FIT FOR THE FUTURE SUBMISSION · TEMPLATE 1

Appendix 6.3

SYDNEY OLYMPIC PARK CITY COUNCIL MERGER BUSINESS CASE – JUNE 2015

SUBMITTED ON 30 JUNE 2015 BY
AUBURN CITY COUNCIL, BURWOOD COUNCIL AND CITY OF CANADA BAY COUNCIL

MorrisonLow

AUBURN CITY COUNCIL
MANY CULTURES ONE COMMUNITY

City of Canada Bay

Burwood Council
heritage ▪ progress ▪ pride

Auburn, Burwood and The City of Canada Bay Councils

Sydney Olympic Park City Council Merger Business Case

FINAL REPORT

June 2015

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Document Status

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1. EXECUTIVE SUMMARY

The Independent Review Panel recommended a merger of Burwood and City of Canada Bay with Ashfield, Leichhardt, Marrickville and Strathfield councils as part of the six councils in the Inner West group. The Panel also recommended for Auburn City Council to merge with Parramatta Council.

This report analyses the alternative merger proposed by Auburn City Council, Burwood Council and City of Canada Bay Council (Sydney Olympic Park City Council). When compared to the Independent Panel's proposal for Burwood and Canada Bay (merger of the inner west) and Auburn (merger with Holroyd, Parramatta and parts of both the Hills and Ryde[1]) the Sydney Olympic Park City Council performs better against the Fit for the Future benchmarks.

The Sydney Olympic Park City Council meets all seven of the Government's seven benchmarks by 2020 whereas the inner west council met four and the Auburn merger three benchmarks by 2020.

The key priorities for the councils, if this proposed merger proceeds, and recognising the risks inherent with any such change to local government are:

1. Managing the transition from the existing councils into a new merged council
2. Continuing to fund the infrastructure needs of the combined council
3. Addressing the needs of different communities of interest within a merged council area.

Auburn, Burwood and Canada Bay also recognised that there is a risk in submitting a proposal that would see the retention of the existing stand-alone councils, as the NSW Government could deem that the three individual councils do not meet their scale and capacity test. Should the Government's position on forced amalgamations change, it is possible that an amalgamation based on the groupings identified by the Independent Review Panel could be revisited. That option has already generated much opposition and, we have been advised, was considered ineffective by the respective communities and councils.

1 Merger V Stand Alone Business Case, Morrison Low June 2015 prepared for Holroyd City Council considered at Holroyd City Council meeting on 23 June 2015 accessible at http://125.255.86.103/ebp/Open/2015/06/CCL_23062015_ATT.PDF

2. INTRODUCTION

2.1 Fit for the Future

In 2011 local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However, there were various views as to how this could be achieved and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future program aims to bring these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Auburn, Burwood and the City of Canada Bay have commissioned Morrison Low to undertake a high level merger business case analysis of a proposed merger of the three councils.

IPART has recently been appointed by the Minister for Local Government as the Expert Advisory Panel to review all local council Fit for the Future proposals. South Australian local government expert John Comrie was appointed to support IPART in the process. IPART has now published a draft methodology for the assessment of proposals[2]. Their approach and further explanation of the intended process and assessment methodology has been taken into consideration in this report.

2.2 Shared modelling scenario

The shared modelling project was undertaken on the basis of the information publicly available and augmented by information provided by the three councils who collectively commissioned Morrison Low to consider the potential merger.

2.3 Reporting

In the time available this report has been prepared to provide the key information required for each council to use in determining what is in the best interests of the council and community. As such it does not seek to recommend any one option over another for a particular council.

The report compares options and highlights advantages and disadvantages. The relative weighting that each council then applies will be a matter for the council.

2 Methodology for Assessment of Council Fit for the Future Proposals, Consultation Paper, April 2015

2.4 Providing information for councils to make their decisions

The modelling is intended to allow the councils to understand what the benefits and dis-benefits of the potential merger options are. It has involved analysing historic, current and forecast performance as well as drawing in information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The project is not intended to advise each council of the best option for them (although it may naturally fall out of the modelling). The project provides the information that will enable each council to determine its individual course of action, undertake informed consultation with its community, and ultimately form the basis of Council's submission.

2.5 Tight timeframes

The timeframes for this project have been challenging with a timeframe of less than one week for the work to be undertaken, as the councils must meet deadlines imposed by the Fit for the Future reforms. We appreciate that the work has been required to meet the requirement for public exhibition of a voluntary merger decision, allow time for each council to work through issues with the community, and for submissions to be finalised by 30 June 2015.

Notwithstanding that we fully understand the need for those tight timeframes, that understanding is tempered with a recognition that the data available for modelling has some limitations as a result. The standardisation of the data across the three councils involved in the potential merger options has been conducted on a best efforts basis under those particular timing constraints.
The data provided within the model is drawn from a variety of sources (including the councils directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail. For consistency across the councils, publicly available information has formed the basis of the analysis. This has been refined and modified through discussions and correspondence with the three councils, however due to time constraints the financial data sourced from each council has had to be taken at face value and has not been interrogated.

We have had excellent support from the staff of each council, providing quick responses to our requests for information and inputs that have been used in this business case. We thank the staff of the councils for their input and cooperation.

2.6 Analysis of the individual councils

Fit for the Future has driven councils across New South Wales to meet the seven financial and asset related benchmarks. Considerable work has been undertaken by these three councils (and most other councils) in an effort to improve performance against the benchmarks. This analysis has not had the time to review all the actions taken by the three councils in this regard and their projected performance has been accepted at face value. By implication each of the three councils has therefore accepted the actions of the other two councils. Further and more detailed investigations and comparisons of approaches e.g. depreciation, asset lives, key assumptions in the LTFP would need to be a key part of any next steps towards a merger.

Each council has, in recent times, undertaken a process to review its operations, accounting practices, asset management and reporting of expenditure. Like most councils the focus has been on meeting or improving performance against the Fit for the Future benchmarks. Thus financial projections for each council have recently changed.

3. STATUS QUO

3.1 Scale andcapacity

The government has made it clear that the starting point for every council is scale and capacity. This has been further reinforced with the release of the Fit for the Future Assessment Methodology by IPART.

An assessment of whether each council has scale and capacity has not been undertaken. However, each council was nominated by the independent panel for a merger: Burwood and City of Canada Bay with four other councils in an inner west merger and Auburn with two other councils and parts of the two further councils in a merger concentrated around Parramatta. The implication for each council is therefore that scale and capacity is met through a merger.

A comparison of the existing councils and the merged council is set outbelow.

Table 1 Council comparator data

	Auburn City Council	Burwood Council	City of Canada Bay Council	Merged Council
Full time equivalent staff	278	170	296	744
Geographic area	32.5 km^2	7.1 km^2	19.9 km^2	59.5 km^2
Population[3]	86,140	36,390	86,170	203,559
Population projection 2031[4]	130,600	47,500	111,350	289,450
Annual expenditure ($ million)	$60.1	$40.4	$72.6	$173.1
Number of councillors	10	7	9	15

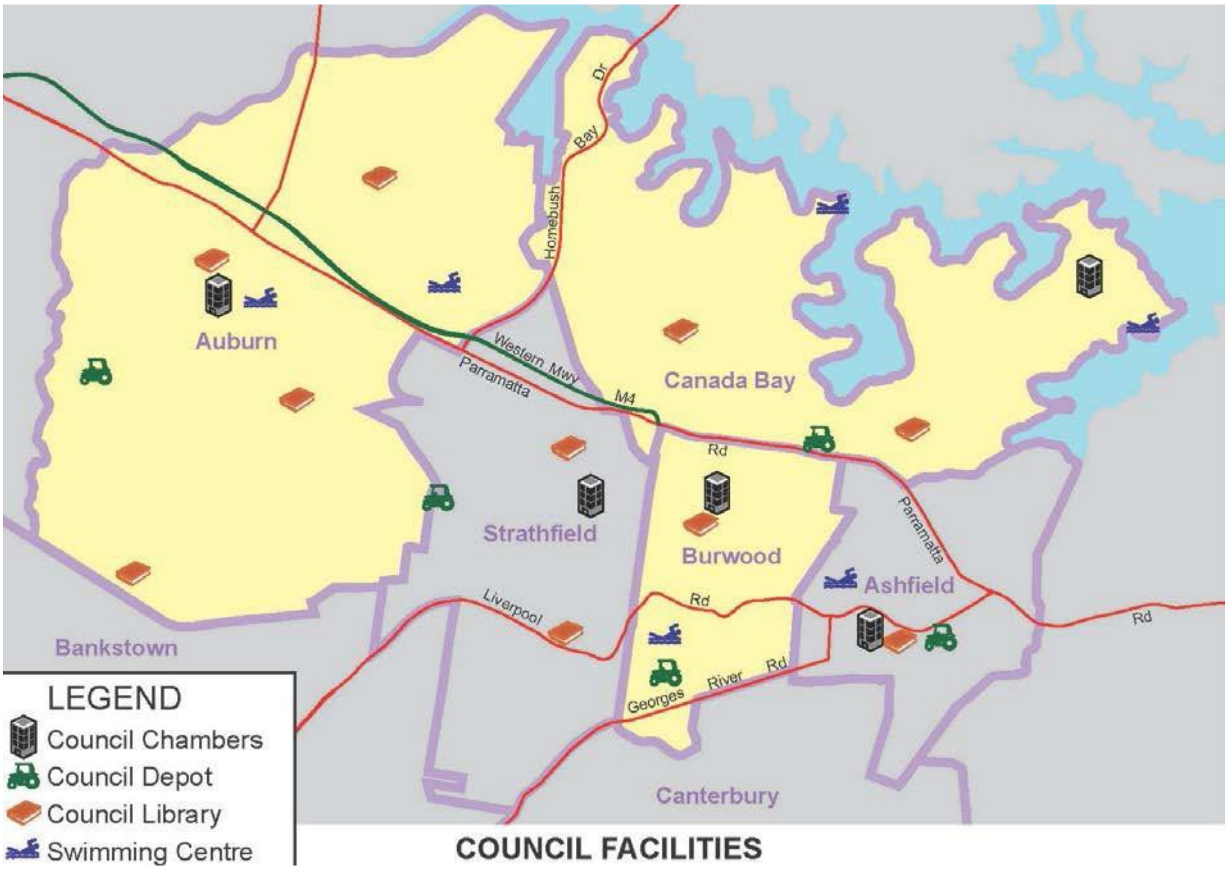
3 Actual 2014

4 NSW Department of Planning and Environment, New South Wales State and Local Government Area Population Projections: 2014 Final

4. MERGER

The proposed merger would bring together three councils of the inner west in Sydney with a combined population of around 203,000 in an area of 59.5km^2. The map below highlights the council areas and indicates key services and facilities across the existing council areas.

Figure 1 Proposed council area



4.1 Scale and capacity

How the merged council will satisfy key criteria for strategic capacity is difficult to predict as the organisation does not currently exist.

The size of the merged council appears to be in keeping with the size of other councils proposed for merger by the Independent Review Panel (reaching a population well over 250,000 by 2031).

In regards to strategic capacity the table below sets out a series of actions, strategies and ways in which we believe individual councils and/or groups of councils can exhibit strategic capacity. Each of the three councils, has then considered the aspects that each individual council would contribute to a merged entity in other work to prepare their joint Fit for the Future submission.

Table 2 What is capacity?

Criteria	Ways in which councils demonstrate or exhibit these qualities
More robust revenue base and increased discretionary spending	Special Rate Variations, investment income, high levels of population growth
Scope to undertake new functions and major projects	Expenditure on capital works, track record of delivering significant (community or regional) projects, community satisfaction
Ability to employ wider range of skilled staff	Wide range of services delivered, reduction in real operating cost per capita
Knowledge, creativity and innovation	Delivery of projects, actions and initiatives, organisational culture, use of alternative business models
Advanced skills in strategic planning and policy development	Planning for regional outcomes, outcome focussed IP&R which is measured
Effective regional collaboration	Contribution and involvement in regional procurement, service delivery to other councils, provision of regional services
Credibility for more effective advocacy	Demonstrated results
Capable partner for state and federal agencies	Delivery of regionally significant projects, meeting state growth targets
Resources to cope with complex and unexpected change	Positive operating performance result, track record
High quality political and managerial leadership	Taking on hard decisions, Mayors seen as community leaders. Qualifications, experience and knowledge of Mayor, councillors and senior staff

4.2 Fit for the Future benchmarks

The merger options are the sum of the parts. This means that the asset and financial positon of each council directly contributes to the overall asset and financial position of the merged council. The initial modelling of the merger combines the projected expenditure of each council on assets (new capital, renewals and maintenance) as the basis for the merged councils projected expenditure on assets.

While there are significant transitional costs identified in this report which mean the operating performance ratio of the proposed merger is initially negative, the financial sustainability of each of the councils and the efficiency benefits modelled in arising through the merger improves the financial performance of the merged council.

The table below summarises the merged council performance against the benchmarks with actual performance year on year set out in the figures below. IPART has set 2020 as the year by which some benchmarks for individual councils 'must be met' and others 'must show improvement' and the merged council is shown to meet all benchmarks by this date. The benchmarks which must be met by 2020 are the first three measures shown in the table which are italicised.

Asset Maintenance Ratio

The calculation of the maintenance ratio is based on the number each council reports as 'required maintenance'. There are no clear guidelines as to how required maintenance is to be calculated and as such the approach varies significantly across NSW.

Each council's assessment of required maintenance is assumed to represent the actual amount required to maintain their assets in an appropriate condition and the merged council uses the combination of each councils' assessment of required maintenance.

Infrastructure Backlog Ratio

The assessment of the cost to satisfactory for the merged council has been undertaken by Morrison Low. The approach used adopts condition 3 as satisfactory and looks at the value of asset (Current Replacement Cost) in condition 4 and 5, and what could be done to ensure these assets are brought up to condition 3 (satisfactory). It should be noted the cost to satisfactory is an indicator of asset condition, and as such the reality of asset renewals is that those assets in condition 4 and 5 when renewed would be brought up to condition 1 or 2.

Table 3 Merged council options performance against Fit for the Future benchmarks

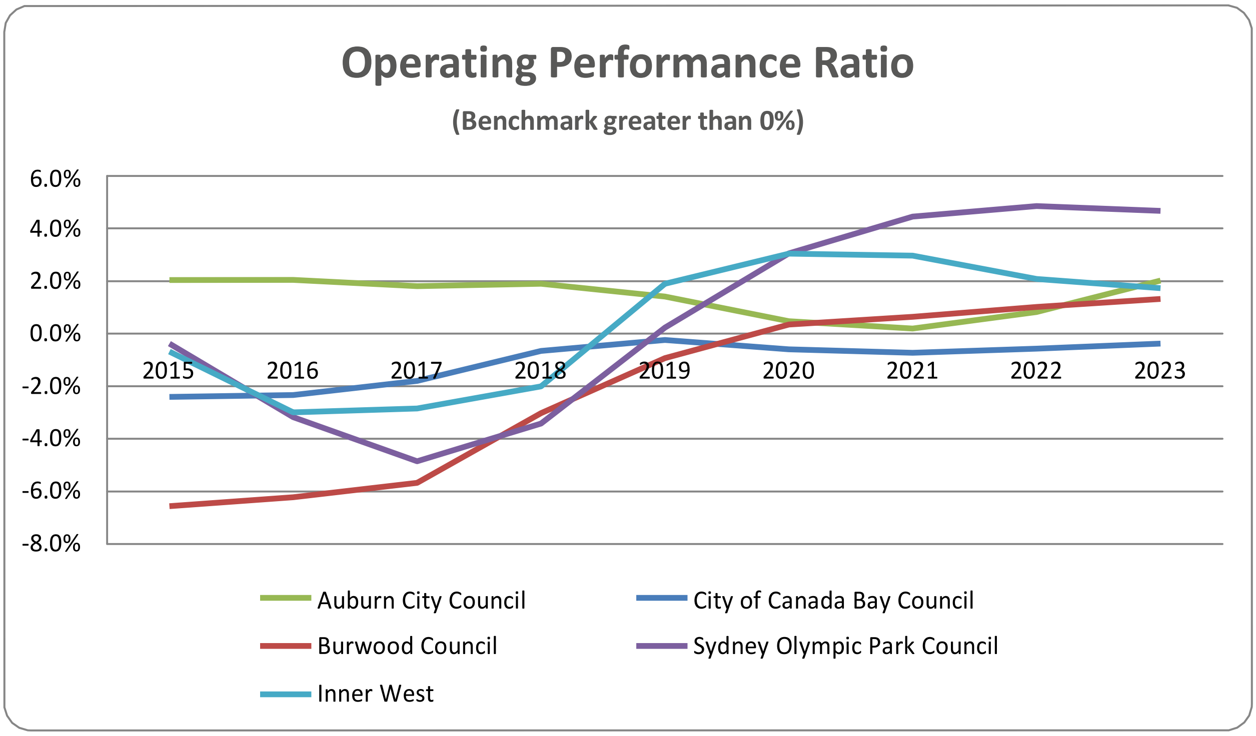
Indicator	2020
Operating Performance	*Meets the benchmark*
Own Source Revenue	*Meets the benchmark*
Debt Service Cover	*Meets the benchmark*
Asset Maintenance	Meets the benchmark
Asset Renewal	Meets the benchmark
Infrastructure Backlog	Meets the benchmark
Real Operating Expenditure	Meets the benchmark

The merged council meets three of the indicators during the whole of the modelled period: Own Source Revenue, Debt Service Cover and Real Operating Expenditure. Of the measures not met throughout the entire period:

- The Operating Performance ratio declines to a low of -4.9% in 2017 before climbing steadily to meet the benchmark requirement of being greater than break-even, from 2019. This reflects the impact of the transitional costs and in later years the impact of efficiencies generated from the merger.
- The Asset Maintenance ratio increases to meet the benchmark from 2016
- The Asset Renewals ratio rises immediately and remains above the benchmark from 2016 onwards.
- The Infrastructure Backlog ratio meets the requirements from 2016, remaining below the required 2% benchmark for the remainder of the period.

Also included in the tables for comparative purposes is the performance of the merger proposed by the Independent Review Panel for Burwood and Canada Bay (Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville and Strathfield[5]).

Figure 2 Operating performance ratio



[5] Based on "Fit for the Future – Shared Modelling", February 2015 prepared by Morrison Low for Burwood Council and City of Canada Bay.

Figure 3 Own source revenue

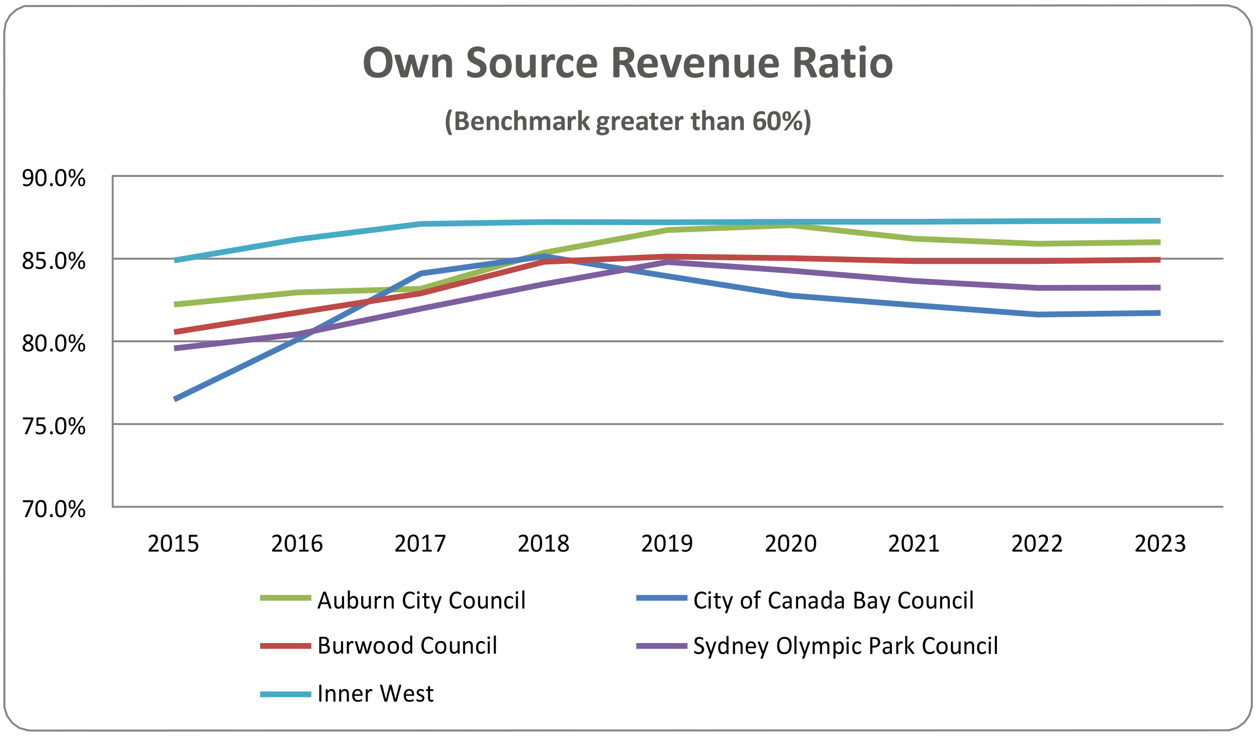


Figure 4 Debt service ratio

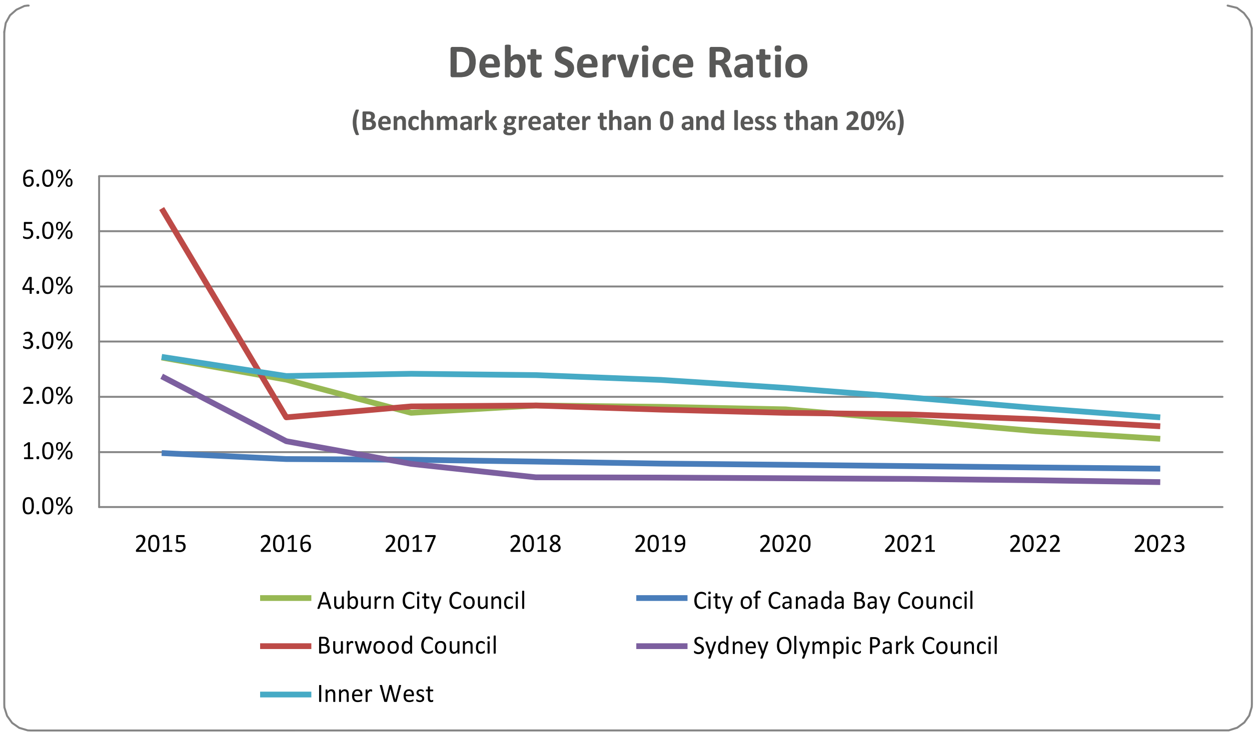


Figure 5 Asset renewal ratio

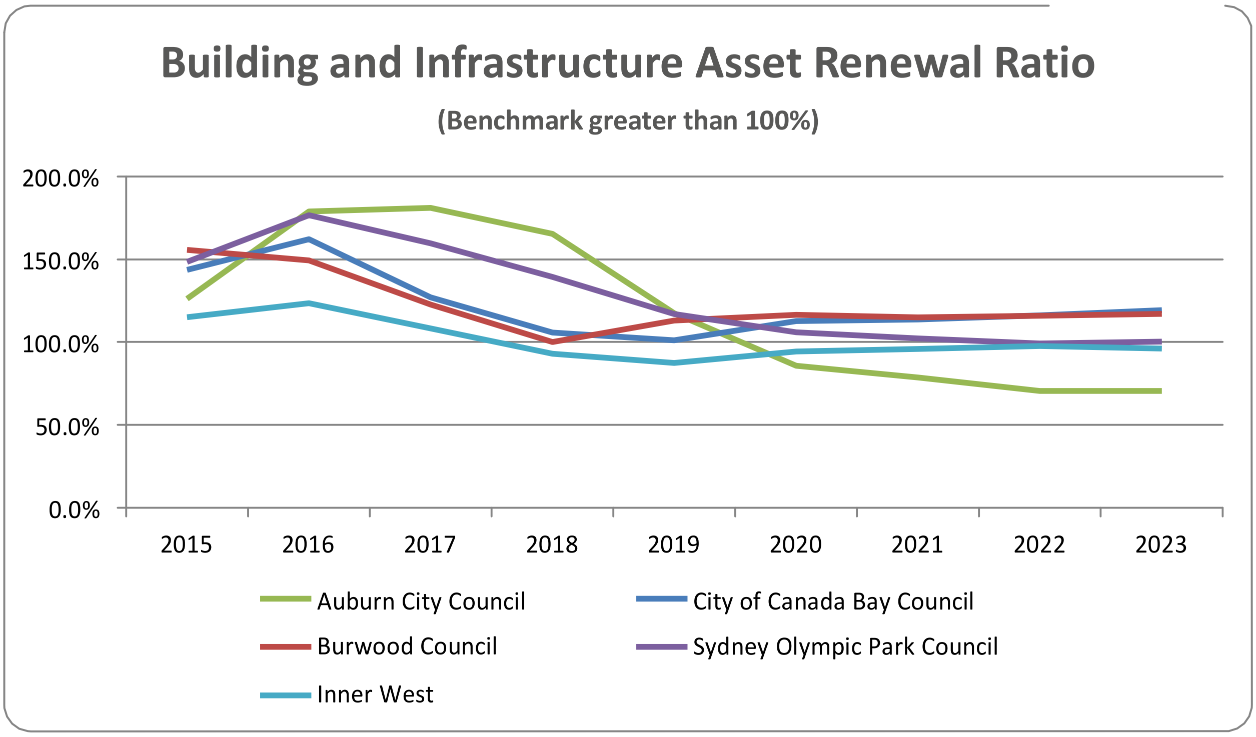


Figure 6 Infrastructure backlog ratio

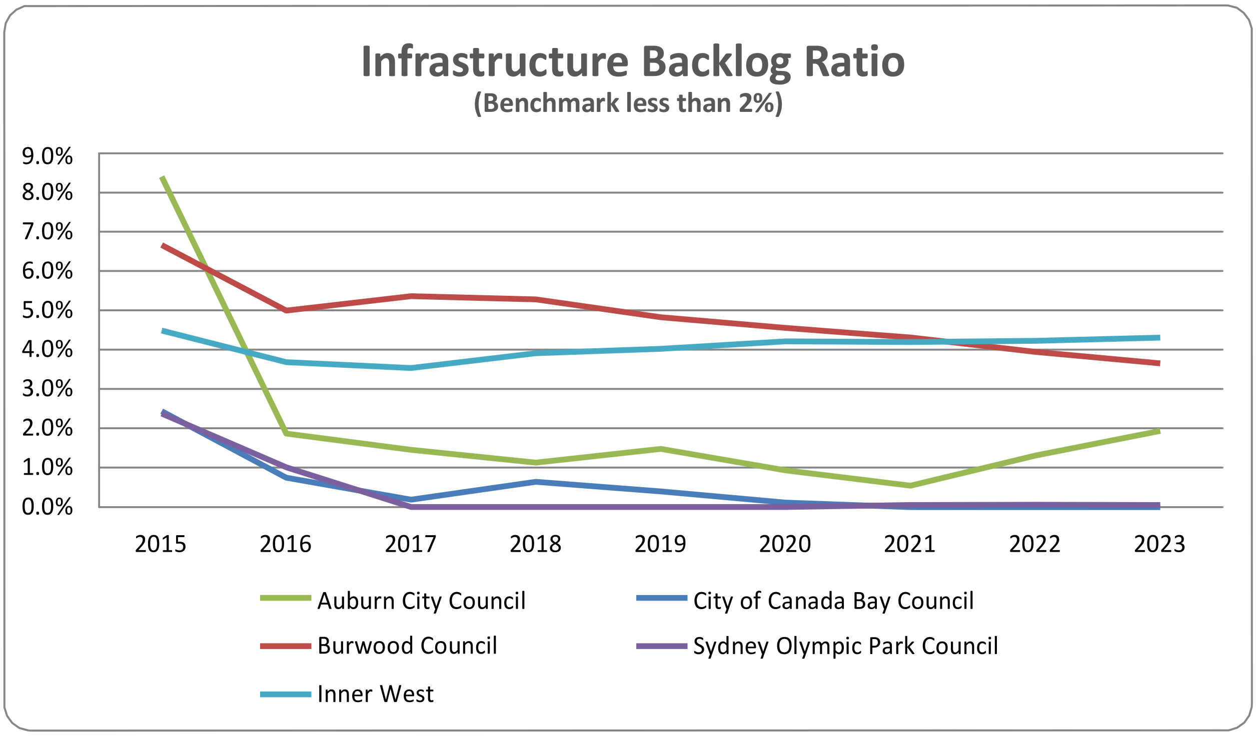


Figure 7 Asset maintenance ratio[6]

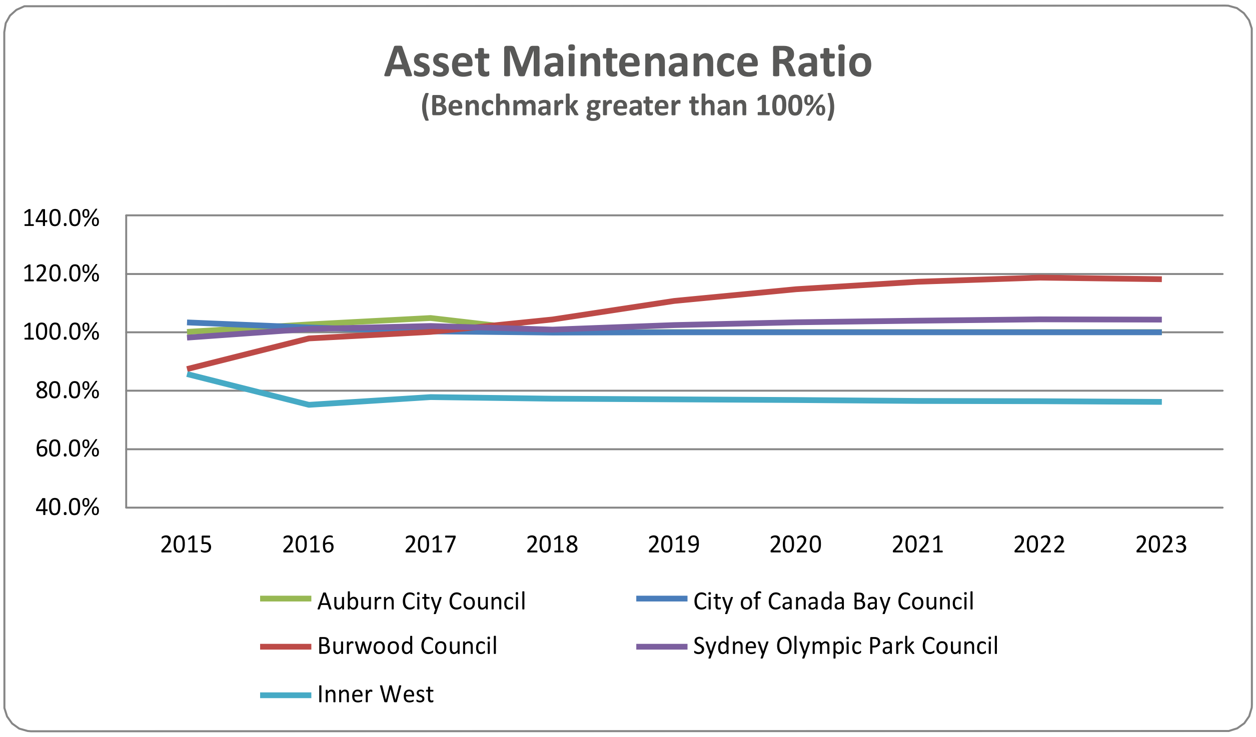
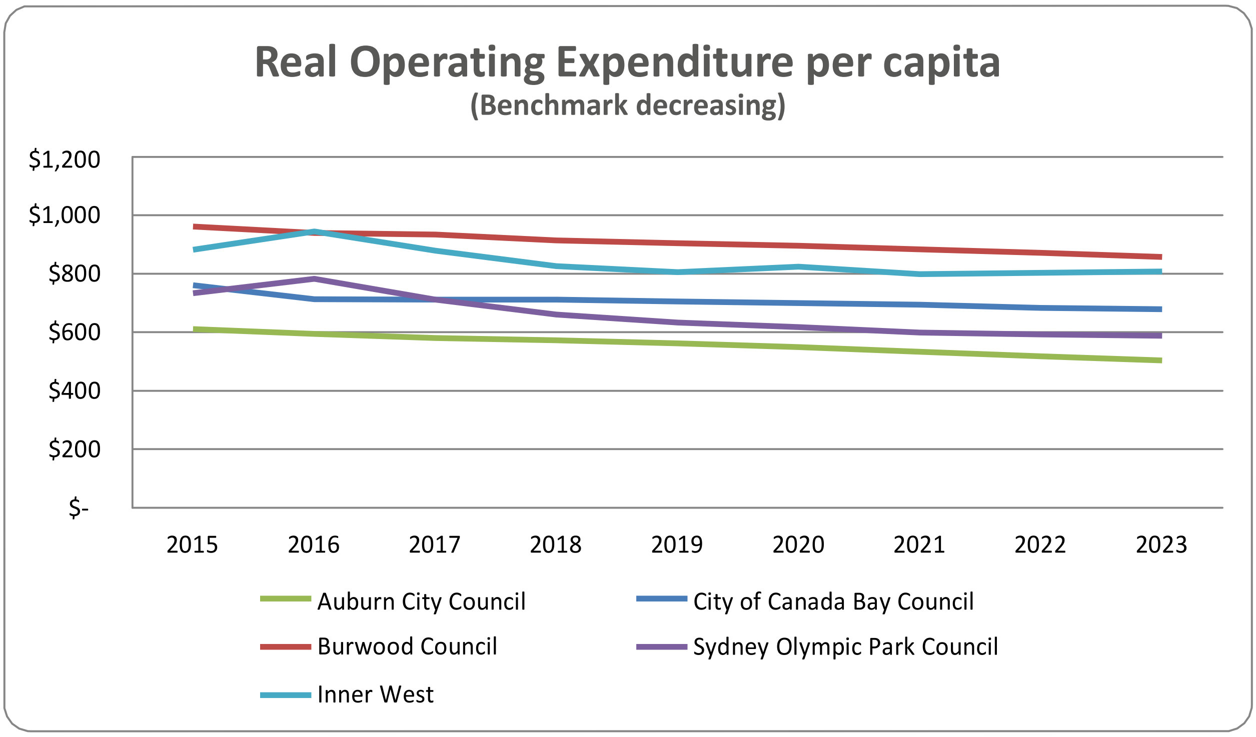


Figure 8 Real operating expenditure per capita



6 Auburn meets the benchmark throughout but is hidden by the benchmark line from 2018 onwards

4.3 Debt

The councils carry different levels of debt and while all councils meet the debt service ratio often taking on the debt of other communities can be a significant issue to manage in a transition to a merged council. The table below highlights the differences in debt levels across the councils.

Table 4 Comparison of debt[7]

Council	Debt ($000	Debt Service Ratio	Debt per Capita ($)
Auburn	$15,090	3.6%	$175.18
Burwood	$5,121	1.2%	$39.12
City of Canada Bay	$4,869	.9%	$56.50
Merged Council	$23,080	1.8%	$112.99

4.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy as there are a number of significant differences in the rating systems of the three councils which impact on the rates charged to an individual property. In the time available it has not been possible to analyse the changes in rates that may arise.

Any of the merger options would need to align the rates over time across the communities that would now be contained with a single council area.

4.5 Representation

One of the biggest negative impacts from a merger of the councils is on representation. The number of people represented by each councillor will increase significantly under a merger making it more difficult for residents to access their councillors and the council.

Based on the current maximum of 15 councillors, which provides an indicator of the best possible representation, representation would rise to 13,913 residents per Councillor.

Table 5 Comparison of representation

Council	Councillors	Representation (population / Councillor)
Auburn	10	8614
Burwood	7	5199
City of Canada Bay	9	9574
Merged Council	15	13,913

[7] Based on 2014 Actual

While measures can be put in place to address a loss of representation through local or community boards, at present the government has not set out in detail any proposal that the community could consider. In particular it would be necessary to address the apparent differences in the communities of interest across the three councils identified in the section below.

4.6 Community profile and communities of interest

A desktop review of the communities of Auburn, Burwood and City of Canada Bay has been undertaken. The key sources of information were a series of charts and statistics provided by the councils (Appendix C), ABS Census Data, population, household and dwelling projections prepared by NSW Department of Planning and Environment[8], and the New South Wales Local Government Areas: Similarities and Differences report (NIER, March 2013)[9].

Population Growth

- The current, combined population of Auburn, Burwood and City of Canada Bay is around 203,559 and by 2031 the combined population is expected to be around 286,333. This represents projected growth of around 41%
- Auburn, Burwood, and City of Canada Bay are all high population growth areas, with projected growth higher than the State average. Auburn is the second fastest growing Council in Metropolitan Sydney and New South Wales. Between 2011 and 2031 the population of:
  - Auburn is expected to grow by 68%; or around 2.6% each year
  - Burwood and City of Canada Bay are expected to grow by 39%; or around 1.6% each year
- Population growth in Auburn and City of Canada Bay are expected to result from balance of overseas arrivals and new births, while growth in Burwood is expected to largely be a result of overseas arrivals.

Age

- Auburn and Burwood have, overall, a slightly younger population than City of Canada Bay and than New South Wales as a whole. The median age of residents in:
  - Auburn is 31 years
  - Burwood is 35 years
  - City of Canada Bay is 37 years
  - New South Wales is 38 years

Country of Birth

- Auburn and Burwood are ethnically diverse with less than half of all residents born in Australia (35.9% and 41.7% respectively) whereas around 58% of all residents in City of Canada Bay are Australian born

Education

- According to NIER (March 2013), Burwood and City of Canada Bay are part of a cluster of councils which have a high proportion of overseas born residents with high educational attendance, high year 12 achievement and a high ratio or professional to trade qualifications. Auburn is part of a cluster of councils with a high proportion of overseas born residents with poor English and moderate year 12 achievement

[8] http://www.planning.nsw.gov.au/en-au/deliveringhomes/populationandhouseholdprojections/data.aspx

[9] http://www.localgovernmentreview.nsw.gov.au/documents/lgr/NSW%20Local%20Government%20Areas_%20Similarities%20and%20Differences%20-%20March%202013.pdf

Unemployment and Social Security uptake

- According to NIER (March 2013), Burwood and City of Canada Bay are characterised by low unemployment levels, low social security uptake, while Auburn is characterised by moderate unemployment levels and moderate social security uptake.

Income

- Auburn has the lowest median weekly household income ($1,160) of the three areas, followed by Burwood ($1,310); City of Canada Bay has the highest median weekly income ($1,817)
- According to NIER (March 2013) Burwood and City of Canada Bay belong to a cluster of councils with middle incomes, with a high salary and wage component, while Auburn is characterised by low to middle incomes, with around 60% of disposable income from wages and salary

Occupation

- In all three council areas, the most common occupational group is professionals. For both Auburn and Burwood the second and third most common occupational groups are Clerical and Administrative workers and Trades and Technicians. In City of Canada Bay the second most common occupation group is Managers followed by Clerical and Administrative workers

Dwellings

- Burwood has the greatest proportion of low density private dwellings (52%), followed by Auburn (50%) and City of Canada Bay (46%)
- City of Canada Bay has the highest proportion of high density dwellings 42%, followed by Auburn (38%) and Burwood (35%)

Households

- The majority of all households in the three areas are family households; with 78% of all households in Auburn and 72% in City of Canada Bay and Burwood family households
- City of Canada Bay has the highest proportion of lone person households (23%), followed by Burwood (21%) and Auburn (17%)

Tenure

- Auburn has the highest proportion of renters (39%), followed by Burwood (37%) and City of Canada Bay 33%

4.6.1 Community Vision and Aspirations

A review of the Auburn, Burwood and City of Canada Bay Community Strategic Plans shows that the communities of these three areas share many of the same aspirations; with all Community Strategic Plans referencing common aspirations like:

- Celebrating and embracing diversity
- Inclusive, welcoming and supportive communities
- Sense of pride and realisation of potential
- A sustainable natural environment
- A vibrant economy and thriving places

Further information on the communities of the three council areas is contained in Appendix C.

4.7 Financial costs and savings of the merger

The costs and savings of the mergers arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular the overall financial performance of the merged council and projected asset expenditure.

Initially in the transition for any of the options there are costs associated with creating the single entity (structure, process, policies, systems and branding), costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the mergers continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

Tables 4 and 5 provide a summary, narrative and financials of the costs and savings of the merger, a table setting out a summary of the financial costs and savings for each option is set out in Appendix B with the detailed assumptions set out in Appendix C. The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged council is modelled on the basis of a combined base year where all council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs (2016). Overlaid are the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

The NPV of the costs and savings over the period being modelled (2023[10]) has been calculated and overall the modelling projects a financial benefit to the three communities arising from the merger of an estimated $35.1 million (NPV of projected costs and savings raising from the merger projected until 2023 with a discount rate of 7%).

The projected benefits should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council and in particular the need for the organisation to increase asset expenditure to meet the Fit for the Future benchmarks.

[10] 2023 is the period being modelled to match the time covered by all Council LTFPs

Table 6 High level description of financial costs and savings arising from merger

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with senior staff Harmonisation	Reduction in total costs of senior staff	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts		Savings from procurement and network level decisions over asset expenditure		Savings from procurement and network level decisions over asset expenditure		Savings from procurement and network level decisions over asset expenditure
IT	Significant costs to move to combined IT system across entire council					Benefits arise from single IT system and decrease in staff
Assets				Rationalisation of buildings, plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 7 Summary of financial costs and savings for the merger[11][12]

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Governance	-$510	-$522	-$535	-$549	-$562	-$577	-$591	-$606
Staff	$0							
-Redundancies	-$1,752	$0	$0	$2,929	$0	$0	$0	$0
-Staff cost changes	-$1,236	-$3,458	-$5,577	-$11,265	-$10,470	-$9,660	-$8,835	-$7,994
IT								
-Transition costs	$18,000	$10,000	$2000	$0	$0	$0	$0	$0
-Long term benefits	$0	$0	$0	$0	$0	-$3,566	-$3,655	-$3,747
Materials and Contracts	-$1,054	-$1,080	-$1,107	-$1,658	-$1,699	-$-2,291	-$-2,348	-$-2,407
Assets								
-Plant and fleet	$0	$0	$0	-$3,400	$0	$0	$0	$0
-Buildings	$0	$0	$0	-$8,000	$0	$0	$0	$0
Grants and Government Contributions	$10,500	$0	$0	$0	$0	$0	$0	$0
Transitional Costs								
-Transitional body	$4,600	$0	$0	$0	$0	$0	$0	$0
- Rebranding	$1,500	$0	$0	$0	$0	$0	$0	$0
Total	$30,049	$4,940	-$5,220	-$21,942	-$12,732	-$16,094	-$15,429	-$14,753

11 The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationaryadjustments

12 Costs are shown as positive figures, savings as negative

Table 8 Summary of financial impacts of the merger

Sydney Olympic Park Council														
Morrison Low Fit For Future Analysis				HOME										
				Actual	Actual	LTFP								
Selected Councils Combined LTFP - 2014/15 Extrapolated	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
				(000s)	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**
Operating Results														
Income Statement				**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Source: Council Financial Statements and Long Term Financial Plan				**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**	**(000s)**
Rates & Annual Charges				103,168	110,006	114,611	117,821	121,119	124,511	127,997	131,581	135,265	139,053	142,946
User Fees & Charges				24,247	25,259	27,092	27,769	28,463	29,175	29,904	30,652	31,418	32,203	33,008
Grants & Contributions - Operations				17,148	14,325	13,877	23,979	16,121	16,480	16,910	17,349	17,802	18,266	18,746
Grants & Contributions for Capital				26,089	25,359	25,632	16,514	15,006	14,487	16,195	20,349	20,925	21,428	21,917
Interest and Investment Income				8,813	6,843	6,492	6,008	5,445	5,570	5,787	6,132	6,582	6,819	6,966
Gains from disposal assets				2,860	79	620	634	649	664	679	695	711	727	744
Other Income				17,648	16,805	16,456	16,834	17,221	17,617	18,023	18,437	18,861	19,295	19,739
Total Income				**199,973**	**198,676**	**204,780**	**209,559**	**204,025**	**208,503**	**215,494**	**225,195**	**231,564**	**237,792**	**244,067**
Income excl Gains\losses				197,113	198,597	204,160	208,924	203,376	207,840	214,815	224,500	230,854	237,065	243,323
Income excl Gains\losses & Capital Grants				171,024	173,238	178,528	192,410	188,370	193,353	198,621	204,151	209,928	215,637	221,406
Expenses														
Borrowing Costs				1,447	1,361	1,596	181	136	89	39	- 14	- 70	- 125	- 180
Employee Benefits				65,900	67,093	70,762	69,422	70,502	69,837	69,943	70,862	74,927	79,218	83,751
Gains & losses on disposal				423	1,796	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation				27,688	29,446	30,04	30,44	31,30	31,87	32,31	32,691	32,981	32,901	33,288
All other Expenses				74,516	73,639	4	4	8	4	7	91,918	90,572	93,321	96,154
Total Expenses				**169,974**	**173,335**	**183,642**	**206,262**	**196,531**	**190,931**	**191,530**	**195,458**	**198,409**	**205,316**	**213,013**
Operating Result				**29,999**	**25,341**	**21,138**	**3,297**	**7,494**	**17,572**	**23,965**	**29,737**	**33,156**	**32,476**	**31,053**
Operating Result before grants & contributions for capital purposes				**3,910**	**- 18**	**- 4,494**	**- 13,217**	**- 7,513**	**3,086**	**7,770**	**9,388**	**12,230**	**11,048**	**9,137**

4.8 Risks arising from merger

There are a number of significant potential financial and non-financial risks arising from this particular merger that will need to be considered, including the following:

- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs maybe higher and the anticipated savings may not be achieved
- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the three council organisations may not go well resulting in low morale, increased staff turnover rate etc,.This would reduce business performance and prolong the time it takes for the predicted efficiencies to be achieved
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated
- New services are introduced that are not currently delivered in one or more of the former council areas
- The financial performance of the merged council is less than that modelled, resulting in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit
- Developing a governance model that represents the communities of interest across the proposed merger area.

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger any reduced financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

4.8.1 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a “no forced redundancies” position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

APPENDIX A FIT FOR THE FUTURE BENCHMARKS[13]

Operating Performance Ratio

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

13 Office of Local Government Fit for the Future Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

$$\frac{\textit{Cost of debt service (interest expense \& principal repayments)}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

Description and Rationale for Criteria:

The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textbf{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

Description and Rationale for Criteria:

The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and
- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B COSTS AND BENEFITS ARISING FROM MERGER OF AUBURN, BURWOOD AND CITY OF CANADA BAY COUNCILS

Costs and benefits identified below form the basis of the modelling referred to throughout the report. Costs outlined below are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

Assumptions have been made using the best available information including analysis of various reports on and estimates of merger costs in other similar situations. This has been supplement with professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Queensland Treasury Corporation August 2009 Report

In an August 2009 report[14] from the Queensland Treasury Corporation reporting on costs associated with the amalgamation of the Western Downs Regional Council, the report said:

> *A net cost outcome in the first local government term is likely as local governments will incur most of their amalgamation costs prior to, and in the two to three years subsequent to, amalgamation. These costs then taper off. However, the savings resulting from amalgamation are likely to gradually increase over time through:*
>
> - *greater efficiency (ie, a reduction in costs through improved economies of scale)*
> - *Improved decision making capability, and*
> - *Improved capacity to deliver services.*
>
> *While Western Downs only identified minor potential future benefits, it is likely that benefits will be generated from a reduction in CEO wages, natural attrition and procurement efficiencies etc, while providing existing services at current service standards. It is noted that Western Downs has been able to extend the delivery of certain services across the local government area.*

Queensland Treasury also provided comment on the reality that local government is different from businesses and that it can be difficult to measure benefits from mergers on a commercial basis:

> *Businesses generally undertake amalgamations and mergers on the basis of a number of factors such as cost savings, increased market share, improved synergies and improved decision making capability. Generally, these factors are measured in the context of reduced staff numbers, reduced operating costs, improved profitability, increased market share and higher share prices.*
>
> *With local government these benefits are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. As a consequence, the cost savings of amalgamation of local governments do not generally show up as improved profitability (ie, operating surpluses). Similarly, improved decision making capability results in more effective decisions and better outcomes to residents but may not be reflected in a local government's bottom line. This is because local governments, unlike the private sector, are not in the business of making profits. Therefore, it is more difficult to measure the cost savings*

[14] Queensland Treasury Corporation - Review of Amalgamation Costs Funding Submission of Western Downs Regional Council, August 2009

resulting from amalgamation of local governments than it is for corporations as the benefits will generally be utilised by the amalgamated local government in the provision ofservices.

Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 were between 1.1 per cent and 3.1 per cent. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure resulting fromamalgamation.

These estimates focused on administrative efficiency rather than the outcomes achieved through improved local government decision making capability. A potential measure of improved local government capability is ratepayer satisfaction. Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was very positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful. This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of jobs and loss of access to elected officials. QTC has not been asked to comment on improved capability.

The costs and benefits that Morrison Low has modelled for a possible merger of the three councils are described below:

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, Council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support Council/Committee Secretarial Support	Reduced councillors and remuneration	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)				

1.1 Governance ($485K)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and Councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on the Lord Mayor and Councillor fees and expenses of the City of Sydney as reported in the Annual Report 2014. The Independent Review Panel has envisaged a full time Mayor and there will be higher costs associated with such a role than the current Mayor and Councillors of the inner west receive. It is assumed that there would be 15 Councillors and a Mayor.

1.2 Executive management ($1.1M)

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors). Revised remuneration packages for the new General Manager and Directors for the new entity have been informed and assumed to be similar to that of the City of Sydney executive remuneration packages given the size and scale to that of the proposed new entity.

The General Managers total remuneration for the councils was based on the councils' respective Annual Reports 2013/14, and the amalgamation to a single entity with a single General Manager has the potential saving of approximately $480k.

In addition there would be a rationalisation of the existing director positions, based on the Annual Reports there are 8 such positions across the councils with the combined remuneration based on the Annual Reports 2013/14. Assuming that the new entity has four director positions, the estimated savings are in the order of $573k.

It is important to note that while ongoing efficiencies of $1.1 million have been identified effective from the short term, there is the one off cost of redundancies of approximately $1.8 million that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3 Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services Section.

Based on our previous experience one would expect resource efficiencies of between 40 and 60%. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however having said that there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services Section.

2 Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procureme	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3) Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Long Term (6 years plus)					

2.1 Rationalisation of duplicate services ($4.5M)

Consistent with the dis-establishment of three councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers. Examples for the rationalisation of corporate servicesinclude:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than three Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans , Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.

- Customer Services – No reduction in the 'front of house' customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity both in terms of resources and actual cost. However it is expected that ICT would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The assumption underpinning the efficiency for corporate services is a 35%[15] reduction in corporate support personnel that has an estimated saving of $4.5 million. On costs are considered to be included as the figure used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels outlined above.

In order to achieve the opportunities identified would require detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled based on an average of 26 weeks[16]

3 Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

	Staff	Duplicated	Contract/ Procureme	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)					

15 Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

16 The Local Government (State) Award provides a sliding scale for redundancy pay-outs from 0 for less than 1 year, 19 weeks for 5 years and 34 weeks for 10years. An average of 26 weeks has therefore been used throughout.

3.1 Management ($2.9M)

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out.

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. While Section 1 addresses the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

On the basis that three councils are being disestablished and a single entity created, the assumption is that there will be at least a 40% reduction across the managerial positions at Tier 3 and 4 positions achieving an ongoing efficiency of $2.9M million on remuneration and oncosts.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels outlined above

3.2 Staff Turnover ($3.5M)

While the industry average turnover is approximately 9% and on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, there is an estimated annual efficiency based on applying a modest 4.5% natural attrition.

3.3 ICT Benefits ($3M)

Without a full investigation into the current state of the three councils ICT infrastructure and systems, and without an understanding of the future state the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from three councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce by 40%[1] over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the three councils, the 40% efficiency is unable to be determined at this time.

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and based on an ICT cost of $90 million have estimated the Net Present Value at $200 million and payback period of 5 years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate however to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of $3M per annum.

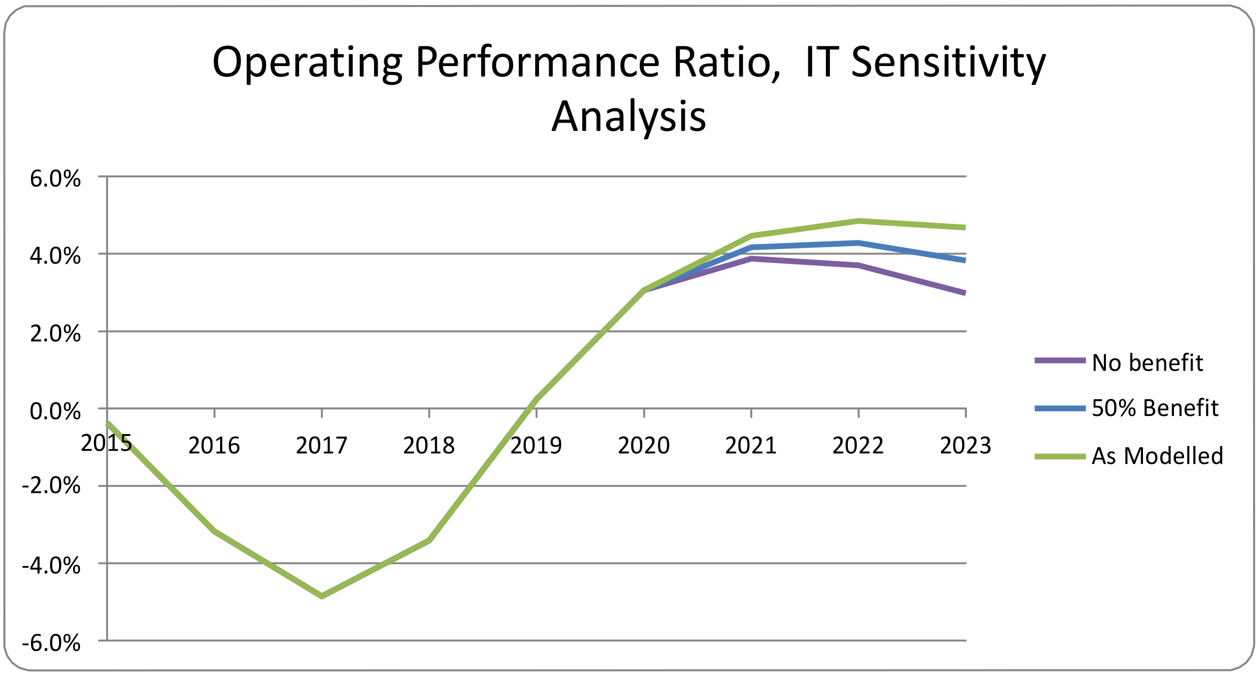
Sensitivity Analysis

Due to the high level of uncertain associated with the realisation of IT benefits one additional scenario has been modelled to demonstrate the overall impact on the financial sustainability of the IT benefits being realised.

The impact on the merged council is set out by reference to the Operating Performance Ratio.

Benefits at 50%

Realising only 50% of the IT benefits affects the merged council's operating performance by approximately $1.5 million per annum from 2021.



3.4 Materials and contracts ($924k - $1.7M)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from three councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement including through NSROC and SHOROC shared and panel contracts but that the process also identified a large number of services contracted out by the councils which are not aligned or co-ordinated.

The increased scale and size of the infrastructure networks managed by the merged council would in our view lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

Based on the analysis during the project and our experience the combined savings have been modelled in the short term at 2% and rising to 3% and then 4% over the medium and longer term.

3.5 Properties ($8M)

There is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for council purposes. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (refer to Section 3.7).

The councils have a combined buildings portfolio of over $158M and for the purposes of modelling the merged council it is assumed that the council would dispose of 5% of the building assets in the medium term. In the longer term savings in properties are achievable but should be carried out in a more strategic manner across the combined entity.

3.6 Works units

Staff ($4.5M)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 20% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet ($3.4M – one off)

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than reasonably required to undertake their day to day functions. As such, it is reasonable to assume that a reduction in plant and fleet in the order of 20% would be achievable should there be an amalgamation of councils.

4 Services and Service Levels

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[17] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition.

[17] Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

5 Transition costs

The formation of the new entity from the current state of the three councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[18] for the proposed Wellington reorganisation.

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below:

Governance	• Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	• Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required
Finance and Treasury	• Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	• Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change • Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	• Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	• Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed

18 Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1
Plannin g Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond • Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Da1 and beyond
Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

5.1 Transition body ($4.6M)

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at $36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[4] and on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the merger is $11 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

5.2 ICT ($30M) (range of $23 - $37M)

The costs associated with ICT for the new entity relate to rationalising the three existing councils ICT infrastructure, business applications, security and end user support for the single entity. The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. With the limited time to undertake this report the ICT costs have thus been based on the proposed Wellington reorganisation. A number of ICT scenarios were explored by Deloitte[19] for Wellington. The estimated cost is split between those costs incurred during the transition and the implementation costs post Day 1 that would be the responsibility of the new entity, giving rise to a range of $23 - $37m.

Taking into account that the three councils currently share a common IT system (Technology 1), we have reduced the estimated cost of IT consolidation by $10m from what we consider would otherwise have been the cost.

5.3 Business Process (existing Council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the existing councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4 Branding ($500k)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace some existing signage of the three councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing website, staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is $1.5M based on other amalgamation experience.

5.5 Redundancy Costs ($3M)

This is based on a reduction in from three general managers to one for a merged council and reduction of senior contracted staff is based on employment contracts with a redundancy period of 38 weeks, and based on the Councils' respective Annual Reports 2013/14.

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19 Wellington Local Government Reorganisation Options – Transition Costs and Benefits for Technology Changes, Deloitte, September 2014

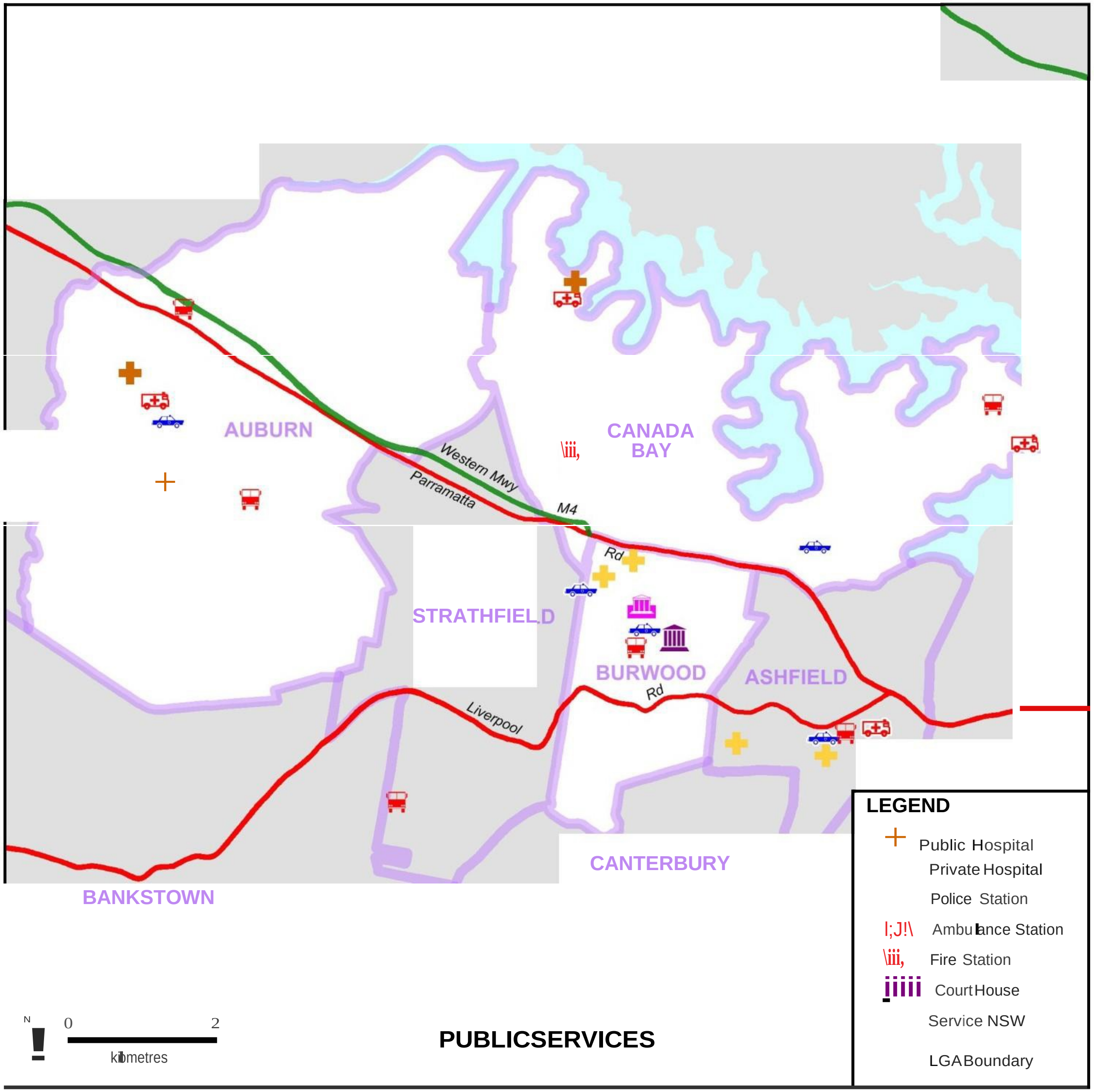
5.6 Remuneration Harmonisation ($2.1M)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the three councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for similar councils have been compared to that of the combined councils combined as well as between the three councils.

5.7 Elections

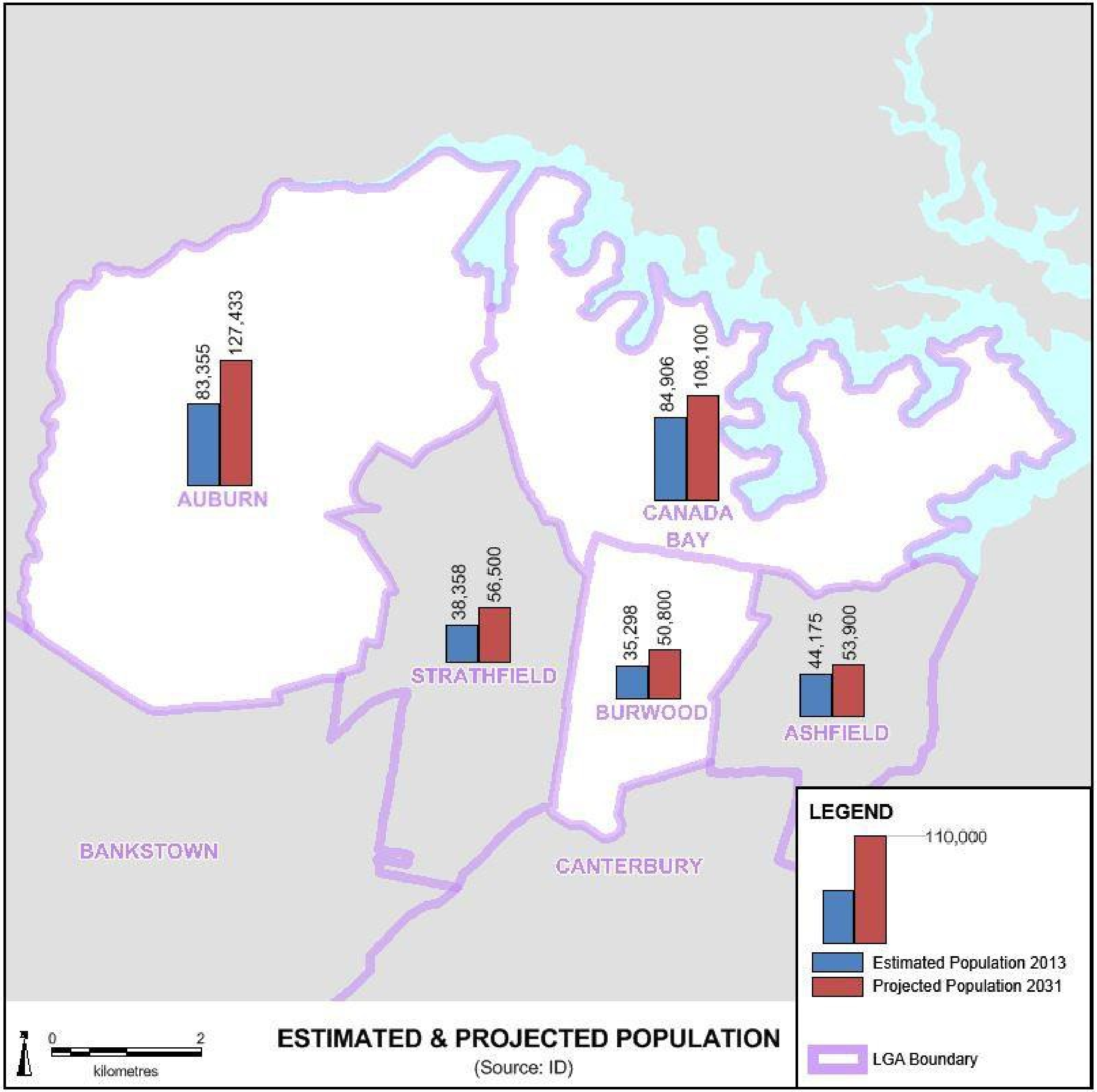
There is a possibility of proportional savings in existing council budgets as instead of three separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the three councils.

APPENDIX C COMMUNITY PROFILE

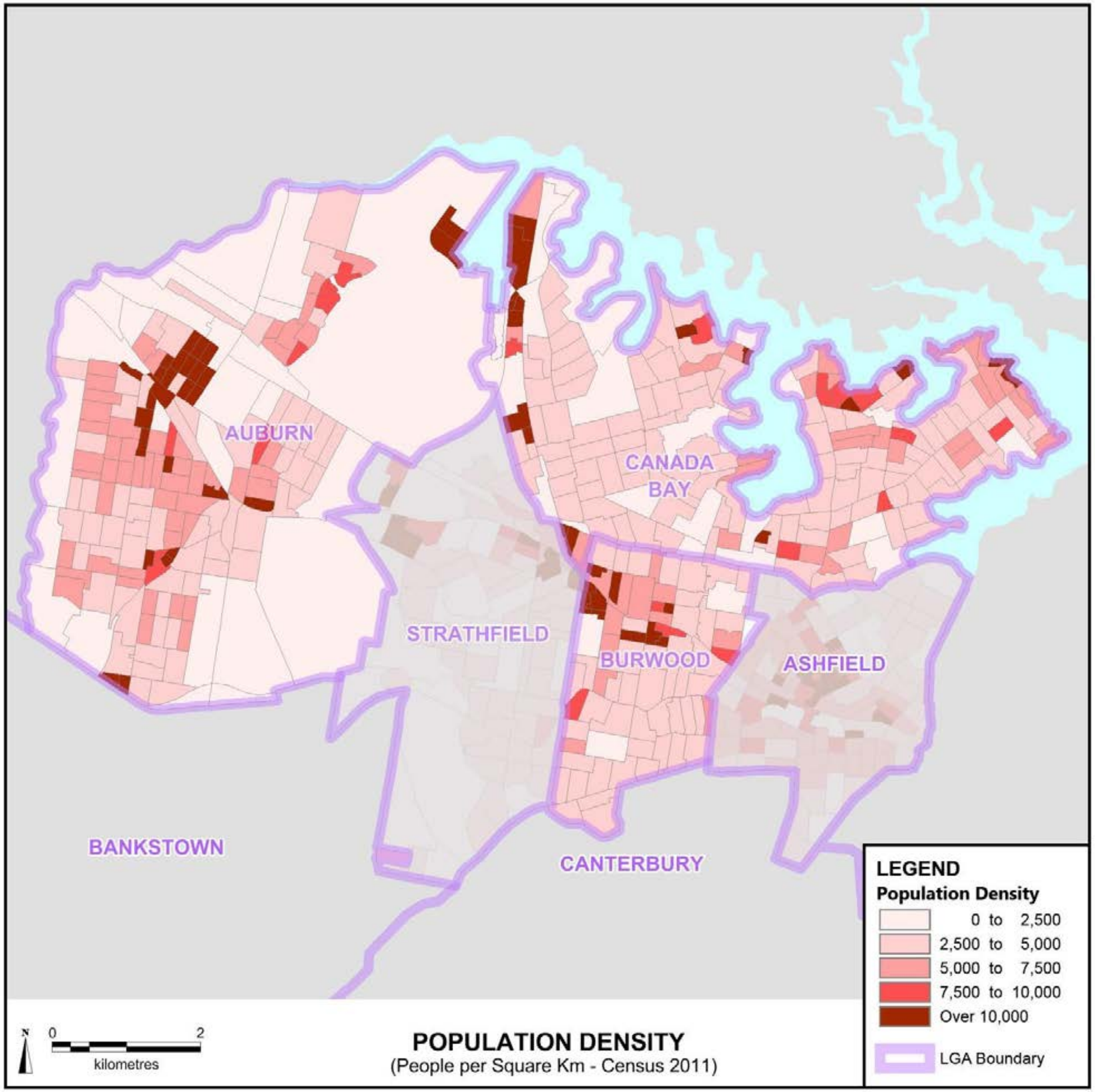


PUBLICSERVICES

POPULATION

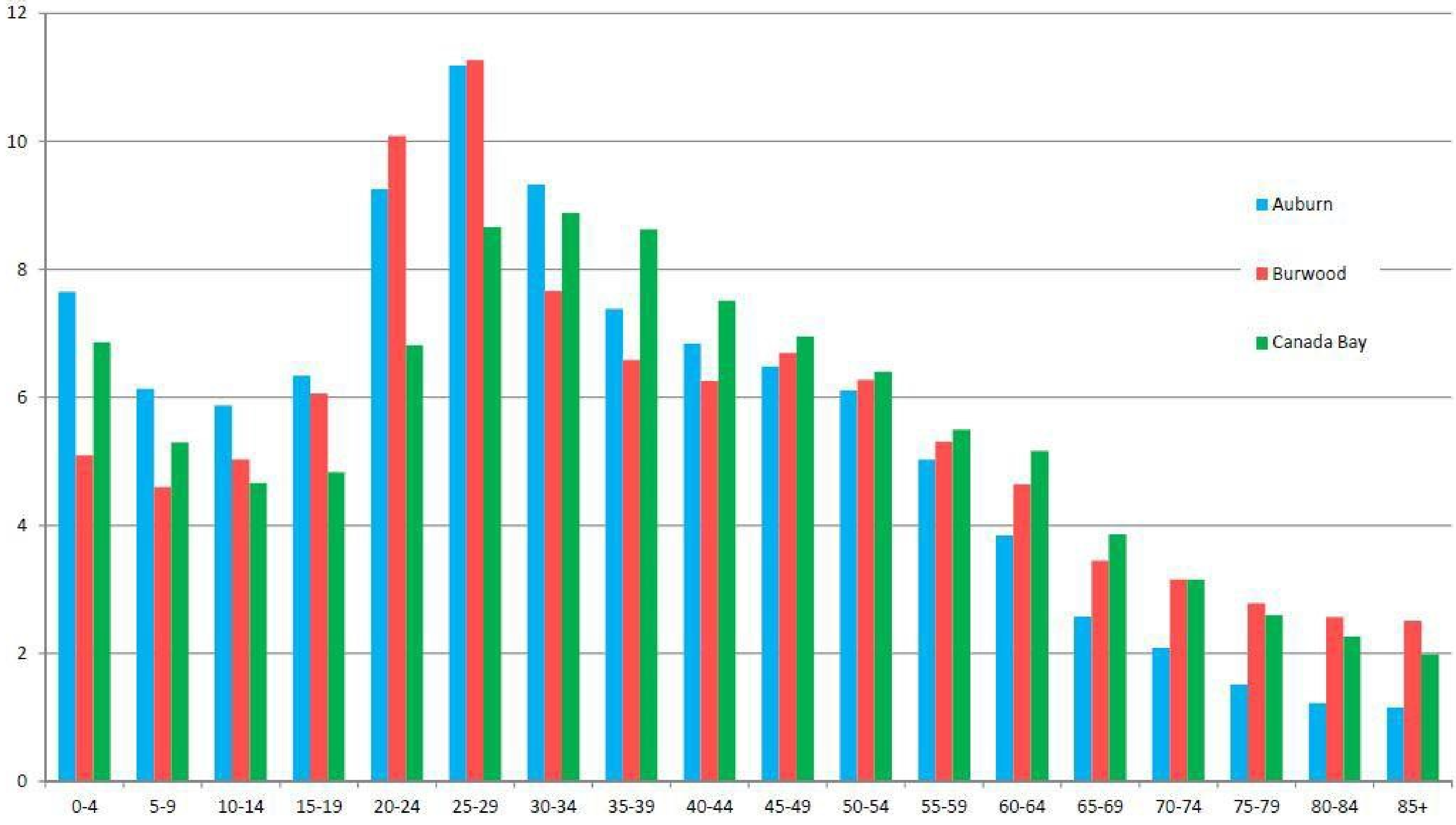

83,355
127,433
AUBURN
84,906
108,100
CANADA
BAY
38,358
56,500
STRATHFIELD
35,298
50,800
BURWOOD
44,175
53,900
ASHFIELD
BANKSTOWN
CANTERBURY
LEGEND
110,000
Estimated Population 2013
Projected Population 2031
LGA Boundary
0
2
kilometres
ESTIMATED & PROJECTED POPULATION
(Source: ID)

POPULATION

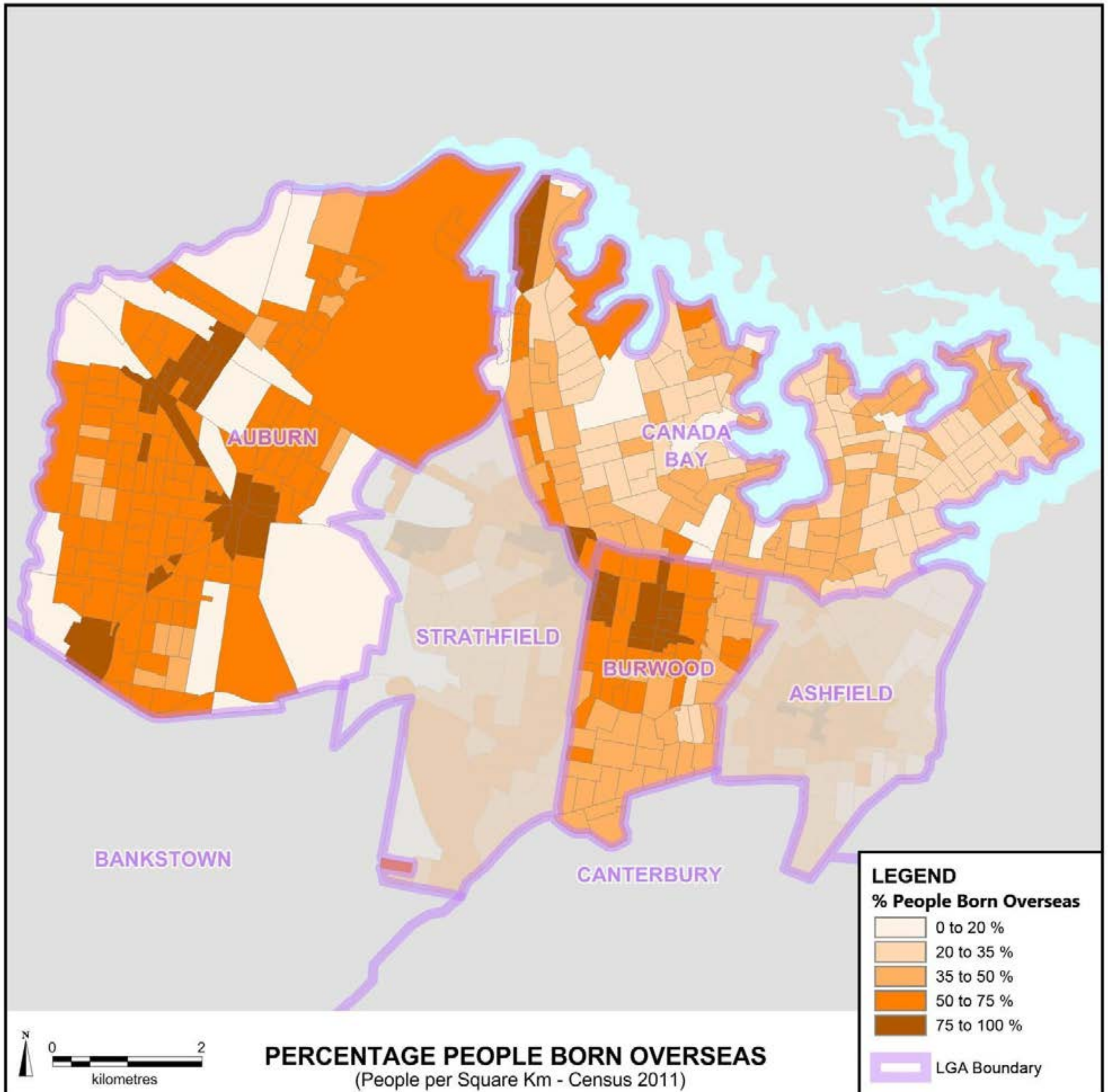

AUBURN
CANADA BAY
STRATHFIELD
BURWOOD
ASHFIELD
BANKSTOWN
CANTERBURY
LEGEND
Population Density
0 to 2,500
2,500 to 5,000
5,000 to 7,500
7,500 to 10,000
Over 10,000
LGA Boundary
N
0
2
kilometres
POPULATION DENSITY
(People per Square Km - Census 2011)

POPULATION

Age Ranges - % of Total Population



CULTURAL DIVERSITY

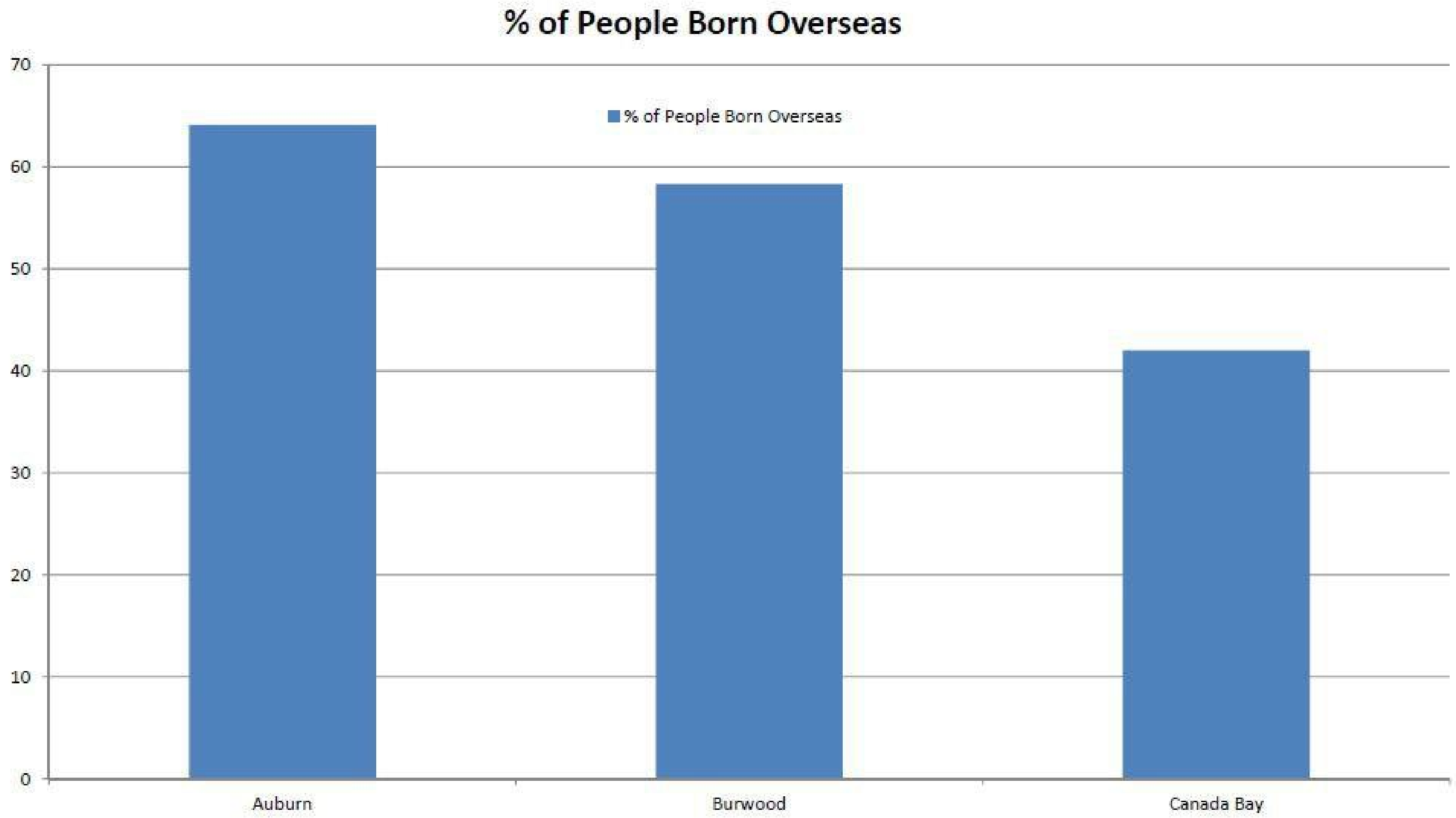


CULTURAL DIVERSITY

Place of Birth

	Auburn	%	Burwood	%	Canada Bay	%
1	Australia	35.9	Australia	41.7	Australia	58.0
2	Taiwan	11.3	China	14.9	China	5.7
3	Vietnam	4.5	India	4.7	Italy	5.1
4	South Korea	4.2	Korea	3.8	UK	3.3
5	India	3.6	Italy	3.5	Korea	2.7
6	Turkey	3.6	Hong Kong	2.0	New Zealand	1.8
7	Lebanon	2.9	Lebanon	1.9	India	1.6
8	Philippines	1.8	Vietnam	1.8	Hong Kong	1.2
9	Sri Lanka	1.8	UK	1.6	Greece	0.9
10	New Zealand	1.2	New Zealand	1.2	Malaysia	0.8
	Other	29.2	Other	23.0	Other	18.9

CULTURAL DIVERSITY

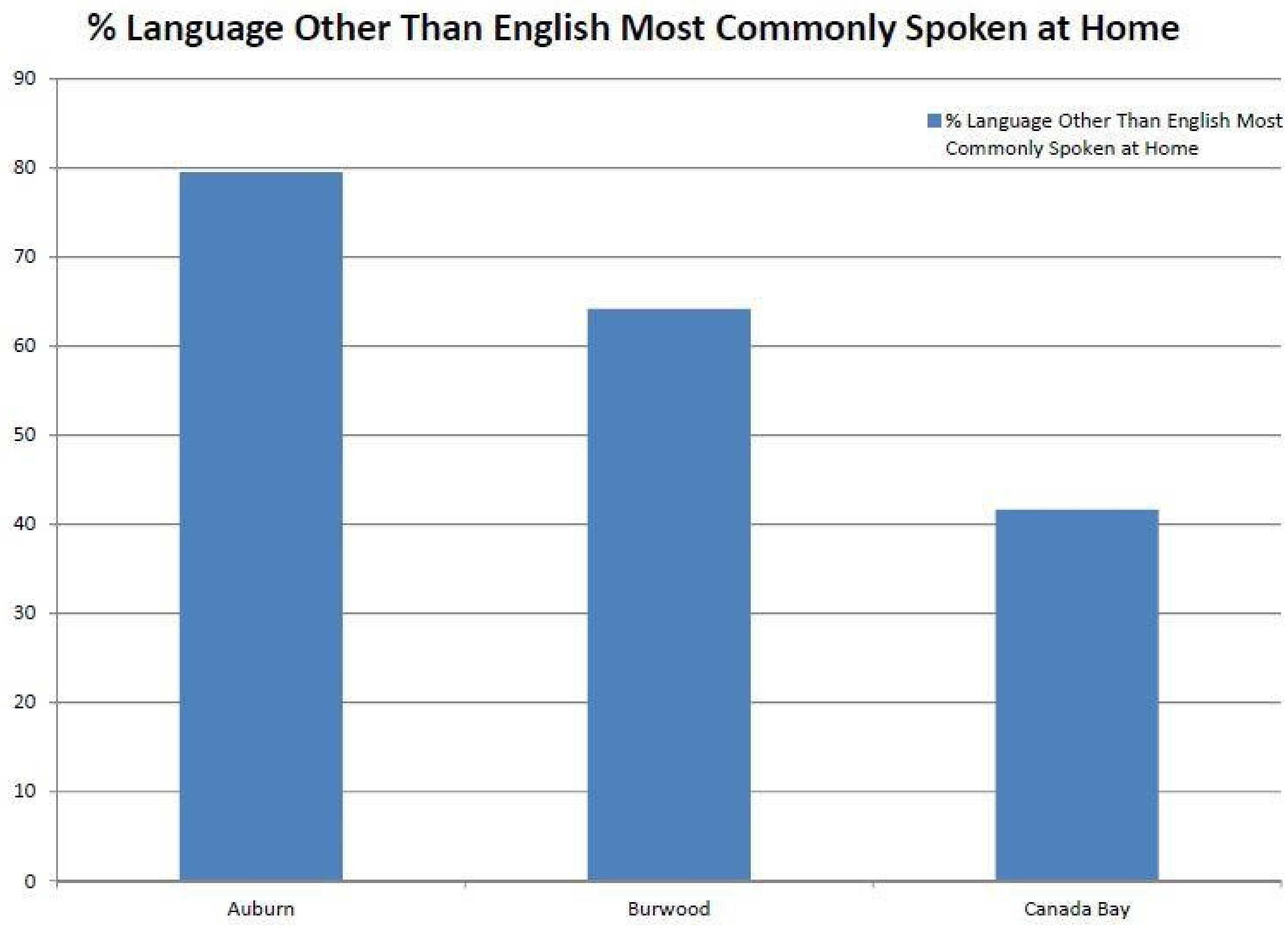


CULTURAL DIVERSITY

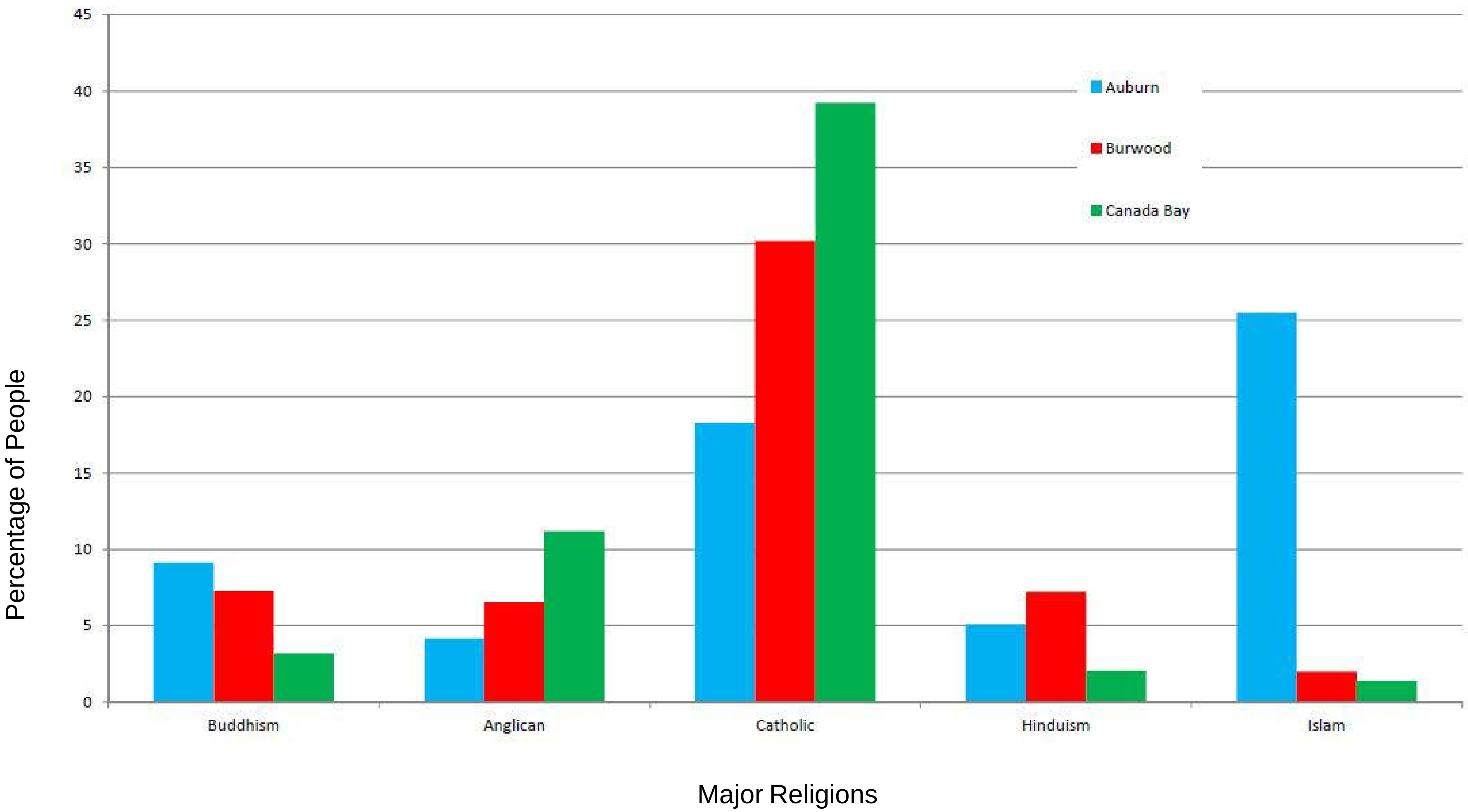
Language Spoken at Home

	Auburn	%	Burwood	%	Canada Bay	%
1	English Only	20.5	English Only	35.8	English Only	58.3
2	Arabic	10.7	Mandarin	12.7	Italian	8.8
3	Cantonese	9.9	Cantonese	8.8	Mandarin	5.1
4	Mandarin	9.2	Italian	5.7	Cantonese	3.7
5	Turkish	6.6	Korean	4.5	Korean	3.1
6	Korean	5.0	Arabic	4.4	Greek	2.8
7	Iranian	3.4	Greek	3.1	Arabic	1.7
8	Vietnamese	2.6	Chinese - Other	1.6	Spanish	1.0
9	Urdu	2.3	Vietnamese	1.2	Chinese - Other	0.6
10	Tamil	2.2	Spanish	1.0	Vietnamese	0.6
	Other	27.6	Other	21.3	Other	14.4

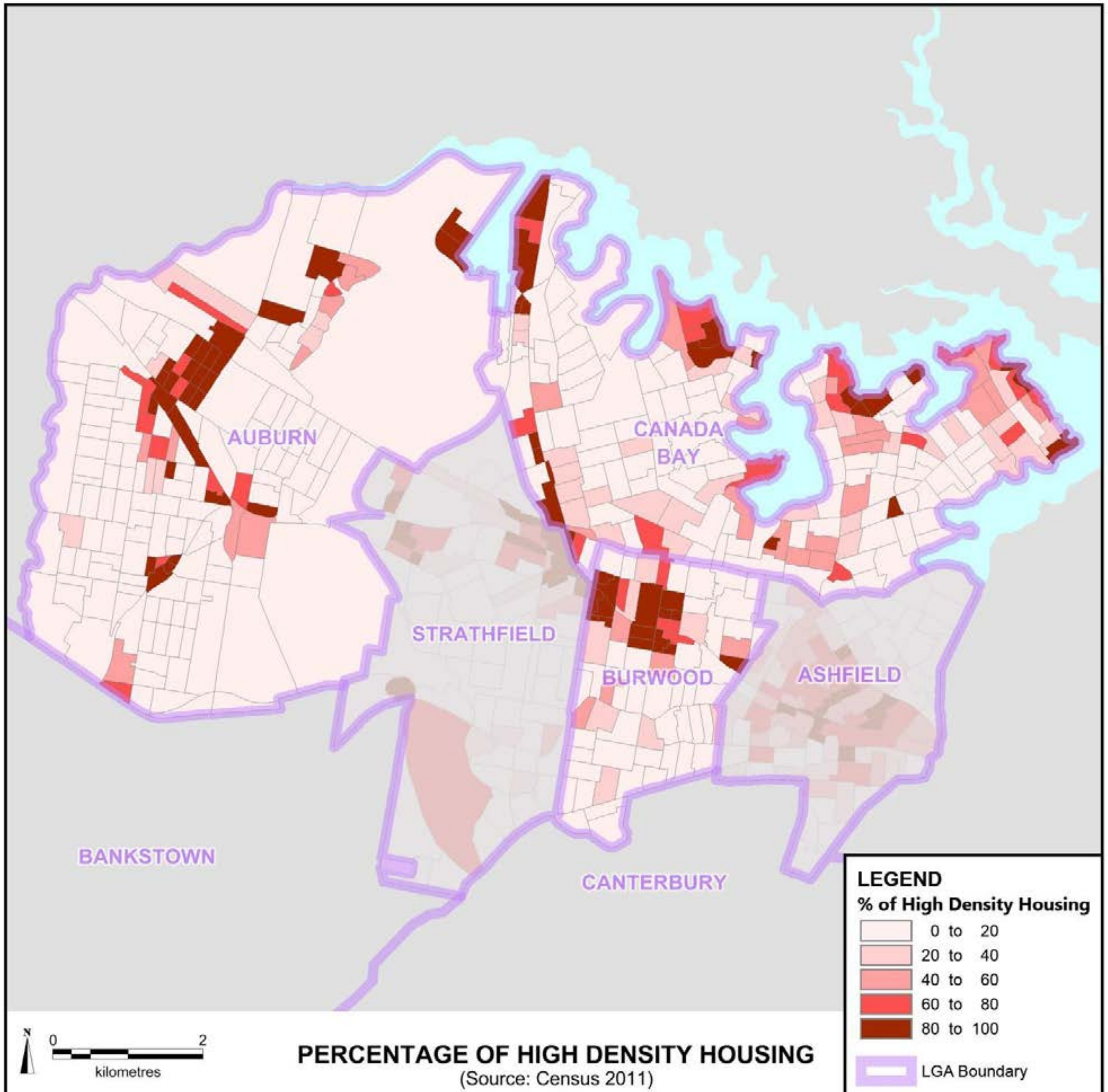
CULTURAL DIVERSITY



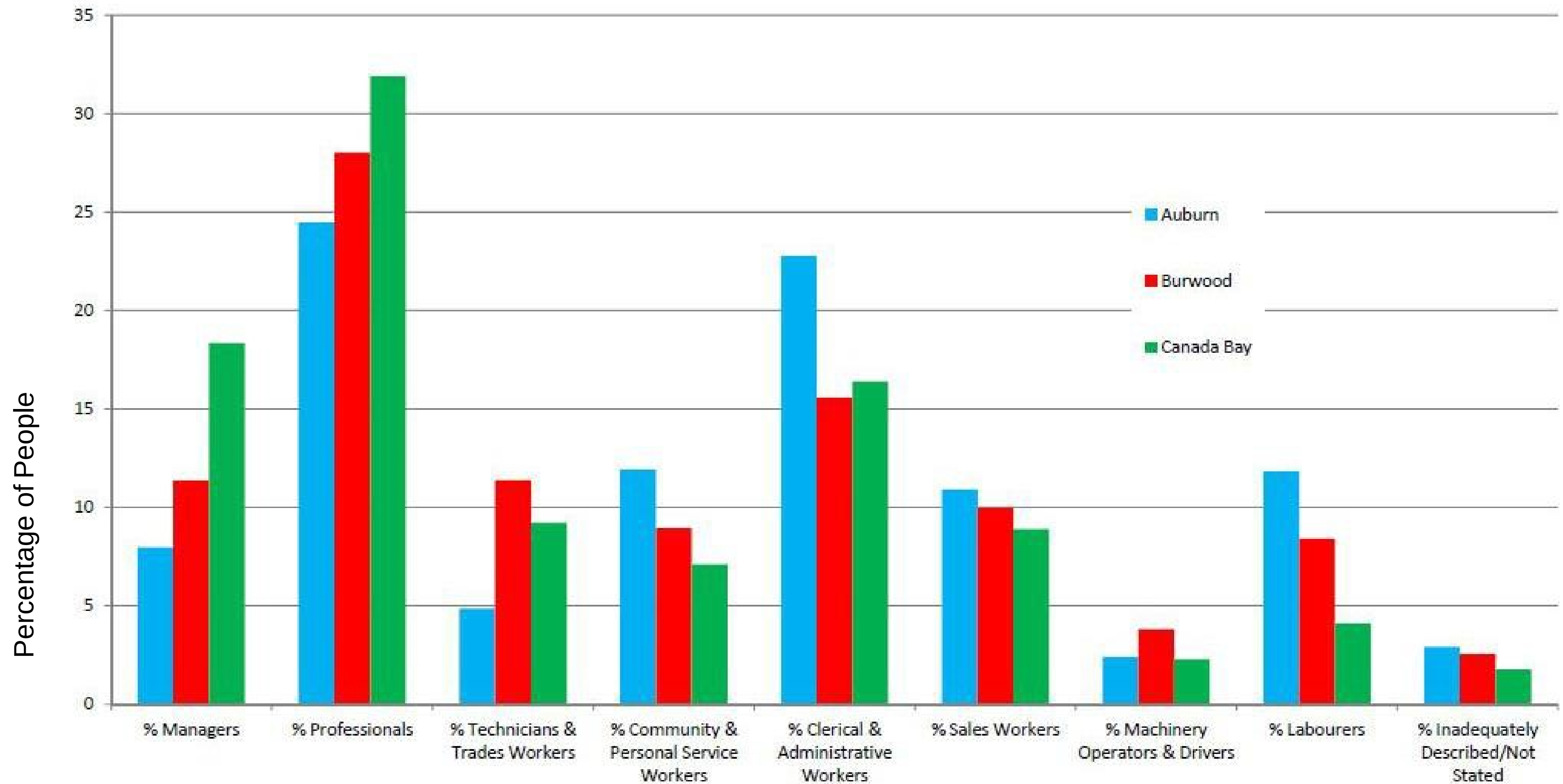
CULTURAL DIVERSITY



DWELLING DIVERSITY

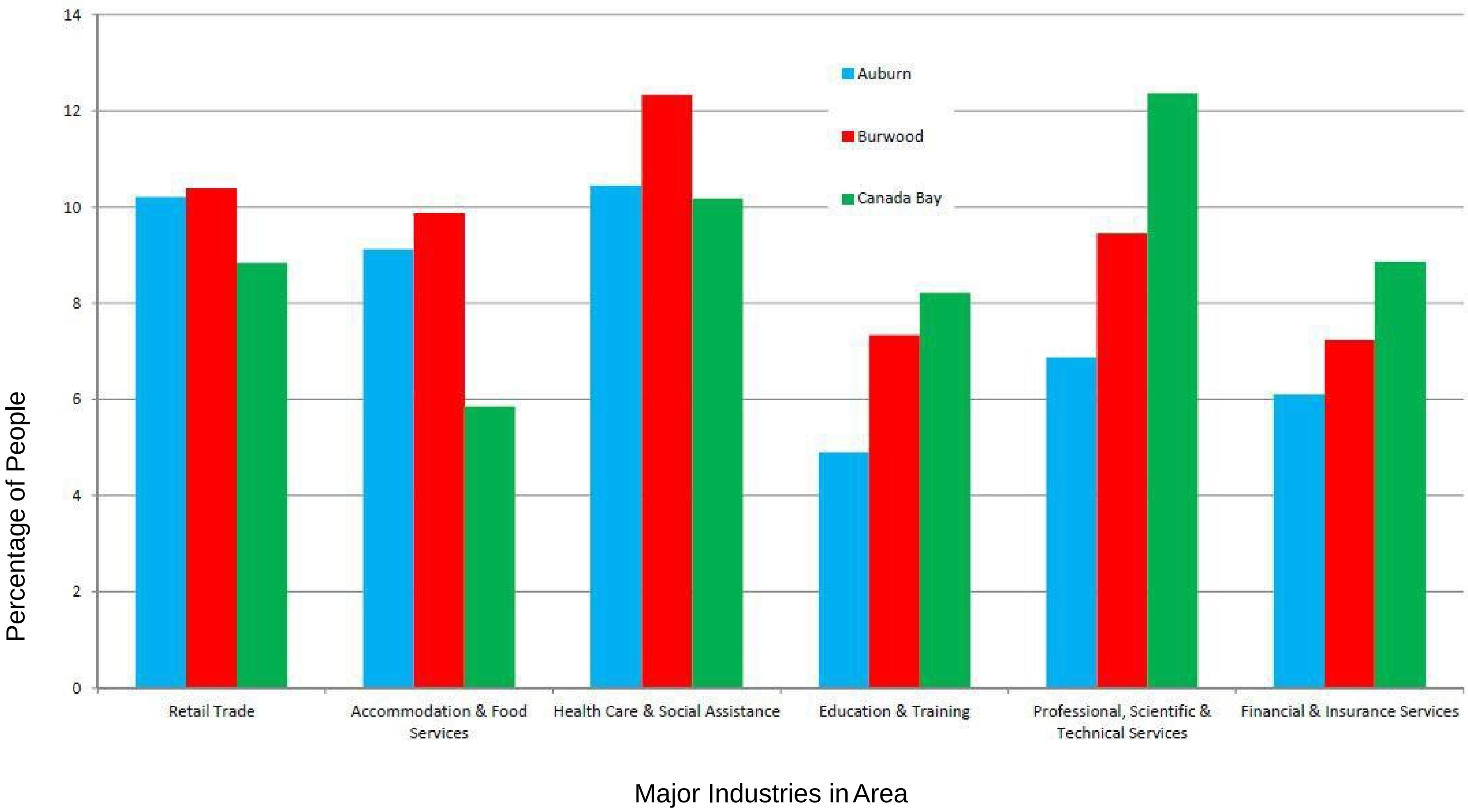


OCCUPATION



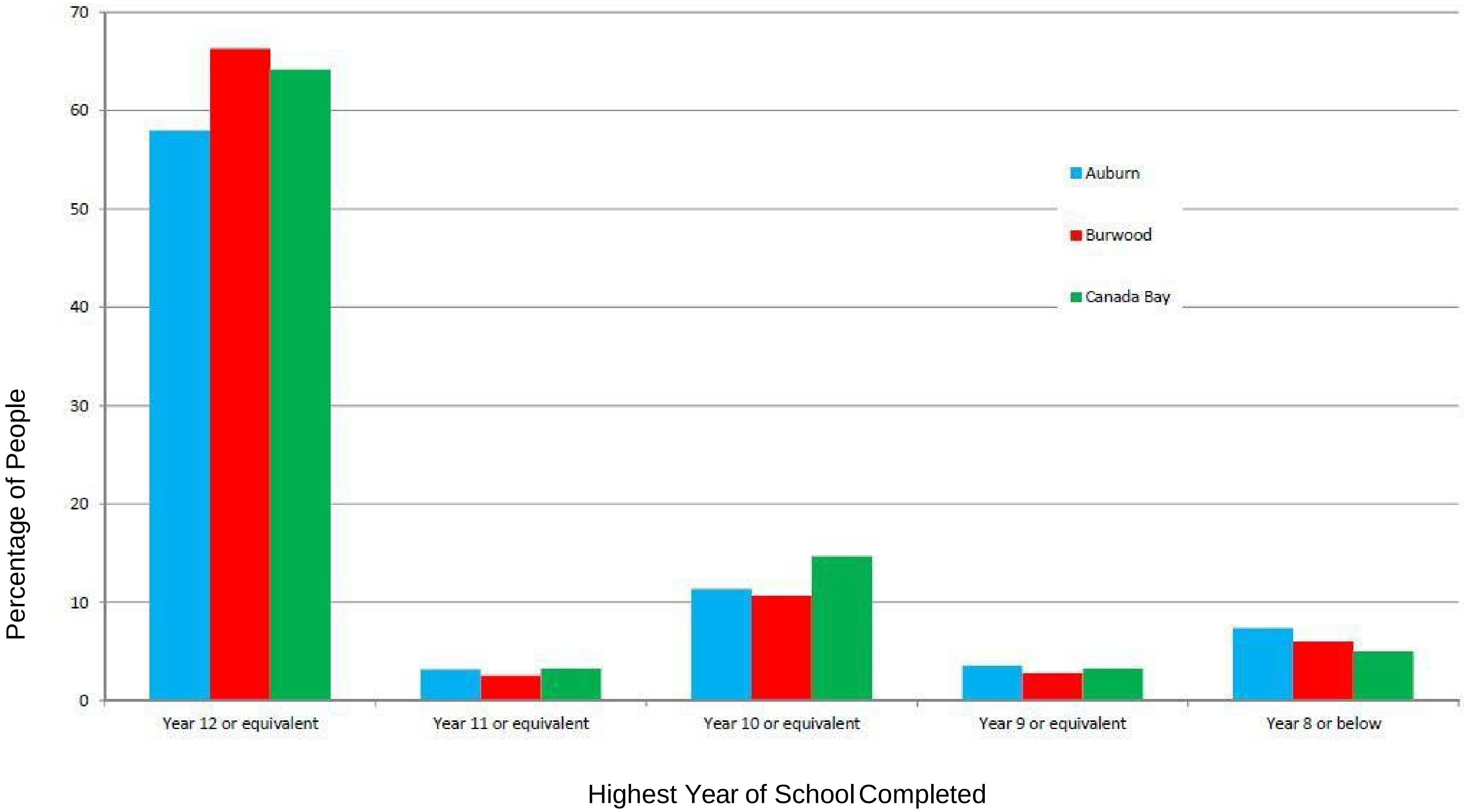
Percentage of People
35
30
25
20
15
10
5
0
% Managers
% Professionals
% Technicians & Trades Workers
% Community & Personal Service Workers
% Clerical & Administrative Workers
% Sales Workers
% Machinery Operators & Drivers
% Labourers
% Inadequately Described/Not Stated
Auburn
Burwood
Canada Bay

INDUSTRY



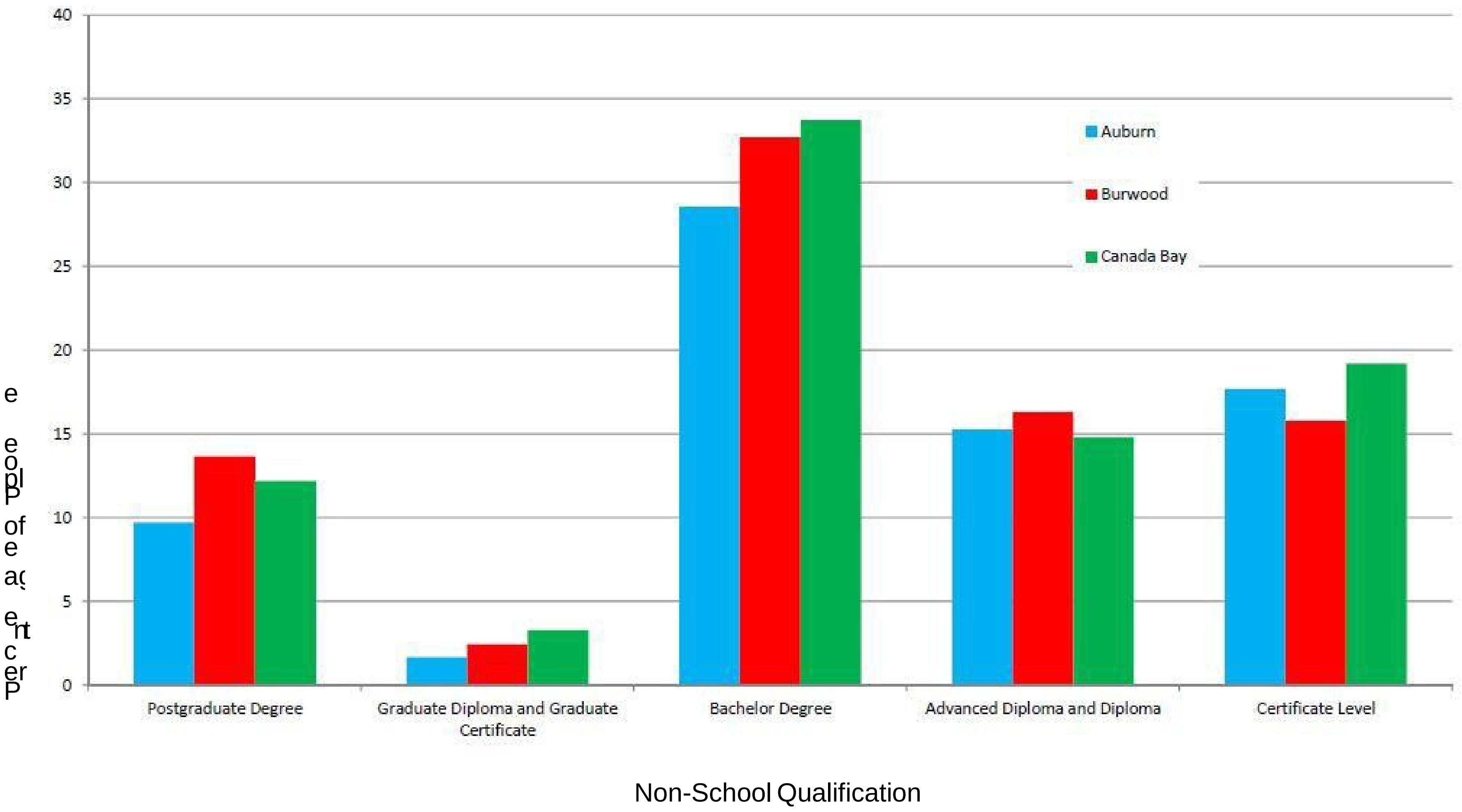
14
12
10
8
6
4
2
0
Auburn
Burwood
Canada Bay
Percentage of People
Retail Trade
Accommodation & Food Services
Health Care & Social Assistance
Education & Training
Professional, Scientific & Technical Services
Financial & Insurance Services
Major Industries in Area

EDUCATION

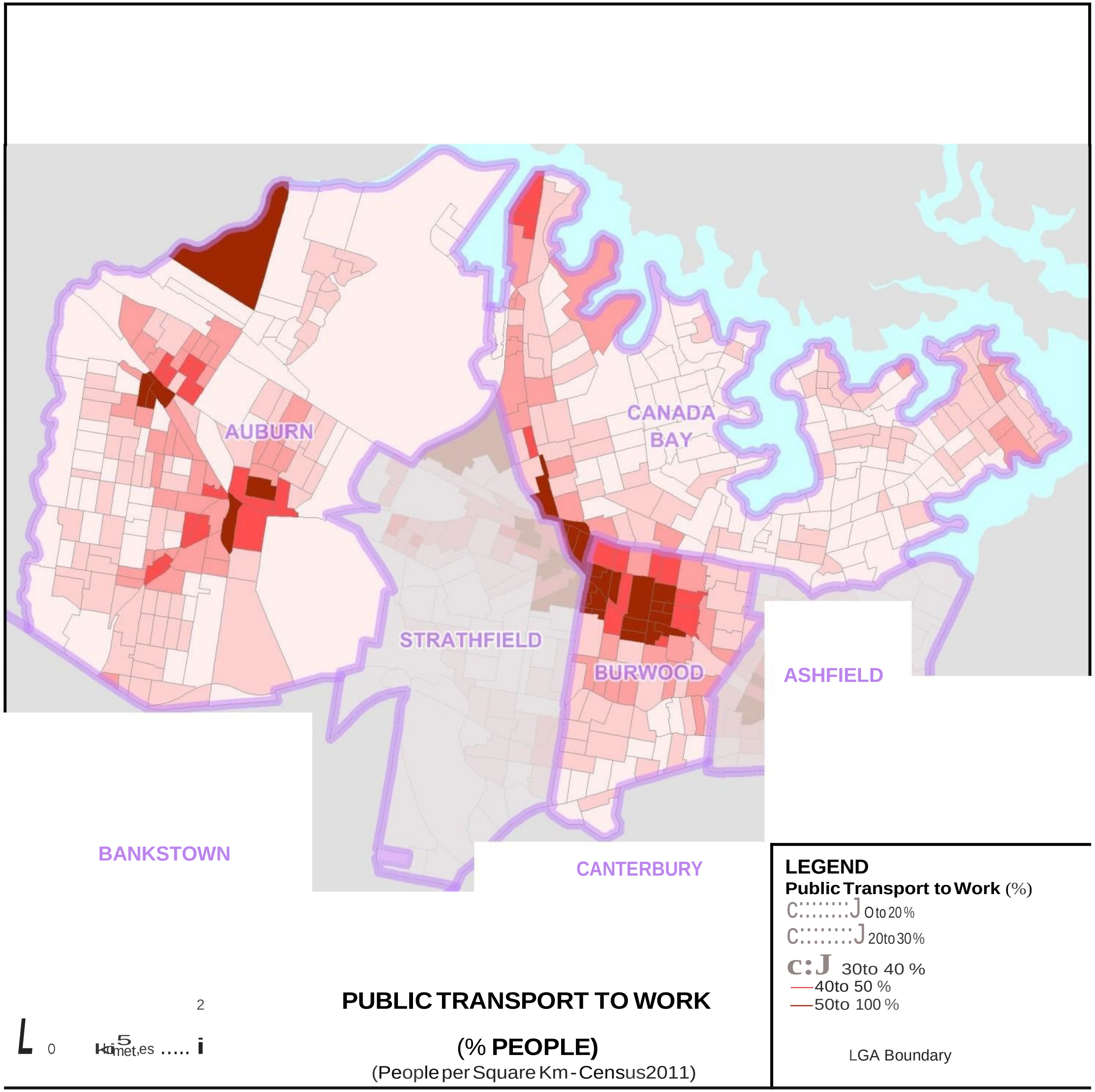


70
60
50
40
30
20
10
0
Percentage of People
Auburn
Burwood
Canada Bay
Year 12 or equivalent
Year 11 or equivalent
Year 10 or equivalent
Year 9 or equivalent
Year 8 or below
Highest Year of School Completed

EDUCATION



40
35
30
25
20
15
10
5
0
Auburn
Burwood
Canada Bay
Postgraduate Degree
Graduate Diploma and Graduate Certificate
Bachelor Degree
Advanced Diploma and Diploma
Certificate Level
Non-School Qualification



PUBLIC TRANSPORT TO WORK

(% PEOPLE)

(People per Square Km - Census 2011)