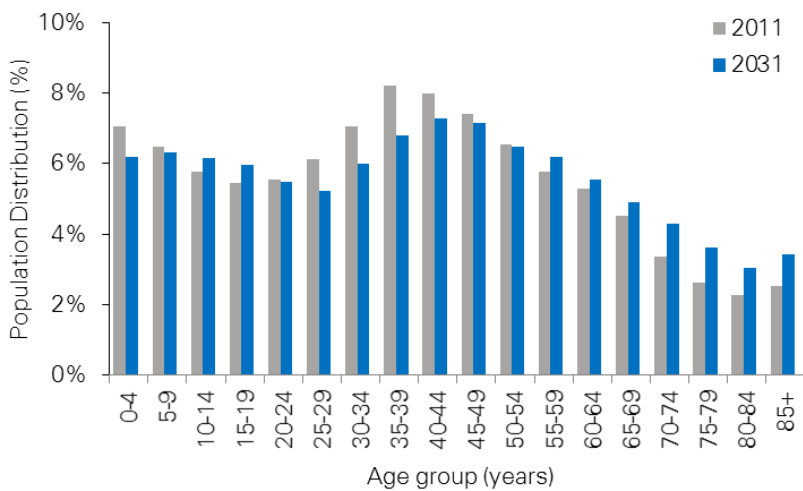
Council	Number of businesses	Local jobs	Largest sector
<b>Manly Council</b>	5,242	20,663	Professional, Scientific and Technical Services
<b>Pittwater Council</b>	8,628	28,687	Professional, Scientific and Technical Services
<b>Warringah Council</b>	16,313	72,284	Professional, Scientific and Technical Services
<b>Merged council</b>	30,183	121,634	Professional, Scientific and Technical Services

Source: Australian Bureau of Statistics (2014), Business Counts and Employment by Industry.

## Population and Housing

The new council will be responsible for infrastructure and service delivery to 310,800 residents by 2031. Like a number of areas across metropolitan Sydney, the Manly, Pittwater and Warringah area is experiencing modest population growth of 1.0 per cent per annum and will also experience the impacts of an ageing population over the next 20 years (Figure 2).

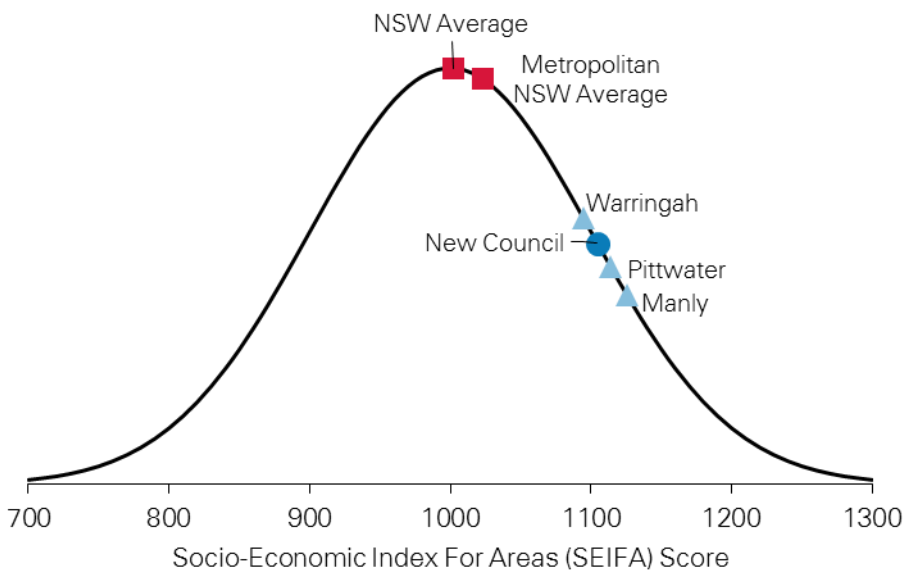
Figure 2: Change in population distribution, by age cohort (2011 v 2031)



Source: NSW Department of Planning & Environment (2014), NSW Projections (Population, Household and Dwellings).

In comparison with the rest of Sydney, the Manly, Pittwater and Warringah communities are relatively advantaged from a socio-economic standpoint. The Socio-Economic Index for Areas (SEIFA), illustrated in Figure 3, measures a range of factors to rate an individual council’s relative socio-economic advantage. Each of the councils in the Manly, Pittwater and Warringah area have similar socio-economic profiles with SEIFA scores that are above the State and metropolitan averages. This reflects the common characteristics across the Manly, Pittwater and Warringah community in relation to, for example, household income, education, employment and occupation.

Figure 3: Comparison of councils' socio-economic profile



Source: Australian Bureau of Statistics (2011), SEIFA by local government area.

Table 3 outlines the current mix of housing types across the area. The types of dwellings across Manly, Pittwater and Warringah vary and while separate houses is the main form of dwelling both medium density and high density dwellings are also common, particularly in Manly and Warringah.

Table 3: Dwelling types in the Manly, Pittwater and Warringah region (total number and per cent)

Dwelling type	Manly Council		Pittwater Council		Warringah Council	
<b>Separate house</b>	6,766	37%	17,017	73%	32,831	59%
<b>Medium density</b>	4,591	25%	4,344	19%	8,408	15%
<b>High density</b>	6,803	37%	1,809	8%	14,520	26%
<b>Other</b>	127	1%	247	1%	198	<1%
<b>Total private dwellings</b>	<b>18,287</b>		<b>23,417</b>		<b>55,957</b>	

Source: Australian Bureau of Statistics, Census (2011), Dwelling Structure by local government area.