Fit for the Future - Options Analysis

# Appendix C

## FINANCIAL CONTEXT

The following section has been prepared to ensure Randwick City Council has undertaken its due diligence relative to local government reform, in accordance with the Council resolution from the 25th November 2014.

Randwick City Council
a sense of community

MAY 2015

# Financial Context -

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FINANCIAL CONTEXT

Appendix C

# 1. Executive Summary

## Key findings

The following section has been prepared to ensure Randwick City Council has undertaken its due diligence relative to local government reform, in accordance with the Council resolution from the 25th November 2014. The Council has analysed the financial position and projections of Waverley, Woollahra, Botany and City of Sydney Councils along with Randwick's own position. Modelling has been carried out to determine the financial position of the six amalgamation options including the cost of these amalgamations.

### Randwick

Randwick Council is in a strong financial position with a history of generating operating surpluses, strong capital works programs and sound liquidity, while remaining debt free for over a decade. Furthermore, the Council has a capacity to generate operating surpluses and fund capital works and infrastructure programs well into the future.

The Council's position has been assessed as "**sound**" by both NSW TCorp and our independent auditor, with TCorp stating the Council's outlook is "**positive**". The Council's infrastructure management has been assessed as "**very strong**" by the Office of Local Government, one of only five councils in NSW to receive the highest rating. This result is further strengthened by the independent audit of the Council's annual report on the condition of public buildings and infrastructure assets (Special Schedule 7) over the past two years which was an industry first. The council's auditor has also issued an Assurance Report on the Long Term Financial Plan.

The Council has a strong result against the Fit for the Future financial, asset and efficiency criteria, with the council meeting all benchmarks now and into the future, with the exception of the debt service ratio. However if the council had just $1 of debt it would meet this ratio too.

### Amalgamation Options

An in-depth analysis of the current position and projections of each option along with the potential financial benefits and costs of an amalgamation has been carried out, using Randwick's service model as a basis for the eastern suburbs councils. The City of Sydney's operating costs remain at current levels due to their different service requirements.

There is a clear distinction between the City of Sydney and the Eastern Suburbs councils. The City of Sydney is a major metropolitan employment centre and is recognised as a significant stakeholder in Australia's economy. The City of Sydney has a strong level of investment in regional and state projects and the area is home to numerous international tourist attractions. Costs in areas such as street cleaning, transport and events are significantly higher than those of the Eastern Suburbs councils as they provide services for the one million workers, visitors and residents in the city on any one day.

This analysis revealed that, based on the individual council's asset condition assessments (Special Schedule 7), all amalgamation options meet the Fit for the Future benchmarks within five years and have eliminated debt and the backlog of works required on roads, footpaths, drains, buildings and in parks and beaches within ten years. However some options achieve these results sooner than others and produce a stronger long term result. No loss or reduction in services nor increases in rates were required and each council's ten year planned projects were included in the model. The model was assessed by the Council's independent auditor Hill Rogers Spencer Steer, with an Assurance Report issued (refer to Attachment 6).

An amalgamation of **Randwick, Waverley, Woollahra** and **Botany** Councils (option 6) or **Randwick, Waverley and Woollahra Councils** (option 5) would result in the greatest opportunity to deliver more services or increase service levels to the community both in the medium term (four years) and the long term (ten years). Over four years **Option 6** has the potential to generate an additional **$52m** in services (**$164 per resident**), increasing to **$278m over ten years** (**$884 per resident**) while meeting the seven 'Fit for the Future' ratio benchmarks in **3 years,** eliminating the backlog of works required on roads, footpaths, drains, buildings and in parks and beaches in **7 years** and repaying **debt**. These results are closely followed by **Option 5** which is projected to result in the ability to increase services by **$40m** over four years (**$149 per resident**), rising to **$235m over ten years** (**$869 per resident**) while meeting the seven 'Fit for the Future' ratio benchmarks in **2 years,** eliminating the backlog of works required on roads, footpaths, drains, buildings and in parks and beaches in **5 years** and repaying **debt**.

An amalgamation of **Randwick and Waverley** (option 3) may result in increased services of **$15m over four years** (**$73 per resident**) increasing to **$103m over ten years** (**$485 per resident**), while meeting the seven 'Fit for the Future' ratio benchmarks in **3 years**, eliminating the backlog of works required on roads, footpaths, drains, buildings and in parks and beaches in **5 years** and repaying **debt**. This option is estimated to be the least costly amalgamation at $12m over four years. The information available on Waverley Council's financial position and projections is comprehensive in many areas and additional service level work was undertaken with this Council to better understand the services and levels offered. In addition to being more informed, this option is considered to involve less risk exposure as the council has sufficient cash to fund its future liabilities, in part due to the $82m sale of the council's former depot in Zetland. Grant Thornton advised Waverley Council that this is "the strongest option for Waverley", with Randwick being a "strongly attractive option as part of any combination, but more so when it is not diluted by any other council"[1].

The addition of **Botany** (option 4) to the **Randwick and Waverley** amalgamation option increases the value of extra services to **$24m over four years** (**$95 per resident**) and **$143m over ten years** (**$559 per resident**), while meeting the seven 'Fit for the Future' ratio benchmarks in **three years**, eliminating the backlog of works required on roads, footpaths, drains, buildings, parks and beaches in **seven years** and repaying **debt**. It should be noted potential issues in the ratio of Botany's cash to liabilities have not been addressed and the expenditure required on assets as we have little available information on this council.

An amalgamation of **Randwick and Botany** (option 2) would result in a comparatively modest increase in services of **$2m over four years** (**$11 per resident**) rising to **$28m over ten years** (**$153 per resident**) **over ten years** while meeting the six 'Fit for the Future' ratio benchmarks in **all ten years of the analysis** (excluding the debt service ratio as these councils are debt free), eliminating the backlog of works required on roads, footpaths, drains, buildings and in parks and beaches in **seven years** and remaining **debt free**. Again, it should be noted there is little information available on Botany's liabilities and assets.

An amalgamation of **Randwick with Waverley, Woollahra, Botany and Sydney** (option 7) has greater risk exposure and greater complexity. This option is estimated to result in an increase in services equivalent to **$8m over four years** (**$15 per resident**) and **$146m over ten years** (**$288 per resident**). Sydney's costs are largely driven by their non-resident services, resulting in different service requirements to eastern suburbs councils. This may result in diseconomies of scale with the new council being so complex that inefficiency begins to exceed any amalgamation savings. This is also the most expensive amalgamation estimated to cost $43m over four years[2], increasing to

[1] Grant Thornton, *Waverley Council – Technical Assistance FFTF*, Mar 2015, p28

$107m over ten years. The cost of accommodating staff in existing City of Sydney buildings, including Town Hall House would result in a substantial loss of annual rental income as space within these buildings is currently leased to commercial tenants. These high costs and relatively smaller savings result in this option not meeting the Fit for the Future benchmarks until 2021, **five years** after the amalgamation and eliminating the backlog of works required on roads, footpaths, drains, buildings and in parks and beaches in **7 years**.

[2] According to an article in the Sydney Morning Herald (McKenny, L, *Cost of council rationalisation could significantly exceed $445 million*, 25 Mar 2015), the NSW Parliamentary Budget Office estimated an amalgamation of Randwick, Waverley, Woollahra, Botany and Sydney councils would initially cost **$37.6m**. We assume this cost did not factor in the significant cost of CBD office space for the expanded workforce.

### Table 1 Summary of Financial Results – Four Years

| | OPTION 1 | OPTION 2 | OPTION 3 | OPTION 4 | OPTION 5 | OPTION 6 | OPTION 7 |
|---|---|---|---|---|---|---|---|
| | RANDWICK | RANDWICK + BOTANY | RANDWICK + WAVERLEY | RANDWICK + WAVERLEY + BOTANY | RANDWICK + WAVERLEY + WOOLLAHRA | RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
| **Value of increased/new services over four years*** | $0 M | $2 M | $15 M | $24 M | $40 M | $52 M | $8 M |
| **Value of increased/new services per resident over four years*** | $0 | $11 | $73 | $95 | $149 | $164 | $15 |
| **# of 'Fit for the Future' ratios met** | 6 / 7** | 6 / 7** | 7 / 7 | 7 / 7 | 7 / 7 | 7 / 7 | 6 / 7*** |

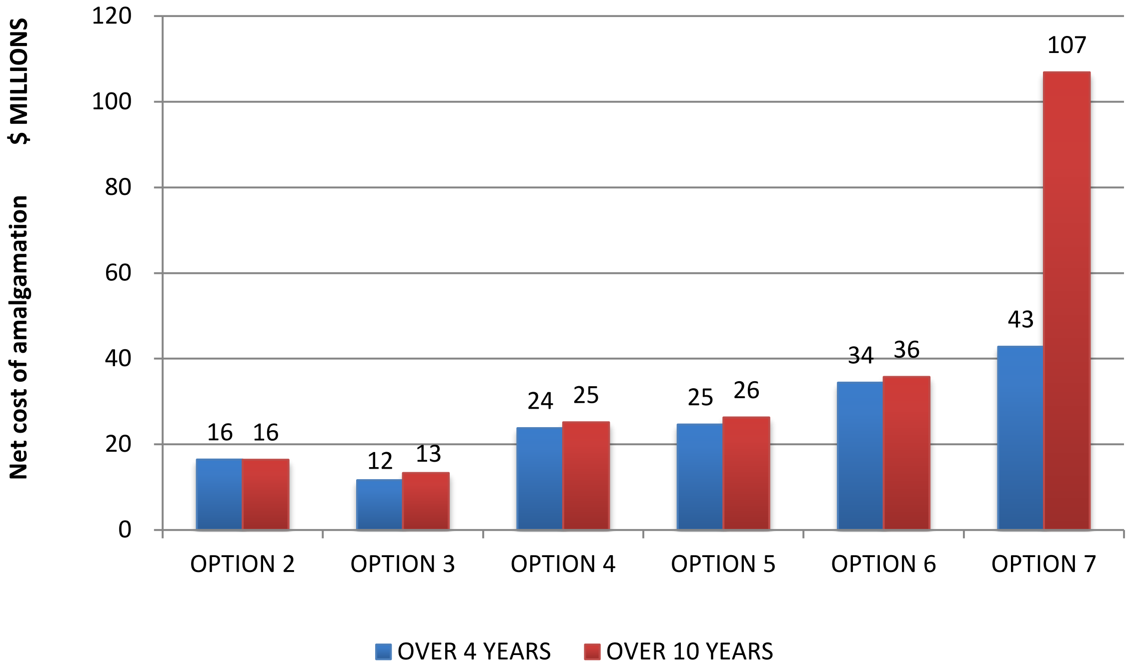
### Table 2 Summary of Financial Results – Ten Years

| | OPTION 1 | OPTION 2 | OPTION 3 | OPTION 4 | OPTION 5 | OPTION 6 | OPTION 7 |
|---|---|---|---|---|---|---|---|
| | RANDWICK | RANDWICK + BOTANY | RANDWICK + WAVERLEY | RANDWICK + WAVERLEY + BOTANY | RANDWICK + WAVERLEY + WOOLLAHRA | RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
| **Value of increased/new services over ten years*** | $0 M | $28 M | $103 M | $143 M | $235 M | $278 M | $146 M |
| **Value of increased/new services per resident over ten years*** | $0 | $153 | $485 | $559 | $869 | $884 | $288 |
| **# of 'Fit for the Future' ratios met** | 6 / 7** | 6 / 7** | 6 / 7** | 6 / 7** | 7 / 7 | 7 / 7 | 7 / 7 |

* The value of increased/new services over ten years is the value after funding amalgamation costs, working towards eliminating operational debt and the infrastructure backlog of works, increasing asset expenditure to meet the 'Fit for the Future' benchmarks, while continuing to deliver all capital works projects outlined in each council's ten year Long Term Financial Plan and maintaining existing service levels. No increase in rates or new debt is required.
** Fails debt service ratio as debt is $0 - however with just $1 of debt this ratio would also be met.
*** Fails building and infrastructure asset renewals ratio (i.e. assets depreciate faster than they are replaced)

The cost of amalgamation ranged from $12m (Randwick and Waverley (option 3)) to $43m (Randwick, Waverley, Woollahra, Botany and Sydney (option 7)) over four years. These costs include information and communication technology, new staff facilities and relocation costs, rebranding, redundancies for senior staff, community and staff consultation and legal and audit services. The amalgamation grant from the State Government of $10.5m plus $3m for every 50,000 residents over a population of 250,000 has also been deducted from these costs.

**Figure 1 Cost of amalgamation - net State Government grant**




While a number of challenges and weaknesses along with strengths and opportunities have been identified for each option, some of these issues are better understood than others as the majority of this report has been based only on publically available information. In particular, if the Council was to seek an amalgamation which included Botany Council, additional information would be required to better understand the costs and benefits of amalgamation.

With Randwick City Council already in a strong financial position any amalgamation will impact this position in the short term. A larger eastern suburbs council will create an organisation with a stronger financial position, more capable of delivering the expected level of capital, infrastructure and maintenance investment across the eastern suburbs in the long term.

## Fit for the Future Ratios

### Table 3 Fit for the Future Ratios

| | Number of Fit for the Future benchmarks met | | | |
|---|---|---|---|---|
| | 2017 (Year 1) | 2020 (Year 4) | 2026 (Year 10) | Analysis |
| **OPTION 1 RANDWICK** | **6/7*** | **6/7*** | **6/7*** | Randwick meets 6 of the 7 benchmarks now and in every year of this analysis, only failing the debt service ratio as the council is debt free. With just $1 of debt the council would also meet this ratio. |
| **OPTION 2 RANDWICK + BOTANY** | **6/7*** | **6/7*** | **6/7*** | With deficits and an asset expenditure gap Botany meets 3 of the 7 benchmarks now and is projecting to only meet 2 of the benchmarks from 2016 onwards. The strength of Randwick's financial position in addition to the efficiencies achieved through amalgamation result in this group **meeting all the benchmarks from day one** (excluding the debt service ratio as both councils have no debt) while retaining their debt free position.<br><br>In order to sustain this result and eliminate the infrastructure backlog of works an additional **$15m** from efficiency gains is used to fund extra capital expenditure. |
| **OPTION 3 RANDWICK + WAVERLEY** | **5/7** | **7/7** | **6/7*** | With both increasing costs and a deficit in 2013-14 and an asset expenditure gap both now and projected into the future Waverley meets only 2 of the 7 benchmarks now. While their position is forecasted to improve to meet 5 benchmarks in 2015 and 6 benchmarks by 2020, an amalgamation with Randwick will strengthen their position in addition to raising service levels through amalgamation efficiencies and repaying Waverley's debt (currently $3m). While this amalgamation option initially fails the Building and Infrastructure Renewal ratio and the Asset Maintenance ratio with an asset expenditure gap of $0.5m, by **year 3** the group meets all 7 benchmarks.<br><br>In order to sustain this result and eliminate the infrastructure backlog of works an additional **$10m** from efficiency gains is used to fund extra capital expenditure. |

| | Number of Fit for the Future benchmarks met | | | |
|---|---|---|---|---|
| | 2017 (Year 1) | 2020 (Year 4) | 2026 (Year 10) | Analysis |
| **OPTION 4 RANDWICK + WAVERLEY + BOTANY** | **5/7** | **7/7** | **6/7*** | An amalgamation of Randwick with Botany and Waverley Councils will initially weaken the performance against the benchmarks with the group failing the Building and Infrastructure Renewal ratio and the Asset Maintenance ratio by $0.9m. However by **year 3** the amalgamated council would meet all 7 of the benchmarks, falling to 6 ratios in year 7 as once Waverley's debt is eliminated the group will fail the debt service ratio.<br><br>In order to sustain this result and eliminate the infrastructure backlog of works an additional **$25m** from efficiency gains is used to fund extra capital expenditure. |
| **OPTION 5 RANDWICK + WAVERLEY + WOOLLAHRA** | **6/7** | **7/7** | **7/7** | Woollahra currently fails the Operating Performance ratio due to successive deficits over the past 3 years (average $2.4m each year) and the Building and Infrastructure Renewal ratio with a shortage of $0.9m in expenditure on renewing assets in 2013-14. However, using the proceeds from the sale of two sites, the council is working towards addressing these issues in their Long Term Financial Plan. This amalgamation option would fail the Asset Maintenance ratio in year 1 by $0.1m however by **year 2** all 7 benchmarks are met.<br><br>In order to sustain this result and eliminate the infrastructure backlog of works an additional **$17m** from efficiency gains is used to fund extra capital expenditure. |
| **OPTION 6 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY** | **6/7** | **7/7** | **7/7** | This amalgamation option also fails the Asset Maintenance ratio in year 1 by $0.6m but is projected to meet all 7 benchmarks by **year 3**. Efficiency gains fund **$32m** of extra asset expenditure over ten years in order to sustain this result and eliminate the backlog of infrastructure works |

| | Number of Fit for the Future benchmarks met | | | |
|---|---|---|---|---|
| | 2017 (Year 1) | 2020 (Year 4) | 2026 (Year 10) | Analysis |
| **OPTION 7 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY** | **6/7** | **6/7** | **7/7** | Initially failing the Asset Maintenance ratio in year 1 by $2m, this option is projected to meet all 7 ratios by **year 5**. However **$92m** from efficiency gains is used to the address the ongoing asset expenditure gap of this group over ten years. |

* Fails debt service ratio as no debt is held - however if the council had just $1 of debt it would meet this ratio too.

## Current situation

**Randwick**

Randwick Council is in a strong financial position with a history of generating operating surpluses, strong capital works programs and sound liquidity, while remaining **debt free** for over a decade. The council **meets all benchmarks** now and into the future, with the exception of the debt service ratio. However if the council had just $1 of debt it would meet this ratio too.

**Waverley**

With both increasing costs, a deficit in 2013-14 and an asset expenditure gap both now and projected into the future Waverley meets only 2 of the 7 benchmarks now, 5 benchmarks in 2015 and 6 benchmarks by 2020.

Waverley Council was assessed by TCorp in 2014 to have a **moderate** level of financial sustainability with a **positive** outlook. The council's recent sale of their depot in Zetland for $82m has contributed to their positive outlook, with the council considering investing these funds into some of their investment property located in the Bondi Junction commercial centre along with $25m towards a new shared depot with Woollahra Council. The council owns a number of properties including four child care centres (also operated by the council), Eastgate car park, the Spotlight and Officeworks buildings in Ebley Street Bondi Junction and a number of affordable housing properties. The council has traditionally sought debt for annual capital expenditure programs, with a current debt of $3m. Waverley has sufficient cash to cover its liabilities, with 100 per cent of bonds and deposits collected by the council held in a cash reserve ($15.6m).

**Woollahra**

Woollahra currently fails the Operating Performance ratio due to successive deficits over the past 3 years (average $2.4m each year) and the Building and Infrastructure Renewal ratio with a shortage of $0.9m in expenditure on renewing assets in 2013-14. However, the council is working towards addressing these issues in their Long Term Financial Plan.

Woollahra Council was assessed by TCorp in 2014 to have a **moderate** level of financial sustainability with a **positive** outlook. The council's recent sale of property for $65m (including their Waterloo depot) and a joint venture with Woolworths in Double Bay has contributed to their positive outlook. The council's debt is currently $64m however this includes a loan from Woolworths. The Woolworths development is estimated to be worth $120m on completion with $76.7m borrowed against this development by the council. The council will own the development with Woolworths leasing part of the building for thirty years (the same term as the loan). Excluding this joint venture the council has a debt of **$6m** with no further operational loans forecasted in their Long Term Financial Plan.

**Botany**

With deficits and an asset expenditure gap Botany meets 3 of the 7 benchmarks now and is projecting to only meet 2 of the benchmarks from 2016 onwards.

Botany Council was assessed by TCorp in 2014 to have a **moderate** level of financial sustainability with a **neutral** outlook, meaning there is no change in their position forecasted over the next three years.

The Council's highest source of income, at just under $18m, is property development contributions. Representing 24 per cent of Botany's income this money can only be used for works detailed in the

Council's Mascot Section 94 Contributions Plan (adopted 2004) and City of Botany Bay Section 94 Contributions Plan 2005-2010 (adopted 2006)

Unlike other councils in the study group, Botany does not raise income through property rent or paid parking. However the council has a $6.3m per annum contract with Sydney Airport to provide maintenance and cleaning services. This council is debt free.

**Sydney**

With both increasing costs and an asset expenditure gap Sydney currently meets only 2 of the 7 benchmarks. The council was assessed by TCorp in 2013 to have a **strong** level of financial sustainability with a **positive** outlook.

Distinct from other local government organisations, Sydney's largest income source is business rates, representing one third of total income at $190m. In contrast, residential rates are the largest source of income for Randwick, Waverley and Woollahra Councils. However with high rates in the Port Botany area, Botany raises almost double the rates from businesses than residents.

To support these businesses, tourism and promote investment in Sydney City, the council's cost structure is very different to traditional councils (like those in the Eastern Suburbs) with particularly high costs in areas such as street cleaning, parking, traffic management and events.

Sydney's second highest source of funds is developer contributions ($77m), with major developments in Green Square and Harold Park. The council's significant investment property portfolio generates the council's third largest source of income ($54m rental income) closely followed by paid parking ($45m). Sydney is debt free and has allocated 85 per cent of its internally restricted cash to a number of major capital works projects including Green Square Town Centre ($440m project cost) and the George Street/Light Rail integration project ($220m project cost). Sydney are concerned an amalgamation could "potentially have significant financial ramifications" for these projects.[3]

[3] City of Sydney, *Resourcing Strategy 2014,* p4

### Table 4 Snapshot of the Current Situation

| | Randwick | Waverley | Woollahra | Botany | Sydney |
|---|---|---|---|---|---|
| TCorp Assessment – Current financial sustainability | Sound | Moderate | Moderate | Moderate | Strong |
| TCorp Assessment – Financial sustainability outlook | Positive | Positive | Positive | Neutral | Positive |
| OLG Infrastructure Audit – Infrastructure Management | Very Strong | Strong | Strong | Moderate | Strong |
| Staff | 522 | 601 | 376 | 322 | 1,773 |
| Budget – 2014-15 | $158m | $144m | $107m* | $66m | $761m |
| Average residential rates | $1,075 | $1,058 | $1,118 | $689 | $654 |
| Residential rates | $52m | $30m | $27m | $10m | $59m |
| Business rates | $13m | $12m | $5m | $16m | $199m |
| Cost per resident of providing services - 2014-15 budget | $879 | $1,405 | $1,443 | $1,316 | $2,664 |
| Debt | $0 | $3m | $6m* | $0 | $0 |
| Infrastructure backlog | $7m | $12m | $5m ** | $11m | $67m |
| Asset renewal and maintenance annual expenditure gap | $0 | $6m | $1m | $2m | $16m |
| Fit for the Future ratios met | **6/7** (fails debt service ratio as debt is $0) | **2/7***** | **5/7****** | **3/7** | **2/7** |

**Sources: 2012-13 Comparative Data Return, 2014-15 Operational Plans and 2009 to 2013-14 Financial Statements and Woollahra Council's revised Special Schedule 7 published February 2015.**

* Excludes Kiaora Lands joint venture between Woollahra and Woolworths (refer to pages 39-40).
** In Feb 2015 Woollahra Council advised they have reviewed their backlog since the publication of their last financial statements (2013-14), resulting in a reduction in the backlog from the reported $15m to $5m.
***Waverley's ratios are consistent with those calculated by Grant Thornton in their report 'Waverley Council – Technical Assistance FFTF' (Mar 2015).
****Woollahra's ratios are consistent with those published in their draft Long Term Financial Plan (1 Dec 2014 Corporate and Works Committee report).

## The Options Analysis Model

**Step 1 - Current Position and Projections:** The current financial situations and projections of each council have been compiled primarily from publically available documents published by each council. With this information a comparison and review of the revenue and cost structure, asset expenditure and liabilities of each council was carried out. This analysis found no council currently meets the seven Fit for the Future ratios, however Randwick only fails the Debt Service Ratio as the council has no debt. With the exclusion of this ratio, only Randwick and Woollahra meet the six remaining ratios in 2020. By 2024 only Randwick meets the six ratios, with Woollahra's asset renewal expenditure falling below the required level in the later years of their financial plan.

**Step 2 - Financial Analysis of Options - Base Case (layer one):** In order to compare the results of each amalgamation option, each council's current results and projections were summed together for each option to illustrate if, as a group, those councils would meet the ratios before considering any costs or benefits of amalgamation. The only amalgamation option that would meet the Fit for the Future benchmarks was Botany and Randwick, because the strength of Randwick's results was sufficient to pull that option over the benchmarks. However, overall Randwick's results are weakened through the addition of Botany.

**Step 3 - Financial Analysis of Options - Economies of Scale (layer two):** Based on a service orientated financial model designed by SGS Economics and Planning in 2013[4], the estimated efficiencies from an amalgamation were projected for each amalgamation option. The model assumes operational costs are based on Randwick's service costs per dwelling for areas such as public order and safety, housing and community amenities, transport and communication and governance and administration. Where other councils offered higher or additional services, adjustments were made to reflect this. Other areas are based on each council's current costs.

This service model did not apply to Sydney as their costs are very different to the mainly residential areas in the eastern suburbs. There is a clear distinction between the City of Sydney and the Eastern Suburbs councils. The City of Sydney is a **major metropolitan employment centre** and is recognised as a significant stakeholder in Australia's economy. The City of Sydney has a strong **level of investment** in regional and state projects and the area is home to numerous **international tourist attractions**. Costs in areas such as street cleaning, transport and events are significantly higher than those of the Eastern Suburbs councils as they provide services for the **one million** workers, visitors and residents in the city on any one day.

Additional expenditure was made in order to meet the Fit for the Future ratios, eliminate the infrastructure backlog and repay debt for each option. At this point all options met the Fit for the Future ratios within four years, with Option 6 (Randwick, Waverley, Woollahra and Botany) generating the strongest result of $969 per resident increase in service levels and new services over ten years. This does not include amalgamation costs.

**Step 4 - Financial Analysis of Options - Amalgamation Cost (layer three):** The cost of the amalgamation process, particularly in the first four years of the new council, were estimated as part of this final step in the financial analysis. The costs included information and communication technology, senior officer redundancies and administration and depot costs. Deducting the State Government grant from this, costs ranged from $13m for an amalgamation of Randwick and Waverley to $107m for the Global City option over ten years. These costs included rental income foregone over the same period as council staff would require space currently leased out to tenants by some of these councils.

[4] SGS, *Eastern Sydney Local Government Review*, Feb 2013.

After funding these amalgamation costs and allowing for a payback period, additional funds were allocated to eliminate the infrastructure backlog, meet all the Fit for the Future benchmarks and repay the operational debt of Waverley and Woollahra Councils. Within 4 years all eastern suburbs options met the ratios (excluding debt), however the Global city option failed the asset renewal ratio. By 2026 all options do meet all the ratios, are debt free and have no infrastructure backlog. This is achieved without increasing rates beyond the standard Local Government inflation index (LGCI) or reducing services and programs.

**Sensitivity testing:** In order to test the robustness of the model and determine the sensitivity of the results four scenarios were tested to understand their impact on the results. The tests involved either increasing Randwick's service costs or decreasing rates. This testing found the model was much more sensitive to the unlikely event that councils would be required to decrease rates rather than an increase in the estimated cost of services.

# Financial context

2. Current position and projections

FINANCIAL CONTEXT

Appendix C

## 2. Current position and projections (STEP 1 OF 4)

This section provides an overview of the revenue and cost structure of each of the five councils and their current and long term financial sustainability under the base case (i.e. if each council continues to operate independently). This high level analysis of the current financial position and projections has been compiled from the most recent public documents published by the five councils.

### 2.1 Snapshot of the Current Situation

| | Randwick | Waverley | Woollahra | Botany | Sydney |
|---|---|---|---|---|---|
| TCorp Assessment - Current financial sustainability | Sound | Moderate | Moderate | Moderate | Strong |
| TCorp Assessment - Financial sustainability outlook | Positive | Positive | Positive | Neutral | Positive |
| OLG Infrastructure Audit - Infrastructure Management assessment | Very Strong | Strong | Strong | Moderate | Strong |
| Staff | 522 | 601 | 376 | 322 | 1,773 |
| Population per staff member | 273 | 118 | 153 | 134 | 108 |
| Budget | $158m | $144m | $107m* | $66m | $761m |
| Cost per resident of providing services - 2014-15 budget | $879 | $1,405 | $1,443 | $1,316 | $2,664 |
| Cost per resident of providing services - 2013-14 actual cost | $879 | $1,599 | $1,360 | $1,310 | $2,609 |
| Debt | $0 | $3m | $6m* | $0 | $0 |
| Infrastructure backlog | $7m | $12m | $5m ** | $11m | $67m |
| Asset renewal and maintenance annual expenditure gap | $0 | $6m | $1m | $2m | $16m |

**Sources: 2012-13 Comparative Data Return, 2014-15 Operational Plans and 2013-14 Financial Statements**

* Excludes Kiaora Lands joint venture between Woollahra and Woolworths (refer to pages 39-40).
** In Feb 2015 Woollahra Council advised they have reviewed their backlog since the publication of their last financial statements (2013-14), resulting in a reduction in the backlog from the reported $15m to $5m.

## 2.2 'Fit for the Future' Self-Assessment Tool

The Office of Local Government has prepared a self-assessment tool, based on the work of NSW Treasury Corporation and reviewed by the IPART, to assist each council establish if they are fit for the future against seven benchmarks. The following table is a summary of the results for the five councils.

**Table 5 Current assessment against Fit for the Future Benchmarks – as at 30 June 2014**

| | Criteria | Benchmark | Randwick | Waverley | Woollahra | Botany | Sydney |
|---|---|---|---|---|---|---|---|
| Sustainability | **1. Operating Performance Ratio** | Greater or equal to 0 | ● 3.3% | ● -3.1% | ● -3.5% | ● -2.7% | ● 4.4% |
| Sustainability | **2. Own Source Operating Revenue Ratio** | Greater than 60% | ● 89% | ● 87% | ● 91% | ● 72% | ● 85% |
| Sustainability | **3. Building and Infrastructure Renewals Ratio** | Greater than 100% | ● 108% | ● 51% | ● 74% | ● 85% | ● 77% |
| Effective Infrastructure and Service Management | **4. Infrastructure Backlog Ratio *(SS7)*** | Less than 2% | ● 0.70% | ● 2.62% | ● 1.36% | ● 6.93% | ● 3.83% |
| Effective Infrastructure and Service Management | **5. Asset Maintenance Ratio *(SS7)*** | Greater than 100% | ● 139.5% | ● 99.6% | ● 102.3% | ● 130.2% | ● 88.3% |
| Effective Infrastructure and Service Management | **6. Debt Service Ratio** | Range 0.01% to 20% | ● 0.00% | ● 1.4% | ● 2.1% | ● 0.00% | ● 0.00% |
| Efficiency | **7. Change in Real Operating Expenditure Per Capita** | No upward trend over 5yrs | ● Decreasing | ● Increasing | ● Decreasing | ● Decreasing | ● Increasing |
| | | ● | 6/7 | 2/7 | 5/7 | 3/7 | 2/7 |

**Source: 2009-10 to 2013-14 Financial Statements and Woollahra Council's revised Special Schedule 7 published February 2015. Waverley's ratios are consistent with those calculated by Grant Thornton in their report 'Waverley Council – Technical Assistance FFTF' (Mar 2015). Woollahra's ratios are consistent with those published in their draft Long Term Financial Plan (1 Dec 2014 Corporate and Works Committee report)**

None of the five councils meet all seven benchmarks. Randwick meets six out of the seven benchmarks, failing the Debt Service Ratio as the council has no debt. If Randwick had just $1 of debt it would also meet this benchmark.

### 2.3 'Fit for the Future' Self-Assessment Tool - Over Forward Projections

Each council in NSW is required to publish a Resourcing Strategy, including a Long Term Financial Plan and Asset Management Plans, under Integrated Planning and Reporting requirements. Each council's most recent, publically available plans have been tested against the Fit for the Future Self-Assessment tool. The plans sourced are listed in the following table.

**Table 6 Council documents - Long Term Financial Plan and Asset Management Plans**

| Council | Long Term Financial Plan | Asset Management Plans |
|---|---|---|
| Randwick | 2015-16 to 2024-25<br>"Model 1 Integrated Planning Rate"<br>Published February 2015 | 2013-14 to 2022-23<br>Published 2012 |
| Waverley | 2013-14 to 2023-24<br>LTFP4<br>Published 18 June 2013<br><br>And 'Waverley Council – Technical Assistance FFTF March 2015' by Grant Thornton | 2012-13 to 2023-24<br>SAMP 4<br>March 2013 |
| Woollahra | Draft LTFP<br>'Non SRV Model'<br>1 Dec 2014 Corporate and Works Committee – p32-51<br>2011-12 to 2028-29 | 2011-12 to 2020-21<br>Version 1<br>March 2011 |
| Botany | 2014-15 to 2024-25<br>(comprises an income statement only) | Unavailable<br>Assumed expenditure continues at current rates with conditions and requirements remaining the same. |
| Sydney | 2014-15 to 2023-24<br>Long Term Financial Plan 2014 | 2014-15 to 2023-24<br>Asset Management Plan 2014 |

**Table 7 Source of information and assumptions – Self Assessment Tool projections**

| Criteria | Council | Source |
|---|---|---|
| 1. Operating Performance Ratio | Randwick<br>Waverley<br>Woollahra<br>Botany<br>Sydney | Published Financial Statements and Long Term Financial Plans |
| 2. Own Source Operating Revenue Ratio | Randwick<br>Waverley<br>Woollahra<br>Botany<br>Sydney | Published Financial Statements and Long Term Financial Plans |

| Criteria | Council | Source |
|---|---|---|
| 3. Building and Infrastructure Renewals Ratio | Randwick<br>Woollahra<br>Sydney | Published Long Term Financial Plans.<br><br>Assume Sydney's "Programs" Capital Works plan relates to renewal works (LTFP p41) |
| | Waverley | Grant Thornton report p32. |
| | Botany | No information available. Assume renewal rate remains at the 3 year average to 30/6/2014 (84.7%). |
| 4. Infrastructure Backlog Ratio | Randwick<br>Woollahra | Published Long Term Financial Plans. |
| | Waverley | Grant Thornton report p32. |
| | Botany | No information available. Assume no change to the 2014 ratio of 6.9%. |
| | Sydney | Asset Management Plan lists the sustainability ratios of major asset classes as 0.96 (roads), 0.93 (drainage, 0.93 (parks), 0.97 (buildings). This equates to a $6.063m shortfall in funding by 2023-24 (p67). |
| 5. Asset Maintenance Ratio | Randwick<br>Woollahra | Published Long Term Financial Plans. |
| | Waverley | Grant Thornton report p32. |
| | Botany | No information available. Assume 90% each year as per Grant Thornton report p17. |
| | Sydney | No Information available. Assume 95% each year as per Grant Thornton report p35. |
| 6. Debt Service Ratio | Randwick<br>Waverley<br>Woollahra<br>Botany<br>Sydney | Published Long Term Financial Plans. |
| 7. Change in Real Operating Expenditure Per Capita | Randwick<br>Waverley<br>Woollahra<br>Botany<br>Sydney | Published Long Term Financial Plans.<br><br>Population:<br>Current – ABS 'Estimated Resident Population' released 3 April 2014<br>Projected – NSW Planning and Environment 'New South Wales State and Local Government Area Population Projections' 2014<br><br>Deflation index:<br>Current – IPART Local Government Cost Index<br>Projected – Deloitte Access Economics CPI forecasts published December 2014 |

**Attachment 2** details the assessment of each council's projections against the Fit for the Future benchmarks. Excluding the debt service ratio (as Randwick has no debt), only Randwick's projections meet the benchmarks in each year. Woollahra Council meets the benchmarks in the medium term, however expenditure on asset renewals declines in the long term, resulting in the council not meeting the asset renewal ratio from 2021 onwards.

Table 8 Status Quo - Assessment against Fit for the Future Benchmarks – Number of ratios that meet the seven benchmarks

| | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| **Council** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| Randwick | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Waverley | 2 | 5 | 4 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 |
| Woollahra | 5 | 5 | 5 | 5 | 6 | 7 | 7 | 6 | 6 | 6 | 6 |
| Botany | 3 | 4 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Sydney | 2 | 2 | 4 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |

Table 9 Status Quo - Assessment against Fit for the Future Benchmarks – Number of ratios that meet the six benchmarks (excl the debt service ratio)

| | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| **Council** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| Randwick | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Waverley | 1 | 4 | 3 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 |
| Woollahra | 4 | 4 | 4 | 4 | 5 | 6 | 6 | 5 | 5 | 5 | 5 |
| Botany | 3 | 4 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Sydney | 2 | 2 | 4 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |

The above tables project Randwick's position is consistently strong over the ten years, with the council continuing to meet all but the Debt Service benchmark (as the council has no plans to seek loans in the future).

There is an improving trend in Waverley and Woollahra's position over the next six years. However from 2021 Woollahra's Building and Infrastructure Renewals Ratio begins to decline. Waverley does not meet the Building and Infrastructure Asset Renewal ratio at any point over the next ten years. Grant Thornton stated in their report "Waverley Council – Technical Assistance FFTF" (Mar 2015, p32) that "historically, Waverley has not been able to service its assets as required and there has been no evidence presented to suggest that will not continue to be the case to FY20".

Botany Council's position deteriorates over the 10 year plan, with the council only meeting two of the seven criteria from year two of their Long Term Financial Plan onwards. There is limited information available publically on the council's asset and financial plans, however the Income Statement in their Long Term Financial Plan does forecast a deficit before capital grants and contributions in each year of the ten year plan. Given this deficit, there is no evidence to suggest the council will raise the necessary funds required to meet the asset management benchmarks. In 2013 NSW Treasury Corporation assessed the council's financial sustainability and, with reference to their 2011-22 Long Term Financial Plan, commented "Council's Capital Expenditure Ratio is well below benchmark for the entire forecast period. In 2013 IPP&E purchases have been forecast to decrease by $3.2m to $1.7m which is what has been approved by Council."[5]

Sydney's Asset Management Plan forecasts the council's backlog will reduce from $66.6m in 2014 to $6m in 2024. This improves the council's performance against the benchmarks over the projected period. However, from the information available, expenditure on building and infrastructure asset renewals continues to be lower than annual depreciation of these assets.

### 2.4 Infrastructure and Financial Sustainability Assessments

In 2013 the Office of Local Government (OLG) undertook an infrastructure audit of every council in NSW and engaged NSW Treasury Corporation (TCorp) to review the financial sustainability of each council. In 2014 the 4 eastern suburbs councils engaged TCorp to update their review. Table 10 sets out the latest results of these reviews.

**Table 10 External Infrastructure and Financial Sustainability Assessments**

| Assessment | Randwick | Waverley | Woollahra | Botany | Sydney |
|---|---|---|---|---|---|
| TCorp Assessment - Current financial sustainability | **Sound (May 2014)** | Moderate (May 2014) | Moderate (Feb 2014) | Moderate (July 2014) | Strong (Jan 2013) |
| TCorp Assessment - Financial sustainability outlook | **Positive (May 2014)** | Positive (May 2014) | Positive (Feb 2014) | Neutral (July 2014) | Positive (Jan 2013) |
| OLG Audit - Infrastructure Management (June 2013) | **Very Strong** | Strong | Strong | Moderate | Strong |

[5] NSW Treasury Corporation, "City of Botany Bay Council – Financial Assessment, Sustainability and Benchmarking Report" 9 April 2013 p23

## 2.5 Service costs[6]

The following table compares the service costs, broken down by function and activity, for the financial year 2013-14. In this period **Randwick incurred the lowest service cost of $879 per resident** while Sydney's service cost of $2,609 is distorted by the services they provide to visitors and working non-residents.

There is a clear distinction between the City of Sydney and the Eastern Suburbs councils. The City of Sydney is a **major metropolitan employment centre** and is recognised as a significant stakeholder in Australia's economy. The City of Sydney has a strong **level of investment** in regional and state projects and the area is home to numerous **international tourist attractions**. Costs in areas such as street cleaning, transport and events are significantly higher than those of the Eastern Suburbs councils as they provide services for the **one million** workers, visitors and residents in the city on any one day.

Table 11 Service costs by function and activity – 2013-14

| Service costs $'000 | Randwick | Waverley | Woollahra | Botany | Sydney |
|---|---|---|---|---|---|
| Governance | **3,782** | 0 | 2,790 | 0 | 5,756 |
| Administration | **2,318** | 10,045 | 18,372 | 9,045 | 202,534 |
| Public Order and Safety | **7,314** | 6,943 | 5,671 | 1,343 | 28,548 |
| Health | **75** | 972 | 359 | 57 | 13,110 |
| Environment and Street Cleaning | **14,963** | 7,096 | 4,373 | 2,807 | 27,618 |
| Solid Waste Management | **26,754** | 16,273 | 9,235 | 6,609 | 27,558 |
| Community Services and Education | **6,076** | 10,504 | 3,058 | 4,338 | 15,823 |
| Housing and Community Amenities | **13,733** | 9,997 | 6,710 | 2,255 | 35,550 |
| Recreation and Culture | **29,414** | 21,769 | 12,155 | 13,467 | 68,416 |
| Mining, Manufacturing and Construction | **2,807** | 938 | 1,324 | 3,151 | 0 |
| Transport and Communication | **13,557** | 13,010 | 11,123 | 6,578 | 28,148 |
| Parking Areas | **3,765** | 14,428 | 1,498 | 5 | 9,481 |
| Economic Affairs | **493** | 1,051 | 1,800 | 7,045 | 38,196 |
| **TOTAL $'000** | **125,051** | **113,026** | **78,468** | **56,700** | **500,738** |
| **Total service costs per resident ($)** | **879** | **1,599** | **1,360** | **1,310** | **2,609** |
| **Population** | **142,310** | **70,706** | **57,677** | **43,292** | **191,918** |

Source: 2013-14 Financial Statements (please note the "cost per resident of providing services" printed in the 'Randwick City's Future' Information Pack (Feb 2015) is based on each council's 2014-15 Original Budget).

The highest costs for eastern suburbs councils are waste management and recreation and culture activities including libraries, pools, parks and gardens. While Sydney reported over 40 per cent of their costs relate to administration, this may be partly due to the method of allocation of attributable administrative costs across service provision areas. The City of Sydney's costs are

[6] Based on Special Schedule 1 of the 2013-14 Financial Statements of each council – note this section of each Council's statements is not audited and there is some inconsistency in the way this statement is prepared across councils, in particular the distribution of directly attributable administration costs.

largely influenced by the services required by the 0.8 million workers and visitors travelling into the City each day[7]. Businesses are the most significant source of income for Sydney and the council has a responsibility to ensure major events and public facilities and spaces are of a high standard expected by these businesses, tourists and the broader Sydney population. Maintaining this level of expenditure within the CBD is essential to maintaining Sydney's competitive global position. Recognising the administrative and economic importance of the central business district of Sydney and its unique position in holding events of local, regional, national and international significance[8], Sydney is the only council in NSW that operates under its own act (City of Sydney Act 1988) with particular planning, traffic and transport management and election legislation related to this council.

**Table 12** compares the service costs for each function and activity net of any income the council receives attributable to those services. This does not include general purpose income such as council rates, interest on investments and the Financial Assistance Grant and capital grants and contributions. **Randwick's net cost of services is the lowest in the group at $451 per resident** and Sydney's the highest at $1,272 per resident.

Table 12 Service costs by function and activity net attributable operating income – 2013-14

| $'000 | Randwick | Waverley | Woollahra | Botany | Sydney |
|---|---|---|---|---|---|
| Governance | **3,782** | 0 | 2,770 | 0 | 5,756 |
| Administration | **856** | 7,155 | 17,714 | 5,535 | 169,616 |
| Public Order and Safety | **7,170** | 4,184 | (2,225) | 1,180 | (4,923) |
| Health | **75** | 679 | 264 | (578) | 5,902 |
| Environment and Street Cleaning | **9,985** | 6,886 | 3,262 | 2,804 | 27,000 |
| Solid Waste Management[9] | **(4,176)** | (630) | (4,263) | (175) | (6,328)[10] |
| Community Services and Education | **4,276** | 2,278 | 2,016 | 261 | 10,367 |
| Housing and Community Amenities | **10,888** | 3,886 | 4,631 | 1,725 | 22,878 |
| Recreation and Culture | **21,354** | 20,148 | 10,572 | 11,628 | 61,707 |
| Mining, Manufacturing and Construction | **1,810** | 741 | 393 | 772 | 0 |
| Transport and Communication | **10,803** | 10,502 | 5,946 | 4,704 | 13,709 |
| Parking Areas | **(1,502)** | (12,388) | (119) | 5 | (35,560) |
| Economic Affairs | **(1,179)** | (729) | (740) | 663 | (25,972) |
| **TOTAL $'000** | **64,142** | **42,712** | **40,221** | **28,524** | **244,152** |
| **Net service costs per resident ($)** | **451** | **604** | **697** | **659** | **1,272** |
| **Population** | **142,310** | **70,706** | **57,677** | **43,292** | **191,918** |

Source: 2013-14 Financial Statements

[7] City of Sydney "About Us". http://www.cityofsydney.nsw.gov.au/about-us. Accessed 21 Feb 2014.
[8] Local Government Acts Taskforce, *A New Local Government Act for NSW and Review of the City of Sydney Act* 1988, Oct 2013, p10.
[9] The waste management service is funded by a Domestic Waste Charge paid by residents. In addition to funding the operating cost of the service, it also funds the purchase of plant and equipment and the remediation of former landfill sites. This capital expenditure is not included in the net service costs table. City of Sydney are also setting aside funds from this levy to establish a 'waste to energy' facility.
[10] Sydney's Domestic Waste Charge income of $33.494m was reported in their 2013-14 Financial Statements as General Purpose Revenue. This income has been deducted from the waste management cost in this table to ensure consistency with the reporting of this income by the other four councils.

The largest sources of income directly attributable to services for these councils include domestic waste charges, on street and off street car parking fees, regulation enforcement fines (primarily parking related), rental income from properties and business activities such as leisure centres, child care centres and airport contract services.

Waverley Council, in particular, operate a number a business units including four child care centres, trade waste and cemetery services along with generating $6m from property rental agreements, $16m from paid parking and $11m from fines. Offsetting this income against costs brings the council's net cost of services closer to other councils in the eastern suburbs, as illustrated below.

Figure 2 Cost and Net Cost of Services - 2013-14

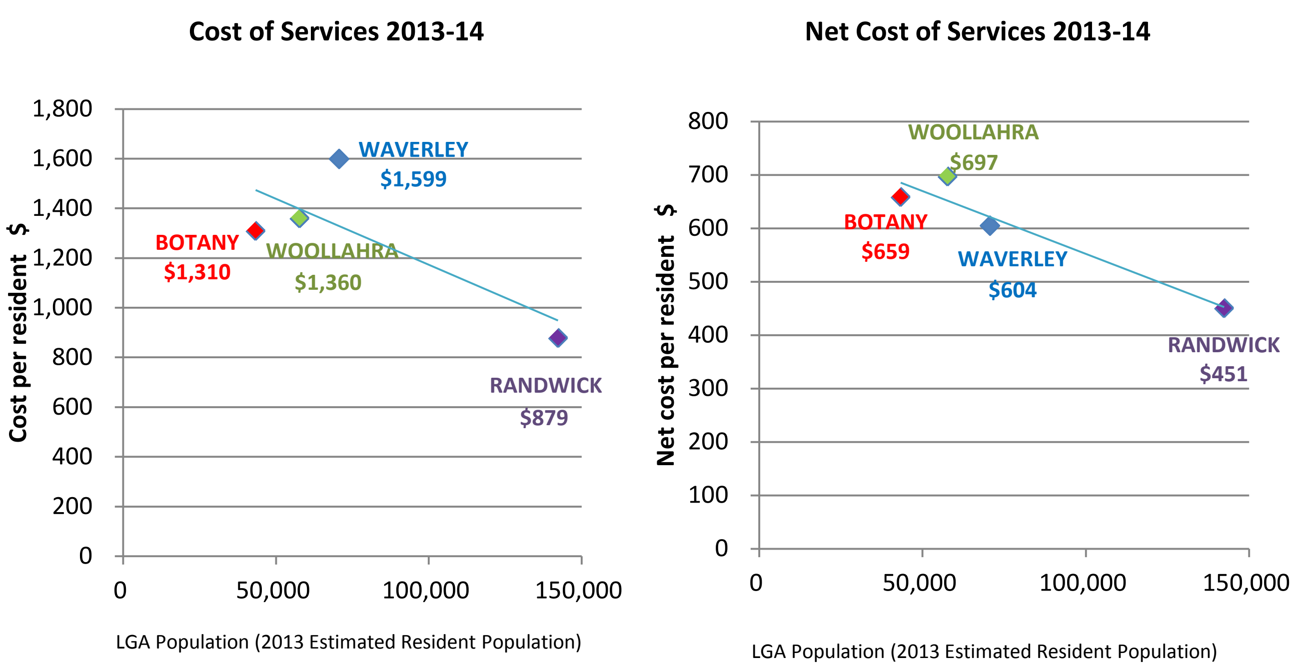



Figure 2 suggests that around 60% of the variation in operating expenditure per resident amongst eastern suburbs councils is inversely associated with their population and that operating expenditure per resident is lower the larger the population of the LGA. This variation increases to 91% on a net cost per service basis. Sydney has been excluded from this analysis as their costs are primarily influenced by non-resident services.

“Economies of scale and scope refer to the reductions in average costs that may be associated with higher output of a many-product organisation, including a local council” (IPART, ‘Review of Criteria for Fit for the Future’, Sept 2014). This high level analysis demonstrates both economies of scale and scope should be achievable in an amalgamation scenario where the **services required are similar**.

Incorporating the City of Sydney into an amalgamation group may result in diseconomies of scale due to their different service requirements, with the operation becoming “so large and complex that inefficiency begins to outstrip productive gains”.[11]

## 2.6 Income

The following table compares the 2013-14 sources of income for the five councils.

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11 Michel, Thomas, *‘Who Defines ‘Sustainability’? Perspectives on the recent transition from Community Councils to Regional Shires in the Northern Territory’*, 2011, p4.

Table 13 Income – 2013-14

| Income $'000 | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| Residential rates | **49,462** | 28,295 | 26,632 | 9,270 | 54,262 | **167,921** |
| Business rates | **12,788** | 11,022 | 4,540 | 15,882 | 190,076 | **234,308** |
| Special rate | **3,612** | 0 | 3,622 | 190 | 0 | **7,424** |
| **TOTAL RATES** | **65,862** | **39,317** | **34,794** | **25,342** | **244,338** | **409,653** |
| Domestic waste charge | **27,900** | 13,504 | 11,412 | 6,660 | 33,494 | **92,970** |
| Stormwater charge | **1,132** | 0 | 484 | 691 | 1,849 | **4,156** |
| s611 charges | **139** | 46 | 48 | 0 | 0 | **233** |
| **TOTAL ANN. CHARGES** | **29,171** | **13,550** | **11,944** | **7,351** | **35,343** | **97,359** |
| Parking meters and car parks | **637** | 16,010 | 1,763 | 0 | 45,045 | **63,455** |
| Other fees and charges | **14,519** | 15,967 | 8,005 | 14,713 | 50,119 | **103,323** |
| **TOTAL USER FEES AND CHARGES** | **15,156** | **31,977** | **9,768** | **14,713** | **95,164** | **166,778** |
| **TOTAL INTEREST AND INVESTMENT INCOME**[12] | **2,913** | **2,307** | **1,588** | **1,920** | **23,500** | **32,228** |
| Rental income | **2,761** | 5,979 | 5,591 | 0 | 54,442 | **68,773** |
| Enforcement of regulations fines | **4,161** | 10,853 | 5,918 | 631 | 33,792[13] | **55,355** |
| Other income[14] | **1,137** | 794 | 1,537 | 605 | 2,540 | **6,613** |
| **TOTAL OTHER INCOME** | **8,059** | **17,626** | **13,046** | **1,236** | **90,774** | **130,741** |
| Financial Assist. Grant* | **1,972** | 927 | 803 | 823 | 2,620 | **7,145** |
| Other operating grants and contributions | **5,087** | 5,859 | 1,698 | 5,925[15] | 8,358 | **26,927** |
| **TOTAL OPERATING GRANTS AND CONTRIBUTIONS** | **7,059** | **6,786** | **2,501** | **6,748** | **10,978** | **34,072** |
| **TOTAL OPERATING INCOME** | **128,220** | **111,563** | **73,641** | **57,310** | **500,097** | **870,831** |
| Developer capital contri | **3,938** | 4,637 | 1,939 | 17,788 | 76,828 | **105,130** |
| Other capital income[16] | **2,265** | 285 | 1,425 | 404 | 4,956 | **9,335** |
| **TOTAL CAPITAL GRANTS AND CONTRI** | **6,203** | **4,922** | **3,364** | **18,192** | **81,784** | **114,465** |
| **TOTAL INCOME**[17] | **134,423** | **116,485** | **77,005** | **75,502** | **581,881** | **985,296** |

Source: 2013-14 Financial Statements

* Financial Assistance Grant - in 2013-14 the FAG payment schedule was changed for all councils. The grant is no longer paid in advance by up to 50% each year. The Department of Infrastructure and Regional Development has advised the following 2014-15 estimated entitlement for each council:

| 2014-15 $'000 | Randwick | Waverley | Woollahra | Botany | Sydney | **TOTAL** |
|---|---|---|---|---|---|---|
| FAG | **3,848** | 1,877 | 1,608 | 1,178 | 5,279 | **13,790** |

[12] Excludes fair value movements in investments

[13] Note 1, page 21 - 50 per cent of net profits generated from parking enforcement within the CBD are payable to NSW Police ($6m in 2013-14 - recognised as an operating expense)

[14] Excludes fair value movements in investment property

[15] Includes $3.1m payment from Sydney Airport in lieu of rates

[16] Excludes capital dedications of assets (roads, stormwater drainage, etc usually from new developments)

[17] Excludes gain from the disposal of assets

**Figure 3 Income sources % - 2013-14**

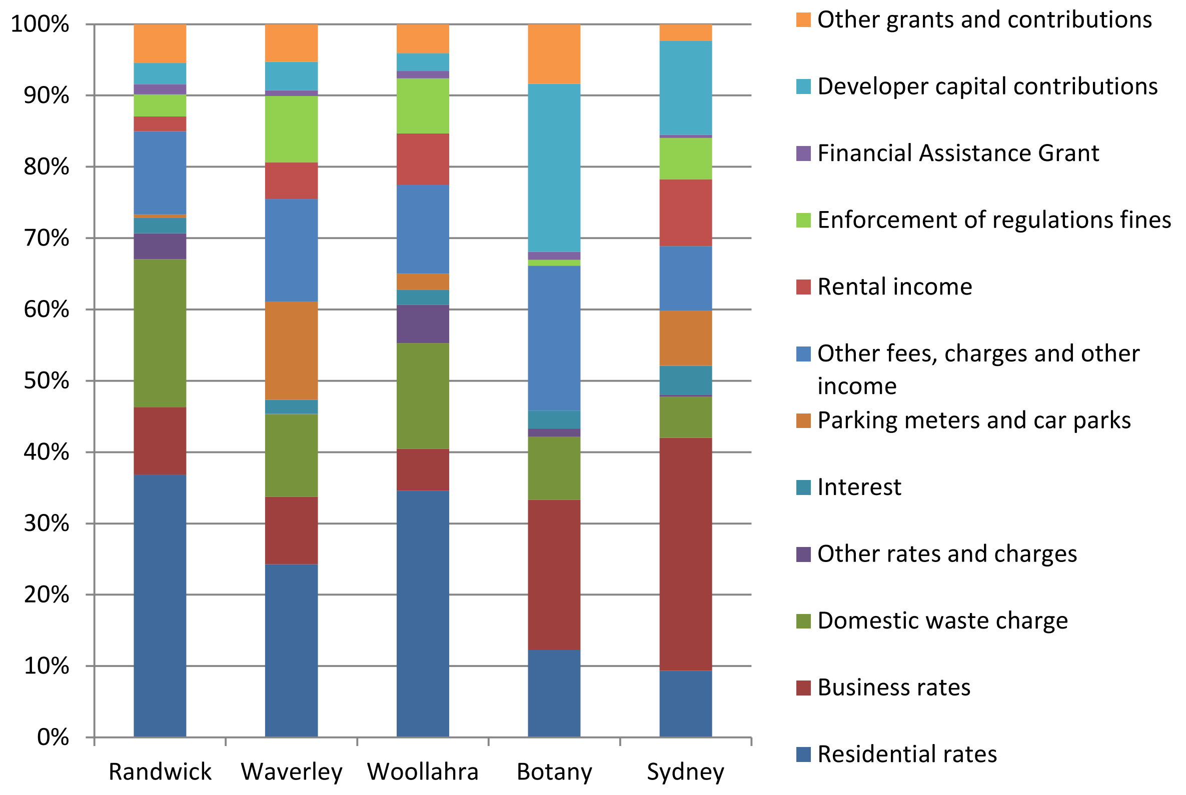
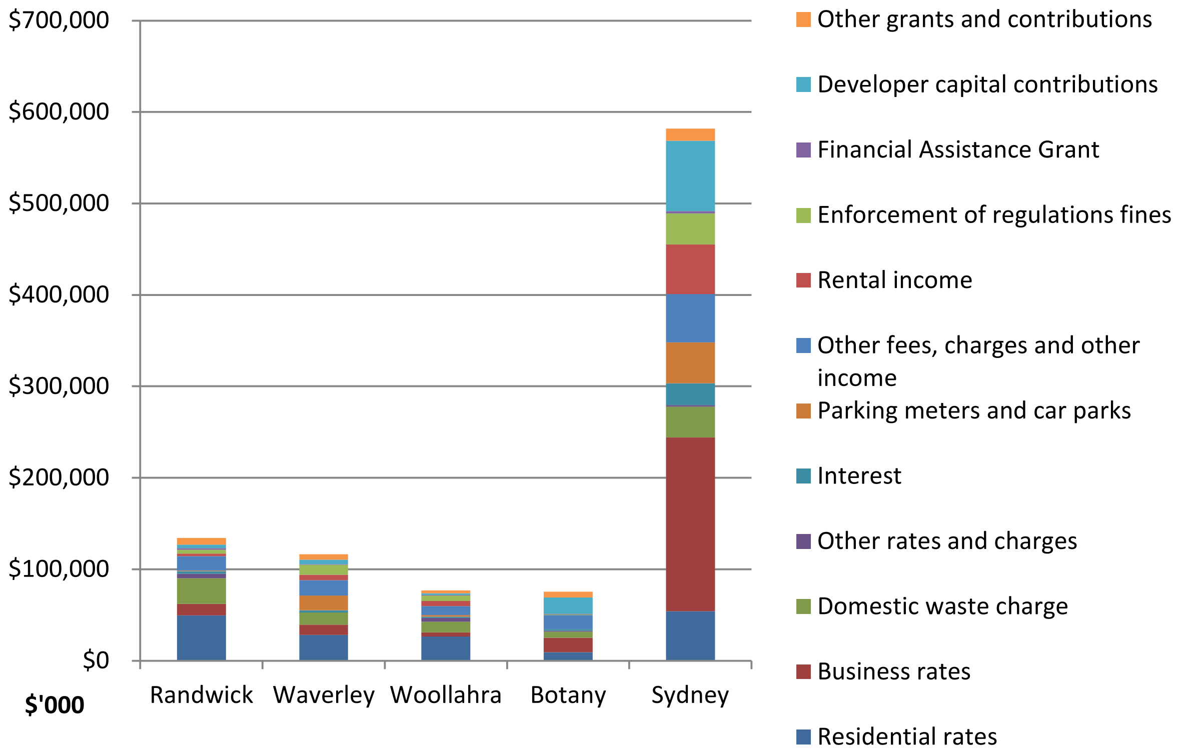
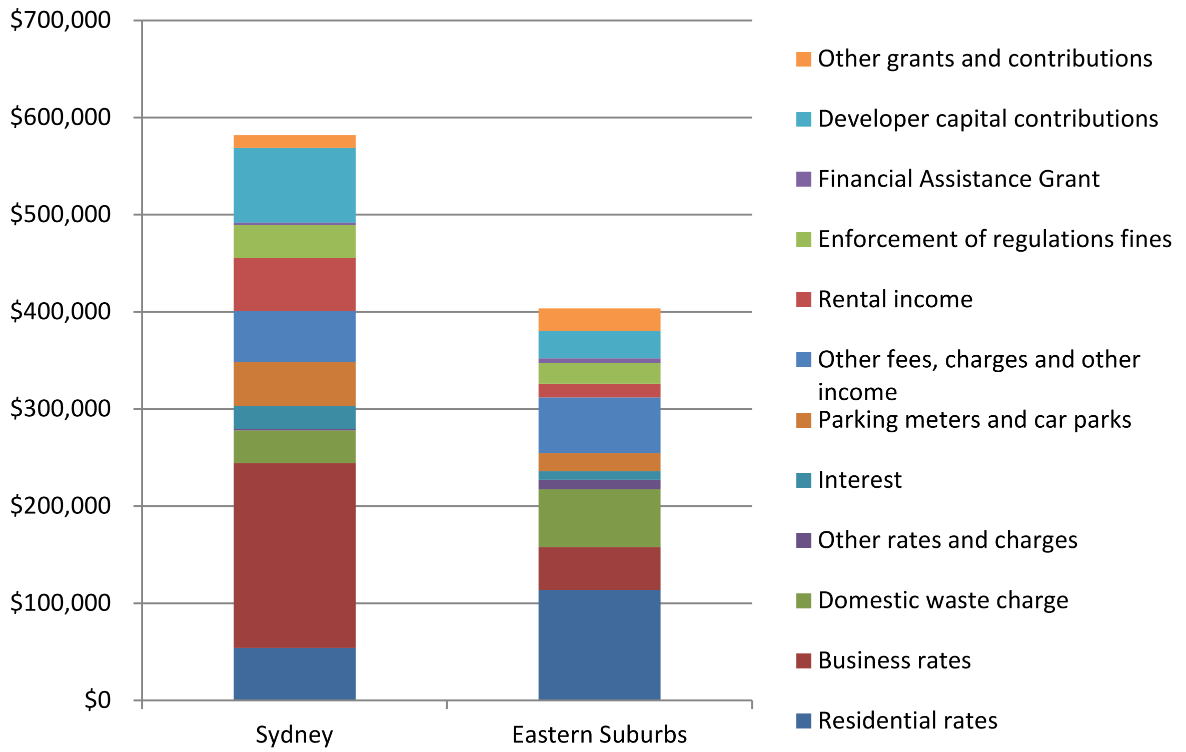



**Figure 4 Income $'000 - 2013-14**



Business rates are Sydney's largest source of income, representing one third of total income at $190m. Their business rates income is greater than the total rates income of the four eastern suburbs councils combined ($165m). In contrast, residential rates are the largest source of income for Randwick, Waverley and Woollahra Councils. Botany raises 21 per cent of their income from business rates ($16m), with particularly high rates for properties in the Port Botany area (77 per cent higher than the business rate charged to Port Botany properties in the Randwick LGA).

Botany's highest source of income, at just under $18m, is property development contributions due to significant development around Mascot Train Station. Representing 24 per cent of Botany's income this money can only be used for works detailed in the Council's *Mascot Station Precinct Section 94 Contributions Plan* (adopted 2004) and *City of Botany Bay Section 94 Contributions Plan 2005-2010* (adopted 2006). Development contributions are Sydney's second highest source of funds, with significant developments in Green Square and Harold Park. In 2013-14 Sydney raised $50.3m in cash and was given assets valued at $26.5m. Cash received must be spent in accordance with the relevant City of Sydney s94 development contribution plans. Cash received under the Ultimo-Pyrmont Section 94 Contributions Plan must be paid to the Sydney Harbour Foreshore Authority.

Sydney's significant investment property portfolio generates the council's third largest source of income ($54m rental income). "The Council has primarily invested within the CBD and the major 'gateways' leading into the city centre, including a significant investment property in 343 George Street. This category of income also includes revenue generated from the ninety-nine year lease of the Queen Victoria Building, which has a residual revenue share entitlement"(City of Sydney Long Term Financial Plan 2014 p11). Waverley and Woollahra Councils also generate over 5 per cent of their income from property rent.

**Attachment 5** details the commercial activities and property interests of each council. The key characteristics of each council's income mix are:

**Randwick -** High proportion of residential rates ($49m – 75% of rates), Des Renford Leisure Centre ($5m), environment levy ($3.6m) and rental income ($2.7m).

**Waverley -** fines through the enforcement of regulations ($10.9m), parking fees ($16m), and rental income ($6m) and child care ($6.8m). No stormwater service charge.

**Woollahra -** Rental income ($5.6m), fines ($5.9m), environment and infrastructure levy ($3.6m).

**Botany -** High business rates ($15.9m - 63% of rates income), Sydney airport ex gratia rates ($3.2m) and airport service contract ($6.3m). Significant developer contributions ($17.8m).

**Sydney -** Parking fees ($45m), fines ($33.8m), rental income ($54m). One third of total income from business rates ($190m) and 13% from developer contributions ($76.8m).

### 2.7 Financial result - net surplus / deficit

The actual and forecast net operating result for the councils is set out in the following figures, both including and excluding capital grants and contributions (primarily these are s94 development contributions).

**Randwick**

Randwick has forecasted surpluses both including and excluding capital grants and contributions over the ten year period of the Long Term Financial Plan. The results are steady over the forecast period with a general trend upwards.

**Waverley**

Waverley Council's forecasted capital contributions within their ten year LTFP are significantly lower than the contributions they have received in previous years. In 2013-14 the council received $9.9m in capital contributions (including a $5m dedication of the North Bondi Surf Club). The 2014-15 forecast is $2m. This is the cause of a large dip in their operating result including capital grants and contributions. After eliminating capital grants and contributions, the council continues to generate surpluses over the ten year plan.

**Woollahra**

From 2016 onwards Woollahra Council has forecasted a shift from consecutive operating deficits to surpluses for the remainder of their plan. The income received from a new lease agreement with Woolworths for a site under construction in Double Bay has boosted the financial position of the council, in addition to the proceeds from the sale of a former bowling green ($9m) and their Zetland depot ($56m less $12m relocation costs) in 2014.

**Botany**

Botany Council is forecasting an operating deficit in each year of their LTFP. When grants and contributions for capital expenditure are taken into account, the council does generate a surplus, which is halved from 2017 as s94 development contributions decline. In recent years Botany Council has received significant s94 development contributions with intense growth in the Mascot area.

**Sydney**

City of Sydney is projecting significantly lower operating surpluses both including and excluding capital grants and contributions over the next ten years in contrast to the results they have generated over the past three years. The main differences are a $9m reduction in materials and expenses from 2015 onwards, $9m reduction in interest and investment income and $33.5m reduction in capital contributions and grants. The reasons for these differences are not disclosed, however the operating position of the city remains strong with surpluses generated into the future.

**Figure 5 Operating surplus / (deficit) $'000 – 2012 to 2014 actual result and 2015 to 2024 forecasts – <u>including</u> grants and contributions received for capital expenditure**

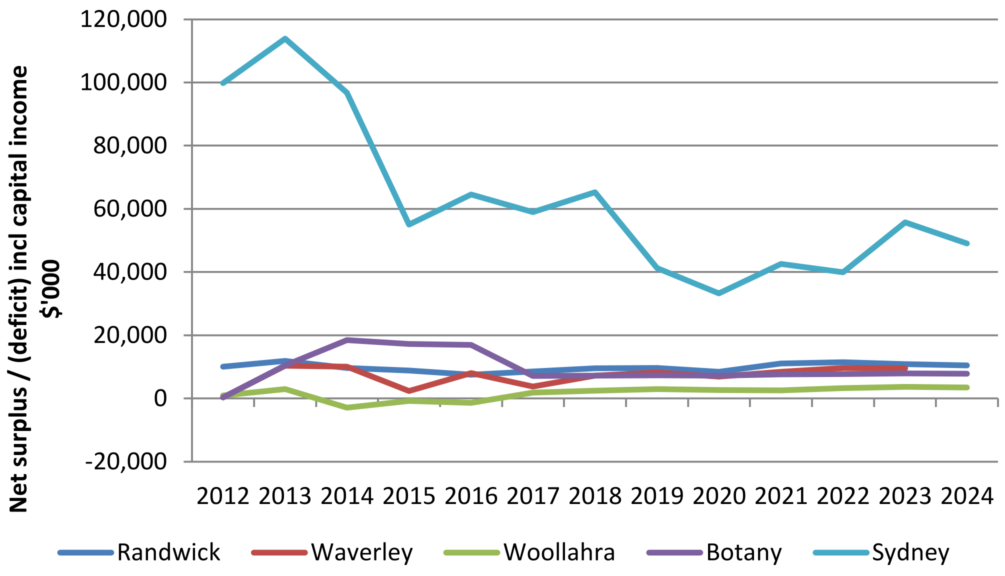



**Figure 6 Operating surplus / (deficit) $'000 – 2012 to 2014 actual result and 2015 to 2024 forecasts – <u>including</u> grants and contributions received for capital expenditure – <u>Excluding Sydney</u>**

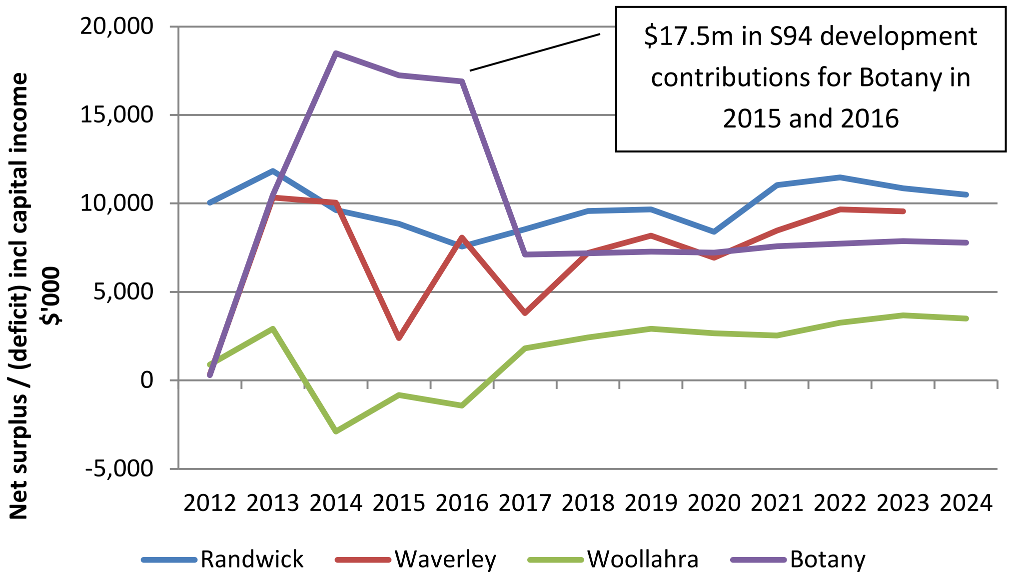


**Figure 7 Operating surplus / (deficit) $'000 – 2012 to 2014 actual result and 2015 to 2024 forecasts – excluding grants and contributions received for capital expenditure**

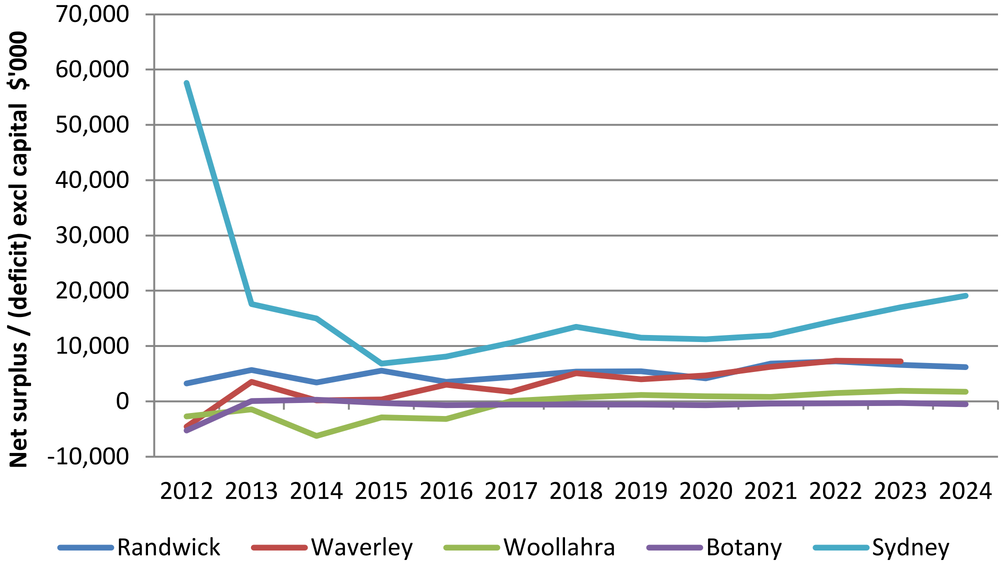
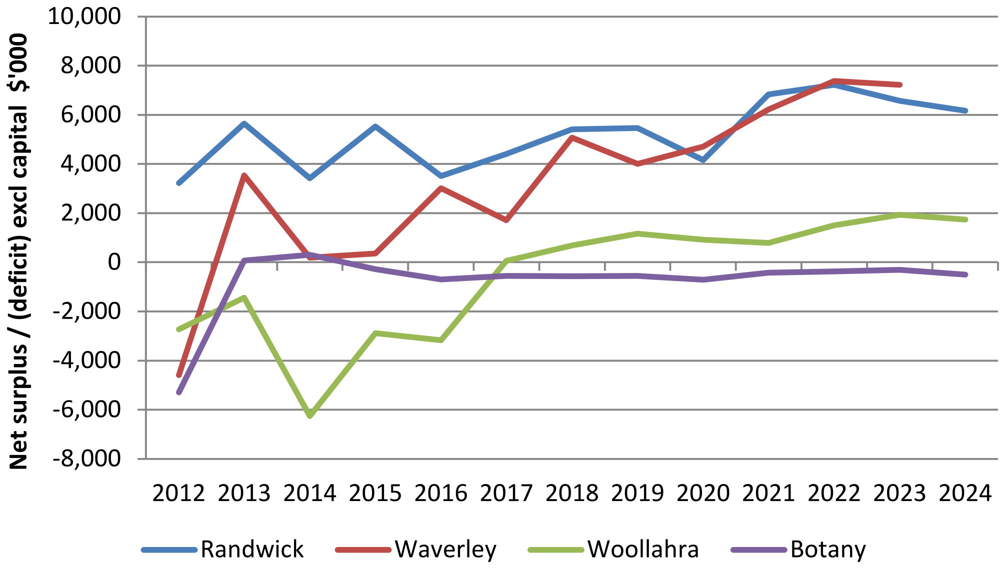



**Figure 8 Operating surplus / (deficit) $'000 – 2012 to 2014 actual result and 2015 to 2024 forecasts – excluding grants and contributions received for capital expenditure – Excluding Sydney**



## 2.8 Capital expenditure and infrastructure backlogs

The following table compares the capital expenditure and reported infrastructure and building asset expenditure shortfalls for the 5 councils in 2013-14. Randwick has the highest capital expenditure as a percentage of operating expenditure at 30 per cent with Botany Council's expenditure at almost one third of this at 11 per cent.

All councils reported infrastructure backlogs, with Randwick and Woollahra's backlog under the IPART recommended threshold of 2 per cent of the value of infrastructure assets. Botany's backlog ratio is the largest at 6.93 per cent, with Sydney reporting the largest backlog at $66.6m.

Table 14 Capital expenditure, asset expenditure gaps and depreciation – 2013-14

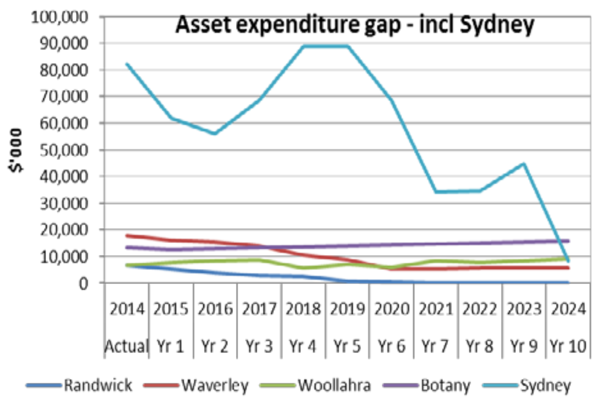
| $'000 | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| **Capital expenditure** | 37,717 | 29,199 | 13,135 | 6,529 | 138,100 | 224,680 |
| **Operating expenditure** | 125,051 | 113,026 | 78,468 | 57,295 | 500,739 | 874,579 |
| **% capex/opex** | **30%** | **26%** | **17%** | **11%** | **28%** | **26%** |
| | | | | | | |
| **Depreciation of building and infra assets** | 18,969 | 15,308 | 8,506 | 5,102 | 73,546 | 121,431 |
| **Value of building and infra assets (FV)** | 1,540,458 | 777,756 | 636,625 | 259,740 | 3,572,386 | 6,786,965 |
| **% depreciation/infra assets** | **1.2%** | **2.0%** | **1.3%** | **2.0%** | **2.1%** | **1.8%** |
| | | | | | | |
| **Infrastructure backlog (A)** | **6,764** | **12,124** | **5,395** | **11,407** | **66,619** | **102,309** |
| **Value of infra assets (WDV)** | 971,313 | 463,027 | 396,628 | 164,490 | 1,740,668 | 3,736,126 |
| **% backlog/infra assets** | **0.7%** | **2.6%** | **1.4%** | **6.9%** | **3.8%** | **2.7%** |
| | | | | | | |
| **Capital expenditure on building and infra renewals** | 23,192 | 9,711 | 7,622 | 3,814 | 59,095 | 103,434 |
| **Depreciation of building and infra assets** | 18,969 | 15,308 | 8,506 | 5,102 | 73,546 | 121,431 |
| **renewal/dep'n bld and infra assets** | **122.3%** | **63.4%** | **89.6%** | **74.8%** | **80.4%** | **85.2%** |
| **Annual capital renewal expenditure gap (B)** | **0** | **5,597** | **884** | **1,288** | **14,451** | **22,220** |
| | | | | | | |
| **Actual asset maintenance** | 9,780 | 12,209 | 5,312 | 3,299 | 24,767 | 55,367 |
| **Required asset maintenance** | 7,563 | 10,392 | 5,567 | 4,057 | 25,966 | 53,545 |
| **renewal/dep'n bld and infra assets** | **129.3%** | **117.5%** | **95.4%** | **81.3%** | **95.4%** | **103.4%** |
| **Annual maintenance expenditure gap (C)** | **0** | **0** | **255** | **758** | **1,199** | **2,212** |
| | | | | | | |
| **TOTAL ASSET EXPENDITURE GAP IN 2013-14 (A+B+C)** | **6,764** | **17,721** | **6,534** | **13,453** | **82,269** | **126,741** |

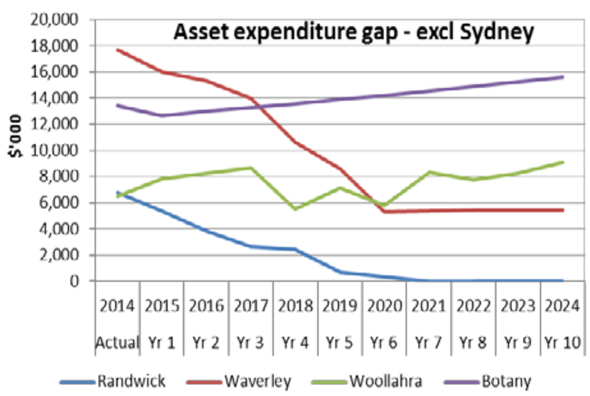
Source: 2013-14 Financial Statements

The total asset expenditure gap in 2013-14 reported by the five councils was **$127m**, with Sydney reporting the highest gap of $82m. The ten year projected position of each council to 2024 forecasts increased expenditure on infrastructure and building assets, with a reduction in the asset expenditure gap to **$39m**, which includes a $28m backlog of infrastructure and building works.

**Table 15 Asset expenditure gap forecast - 30 June 2024**

| $'000 | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| **Infrastructure backlog (A)** | **0** | **0** | **7,283** | **14,319** | **6,063** | **27,665** |
| **Value of infra assets (WDV)** | 1,556,440 | 545,475 | 536,381 | 207,517 | 3,367,568 | 6,213,381 |
| **% backlog/infra assets** | **0.0%** | **0.0%** | **1.4%** | **6.9%** | **0.2%** | **0.4%** |
| | | | | | | |
| **Capital expenditure on building and infra renewals** | 31,238 | 9,318 | 7,654 | 4,332 | 138,000 | 190,541 |
| **Depreciation of building and infra assets** | 25,877 | 14,790 | 9,493 | 5,114 | 138,794 | 194,067 |
| **renewal/dep'n bld and infra assets** | **120.7%** | **63.0%** | **80.6%** | **84.7%** | **99.4%** | **98.2%** |
| **Annual capital renewal expenditure gap (B)** | **0** | **5,472** | **1,839** | **782** | **794** | **8,887** |
| | | | | | | |
| **Actual asset maintenance** | 14,536 | 12,669 | 6,467 | 4,451 | 30,070 | 68,192 |
| **Required asset maintenance** | 13,091 | 12,668 | 6,124 | 4,945 | 31,652 | 68,481 |
| **renewal/dep'n bld and infra assets** | **111.0%** | **100.0%** | **105.6%** | **90.0%** | **95.0%** | **99.6%** |
| **Annual maintenance expenditure gap (C)** | **0** | **0** | **0** | **495** | **1,583** | **2,077** |
| | | | | | | |
| **TOTAL ASSET EXPENDITURE GAP IN 2023-24 (A+B+C)** | **0** | **5,472** | **9,122** | **15,596** | **8,439** | **38,629** |

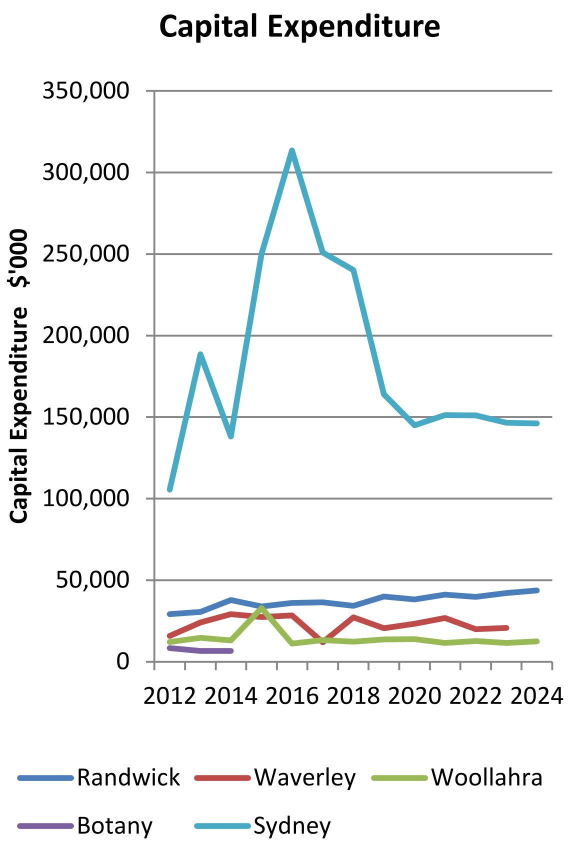


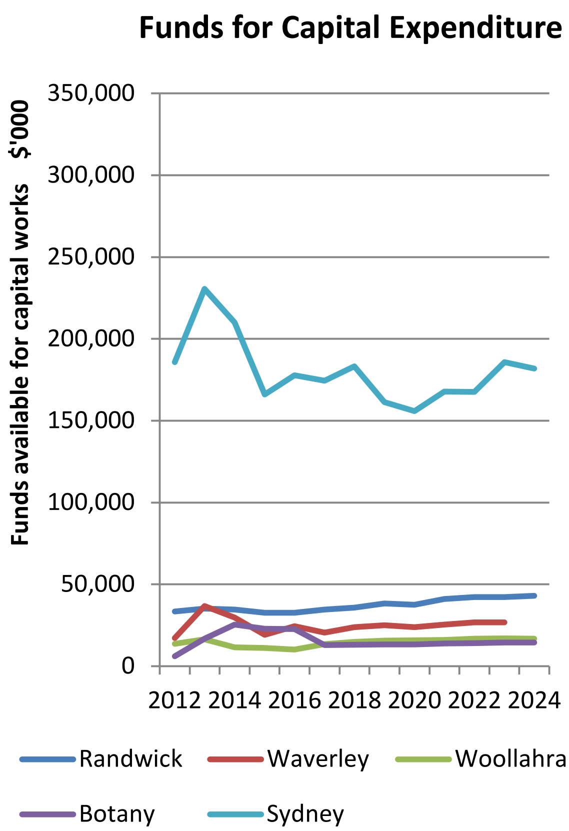



While Waverley advice their infrastructure backlog will be eliminated by 2020, according to Grant Thornton, it is assumed the asset renewal rate will remain 63 per cent over the next ten years. Grant Thornton states "it should be noted that this ratio is based upon very broad brush assumptions as there is no publicly available data that forecasts this figure forwards. Historically, Waverley has not been able to service its assets as required and there has been no evidence presented to suggest that will not continue to be the case to FY20." [18] If the council's renewal ratio is correct at 63 per cent this will contribute to a future backlog of infrastructure works as this level of expenditure is significantly under the annual depreciation of these assets.

The following figures compare annual expenditure on capital works versus the funds available to spend on capital works.

**Figure 9 Capital expenditure versus operating result funds available for expenditure on capital works $'000 2012 to 2014 actual expenditure and 2015 to 2024 forecasts**

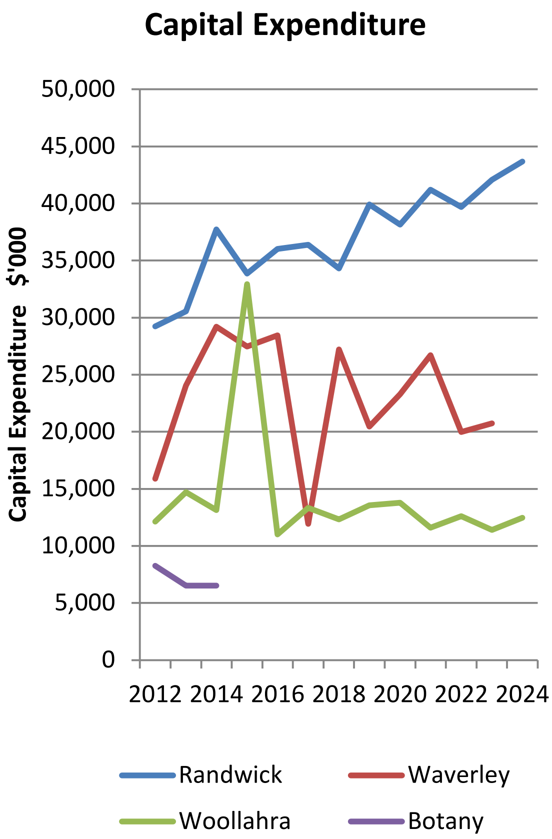


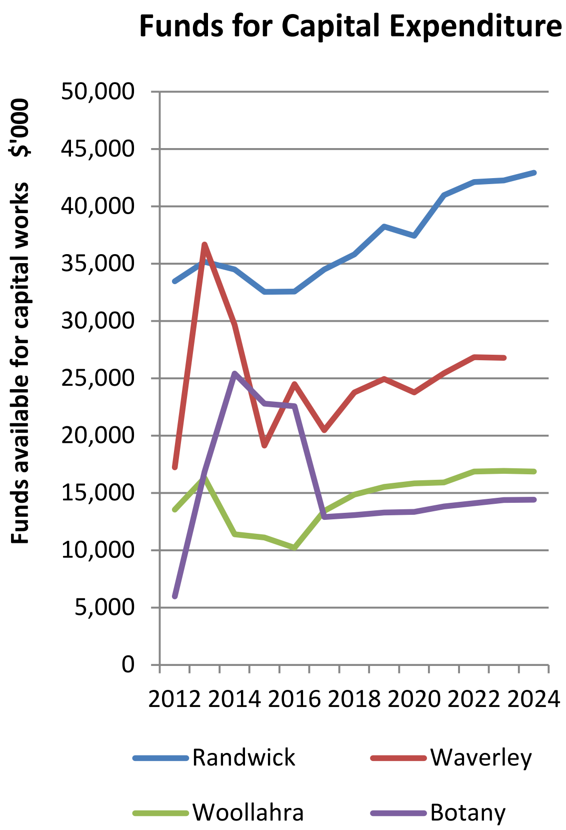




There is a considerable spike in Sydney's expenditure from 2015 to 2018 with expenditure on major projects forecasted for this period including light rail support infrastructure ($178.9m in 4 years ($220m over 7 years)) and Green Square community facilities, open space, streets and drainage ($338m).

[18] Grant Thornton, '*Waverley Council - Technical Assistance FFTF*', Mar 2015, p32.

**Figure 10 Capital expenditure versus operating result funds available for expenditure on capital works - EXCLUDING SYDNEY $'000**
**2012 to 2014 actual expenditure and 2015 to 2024 forecasts**



## 2.9 Additional financial information

### Cash reserves

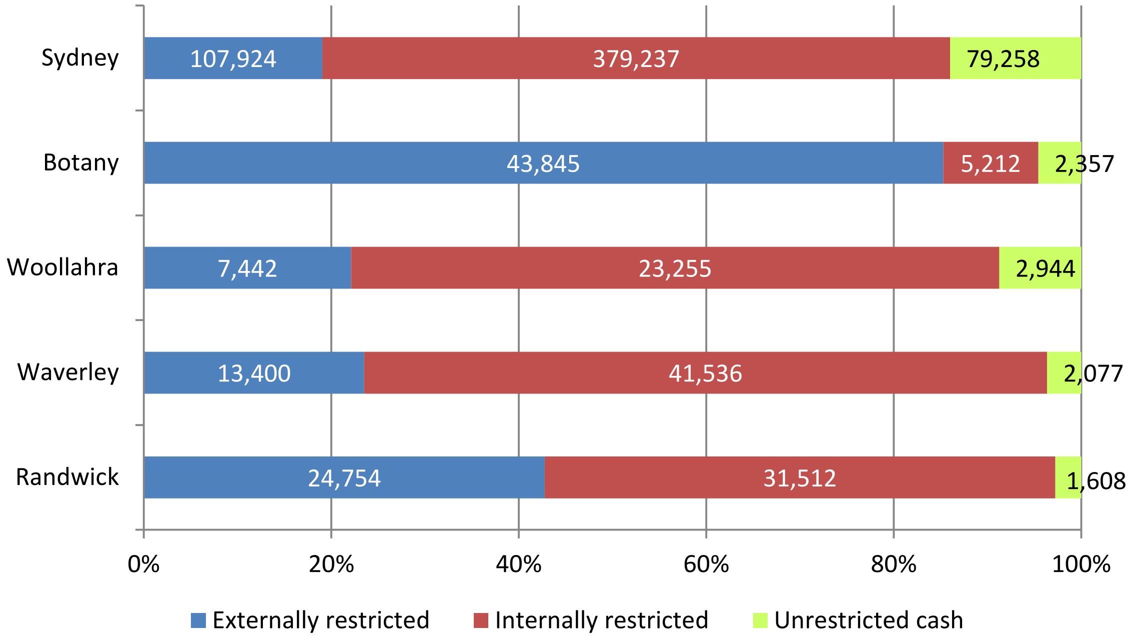
The following table outlines the cash held by each council and the reserves for these funds. Externally restricted cash must be spent in accordance with the purpose for which the funds were obtained. Internally restricted cash has been set aside at the council's discretion, usually as a provision for liabilities and to fund future projects. Eastern suburbs councils hold $9 million in unrestricted cash. Randwick holds the lowest level of unrestricted cash as 97 per cent of its cash is held for specific purposes in accordance with the council's cash reserves management strategy. At the end of each financial year the council allocates surplus funds to a specific purpose. No funds are left unallocated.

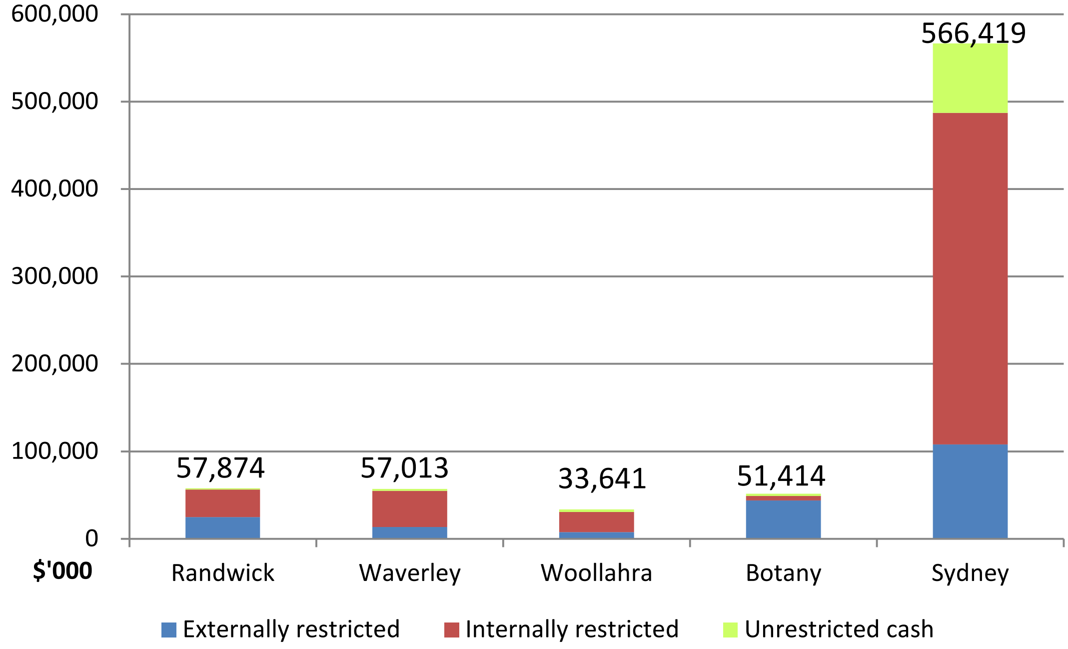
**Table 16 Cash reserves $'000 – 2013-14**

| $'000 | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| Developer contributions | **10,680** | 9,427 | 4,455 | 38,023 | 92,935 | **155,520** |
| Domestic waste | **9,549** | 3,112 | 1,991 | 1,148 | 12,904 | **28,704** |
| Other externally restricted | **4,525** | 861 | 996 | 4,674 | 2,085 | **13,141** |
| **TOTAL EXTERNALLY RESTRICTED** | **24,754** | **13,400** | **7,442** | **43,845** | **107,924** | **197,365** |
| Plant and vehicle replacement | **1,849** | 1,970 | 289 | 700 | 0 | **4,808** |
| IT | **2,089** | 1,191 | 75 | 200 | 0 | **3,555** |
| ELE | **6,655** | 4,796 | 188 | 1,200 | 5,806 | **18,645** |
| Workers comp provision | **0** | 0 | 0 | 0 | 19,274 | **19,274** |
| Carry over works | **6,047** | 4,445 | 1,872 | 0 | 0 | **12,364** |
| Bonds, deposits and retentions | **2,995** | 15,634 | 9,816 | 2,000 | 11,782 | **42,227** |
| City projects - George St, Green Square, etc. | **0** | 0 | 0 | 0 | 333,560 | **333,560** |
| Infrastructure levy | **2,394** | 7,029 | 7 | 0 | 8,276 | **17,706** |
| Property development | **1,144** | 0 | 7,351 | 0 | 0 | **8,495** |
| Other internally restricted | **8,339** | 6,471 | 3,657 | 1,112 | 539 | **20,118** |
| **TOTAL INTERNALLY RESTRICTED** | **31,512** | **41,536** | **23,255** | **5,212** | **379,237** | **480,752** |
| **TOTAL RESERVES** | **56,266** | **54,936** | **30,697** | **49,057** | **487,161** | **678,117** |
| Unrestricted cash | **1,608** | 2,077 | 2,944 | 2,357 | 79,258 | **88,244** |
| **TOTAL CASH** | **57,874** | **57,013** | **33,641** | **51,414** | **566,419** | **766,361** |

Source: 2013-14 Financial Statements

**Figure 11 Cash Reserves by Type $'000 - 2013-14**




Waverley - the council has restricted $15.6m in funds to cover a corresponding liability for deposits, bonds and retentions held by the council. An $8.2m deposit from the sale of their former depot in Zetland in held in this reserve. The balance of the $82m depot sale was paid in December 2014.

Woollahra – Over the next two financial years Woollahra Council is expecting to receive $65m in proceeds from the sale of their former Waterloo depot and a vacant block.

Botany **-** In recent years Botany Council has received considerable funds from development contributions. These funds are externally restricted and must be spent in accordance with the associated plans for these contributions.

Sydney - While the City of Sydney's cash reserves are significantly larger than eastern suburbs councils, 85% of their internally restricted funds have been allocated to a number of major capital works projects included within the Sustainable Sydney 2030 plan[19]. These include:

- $180m George Street - shared pedestrian zone incorporating Light Rail ($220m total project cost)
- $86m Green Square Town Centre ($440m project cost)
- $55m Green infrastructure and renewable energy

City of Sydney's submission to the Independent Local Government Panel July 2013 stated:

"We have a publicly endorsed strategic plan with a funded 10-year infrastructure program to implement it. We provide leadership at the metropolitan, national and international levels. Our major events and festivals are open for visitors Sydney wide and draw tourists internationally. We invest in regional and state projects such as light rail, urban renewal and cycleways." (p5)

…"Faced with the demands of amalgamation, the City of Sydney would not be able to deliver on commitments in our publicly endorsed Sustainable Sydney 2030 program. Future projects for the global city would be risked by an amalgamation aimed at "sharing the revenue base of the Sydney CBD across a much wider area" (p.45).

In addition, as the City of Sydney is a self-insurer of its workers compensation liability, it is required to hold $19.3m in reserve.

**Debt**

The following table outlines the debt position of each council on 30 June 2014. Debt levels for Woollahra have been listed both inclusive and exclusive of a significant loan the council has received to fund a major development in the Double Bay Town Centre.

[19] City of Sydney, "Future Directions for NSW Local Government – Twenty Essential Steps: Submission to the Independent Local Government Review Panel" July 2013. p9

Table 17 Debt $'000 – 2013-14

| 2013-14 $'000 | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| Debt on 30 June 2014 | **0** | 3,035 | 64,370 | 0 | 0 | **67,405** |
| Debt on 30 June 2014 *excl Kiaora Lands joint venture between Woollahra and Woolworths* | **0** | 3,035 | 6,120 | 0 | 0 | **9,155** |
| Interest on loans (A) | **0** | 186 | 677 | 0 | 0 | **863** |
| Principal paid on loans (B) | **0** | 1,252 | 1,015 | 0 | 0 | **2,267** |
| Total debt servicing (A+B) | **0** | 1,438 | 1,692 | 0 | 0 | **3,130** |
| Income from operating activities | **134,670** | 123,078 | 75,571 | 75,794 | 597,481 | **1,006,594** |
| Debt costs / income | **0.0%** | 1.2% | 2.2% | 0.0% | 0.0% | **0.3%** |

Source: 2013-14 Financial Statements

Randwick, Botany and Sydney are debt free, while Waverley and Woollahra use an average 1.7 per cent of their operating income to service debt.

Randwick has a debt free policy and, given its low infrastructure backlog, does not consider it necessary to borrow for infrastructure renewal projects. The Council has significant internal reserve funds, including an Infrastructure Reserve. Should the Council need to bring forward a project or undertake emergency works the funds can be borrowed internally from these reserves. In terms of scope to undertake new functions and planned major projects, Council has embraced the Integrated Planning & Reporting (IPR) process and is confident that the functions and major projects detailed in its IPR framework provide for, and are in line with, the expectations of the community.

Waverley Council's Long Term Financial Plan is part funded by an additional $9.7m in external loans over the first four years of the plan and a $1.7m internal loan from the externally restricted cash reserve for domestic waste management. The council intends to repay the internal loan in full by 30 June 2015 once the proceeds from their Zetland depot land sale are received.[20]

Woollahra Council have entered into a $115m joint venture with Woolworths to develop several land parcels in Double Bay, including a council owned car park, into a library, car park, plaza and commercial and retail space including a supermarket to be leased to Woolworths. Known as the Kiaora Lands development, once complete the site will be wholly owned by Woollahra Council. The agreement includes a thirty year loan from Woolworths at a fixed interest rate, including an initial two year interest free period.

Extract from NSW Treasury Corp 'Woollahra Municipal Council – Financial Assessment and Sustainability Report' 10 February 2014 (page 4-5):

[20] Waverley Council 2014-15 Operational Plan, p8.

In the LTFP provided to TCorp, Council has included the expense and corresponding revenue for the Kiaora Lands Redevelopment/Woolworths PPP.

Under the terms of the PPP, Council proposes to borrow $58.2m in 2014 and $18.5m in 2015 ($76.7m total) from Woolworths at a fixed interest rate for 30 years. On completion, Council will own the entire development. Market valuations of the completed development estimate a value of between $115m-$120m.

We are advised by Council that the proposed lease agreement with Woolworths includes an off-set arrangement in respect of Woolworths rental payments for the supermarket site and Council's debt obligations to Woolworths. The legal agreements provide that in the event that Woolworths fails to

meet any rent payments for the supermarket, (being $3.6m p.a. from year two onwards), then Council is not obliged to make loan repayments to the amount of the unpaid rent payment. This has the effect of protecting this level of expense from risk.

It is assumed that Woolworths will pay the full agreed rental amount and Council will fulfil their debt obligation to Woolworths. For the purpose of this report, TCorp has included the full repayment amount and the full rental income forecast.

In the event of the termination of the lease by Council (as landlord) as a result of a breach or default by Woolworths, Council's payment obligations to Woolworths would be suspended from the commencement of the termination for a period of 12 months or until such time as Council re lets the premises. In this situation, Council could be at risk if a new tenant could not be found at a comparable rental.

With the inclusion of these borrowings in the LTFP, Council's DSCR and Interest Cover Ratio fall below benchmark during their 10 year forecast. However, as noted above, the contractual conditions of the Woolworth's arrangement substantially protects Council from the risk of payment default on its debt obligations to Woolworths. The benefits to Council from this development are long term. Council has calculated that between 2015 and 2028 they will receive over $100.0m in rental income from the long term leases in place. Council also anticipate over 289 full time positions will be created in the area on commencement of the operation of the development.

With an estimated value on completion of the entire development of $120m and $76.7m borrowed against this development, the facility is geared at 63.9%. In the event of a termination this level of gearing could make Council more vulnerable to a downturn in the market and will need to be monitored.


**Kiaora Lands Redevelopment, Double Bay**

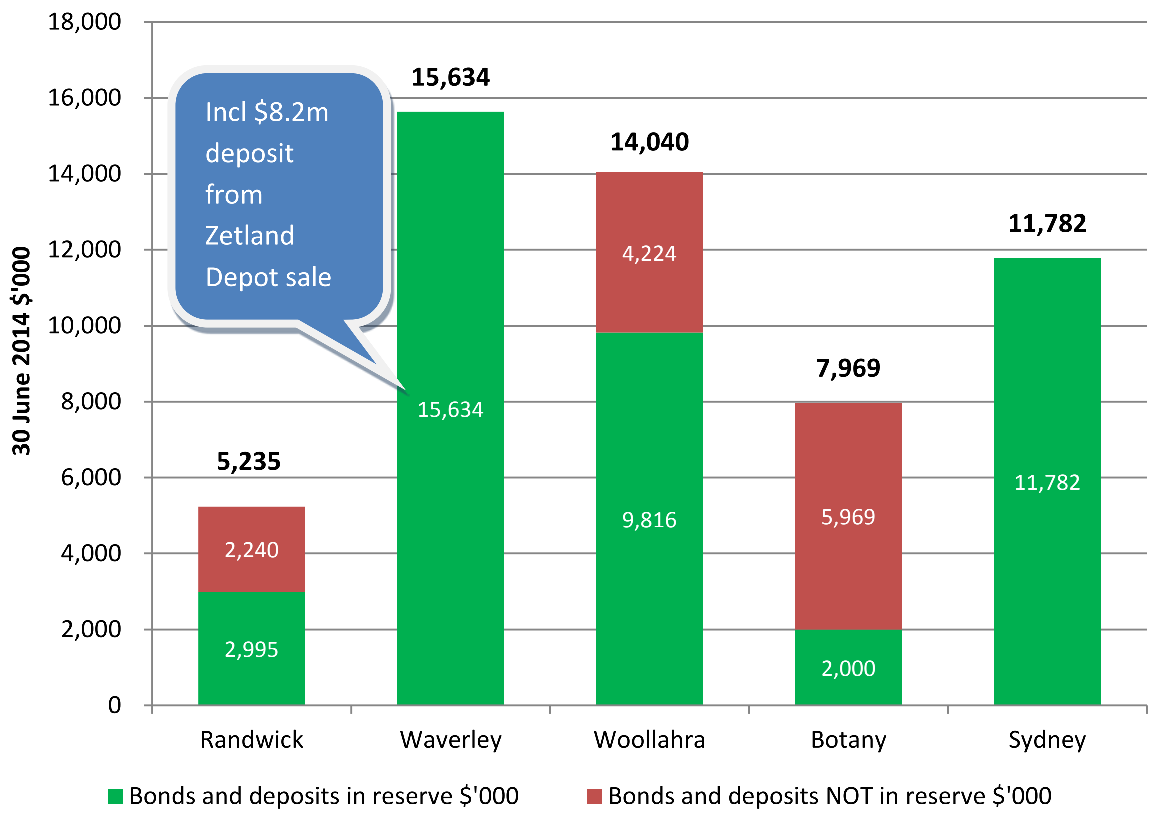
**Security bonds, deposits and retentions**

One of the largest liabilities for any council are security bonds, deposits and retentions held as a security measure for any potential or unexpected damage to council assets. These funds are held for a specified period of time and then refunded once specified conditions have been met.

Randwick's Reserves Strategy (2010) states "all bonds and deposits not expected to be paid out in the next 12 months are to be held in a cash reserve."

The following graph sets out the value of deposits, bonds and retention funds held by each council and the cash set aside to fund them on 30 June 2014.

Figure 12 Security bonds, deposits and retentions liability and cash reserve as at 30 June 2014 ($'000)




Source: 2013-14 Financial Statements

Both Waverley and Sydney Councils hold 100% of these funds in a cash reserve. Woollahra appears to have a similar reserve management policy to Randwick.

Further information would be required on Botany Council's reserve policy with respect to this liability as the cash held only represents 25 per cent of the deposits, bonds and retentions held, whereas Randwick holds 57% in reserve based on an analysis of the types of bonds, deposits and retentions held. Botany's total unrestricted and internally restricted cash is less than this $8m liability, at $7.6m. The council holds $2m in reserve to fund $8m in bonds, deposits and retentions. If Botany were to hold the same level as Randwick in reserve an additional $2.6m would be required.

### Employee costs

The following tables compare staff levels and costs across councils. Waverley council has the second largest number of staff after the City of Sydney as they operate their own waste service, employ a large number of regulation enforcement staff and operate four child care centres.

Randwick has the highest average cost per staff member after the City of Sydney; however employee costs only represent 44 per cent of operating costs, compared to 47 per cent of Botany's costs.

Table 18 Employee costs – 2013-14

| | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| Staff (Full-time equivalent) | **522** | 601 | 376 | 322 | 1,773 | **3,594** |
| Population per staff member (FTE) | **273** | 118 | 153 | 134 | 108 | 141 |
| Staff members per sq km | **14** | 65 | 31 | 15 | 66 | 34 |
| Employee costs $'000 | **54,626** | 54,229 | 34,867 | 26,548 | 194,633 | **364,903** |
| % of operating costs | **44%** | 48% | 44% | 47% | 39% | 42% |
| Average costs per FTE $'000 | **105** | 90 | 93 | 82 | 110 | **102** |

Source: 2013-14 Financial Statements

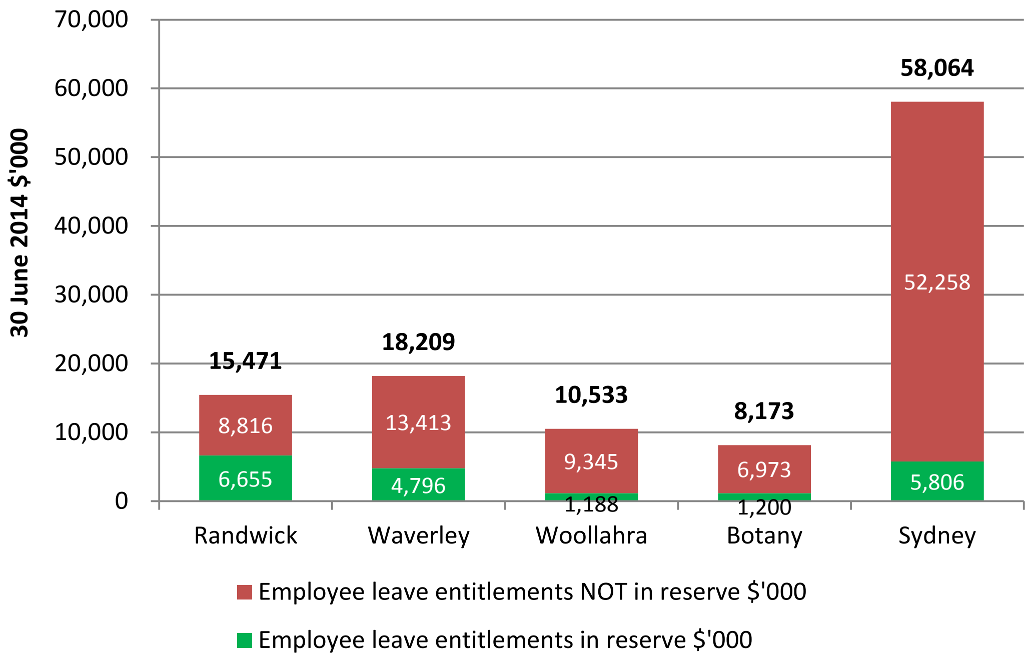
Table 19 Employee leave entitlements – 2013-14

| | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| Employee leave entitlements $'000 | **15,471** | 18,209 | 10,533 | 8,173 | 58,064 | **110,450** |
| Employee leave entitlements in reserve $'000 | **6,655** | 4,796 | 1,188 | 1,200 | 5,806 | **19,645** |
| % ELE in reserve | **43%** | 26% | 11% | 15% | 10% | **18%** |
| Average ELE per FTE $'000 | **30** | 30 | 28 | 25 | 33 | **31** |
| Boost reserve to 43% - additional cost | **0** | **3,037** | **3,343** | **2,316** | **19,171** | **27,866** |

Source: 2013-14 Financial Statements

Randwick has the highest cash reserve in place to manage its employee leave entitlements liability. The amount required in this reserve is based on an age profiling method. If the same method was applied to another council and the workforce profile were similar, an additional $2.3m to $28m would be required to be held in reserve.

Figure 13 Employee leave entitlements – liability and cash reserve on 30 June 2014 $’000




### Councillor costs

The following table compares the number of councillors and structure between the five councils. In total there are 59 councillors across the 5 councils, with ward structures in place in all councils with the exception of City of Sydney.

Table 20 Mayors and councillors – 2013-14

| | Randwick | Waverley | Woollahra | Botany | Sydney | TOTAL |
|---|---|---|---|---|---|---|
| Mayoral fees $'000 | 60 | 38 | 38 | unavailable | 192 | **328** |
| Councillor fees $'000 | 334 | 210 | 259 | unavailable | 356 | **1,297** |
| Mayoral + councillor fees $'000 | 394 | 248 | 297 | 138 | 548 | **1,625** |
| Number of councillors | 15 | 12 | 15 | 7 | 10 | **59** |
| Number of wards | 5 | 4 | 5 | 6 | - | **n/a** |
| Number of councillors per ward | 3 | 3 | 3 | 1 | - | **n/a** |
| Population per councillor | 9,487 | 5,892 | 3,845 | 6,185 | 19,192 | **8,575** |
| Sq km per councillor | 2.42 | 0.77 | 0.82 | 3.10 | 2.67 | 1.80 |

Source: 2013-14 Financial Statements and Annual Reports

For more information on councillors please refer to section 4.4 of the *Options Analysis Paper* - “Councillor Representation”.

# Financial context

3. Financial analysis of options

FINANCIAL CONTEXT

Appendix

C

# 3. Financial Analysis of Options

This section analyses the financial position of each option over a ten year period, both before and after the economies of scale and scope anticipated from an amalgamation.

### 3.1 Financial Analysis - Base Case (Long Term Financial Plan layer) - (STEP 2 OF 4)

As a starting point, the Long Term Financial Plan and associated documents discussed in **section 2** have been combined for the six amalgamation options, along with the Randwick standalone option, to determine if a grouping of those councils would meet the Fit for the Future benchmarks before considering any economies of scale and scope or other costs or savings resulting from an amalgamation.

**Assumptions and observations**

- The same sources of information for the projections detailed in **section 2** have informed this section
- The ten year forecast period is 2014-15 to 2023-24

**Attachment 3** sets out the results of these combined plans against each Fit for the Future benchmark over ten years. No council grouping meets all seven of the benchmarks, however the Randwick stand-alone option and an amalgamation of Randwick and Botany meet all but the debt service ratio, as these councils have no debt. While meeting the six ratios, the Botany-Randwick amalgamation option results are weaker than a Randwick standalone position. It is the strength of Randwick's position which pulls this amalgamation option over the benchmark threshold for the ratios.

The following tables summarise the number of Fit for the Future benchmarks met in each year for each amalgamation option and Randwick's stand-alone position based only on a sum of each council's projections. No costs and benefits of amalgamation have been factored into these ratios – this is simply a sum of each council's projections.

Table 21 Fit for the Future Benchmarks Met – Long Term Financial Plans Only – Layer One

| | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **Option 1 Randwick** | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 2 Randwick + Botany** | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 3 Randwick + Waverley** | 6 | 6 | 6 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 4 Randwick + Waverley + Botany** | 5 | 6 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 5 Randwick + Waverley + Woollahra** | 5 | 6 | 6 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 6 Randwick + Waverley + Woollahra + Botany** | 5 | 6 | 6 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 7 Randwick + Waverley + Woollahra + Botany + Sydney** | 4 | 3 | 6 | 6 | 5 | 5 | 6 | 6 | 6 | 6 | 6 |

Table 22 Fit for the Future Benchmarks Met – Long Term Financial Plans Only – Layer One (excluding the debt service ratio)

| | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **Option 1 Randwick** | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 2 Randwick + Botany** | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Option 3 Randwick + Waverley** | 5 | 5 | 5 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Option 4 Randwick + Waverley + Botany** | 4 | 5 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Option 5 Randwick + Waverley + Woollahra** | 4 | 5 | 5 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Option 6 Randwick + Waverley + Woollahra + Botany** | 4 | 5 | 5 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Option 7 Randwick + Waverley + Woollahra + Botany + Sydney** | 3 | 2 | 5 | 5 | 4 | 4 | 5 | 5 | 5 | 5 | 5 |

## 3.2 Financial Analysis – SGS Economics and Planning 'Economies of Scale Model' – Layer Two (STEP 3 OF 4)

### SGS Economics and Planning 'Eastern Sydney Local Government Review' Feb 2013

Randwick Council engaged SGS Economics and Planning (SGS) to undertake a strategic and financial assessment of the potential options for amalgamation of councils within eastern Sydney. The 2013 review identified four options:

- Option 1 - the amalgamation of Randwick with Waverley and Woollahra
- Option 2 - the amalgamation of Randwick with Waverley and Woollahra and a boundary adjustment with Botany Council to include Port Botany and associated industrial areas
- Option 3 - the amalgamation of Randwick with Waverley and Woollahra and a boundary adjustment with Botany Council to include all areas with the exception of Sydney airport and associated industrial areas connected to south Sydney
- Option 4 - the amalgamation of Randwick with Waverley, Woollahra and Botany

The analysis included a financial model over each option which projected operating results over a ten year period. This model was set on the premise that larger councils are more sustainable because of improved administrative capacity and cost savings from increased economies of scale where there is similarity in the services required.

The model assumed that the majority of services would adopt the Randwick service delivery model from year 4 of the new council. A summary of the results of this modelling is presented in the following table.

**Table 23 Present value comparison of options – 10 year period (2011-20)**

| | All figures are Present Value (thousands) | | | | |
|---|---|---|---|---|---|
| | Base Case | Option 1 | Option 2 | Option 3 | Option 4 |
| **Operating income and expenditure** | | | | | |
| Total rates and charges | $1,880,787 | $1,703,967 | $1,754,628 | $1,880,787 | $1,933,155 |
| Other operating income | $1,090,962 | $964,716 | $998,282 | $1,090,962 | $1,172,075 |
| Total operating income | $2,971,749 | $2,668,683 | $2,752,910 | $2,971,749 | $3,105,230 |
| Total operating expenditure (excl. depreciation) | $2,506,659 | $1,883,571 | $1,942,832 | $2,098,898 | $2,151,424 |
| Net surplus/deficit - operating only | $465,091 | $785,112 | $810,078 | $872,851 | $953,806 |
| **Capital income and expenditure** | | | | | |
| Total capital income | $154,219 | $190,767 | $193,223 | $200,003 | $201,989 |
| Total capital expenditure | $595,994 | $530,958 | $548,250 | $595,994 | $609,980 |
| Net surplus/deficit - capital only | ($441,774) | ($340,191) | ($355,027) | ($395,991) | ($407,991) |
| Net surplus/deficit - operating and capital | $23,316 | $444,921 | $455,051 | $476,860 | $545,815 |
| **Others** | | | | | |
| Asset quality upliftment cost | $70,813 | $40,440 | $48,516 | $70,813 | $77,345 |
| Net surplus/deficit - after upliftment | ($42,554) | $407,303 | $409,922 | $410,989 | $473,868 |
| Net surplus/deficit - after debt repayment | ($51,720) | $398,137 | $400,756 | $401,823 | $464,702 |

Source: SGS, "Eastern Sydney Local Government Review" Feb 2013, p6

This analysis indicated that all options would generate significant savings over a ten year period, ranging from $398m generated through an amalgamation of Randwick, Waverley and Woollahra Councils to $465m with the addition of Botany Council to the amalgamating group. This included repaying Waverley and Woollahra Councils' loans and carrying out the backlog of infrastructure and building asset works to bring them up to a satisfactory standard.

This model has been updated and further refined to assist in analysing the financial performance of the six amalgamation options considered in this report. Additional costs have been included to address the asset expenditure gaps in annual maintenance and capital renewal along with including amalgamation cost projections.

## Assumptions and observations

Following are the overarching assumptions adopted in the financial modelling:

**Overall**

- The period of the financial analysis is 2016-17 to 2025-26 (10 years). It has been proposed the actual start date of any amalgamated council would be after the local government election in Sept 2016. However, for simplicity, in this model it is assumed the new entity starts operating on 1 July 2016.

- A discount rate of 4.5 per cent (10 years) and 4.2% (4 years) (10 and 5 year Australian Treasury Bond rate for 2016-17 as forecasted by Deloitte Access Economics in Dec 2014) has been used to calculate the Net Present Value (NPV) of future cash flows for this financial analysis.

**Revenue**

- With the exception of Rates and Annual Charges, all income (including grants and contributions for capital expenditure) is based on projections within the current Long Term Financial Plan (LTFP) of each council for each available financial year. Thereafter income has been indexed at 2.9% per annum (LGCI forecast for 2025 and 2026).

- The Local Government Cost Index (LGCI) has been forecasted on the same basis as the formula applied by IPART – 60% materials and contracts expenses (based on Deloitte Access Economics Business Outlook Dec 2014: House building materials) and 40% labour costs (based on Deloitte Access Economics Business Outlook Dec 2014: Average Weekly Ordinary-Time Earnings).[21] The average annual increase in the LGCI over 10 years is 3.1%.

- Rates increase at the IPART Local Government Cost Index[22] based rate peg of 2.40 per cent in 2016, with future years based on a forecasted LGCI. The rate peg is not applied (generally LGCI less 0.2% productivity factor) as it is assumed the new council would be deemed 'Fit for the Future' by the NSW State Government, and thereby entitled to set rates based on streamlined rating guidelines. These guidelines are scheduled for released in June 2015. The streamlined rating process recommended by the Independent Local Government Review Panel permitted councils to set their rates within 5 per cent of the rate peg, in accordance with their four year Delivery Program[23]. The rate increase proposed in this plan only follows the forecasted LGCI – there are no additional increases beyond this.

- The number of new residential dwellings has been forecasted based on NSW Planning and Environment's projections published in "New South Wales State and Local Government Area Household and Implied Dwelling Projections: 2014 Final".

- It is assumed all new residential dwellings attract the minimum rate.

[21] IPART, 'Local Government Cost Index Information Paper', December 2010, p3
[22] IPART, 'Rate peg for NSW councils 2015-16 - Fact Sheet', December 2014.
[23] Independent Local Government Review Panel, 'Revitalising Local Government', Oct 2013 p44

- It is assumed business rateable properties grow in accordance with the "Employment forecasts by Local Government Area (LGA) and year – Sept 2014" as published by Transport for NSW with an adjustment made for the largely non-rateable sectors of 'Health and Social Assistance' and 'Education and Training'.

- All new business properties attract the average business rate.

- The domestic waste levy increase is based on the projected increases in Randwick's 2015 LTFP, which average 3.1% over the ten years.

- Increases in stormwater levy revenue are only based on the number of new dwellings - the fee remains the same. Waverley rate payers are currently not charged this levy, nor operate the matching expenditure program. No change has been made to this arrangement.

**Operating Expenses**

- It is assumed that the amalgamation process takes 3 years, being the transition year (2015-16) and the first two years operating as a new entity (2016-17 to 2017-18 ). Initially the amalgamated entities will maintain their current operational structure and integration into a revised operational structure will occur progressively. As a result there is no change in service costs for the first year. In the second year 50% of service costs are based on existing cost structures and 50% are based on the new service cost model.

- Borrowing costs are based on LTFP projections with adjustments made for loan repayments proposed in this analysis.

- Operating costs for the City of Sydney are based on their LTFP for all years of this model, with projections made for years 9 and 10 (as their current LTFP does not project out to these years). Their operating costs are very different as they provide services to more than 5 times their population on a daily basis. Their service delivery model would not be comparable with eastern suburbs councils.

- The asset maintenance figure is based on current forecasts as detailed in section 2.

**Depreciation Expense**

- Depreciation expense is based on the LTFP projections of each council with adjustments made to align the depreciation rate with Randwick's rates for infrastructure and building assets and adjustments made for additional capital works proposed in this analysis to address asset renewal and infrastructure backlog issues.

- In 2013 councils from the Southern Sydney Regional Organisation of Councils (SSROC) analysed the depreciation rates and methods of each participating council in the group. The SSROC group includes Botany, City of Sydney, Waverley, Woollahra and Randwick Councils. Randwick is in the process of implementing the agreed SSROC depreciation rates to ensure consistency and comparability across councils in the group.

- The depreciation rates utilised in the 2013-14 financial year are based on Randwick's original rates. However an analysis of these rates against the SSROC rates has revealed Randwick's rates are either similar or shorter in years:
    - Roads - very similar rates

    - Buildings - Randwick depreciates the two major components of a building at a faster rate than the SSROC rate (Structure - SSROC 100 years/Randwick 60 years and Roof - SSROC 80 years/Randwick 60 years). The rates for other components are similar
    - Drainage - Randwick depreciates pipes over 120 years, whereas the agreed SSROC rate is 150 years. The rates for other assets in this class are similar.

- This model is based on Randwick's current depreciation rates. However, it is likely a new council would depreciate these major asset classes at a slower rate based on the SSROC rates. This is a conservative approach, which may be offset by possible adjustments to asset works required if further information becomes available on each council's asset conditions.

**Service cost model - Eastern suburbs councils' operating expenses**

- Service costs for eastern suburb councils are based on the operating costs published in Special Schedule 1 of each council's 2013-14 Financial Statements.

- Depreciation and borrowing costs have been excluded from these costs.

- Costs have been annually inflated by the projected Local Government Cost Index.

- The modelling has used Randwick’s current per dwelling service costs for the following expenditure areas:

    - governance - (no dwelling growth factor)
    - administration
    - public order and safety
    - community services and education
    - housing and community amenities
    - mining, manufacturing and construction
    - transport and communication

- The modelling has used each council's current per dwelling service costs for the following expenditure areas:

    - health
    - environment
    - street cleaning
    - solid waste management
    - recreation and culture
    - parking areas - (no dwelling growth factor)
    - economic affairs - (no dwelling growth factor)

- It is assumed that one and a half years after amalgamation, governance costs would be changed at Randwick's per dwelling rates, however these expenses will not increase with the growth in the number of dwellings. LGCI increases are applicable.

- Parking areas expenditure does not grow with the increase in the number of dwellings. It is assumed that there is no expansion of metered-zones in the next 10 years. However, it does grow in line with the LGCI.

- Economic affairs expenditure is related to business activities and investment property expenditure that does not fit into any other category. This expenditure is not driven by dwelling growth but has been inflated annually by the LGCI.

- The administration costs of many councils are significantly higher than Randwick's costs, perhaps indicating a different method of distributing directly attributable costs to service areas. To harmonise this effect, a portion of administration costs has been reallocated to each council's service areas (excl solid waste management as this is 100% funded by the domestic waste levy) based on the size of expenditure on each service area.

- An analysis of services levels was undertaken by Randwick, Waverley and Woollahra Councils in 2013 to ensure adopting the Randwick service delivery model would not result in any loss of service to Waverley or Woollahra residents. This review found the services provided by the councils were very similar. Only two services were identified that would need to be included within the SGS financial model: Waverley's Meals on Wheels service and their council run childcare centres. Randwick supports the Meals on Wheels service through subsidised rent and operates one child care centre, with the remaining centres leased to not for profit community organisations. The income associated with the grants and fees that fund these services have already been included in the model. Further analysis found an adjustment is required for Botany Council as they also operate child care centres.

**Capital expenditure**

- Capital expenditure is based on the projections within each council's LTFP. Botany Council's LTFP does not include a capital expenditure forecast. It has been assumed their expenditure will continue at the reported 2013-14 level of $6.529m indexed by the LGCI.

- The infrastructure backlog and asset renewal figures have followed through from section 2 of this report. Please refer to that section for more information on the sources of these figures.

**Loans and reserves**

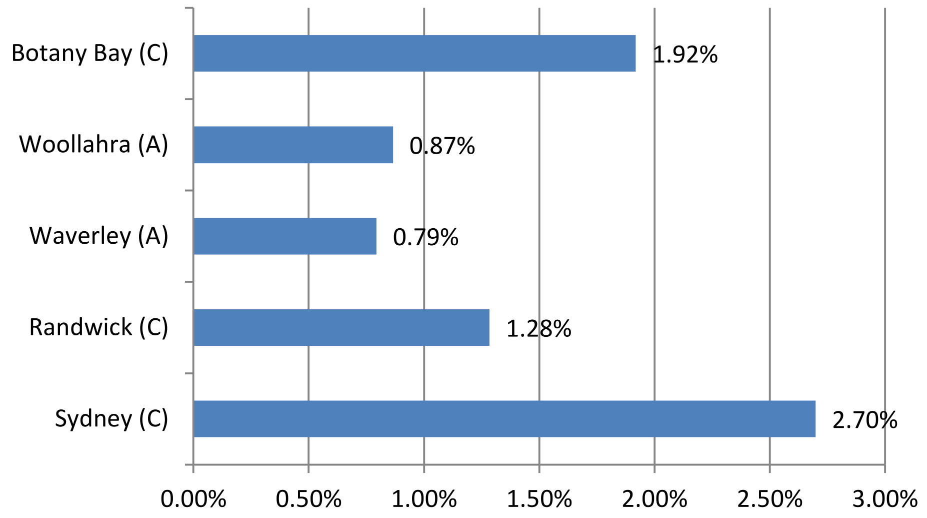
- Loan principal repayments and new loans are based on the projections within each council's LTFP

- Net reserve movements are also based on each council's LTFP. Where this movement is not disclosed, the funding difference has been assumed to be the reserve movement. I.e. it is assumed all LTFPs are projecting a balanced budget.

## Dwelling and employment projections

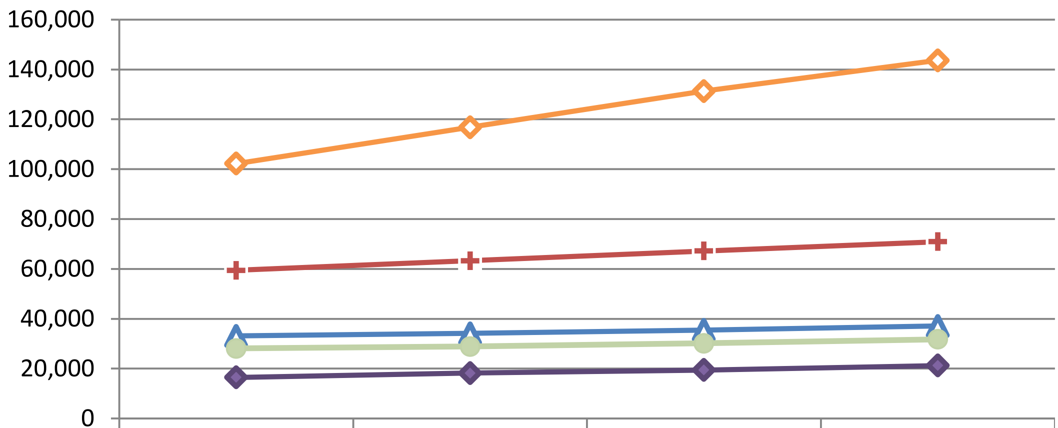
NSW Planning and Environment **dwelling projections** (2014) are used to calculate the residential rate base and the relevant service cost required. The following figures illustrate growth within the City of Sydney area is anticipated to grow at a faster rate than any eastern suburbs council between 2011 and 2026.

Figure 14 Growth in the number of dwellings – 2011 to 2026 projections




Source: NSW Planning and Environment, '[New South Wales State and Local Government Area Household and Implied Dwelling Projections: 2014 Final]'

Figure 15 Dwelling projections - 2011 to 2026

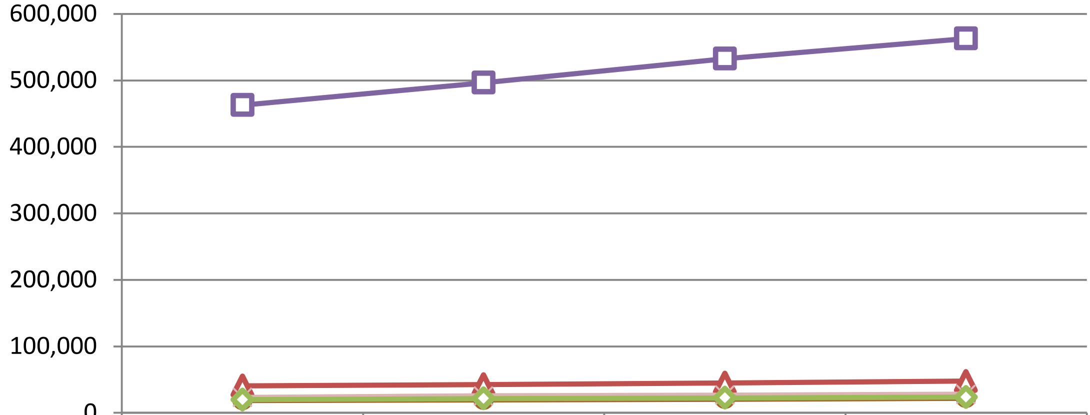



| | 2011 | 2016 | 2021 | 2026 |
|---|---|---|---|---|
| Sydney (C) | 102,250 | 116,800 | 131,300 | 143,650 |
| Randwick (C) | 59,450 | 63,300 | 67,200 | 70,900 |
| Waverley (A) | 33,150 | 34,150 | 35,500 | 37,100 |
| Woollahra (A) | 28,100 | 28,900 | 30,200 | 31,750 |
| Botany Bay (C) | 16,500 | 18,200 | 19,450 | 21,250 |

Source: NSW Planning and Environment (2014), '[New South Wales State and Local Government Area Household and Implied Dwelling Projections: 2014 Final]'

Transport for NSW Bureau of Transport Statistics' **employment projections** (Sept 2014) are used to calculate the growth in the business rate base. Employment at the airport and the majority of the health and education sectors is excluded as these activities are exempt from rates. However the ex gratia rates payment from Sydney Airport is included as an operating grant as forecasted by Botany Council in their LTFP.

Figure 16 Employment projections - 2011 to 2026




| | 2011 | 2016 | 2021 | 2026 |
|---|---|---|---|---|
| Botany Bay | 19,063 | 19,643 | 20,897 | 22,437 |
| Randwick | 40,764 | 42,667 | 45,073 | 47,694 |
| Sydney | 462,831 | 496,608 | 532,548 | 562,981 |
| Waverley | 22,809 | 24,935 | 26,127 | 27,388 |
| Woollahra | 19,645 | 21,466 | 22,485 | 23,578 |

Source: Transport for NSW Bureau of Transport Statistics (2014), Employment forecasts by Local Government Area (LGA) and year

It should be noted that the use of these growth projections results in higher rate projections than those in the LTFP of the four eastern suburbs councils. This is because the projections imply a higher growth in the rate base (dwellings and jobs) than the varying rates assumed in the LTFPs. Using the projections results in common growth assumptions across the options. These factors are also used to drive increases in service costs. City of Sydney is the exception in this financial analysis as they will continue to operate under their existing service model, their income is based only on the projections in their LTFP.

## Results of Financial Analysis of Amalgamation Options – Randwick Service Model

As expected, the results before addressing issues with meeting the 'Fit for the Future' financial and asset criteria for both Option 6 and Option 7 are very similar at just over $340m surplus generated over ten years (as the City of Sydney's LTFP has only been incorporated into the model, without any service changes).

However, after increasing capital and maintenance expenditure on infrastructure and building assets in order to meet the 'Fit for the Future' ratios, the highest surplus achieved is Option 6, with almost double the result on a per resident basis at $969 compared to Option 7's $532 per resident surplus over ten years. All amalgamation options generate surpluses over ten years, starting at $39m for Option 2. The Randwick stand-alone option (Option 1) does not generate surplus funds as the council's LTFP is already in a balanced position, with works planned for the next ten years based on that plan's forecasted income. This model is based on rolling out Randwick's service model across the options, as Randwick already operate under this model, there is no change in the council's financial result. The following tables set out the financial results and ratios forecasted.

Table 24 Comparison of options - Randwick service model – 10 year period (2017-26) net present value (Excl amalgamation costs)

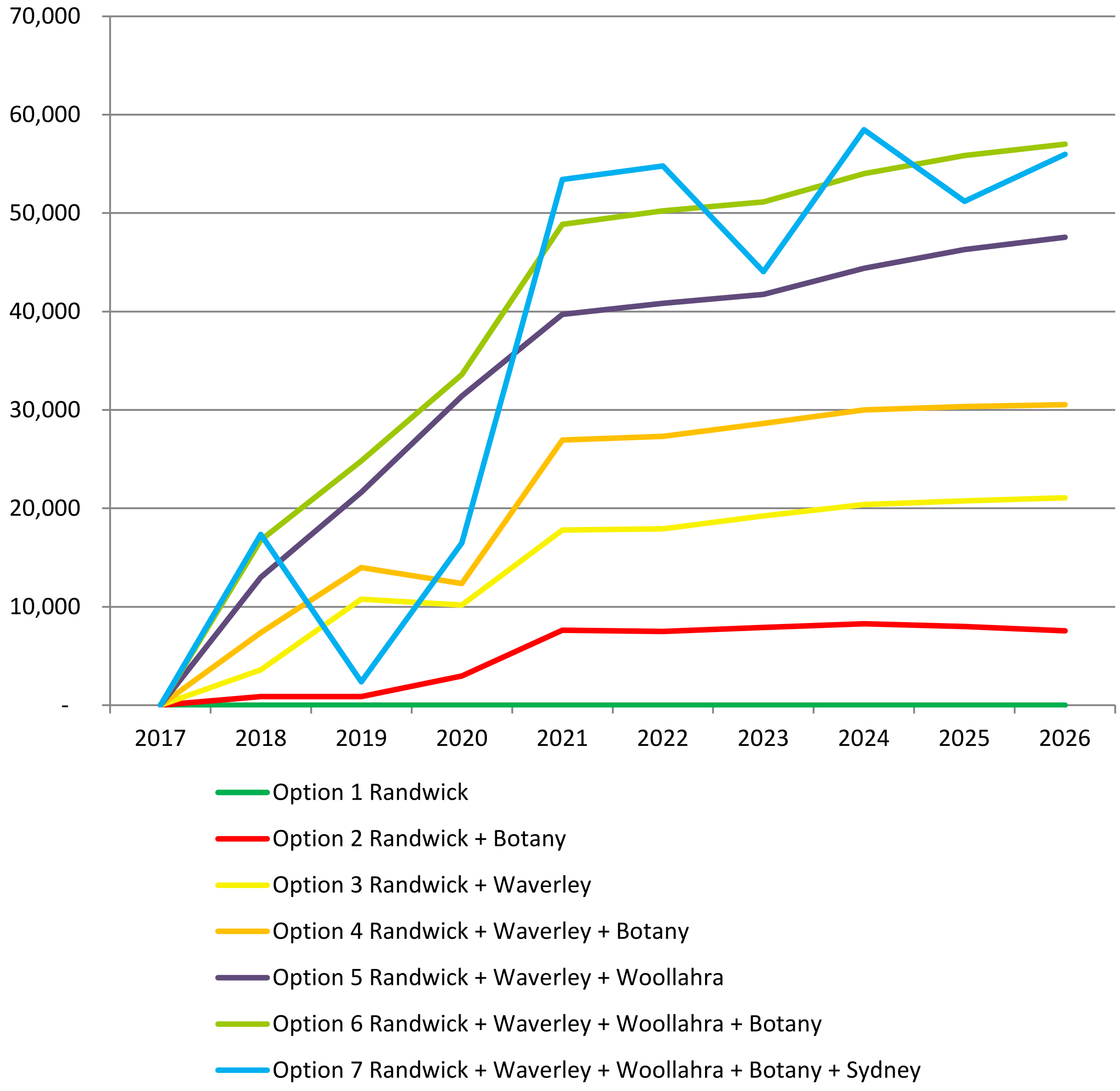
| | OPTION 1<br>RANDWICK (LTFP 2016-25)<br>$'000 | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 |
|---|---|---|---|---|---|---|---|
| Rates and annual charges | 1,159,885 | 1,426,939 | 1,644,116 | 1,999,081 | 2,191,223 | 2,546,188 | 5,537,978 |
| Other operating income | 363,436 | 570,562 | 954,752 | 1,210,352 | 1,281,161 | 1,536,762 | 3,699,929 |
| TOTAL OPERATING INCOME | 1,523,321 | 1,997,501 | 2,598,868 | 3,209,433 | 3,472,384 | 4,082,950 | 9,237,907 |
| TOTAL OPERATING EXPENDITURE (EXCL DEPRECIATION) | (1,200,361) | (1,612,180) | (2,010,389) | (2,506,075) | (2,613,783) | (3,109,469) | (7,096,624) |
| **NET OPERATING RESULT - SURPLUS / (DEFICIT)** | **322,960** | **385,322** | **588,479** | **703,358** | **858,602** | **973,481** | **2,141,283** |
| Capital income | 41,221 | 102,046 | 55,962 | 122,669 | 70,582 | 137,289 | 422,626 |
| Capital expenditure | (370,015) | (380,435) | (482,845) | (543,792) | (588,017) | (648,964) | (2,083,667) |
| **NET OPERATING + CAPITAL RESULT - SURPLUS / (DEFICIT)** | **(5,834)** | **106,932** | **161,596** | **282,236** | **341,167** | **461,806** | **480,242** |
| Less planned reserve movements (LTFPs) - (in) / out of reserve and loan repayments | 5,834 | (51,220) | (39,685) | (93,147) | (66,657) | (120,119) | (139,450) |
| **FUNDING RESULT - SURPLUS / (DEFICIT)** | **0** | **55,712** | **121,911** | **189,089** | **274,510** | **341,687** | **340,793** |
| **Application of funds to meet FFF ratio benchmarks and eliminate debt:** | | | | | | | |
| Capital works - infrastructure backlog | 0 | (13,738) | (92) | (13,799) | (7,097) | (20,804) | (28,594) |
| Capital works - close the annual asset renewal gap | 0 | 0 | (11,747) | (11,747) | (11,948) | (11,948) | (27,613) |
| Opex - Increase asset maintenance to required level | 0 | (3,261) | (1,069) | (4,330) | (1,069) | (4,330) | (14,766) |
| Opex - Reduced interest expense due to early loan repayment | 0 | 0 | 4,401 | 4,401 | 4,817 | 4,817 | 4,817 |
| Early repayment of loans | 0 | 0 | (4,147) | (4,147) | (5,266) | (5,266) | (5,266) |
| TOTAL FUNDS REQUIRED TO MEET RATIOS + REPAY LOANS | 0 | (16,999) | (12,653) | (29,622) | (20,563) | (37,531) | (71,422) |
| **FUNDING RESULT AFTER MEETING BENCHMARKS AND REPAYING DEBT - SURPLUS / (DEFICIT)** | **0** | **38,713** | **109,258** | **159,467** | **253,947** | **304,156** | **269,370** |
| **Funds Surplus / (Deficit) per resident $ over 10 years** | $0 | $209 | $513 | $622 | $938 | $969 | $532 |

Table 25 Fit for the Future 2017 and 2020 Ratios - Comparison of options - Randwick service model (where applicable) (Excl amalgamation costs)

| | OPTION 1<br>RANDWICK (LTFP 2016-25)<br>$'000 | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **Ratios - 2017 - with Randwick depreciation rates** | | | | | | | |
| 1. Operating Performance Ratio | 3.22% | 2.09% | 2.72% | 2.11% | 2.09% | 1.69% | 2.27% |
| 2. Own Source Operating Revenue Ratio | 92.15% | 86.29% | 92.10% | 88.38% | 92.53% | 89.60% | 89.15% |
| 3. Building and Infrastructure Renewals Ratio | 117.24% | 112.97% | 97.91% | 97.29% | 103.74% | 102.70% | 110.80% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.23% | 1.12% | 0.55% | 1.17% | 0.85% | 1.32% | 1.64% |
| 5. Asset Maintenance Ratio (SS7) | 110.33% | 104.10% | 94.66% | 93.86% | 97.06% | 96.04% | 95.54% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.74% | 0.60% | 3.05% | 2.56% | 1.10% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| | | | | | | | |
| **Ratios - 2020 - 4 years progressing to Randwick service model** | | | | | | | |
| 1. Operating Performance Ratio | 3.25% | 5.06% | 8.46% | 9.01% | 11.77% | 11.71% | 8.19% |
| 2. Own Source Operating Revenue Ratio | 92.29% | 89.66% | 92.79% | 90.94% | 93.28% | 91.74% | 91.85% |
| 3. Building and Infrastructure Renewals Ratio | 122.99% | 133.59% | 111.11% | 122.79% | 120.52% | 129.64% | 100.84% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.03% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 5. Asset Maintenance Ratio (SS7) | 118.98% | 112.07% | 112.34% | 109.64% | 111.30% | 109.20% | 104.00% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 1.33% | 1.07% | 3.37% | 2.87% | 1.26% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |

The following figure demonstrates while the eastern suburbs councils progressively move towards strong annual surpluses, the impact of the demands of the City's extensive infrastructure and building asset classes require large injections of cash in several years.

**Figure 17 Annual funding result - surplus / (deficit) - Progressing to a Randwick service model, addressing 'Fit for the Future' ratios and eliminating debt - 2017 to 2026 - $'000 (Excl amalgamation costs)**




The costs of the amalgamation process are not included in the above projections. Estimates of these costs have been made and their impact on the above results is detailed in the following section.

## 3.3 Financial Analysis – Amalgamation Costs – Layer Three (STEP 4 OF 4)

Over the last twenty years the majority of Australian states have undertaken local government reform, most commonly in the form of amalgamations. Research has been undertaken to investigate the potential costs of this major process of organisational restructuring. This section outlines the estimated direct financial costs of an amalgamation.

Analysis by Queensland Treasury Corporation (2012) found that the costs of the 2008 amalgamations in that state averaged $8.1m per new council ($2m net costs), with Central Highlands Regional Council claiming the highest cost $21.5m (Sunshine Coast Regional Council incurred the highest net cost at $4.1m). Almost half of costs related to one-off information and communication technology costs (43.8%)[24] and a further 28% related to senior staff redundancies and recruitment and councillor allowances. These areas were also identified as the most significant sources of future ongoing savings. The reported net costs deducted identified savings in areas such as councillor and senior remuneration and ICT costs over the first four years of the new council.

Toowoomba Regional Council reported their amalgamation costs over a four year period were $19m, although $5m of this related to councillor transition arrangements and $1.8m for new directors' remuneration of the period. Net costs were $3.7m.

The NSW State Government has offered an untied grant of $10.5m to each newly amalgamated council with a further $3m for each additional 50,000 in population above 250,000, capped at $22.5m. This grant is more than sufficient to cover the expected direct financial costs of an amalgamation under any option investigated in this report.

The direct and essential costs of an amalgamation have been estimated for each proposed option, with a particular focus on costs incurred during the transition period and the first four years of operation of the proposed new council.

**Table 26 Description of amalgamation cost categories**

| Cost Item | Description |
|---|---|
| New information and communication technology | New systems and communication costs that are directly attributable to the requirements of the new council including telephone systems, computer systems, financial systems, mapping systems, and internet based systems and network upgrades. |
| Recruitment of senior staff | Recruitment agency fees for general manager and directors. |
| Redundancy costs - senior staff | Amalgamation specific redundancy costs for senior staff in accordance with the definition of senior officers in the Local Government Act 1993.<br><br>38 weeks pay in accordance with the standard employment contract for general managers and other senior officers. |
| Redundancy costs - other staff | No forced redundancies for a minimum 3 years (Local Government Act 1993 (354(F)) with an extension to 5 years under negotiation between Randwick City Council and the unions. No redundancies |

[24] Queensland Treasury Corporation, 2009, "Review of Local Government Amalgamation Costs Funding Submissions - Final Summary Report." p15. http://services.dip.qld.gov.au/opendata/RTI/dlgcrr/rti137/Documents%20for%20release%20-%20RTI137.PDF Accessed 25/1/2015.

| Cost Item | Description |
|---|---|
| | required. |
| Training | With a large number of experienced and skilled staff coming together, it is anticipated training would be delivered in-house. |
| Transition committee and general reform costs | Governance, planning, change management and implementation costs - expected to be carried out in-house. The State Government will fund the remuneration of non-salaried members of the transition committee (councillors). |
| Community and staff consultation | Communication with the community and staff during the transition period. |
| New buildings, renovations, and relocations | With the exception of Botany Council, all councils reported their council administration offices were in satisfactory condition with no backlog of work required. (SS7 2013-14 Financial Statements). The new entity would be able to accommodate all staff and equipment in existing facilities without the need to fund new administration and customer service centres and depots.<br><br>In the long term the new organisation may choose to centralise the administration centre. The cost of this is further detailed in this report. |
| Legal and audit services | Legal and assurance services during the transition period including planning documentation assurance. |
| Statutory planning integration | Cost of new and updated plans for the new council that are a direct requirement of the amalgamation. This includes surveys, mapping, LEPs, DCPs and s94 plan reviews, and pricing assessments to combine the business activities of the new council.<br><br>Changes required in the short term would be carried out in-house. No change would be required in the short term to planning controls. The existing documents for each council would be integrated over 5 years. |
| Branding / Visual identity - Logo, signage, uniforms, letter head, etc | Cost of new logo, uniforms, signage and stationery.<br><br>Letterhead and uniform stock levels will be managed during the 11 month transition period to ensure excessive stock levels are not held by the first day of operation of a new entity.<br><br>With the exception of gateway markers, suburb markers, and council buildings signs would be replaced as needed. Decals would be produced to update park, beach and vehicle signage. |

**Table 27 Direct costs - incurred in the transition period and within the first 12 months of amalgamation:**

| Cost | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 | Comment |
|---|---|---|---|---|---|---|---|
| **New information and communication technology (ICT)** | 3,703 | 3,678 | 4,657 | 4,756 | 6,412 | 7,587 | Initial server environment, establish data and voice systems, integration systems, website, app, rates, receipting, CRM, finance and payroll, business intelligence, libraries, assets, document management, GIS, call centre communication system, power trees for budget overview and ancillary systems.<br>Capital expenditure on the replacement and upgrade of ICT within each council's Long Term Financial Plans have already been included in the financial model. It is assumed at least 5% of these funds could be redirected to fund ICT amalgamation costs. To ensure this expenditure is not duplicated, these funds have been deducted from ICT amalgamation costs. |
| *ICT amalgamation costs* | *4,040* | *4,197* | *5,176* | *5,275* | *6,931* | *8,106* | |
| *Less LTFP funding* | *(337)* | *(519)* | *(519)* | *(519)* | *(519)* | *(519)* | |

| Cost | OPTION 2<br><br>RANDWICK + BOTANY<br><br>$'000 | OPTION 3<br><br>RANDWICK + WAVERLEY<br><br>$'000 | OPTION 4<br><br>RANDWICK + WAVERLEY + BOTANY<br><br>$'000 | OPTION 5<br><br>RANDWICK + WAVERLEY + WOOLLAHRA<br><br>$'000 | OPTION 6<br><br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br><br>$'000 | OPTION 7<br><br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br><br>$'000 | Comment |
|---|---|---|---|---|---|---|---|
| **Recruitment of senior staff** | 160 | 190 | 220 | 220 | 250 | 370 | Recruitment agency fees for general manager and directors |
| **Redundancy costs - senior staff** | 664 | 476 | 1,107 | 1,296 | 1,905 | 3,488 | 38 weeks pay in accordance with the standard employment contract for general managers and other senior officers. |
| **Redundancy costs - other staff** | 0 | 0 | 0 | 0 | 0 | 0 | No forced redundancies for a minimum 3 years (LG Act) with an extension of this period under negotiation with unions. No redundancies anticipated. |
| **Training** | 0 | 0 | 0 | 0 | 0 | 0 | With a large number of experienced and skilled staff coming together, it is anticipated training would be delivered in-house. |
| **Transition committee and general reform costs** | 0 | 0 | 0 | 0 | 0 | 0 | Governance, planning, change management and implementation costs - expected to be carried out in house. The State Government will fund the remuneration of non-salaried members of the transition committee (councillors). |

| Cost | OPTION 2<br><br>RANDWICK + BOTANY<br><br>$'000 | OPTION 3<br><br>RANDWICK + WAVERLEY<br><br>$'000 | OPTION 4<br><br>RANDWICK + WAVERLEY + BOTANY<br><br>$'000 | OPTION 5<br><br>RANDWICK + WAVERLEY + WOOLLAHRA<br><br>$'000 | OPTION 6<br><br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br><br>$'000 | OPTION 7<br><br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br><br>$'000 | Comment |
|---|---|---|---|---|---|---|---|
| **Community and staff consultation** | 250 | 288 | 312 | 350 | 363 | 401 | Communications with the community and staff during the transition period. |
| **New buildings, renovations, and relocations** | 0 | 0 | 0 | 0 | 0 | 0 | The new entity would be able to accommodate all staff and equipment in existing facilities without the need to fund new administration and customer service centres and depots in the short term. |
| **Legal services** | 50 | 50 | 75 | 75 | 100 | 125 | |
| **Audit services** | 144 | 147 | 183 | 183 | 219 | 303 | |
| **Statutory planning integration** | 0 | 0 | 0 | 0 | 0 | 0 | No change would be required in the short term. The existing documents for each council would be integrated over 5 years. |

| Cost | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 | Comment |
|---|---|---|---|---|---|---|---|
| **Branding / visual identity - logo, signage, uniforms, letter head, etc** | 849 | 1,108 | 1,362 | 1,430 | 1,704 | 2,998 | Letterhead and uniform stock levels will be managed during the 11 month transition period to ensure excessive stock levels are not held by the first day of operation of a new entity. So no additional costs beyond design anticipated.<br><br>With the exception of gateway and suburb markers and building signage, signs would be replaced as needed. |
| **TOTAL AMALGAMATION COSTS** | **5,820** | **5,937** | **7,915** | **8,310** | **10,953** | **15,273** | |
| **State Government Amalgamation Grant** | (10,500) | (10,500) | (10,500) | (10,500) | (13,500) | (22,500) | $10.5m + $3m for every 50k pop'n over 250k - max $22.5m |
| ***Population*** | *185,602* | *213,016* | *256,308* | *270,693* | *313,985* | *505,903* | |
| **NET COST / (SURPLUS) FUNDS** | **(4,680)** | **(4,563)** | **(2,585)** | **(2,190)** | **(2,547)** | **(7,227)** | |

### Administration and Customer Service Centres

With the exception of Botany Council, all councils reported their council administration offices were in satisfactory condition with no backlog of work required. This is derived from each council's publically available 2013-14 Annual Reports (Special Schedule 7, 2013-14 Financial Statements). Botany Council reported $1.243m was required to bring their council offices to a satisfactory standard and this has been provided for in the financial model detailed in this report. While the new entity would be able to accommodate all staff and equipment in existing facilities, it is likely a central administration building will be required in the longer term, with several Customer Service Centre points located throughout the area.

The net cost of new premises and/or renovations to existing premises including relocation costs are estimated in the following table. The cost of accommodating additional staff in existing City of Sydney buildings, including Town Hall House would result in a substantial loss of annual rental income as these buildings are currently leased to commercial tenants. The estimated loss of revenue for all options is also set out in the following table. After taking into account rental income foregone, the most costly option is Option 7 'Global City'.

**Table 28 Administration and Customer Service Centre Amalgamation Costs**

| | OPTION 2 RANDWICK + BOTANY $'000 | OPTION 3 RANDWICK + WAVERLEY $'000 | OPTION 4 RANDWICK + WAVERLEY + BOTANY $'000 | OPTION 5 RANDWICK + WAVERLEY + WOOLLAHRA $'000 | OPTION 6 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY $'000 | OPTION 7 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY $'000 |
|---|---|---|---|---|---|---|
| **New buildings, renovations, and relocations – net cost** | 23,158 | 25,065 | 27,597 | 36,101 | 38,633 | 7,080 |
| **Less surplus funds from the State Govt's grant** | (4,680) | (4,563) | (2,585) | (2,190) | (2,547) | (7,227) |
| **NET COST / (SURPLUS) FUNDS** | **18,478** | **20,502** | **25,012** | **33,911** | **36,086** | **(147)** |
| **Loss of rental income from council owned properties now occupied by council staff (over 4 years)*** | 0 | 1,317 | 1,096 | 1,317 | 1,096 | 49,330[25] |
| **NET COST / (SURPLUS) FUNDS** | 18,478 | 21,819 | 26,107 | 35,228 | 37,182 | 49,183 |

* The impact on rental income is recurring and will impact the LTFP forecasts. This impact is set out in the following table.

[25] Level 18 of Town Hall House was leased by City of Sydney for **$0.36m** per annum commencing 1 Feb 2013 with a **3.75% fixed annual increase** (City of Sydney Corporate, Finance, Properties and Tenders Committee, *Lease – Level 18 Town Hall House to JTB Pty Ltd*, 18 June 2012). Town Hall House comprises 23 levels and 5 levels of parking with over 23,000m2 allocated for corporate workspace (City of Sydney Corporate, Finance, Properties and Tenders Committee, *Tender – Refurbishment of Town Hall House – Levels 7 and 13-16*, 19 August 2013). The rent foregone is calculated on the space required by staff relocating to the CBD (16m2 per person) at a rate based on $0.36m plus 3.75% per annum divided by 1000m2 (assumed space per level in Town Hall House) to accommodate the additional staff within this building and other buildings owned by City of Sydney within the CBD.

**Table 29 Administration and Customer Service Centre Amalgamation Costs – Loss of annual rental income from council owned properties proposed to be occupied by council staff**

| Cost | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 |
|---|---|---|---|---|---|---|
| **Loss of annual rental income from council owned properties now occupied by council staff** | 0 | 300 | 250 | 300 | 250 | 11,257 |
| **x 4 years - Amalgamation Transition Period*** | 0 | 1,317 | 1,096 | 1,317 | 1,096 | 49,330 |
| **x 10 years - Long Term Financial Plan impact*** | 0 | 3,686 | 3,067 | 3,686 | 3,067 | 138,090 |

***Includes indexation: Rent has been indexed by 3.74% - the average increase in commercial rents applied by Randwick City Council in their 2015 Long Term Financial Plan.**

## Depots

There is a potential to rationalise the number of depot sites located throughout the area, without compromising service delivery or function, should there be an amalgamation of councils. This model has assumed any sites surplus to need would be sold and the proceeds invested in other community facilities.

This is a high level analysis of possible options guided by travel times analysis. Further investigation of options would be required to ensure productivity, resource sharing, capability, safety, wellbeing, access and security, compliance and environmental factors are addressed and unions and staff are consulted.

### Table 30 Depot site works net any proceeds on the sale of depots no longer required

| | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 |
|---|---|---|---|---|---|---|
| **New buildings, renovations, and relocations - depots - net cost / (surplus)** | (1,370) | (9,600) | (1,370) | (9,600) | (1,370) | (1,370) |

### Proceeds from recent depot sales

As discussed earlier, Woollahra and Waverley Councils sold their inner Sydney depots in recent years. Waverley Council purchased land at 67A Bourke Street Alexandria and constructed a shared depot with Woollahra Council. Part of the proceeds from the sale of the two councils' depots funded the new depot.

**Woollahra**
Woollahra is yet to receive the full proceeds from the sale of their 52-54 O'Dea Avenue Waterloo depot. The site was sold for $56m with proceeds due as follows:

| | |
|---|---|
| $5.6m | On exchange of contracts Aug (paid August 2014) |
| $7.4m | Paid December 2014 |
| $9.4m | Due June 2015 |
| $33.6m | Due June 2016 |
| $56.0m | TOTAL[26] |

Woollahra Council also recently sold vacant land located at 9A Cooper Park Road for $9.143m in the 2014-15 financial year. The total proceeds from the two sales is $65.143m. In addition to funding the new shared depot with Waverley Council ($11.79m), the council also allocated $3.2m to their 2014-15 capital works budget. After deducting selling fees, the council anticipates holding $52m in a Property Reserve. Their draft LTFP has allocated $13.8m of these funds to infrastructure and buildings projects, with a projected **$36.1m** remaining unallocated in the Property Reserve from the proceeds of these two properties. These remaining funds have not been allocated to any works in this model.

**Waverley**
Waverley sold their depot at 105-115 Portman Street Zetland for $82m in Sept 2013 with settlement occurring in December 2014. In addition to allowing $9.5m for the purchase of a new depot site and $15.5m to construct the new facility, the council has allocated these funds towards investment and operational projects including:

| | |
|---|---|
| $1m | Remediation of the Portman Street depot (sale contract condition) |
| $0.5m | Satellite depots within the Waverley area (2014-15) |
| $1.7m | New SES depot (shared with Woollahra) in Bondi Junction (2014-15) |
| $1.67m | Employee gratuity entitlements |

[26] Woollahra Council Corporate and Works Committee Agenda, 1 Dec 2014, p34.

Waverley's remaining proceeds from the sale of their Zetland depot have also not been allocated to any works in this model. The council has committed these funds to a number of projects within their LTFP in line with their Investment Strategy.

### Unknown amalgamation costs

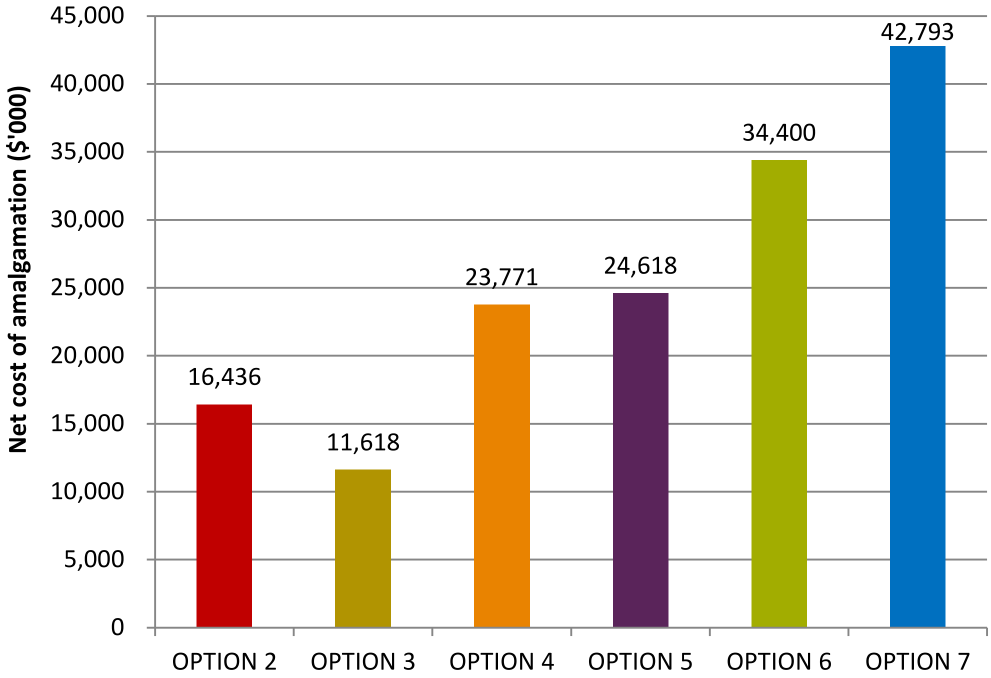
At the date of preparation of this report, April 2015, the government has not released details on transitional arrangements and the framework any amalgamation must follow. These arrangements may result in higher or lower costs than those set out above.

This report has been prepared primarily with publically available information. Areas such as salary structures and service delivery standards are not detailed in the information available. Harmonising these areas may result in additional costs such as wage equalisation and new plant and equipment requirements.

### Summary of amalgamation costs and projected financial surplus for each option

The costs of amalgamation will be incurred before the new council can address asset expenditure gaps and repay any debt. The net cost of amalgamation, including administration, customer service and depot facilities is summarised in the following graph.

**Figure 18 Summary of estimated costs of an amalgamation over four years – Net present value**




The most costly amalgamation option is understandably the largest, most complex option; option 7 'Global City'. It is also the highest risk option because the complexity is magnified by the scale.

An amalgamation of Waverley and Randwick (option 3) is considered a less costly option in contrast to Option 2, an amalgamation of Botany and Randwick Councils. Should Randwick and Botany amalgamate it may be possible to consolidate the depot operations of both councils into the existing Maroubra depot. This depot is spread across two levels, with the upper level currently underutilised. In a Randwick and Waverley amalgamation scenario this upper level would remain surplus to requirements as Waverley council's current depot would be retained.

**Table 31 Summary of estimated costs of an amalgamation over four years – Net present value**

| Cost | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 |
|---|---|---|---|---|---|---|
| Direct and essential costs | 5,646 | 5,742 | 7,693 | 8,061 | 10,641 | 14,898 |
| Net cost of administration and customer service centres * | 22,597 | 25,589 | 27,884 | 36,269 | 38,565 | 51,701 |
| Net cost of depot facilities | (1,306) | (9,213) | (1,306) | (9,213) | (1,306) | (1,306) |
| **Total amalgamation process cost / (surplus)** | **26,936** | **22,118** | **34,271** | **35,118** | **47,900** | **65,293** |
| Less NSW State Government grant | (10,500) | (10,500) | (10,500) | (10,500) | (13,500) | (22,500) |
| **Total amalgamation process net cost / (surplus)** | **16,436** | **11,618** | **23,771** | **24,618** | **34,400** | **42,793** |

* The impact on rental income is recurring and will impact the Long Term Financial Plan forecasts for the councils. This impact is incorporated into this analysis within this layer of the model. The above table only represents four years of rental income foregone.

These amalgamation costs have been incorporated into the model and required infrastructure and maintenance works pushed into later years along with early debt repayments. The following table sets out the revised financial results of each option.

Table 32 Comparison of options - Randwick service model and amalgamation costs – 10 year period (2017-26) net present value

| | OPTION 1 RANDWICK (LTFP 2016-25) $'000 | OPTION 2 RANDWICK + BOTANY $'000 | OPTION 3 RANDWICK + WAVERLEY $'000 | OPTION 4 RANDWICK + WAVERLEY + BOTANY $'000 | OPTION 5 RANDWICK + WAVERLEY + WOOLLAHRA $'000 | OPTION 6 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY $'000 | OPTION 7 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY $'000 |
|---|---|---|---|---|---|---|---|
| Rates and annual charges | 1,159,885 | 1,426,939 | 1,644,116 | 1,999,081 | 2,191,223 | 2,546,188 | 5,537,978 |
| Other operating income | 363,436 | 570,562 | 954,752 | 1,210,352 | 1,281,161 | 1,536,762 | 3,699,929 |
| TOTAL OPERATING INCOME | 1,523,321 | 1,997,501 | 2,598,868 | 3,209,433 | 3,472,384 | 4,082,950 | 9,237,907 |
| TOTAL OPERATING EXPENDITURE (EXCL DEPRECIATION) | (1,200,361) | (1,607,841) | (2,006,050) | (2,501,736) | (2,609,444) | (3,105,130) | (7,092,285) |
| **NET OPERATING RESULT - SURPLUS / (DEFICIT)** | **322,960** | **389,661** | **592,818** | **707,697** | **862,941** | **977,820** | **2,145,622** |
| Capital income | 41,221 | 102,046 | 55,962 | 122,669 | 70,582 | 137,289 | 422,626 |
| Capital expenditure | (370,015) | (380,435) | (482,845) | (543,792) | (588,017) | (648,964) | (2,083,667) |
| **NET OPERATING + CAPITAL RESULT - SURPLUS / (DEFICIT)** | **(5,834)** | **111,271** | **165,935** | **286,575** | **345,506** | **466,145** | **484,581** |
| Less planned reserve movements (LTFPs) - (in) / out of reserve and loan repayments | 5,834 | (51,220) | (39,685) | (93,147) | (66,657) | (120,119) | (139,450) |
| **FUNDING RESULT - SURPLUS / (DEFICIT)** | **0** | **60,051** | **126,251** | **193,428** | **278,849** | **346,026** | **345,132** |
| NSW State Government amalgamation grant | 0 | 10,500 | 10,500 | 10,500 | 10,500 | 13,500 | 22,500 |
| Less amalgamation costs (incl rent foregone) | 0 | (26,891) | (23,797) | (35,636) | (36,769) | (49,235) | (129,389) |
| Less funds required to meet 'Fit for the Future' ratios and repay loans | 0 | (15,337) | (9,609) | (24,946) | (17,318) | (32,654) | (92,676) |
| **FUNDING RESULT AFTER MEETING BENCHMARKS AND REPAYING DEBT - SURPLUS / (DEFICIT)** | **0** | **28,323** | **103,344** | **143,346** | **235,262** | **277,637** | **145,566** |
| Funds Surplus / (Deficit) per resident $ | $0 | $153 | $485 | $559 | $869 | $884 | $288 |

Figure 19 Funds remaining after amalgamation costs, meeting 'Fit for the Future' ratios and repaying debt over 10 years per resident – Net present value

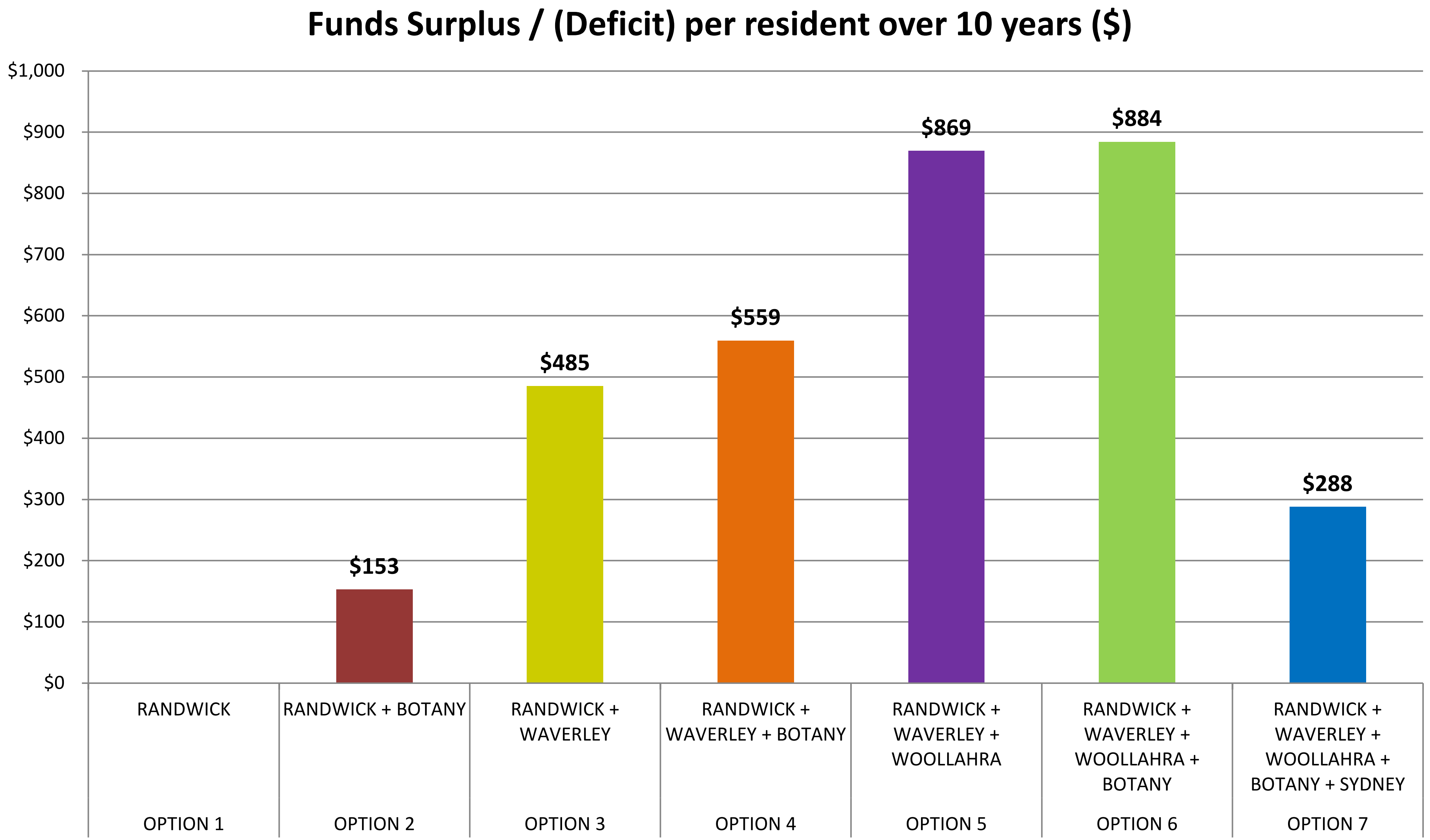


Table 33 Fit for the Future 2017 and 2020 Ratios - Comparison of options - Randwick service model and amalgamation costs

| | OPTION 1<br>RANDWICK | OPTION 2<br>RANDWICK + BOTANY | OPTION 3<br>RANDWICK + WAVERLEY | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| **Ratios - 2017 - with Randwick depreciation rates** | | | | | | | |
| 1. Operating Performance Ratio | 3.22% | 3.46% | 3.71% | 2.82% | 2.72% | 2.38% | 2.39% |
| 2. Own Source Operating Revenue Ratio | 92.15% | 84.89% | 90.87% | 87.47% | 91.60% | 88.65% | 88.45% |
| 3. Building and Infrastructure Renewals Ratio | 117.24% | 112.97% | 97.91% | 97.29% | 103.74% | 102.70% | 110.80% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.23% | 1.12% | 0.55% | 1.17% | 0.85% | 1.32% | 1.64% |
| 5. Asset Maintenance Ratio (SS7) | 110.33% | 104.10% | 94.66% | 93.86% | 97.06% | 96.04% | 95.54% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.73% | 0.59% | 3.02% | 2.53% | 1.10% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| | | | | | | | |
| **Ratios - 2020 - 4 years progressing to Randwick service model** | | | | | | | |
| 1. Operating Performance Ratio | 3.25% | 8.95% | 11.43% | 11.42% | 13.94% | 13.56% | 8.11% |
| 2. Own Source Operating Revenue Ratio | 92.29% | 90.02% | 92.99% | 91.14% | 93.42% | 91.88% | 91.82% |
| 3. Building and Infrastructure Renewals Ratio | 122.99% | 116.76% | 108.64% | 108.93% | 118.55% | 117.98% | 97.58% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.03% | 0.89% | 0.02% | 0.67% | 0.02% | 0.54% | 0.79% |
| 5. Asset Maintenance Ratio (SS7) | 118.98% | 109.98% | 110.57% | 107.01% | 109.87% | 107.01% | 101.25% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 1.29% | 1.05% | 3.30% | 2.82% | 1.26% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |

Indicates strongest ratio across the options for that ratio (debt free assumed a strong position, despite being outside of the benchmark for this ratio)

Table 34 Fit for the Future - Comparison of options - Randwick service model and amalgamation costs

| Ratios met: | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 2 - R + B | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 3 - R + Wav | 5 | 6 | 7 | 7 | 7 | 7 | 6 | 6 | 6 | 6 |
| Option 4 - R + B + Wav | 5 | 6 | 7 | 7 | 7 | 7 | 6 | 6 | 6 | 6 |
| Option 5 - R + Wav + Wool | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Option 6 - R + B + Wav + Wool | 6 | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Option 7 - Global city | 6 | 5 | 5 | 6 | 7 | 7 | 7 | 7 | 7 | 7 |

Figure 20 Summary of surplus / (deficit funds) available after amalgamation costs and meeting 'Fit for the Future' ratios

| Ratios met EXCL DEBT: | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 2 - R + B | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 3 - R + Wav | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 4 - R + B + Wav | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 5 - R + Wav + Wool | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 6 - R + B + Wav + Wool | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Option 7 - Global city | 5 | 4 | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 6 |

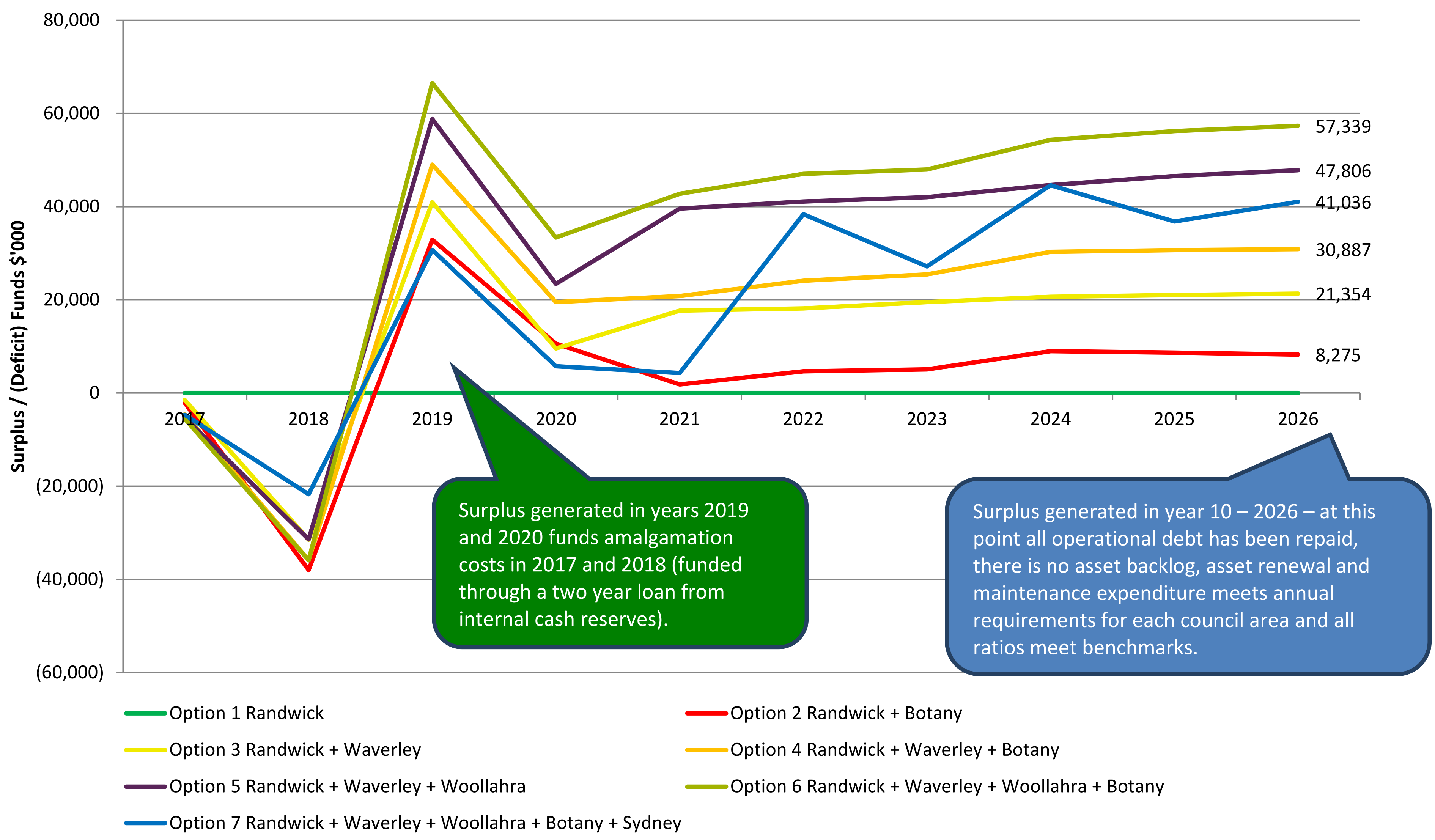
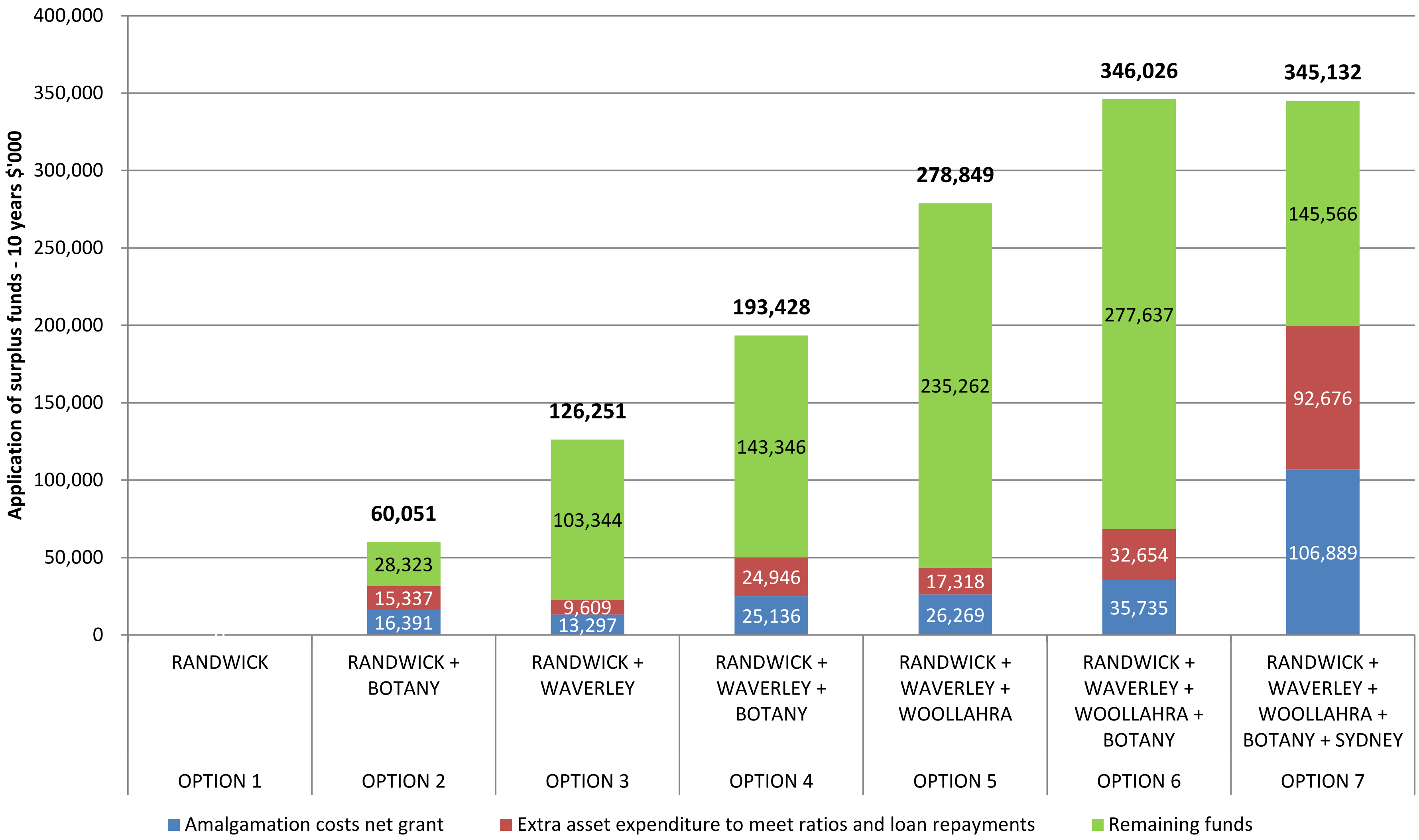

80,000
60,000
40,000
20,000
0
(20,000)
(40,000)
(60,000)
Surplus / (Deficit) Funds $'000
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
57,339
47,806
41,036
30,887
21,354
8,275
Surplus generated in years 2019 and 2020 funds amalgamation costs in 2017 and 2018 (funded through a two year loan from internal cash reserves).
Surplus generated in year 10 – 2026 – at this point all operational debt has been repaid, there is no asset backlog, asset renewal and maintenance expenditure meets annual requirements for each council area and all ratios meet benchmarks.
Option 1 Randwick
Option 2 Randwick + Botany
Option 3 Randwick + Waverley
Option 4 Randwick + Waverley + Botany
Option 5 Randwick + Waverley + Woollahra
Option 6 Randwick + Waverley + Woollahra + Botany
Option 7 Randwick + Waverley + Woollahra + Botany + Sydney

Figure 21 Application of surplus operating funds over ten years from 2017 to 2026



## Results of Financial Analysis of Amalgamation Options – Randwick Service Model with amalgamation costs

Each amalgamation option has the capacity to generate surplus funds over ten years after funding the cost of the amalgamation process, closing the asset expenditure gap and repaying operational loans.

An amalgamation of Randwick, Waverley and Woollahra with (Option 6) or without Botany (Option 5) has the potential to generate the highest surplus over ten years on a per resident basis ($884 and $869 respectively). Option 6 generates $278m while Option 5 generates $235m over ten years. The inclusion of Botany in Option 6 creates a greater risk exposure as there appears to be a shortage of cash to cover Botany's longer term liabilities and there is a risk required asset expenditure is under-estimated due to the limited information available on Botany.

An amalgamation of Randwick with Waverley (Option 3) or with the inclusion of Woollahra (Option 4) are also strong options, generating a surplus of $485 and $559 per resident over ten years respectively. A surplus of $103m is generated over ten years by Option 3 while Option 4 generates $143m over the same period.

While an amalgamation of Randwick and Botany (Option 2) generates a comparatively moderate surplus of $28m ($153 per resident over ten years), there is a risk this option may require additional asset expenditure as very little information is available on Botany's assets. There is also a considerable gap between cash reserves and liabilities (employee leave entitlements and bonds and deposits) that has not been addressed in this model.

Option 7, the Global City generates a surplus of $146m over ten years, which is only slightly more than an amalgamation of Randwick, Waverley and Botany (Option 4 $143m). This equates to $288 per resident over ten years.

The Randwick stand-alone option (Option 1) does not generate surplus funds as the council's LTFP is already in a balanced position, with works planned for the next ten years based on that plan's forecasted income. This model is based on rolling out Randwick's service model across the options, as Randwick already operate under this model, there is no change in the council's financial result.

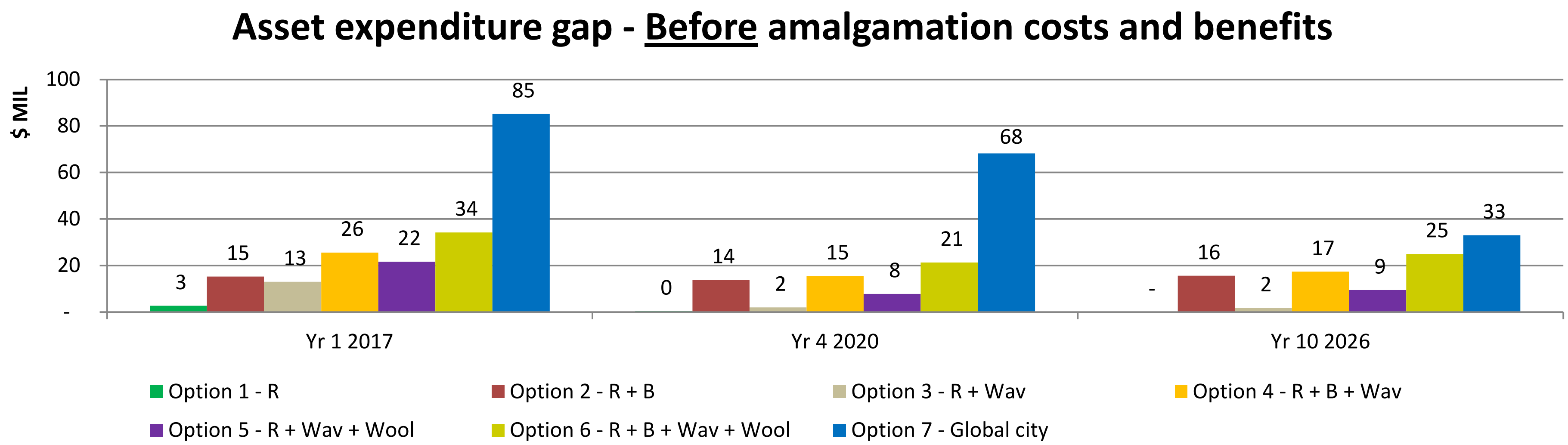
### Closing the asset expenditure gap

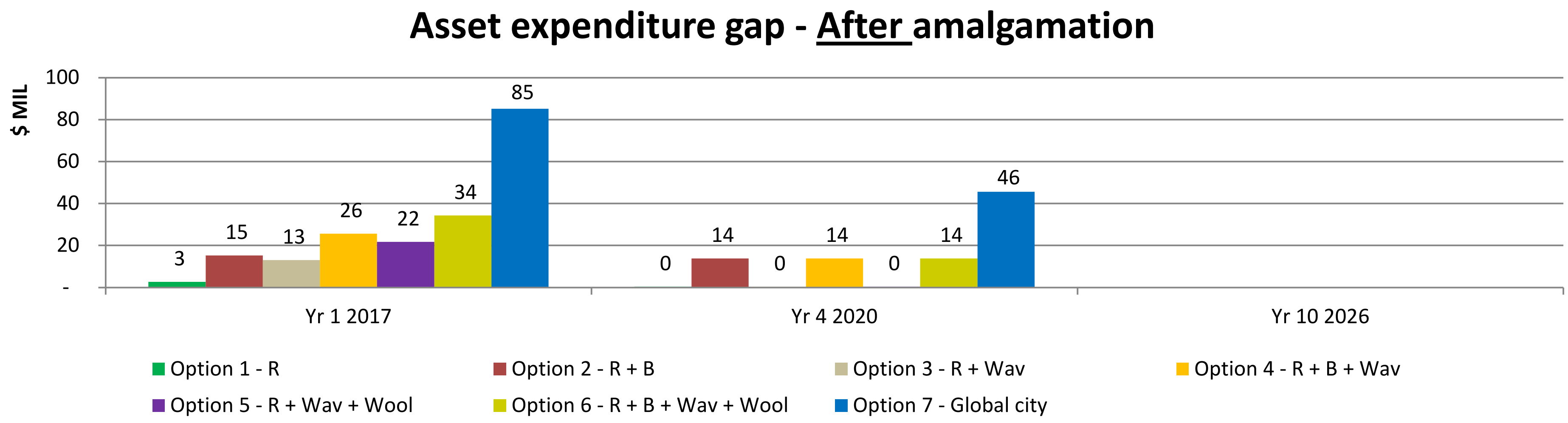
The asset expenditure gap consists of the shortfall in asset maintenance and capital renewal required on an annual basis in addition to the backlog of works required to bring building and infrastructure assets to a satisfactory standard. Every council currently has a gap as discussed in Section 2.

Each council's projections show there is a gap in funding in 2017, although the gap diminishes over many councils' ten year projections. The following two figures illustrate the asset expenditure gap in the first year of the model (2017), the fourth year (2020) and the tenth year (2026).

Based only on the projections of the councils that make up each amalgamation option, no group eliminates the gap by 2020, although all show improvement. Randwick's gap is eliminated by 2021. However, after applying surplus funds generated by the amalgamation of these councils towards this gap all options have eliminated the gap by 2026. In addition options 3 and 5 achieve this by 2020.

Figure 22 Asset expenditure gap - before and after amalgamation costs and benefits - $ MILLION



# Financial context

4. Sensitivity testing of financial model

## 4. Sensitivity testing of financial model

In order to test the robustness of the modelling results, two separate (mutually exclusive) scenarios have been established. Each scenario is outlined below:

Scenario 1A – 10 per cent lower rates income
Scenario 1B – 20 per cent lower rates income
Scenario 2A – 10 per cent higher service costs
Scenario 2B – 20 per cent higher service costs

Sensitivity testing has not been applied to Option 1, the Randwick stand-alone option, as the Council's LTFP already includes sensitivity testing and this option is not impacted by the amalgamation assumptions in this model.

### 4.1 Scenario 1 – Lower rates income

The base line modelling applies the current rate structure to each option, allowing for some growth in the number of assessment based on NSW State government projections. This scenario tests a 10 per cent and 20 per cent reduction in rates.

**Scenario 1A – 10 per cent lower rates income**

The table below shows the modelling results if rates were reduced by 10 per cent. This simulation shows that Options 3 to 6 can maintain a surplus in the event of a 10 per cent decline in rates. While the 'Fit for the Future' ratios are weaker, they do meet the benchmarks by 2020 in all cases.

Botany and Sydney have a larger reliance on rates income, in particular from business rates than the other three councils. As a result an amalgamation under Option 2 (Randwick and Botany) or Option 7 (Global City) would not be financially feasible if rates are 10% lower than projections. These options have annual funding deficits, an inability to pay back the cost of the amalgamation process and no funding available to address asset expenditure gaps. The potential service efficiencies achieved through this amalgamation are not sufficient to cover a 10 per cent reduction in rates, making these options particular sensitive to a change in rates income.

| | OPTION 1<br>RANDWICK | OPTION 2<br>RANDWICK + BOTANY | OPTION 3<br>RANDWICK + WAVERLEY | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000 | 0 | (56,508) | 1,016 | 28,817 | 95,570 | 125,727 | (225,489) |
| Funds Surplus / (Deficit) per resident $ | $0 | ($304) | $5 | $112 | $353 | $400 | ($446) |

Table 35 Scenario 1A 10 per cent reduction in rates – Surplus / (Deficit)

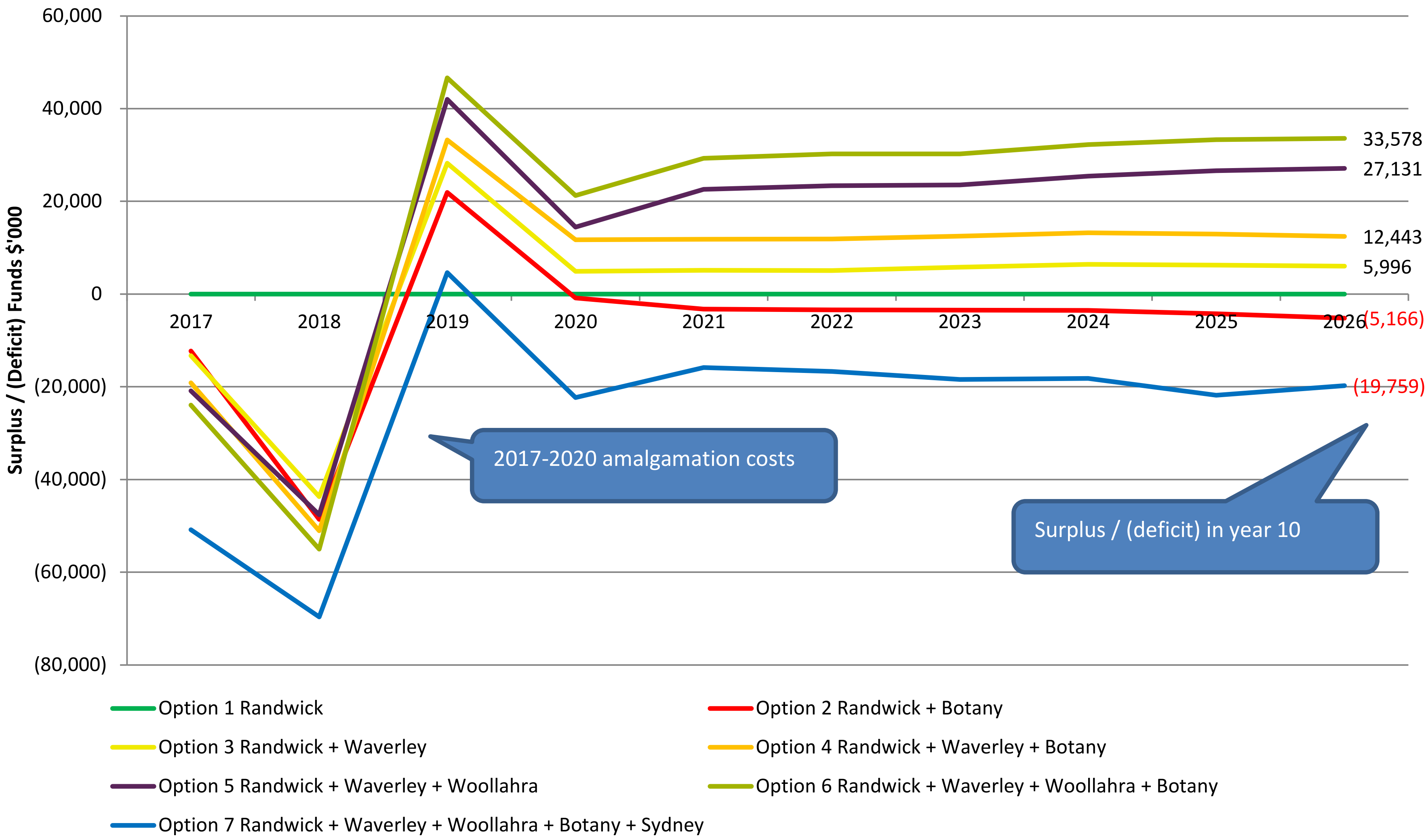


Table 36 Scenario 1A 10 per cent reduction in rates - Fit for the Future 2017 and 2020 Ratios

| | OPTION 1<br>RANDWICK | OPTION 2<br>RANDWICK + BOTANY | OPTION 3<br>RANDWICK + WAVERLEY | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| **Ratios - 2017 - with Randwick depreciation rates** | | | | | | | |
| 1. Operating Performance Ratio | 3.22% | 1.78% | 2.22% | 1.31% | 1.20% | 0.88% | 0.76% |
| 2. Own Source Operating Revenue Ratio | 92.15% | 84.65% | 90.74% | 87.28% | 91.47% | 88.49% | 88.27% |
| 3. Building and Infrastructure Renewals Ratio | 117.24% | 112.97% | 97.91% | 97.29% | 103.74% | 102.70% | 110.80% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.23% | 1.12% | 0.55% | 1.17% | 0.85% | 1.32% | 1.64% |
| 5. Asset Maintenance Ratio (SS7) | 110.33% | 104.10% | 94.66% | 93.86% | 97.06% | 96.04% | 95.54% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.74% | 0.60% | 3.07% | 2.57% | 1.11% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| | | | | | | | |
| **Ratios - 2020 - 4 years progressing to Randwick service model** | | | | | | | |
| 1. Operating Performance Ratio | 3.25% | 4.38% | 7.48% | 7.42% | 10.11% | 9.68% | 3.46% |
| 2. Own Source Operating Revenue Ratio | 92.29% | 89.54% | 92.69% | 90.75% | 93.13% | 91.53% | 91.43% |
| 3. Building and Infrastructure Renewals Ratio | 122.99% | 116.76% | 106.99% | 107.44% | 117.18% | 116.72% | 87.15% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.03% | 0.89% | 0.02% | 0.67% | 0.02% | 0.54% | 0.79% |
| 5. Asset Maintenance Ratio (SS7) | 118.98% | 109.98% | 110.57% | 107.01% | 109.87% | 107.01% | 101.25% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.54% | 0.44% | 2.84% | 2.42% | 1.09% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |

**Scenario 1B – 20 per cent lower rates income**

When rates income is reduced by 20 per cent, no option generates a surplus over the ten year period. All options with the exception of Option 5 (Randwick, Waverley and Woollahra) and Option 6 (Randwick, Waverley, Woollahra and Botany) are not financially viable, with annual deficits in funding in each year of the model.

Option 5 and Option 6 do generate annual funding surpluses ($5.5m and $8m respectively by year 10), however the payback period for the amalgamation costs exceeds the 10 years of the model (Opt 5 - 18 years and Opt 6 - 14 years).

| | OPTION 1<br>RANDWICK | OPTION 2<br>RANDWICK + BOTANY | OPTION 3<br>RANDWICK + WAVERLEY | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $’000 | 0 | (155,757) | (113,389) | (113,028) | (48,304) | (45,586) | (666,795) |
| Funds Surplus / (Deficit) per resident $ | $0 | ($839) | ($532) | ($441) | ($178) | ($145) | ($1,318) |

Table 37 Scenario 1B 20 per cent reduction in rates – Surplus / (Deficit)

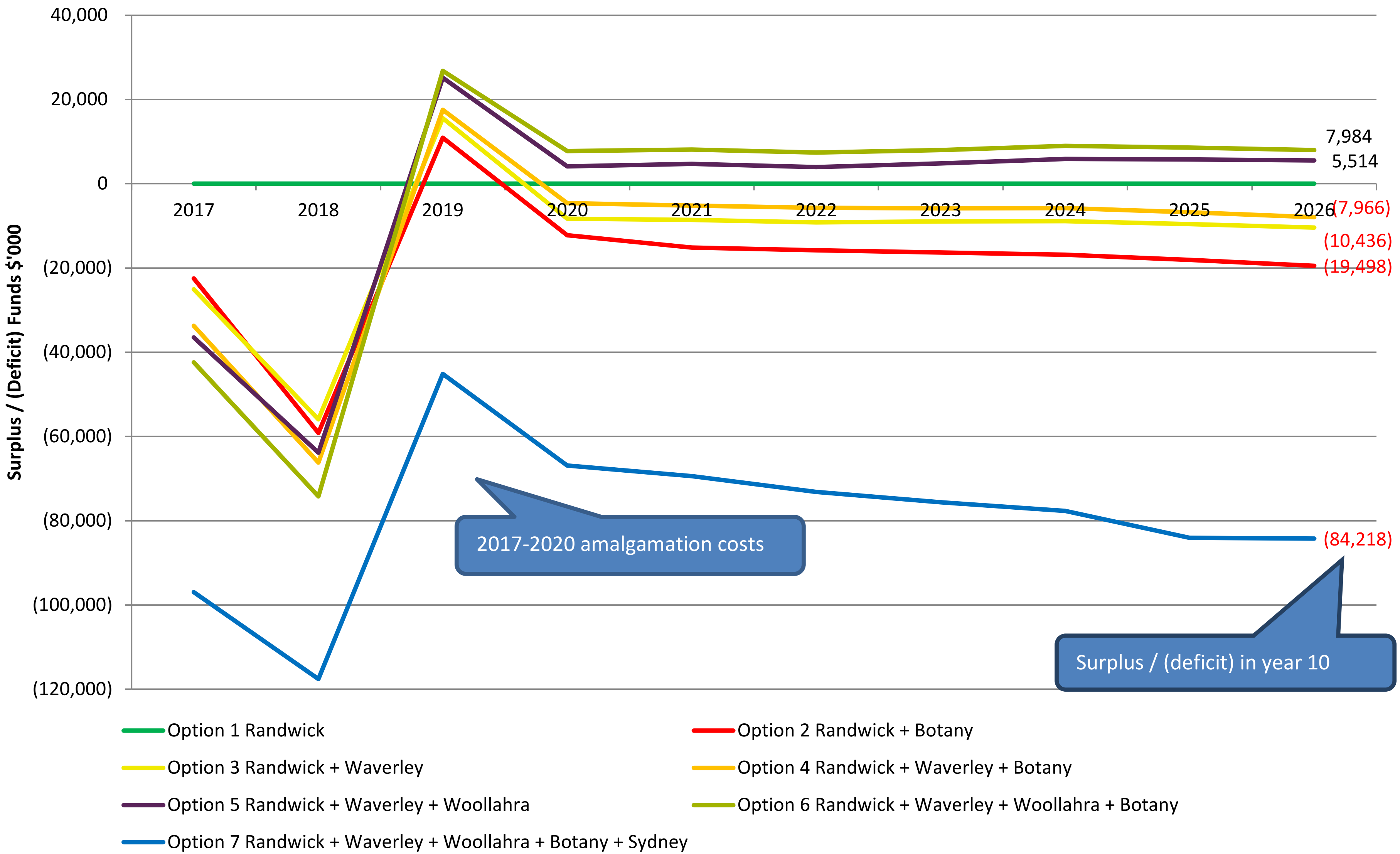


Table 38 Scenario 1B 20 per cent reduction in rates - Fit for the Future 2017 and 2020 Ratios

| | OPTION 1 RANDWICK | OPTION 2 RANDWICK + BOTANY | OPTION 3 RANDWICK + WAVERLEY | OPTION 4 RANDWICK + WAVERLEY + BOTANY | OPTION 5 RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| **Ratios - 2017 - with Randwick depreciation rates** | | | | | | | |
| 1. Operating Performance Ratio | 3.22% | 0.04% | 0.67% | -0.25% | -0.36% | -0.67% | -0.93% |
| 2. Own Source Operating Revenue Ratio | 92.15% | 84.41% | 90.59% | 87.10% | 91.34% | 88.32% | 88.09% |
| 3. Building and Infrastructure Renewals Ratio | 117.24% | 112.97% | 97.91% | 97.29% | 103.74% | 102.70% | 110.80% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.23% | 1.12% | 0.55% | 1.17% | 0.85% | 1.32% | 1.64% |
| 5. Asset Maintenance Ratio (SS7) | 110.33% | 104.10% | 94.66% | 93.86% | 97.06% | 96.04% | 95.54% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.75% | 0.61% | 3.11% | 2.61% | 1.13% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| | | | | | | | |
| **Ratios - 2020 - 4 years progressing to Randwick service model** | | | | | | | |
| 1. Operating Performance Ratio | 3.25% | -0.67% | 3.15% | 3.05% | 5.93% | 5.44% | -1.68% |
| 2. Own Source Operating Revenue Ratio | 92.29% | 89.02% | 92.36% | 90.33% | 92.82% | 91.15% | 90.99% |
| 3. Building and Infrastructure Renewals Ratio | 122.99% | 116.76% | 106.99% | 107.44% | 112.30% | 112.25% | 85.65% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.03% | 0.89% | 0.02% | 0.67% | 0.27% | 0.77% | 0.89% |
| 5. Asset Maintenance Ratio (SS7) | 118.98% | 109.98% | 110.57% | 107.01% | 109.87% | 107.01% | 101.25% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.56% | 0.46% | 2.85% | 2.44% | 1.11% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |

### 5.3.1. Scenario 2 – Higher service costs

The model applies Randwick's service costs to seven of the thirteen service areas to simulate the realisation of efficiencies due to an amalgamation. The potential cost-effectiveness from amalgamation can be eroded if there are unforeseen fixed costs in these service areas. Such large fixed costs could push the average service cost above Randwick's current cost for these service areas. This scenario tests a 10 per cent and 20 per cent increase in average service costs for these seven services in an attempt to assess the robustness of each option to unforeseen increases in average costs due to higher fixed costs.

Note that these increases do not apply to the first 18 months of the proposed amalgamated councils as each council maintains its current cost structure during this period of transition. They also do not apply to the City of Sydney as they continue to operate under their current cost structure for the ten years of the model due to a difference in service models. Given the majority of financial savings are attributable to the change in service costs, the scenario is important to understanding the robustness of the results.

**Scenario 2A – 10 per cent higher service costs**

The table below shows the modelling results if seven of the thirteen service costs identified in Section 3.2 were increased by 10 per cent. This simulation shows that Options 3 to 7 can maintain a strong surplus in the event of a 10 per cent increase in service costs. However this does impact the council's ability to meet the 'Fit for the Future' ratio benchmarks by 2020.

An amalgamation of Randwick and Botany would generate an average \$2m annual surplus from year 4 of model; however this is not sufficient to cover the costs of amalgamation over the ten years forecasted in the model. A payback period of fourteen years is required before this amalgamation option could address Botany's asset expenditure gap.

| | OPTION 1<br>RANDWICK | OPTION 2<br>RANDWICK + BOTANY | OPTION 3<br>RANDWICK + WAVERLEY | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000 | 0 | (3,280) | 47,479 | 92,019 | 161,982 | 208,879 | 84,602 |
| Funds Surplus / (Deficit) per resident $ | $0 | ($18) | $223 | $359 | $598 | $665 | $167 |

Table 39 Scenario 2A 10 per cent increase in service costs – Surplus / (Deficit)

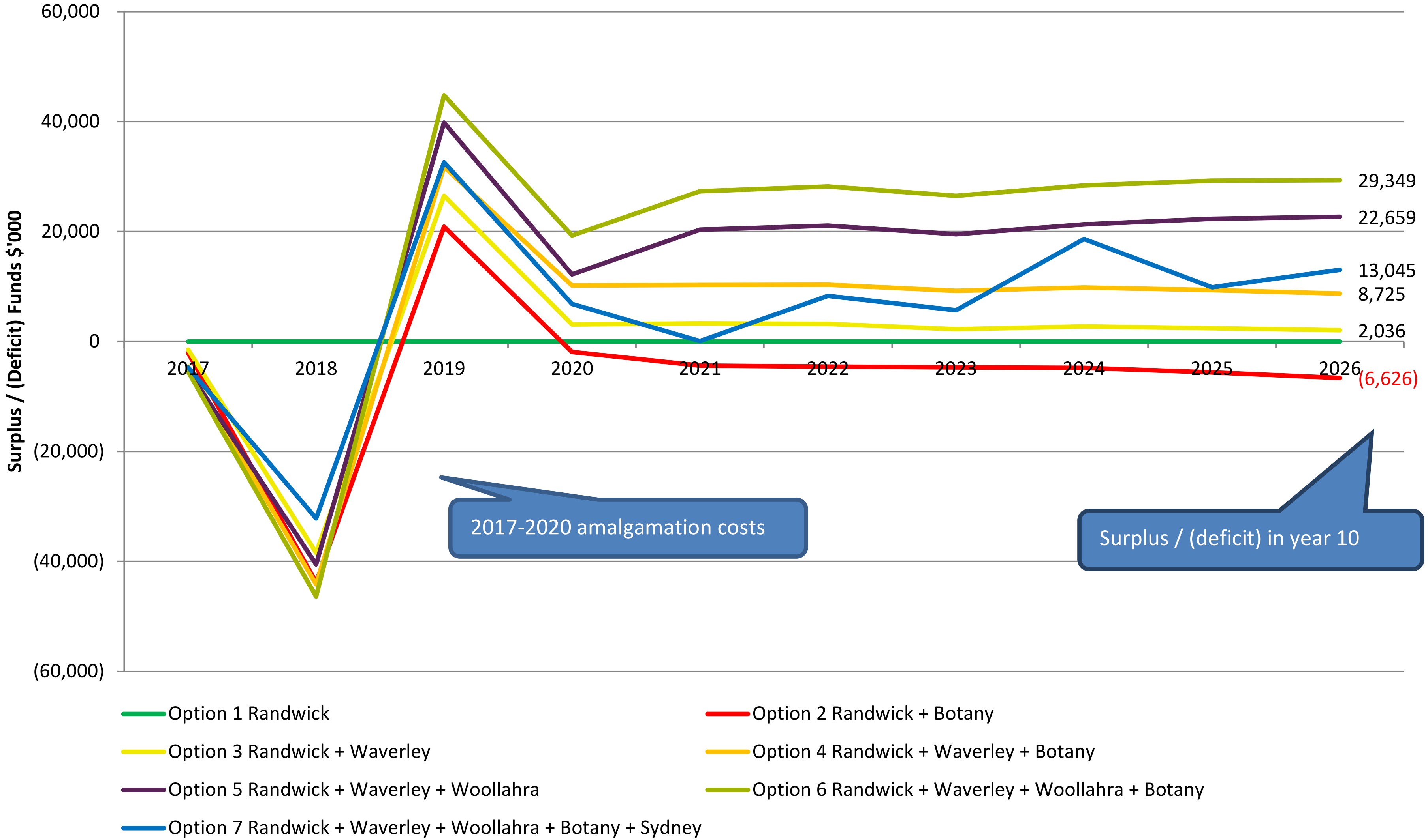


Table 40 Scenario 2A 10 per cent increase in service costs - Fit for the Future 2017 and 2020 Ratios

| | OPTION 1 RANDWICK | OPTION 2 RANDWICK + BOTANY | OPTION 3 RANDWICK + WAVERLEY | OPTION 4 RANDWICK + WAVERLEY + BOTANY | OPTION 5 RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7 RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| **Ratios - 2017 - with Randwick depreciation rates** | | | | | | | |
| 1. Operating Performance Ratio | 3.22% | 3.46% | 3.71% | 2.82% | 2.72% | 2.38% | 2.39% |
| 2. Own Source Operating Revenue Ratio | 92.15% | 84.89% | 90.87% | 87.47% | 91.60% | 88.65% | 88.45% |
| 3. Building and Infrastructure Renewals Ratio | 117.24% | 112.97% | 97.91% | 97.29% | 103.74% | 102.70% | 110.80% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.23% | 1.12% | 0.55% | 1.17% | 0.85% | 1.32% | 1.64% |
| 5. Asset Maintenance Ratio (SS7) | 110.33% | 104.10% | 94.66% | 93.86% | 97.06% | 96.04% | 95.54% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.73% | 0.59% | 3.02% | 2.53% | 1.10% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| | | | | | | | |
| **Ratios - 2020 - 3 years under Randwick service model** | | | | | | | |
| 1. Operating Performance Ratio | 3.25% | 6.76% | 9.39% | 9.44% | 11.92% | 11.59% | 7.22% |
| 2. Own Source Operating Revenue Ratio | 92.29% | 90.02% | 92.99% | 91.14% | 93.42% | 91.88% | 91.82% |
| 3. Building and Infrastructure Renewals Ratio | 122.99% | 116.76% | 108.61% | 108.90% | 118.53% | 117.96% | 92.89% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.03% | 0.89% | 0.02% | 0.67% | 0.02% | 0.54% | 0.79% |
| 5. Asset Maintenance Ratio (SS7) | 118.98% | 109.98% | 110.57% | 107.01% | 109.87% | 107.01% | 101.25% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 1.29% | 1.05% | 3.30% | 2.82% | 1.26% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |

**Scenario 2B – 20 per cent higher service costs**

When service costs are increased by 20 per cent, Options 3 to 7 have sufficient capacity to continue to generate a surplus, however the council's ability to address asset expenditure funding gaps and repay loans is impeded by the longer payback period required to meet the costs of the amalgamation process. For Option 2 the entire ten years of the model are required as a payback period.

Following through from the 10 per cent service level increase test, an amalgamation of Botany and Randwick Councils is particularly sensitive to a change in service costs forecasted. This option generates a significant loss of $6.6m by year ten with no scope to fund the amalgamation costs.

| | OPTION 1<br>RANDWICK | OPTION 2<br>RANDWICK + BOTANY | OPTION 3<br>RANDWICK + WAVERLEY | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY |
|---|---|---|---|---|---|---|---|
| Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000 | 0 | (49,302) | 309 | 34,151 | 97,585 | 133,783 | 28,900 |
| Funds Surplus / (Deficit) per resident $ | $0 | ($266) | $1 | $133 | $361 | $426 | $57 |

Table 41 Scenario 2B 20 per cent increase in service costs – Surplus / (Deficit)

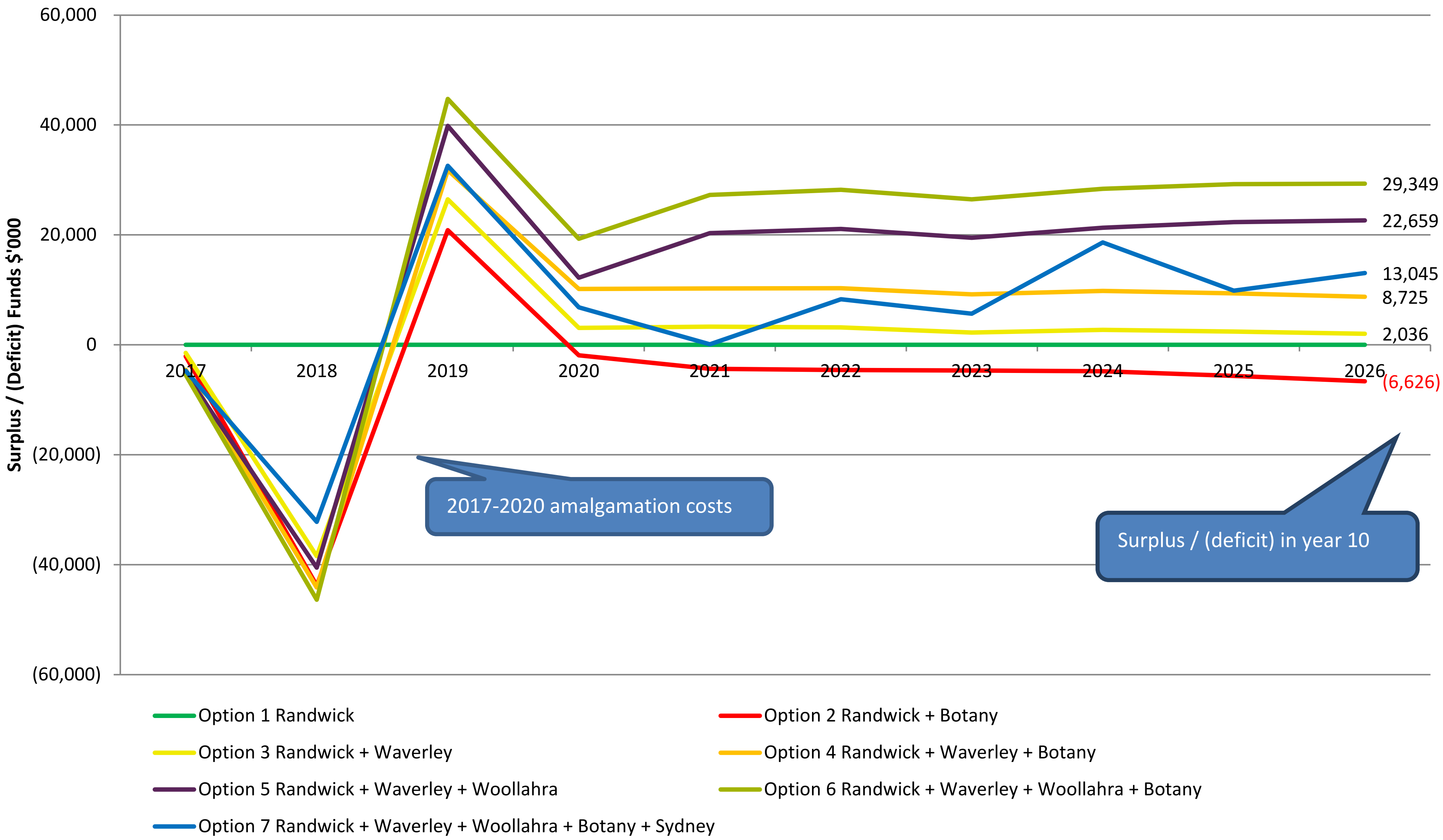


Table 42 Scenario 2B 20 per cent increase in service costs - Fit for the Future 2017 and 2020 Ratios

| | OPTION 1<br>RANDWICK<br>$'000 | OPTION 2<br>RANDWICK + BOTANY<br>$'000 | OPTION 3<br>RANDWICK + WAVERLEY<br>$'000 | OPTION 4<br>RANDWICK + WAVERLEY + BOTANY<br>$'000 | OPTION 5<br>RANDWICK + WAVERLEY + WOOLLAHRA<br>$'000 | OPTION 6<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY<br>$'000 | OPTION 7<br>RANDWICK + WAVERLEY + WOOLLAHRA + BOTANY + SYDNEY<br>$'000 |
|---|---|---|---|---|---|---|---|
| **Ratios - 2017 - with Randwick depreciation rates** | | | | | | | |
| 1. Operating Performance Ratio | 3.22% | 3.46% | 3.71% | 2.82% | 2.72% | 2.38% | 2.39% |
| 2. Own Source Operating Revenue Ratio | 92.15% | 84.89% | 90.87% | 87.47% | 91.60% | 88.65% | 88.45% |
| 3. Building and Infrastructure Renewals Ratio | 117.24% | 112.97% | 97.91% | 97.29% | 103.74% | 102.70% | 110.80% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.23% | 1.12% | 0.55% | 1.17% | 0.85% | 1.32% | 1.64% |
| 5. Asset Maintenance Ratio (SS7) | 110.33% | 104.10% | 94.66% | 93.86% | 97.06% | 96.04% | 95.54% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.73% | 0.59% | 3.02% | 2.53% | 1.10% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease | Decrease |
| | | | | | | | |
| **Ratios - 2020 - 4 years progressing to Randwick service model** | | | | | | | |
| 1. Operating Performance Ratio | 3.25% | 4.56% | 7.35% | 7.46% | 9.90% | 9.61% | 6.35% |
| 2. Own Source Operating Revenue Ratio | 92.29% | 90.02% | 92.99% | 91.14% | 93.42% | 91.88% | 91.82% |
| 3. Building and Infrastructure Renewals Ratio | 122.99% | 116.76% | 106.99% | 107.44% | 117.18% | 116.72% | 87.15% |
| 4. Infrastructure Backlog Ratio (SS7) | 0.03% | 0.89% | 0.02% | 0.67% | 0.02% | 0.54% | 0.79% |
| 5. Asset Maintenance Ratio (SS7) | 118.98% | 109.98% | 110.57% | 107.01% | 109.87% | 107.01% | 101.25% |
| 6. Debt Service Ratio | 0.00% | 0.00% | 0.52% | 0.42% | 2.72% | 2.32% | 1.04% |
| 7. Change in Real Operating Expenditure Per Capita | Decrease | Increase | Decrease | Decrease | Decrease | Decrease | Decrease |

A comparison of Scenario 1 to Scenario 2 shows that the results are more sensitive to reductions in rate revenues than increases in service costs.

# Financial context

5. Analysis of financial modelling results

FINANCIAL CONTEXT

Appendix C

## 5. Analysis of Financial Modelling Results

### 5.1 Randwick Stand-alone position (Option 1)

| | |
|---|---|
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **6** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **6** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **n/a** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **n/a** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **n/a** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $2,665 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $357 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

**Position**
Randwick Council is in a strong financial position with a history of generating operating surpluses, strong capital works programs and sound liquidity, while remaining debt free for over a decade. Furthermore, the Council has a capacity to generate operating surpluses and fund capital works and infrastructure programs well into the future.

**Independent Assessments and Assurance**
In May 2014 NSW Treasury Corporation assessed the council's financial position as "**sound**" with a "**positive**" outlook. In August 2014 the council's independent auditor also concluded their review of the Council's 2013-14 financial statements with the comment that council's financial position is "**sound**". Furthermore the council's asset management was assessed as "**very strong**" by the Office of Local Government in June 2013.

The council's annual report on the condition of public buildings and infrastructure (Special Schedule 7) has been independently audited over the past two years. Assurance reports have also been received from the council's auditors on both the 2015-24 LTFP and the Amalgamation Model detailed in this report.

**Fit for the Future Benchmarks**
The centrepiece of the Council's programmed and disciplined approach to financial management is the Long Term Financial Plan (LTFP). The purpose of the LTFP is to enable the Council to better plan and understand long term financial requirements. This includes consideration of sustainability, service provision levels and the creation, upgrading and renewal of infrastructure.

In 2005 Randwick Council adopted its first Long Term Financial Plan, setting down a number of objectives and benchmarks to monitor the sustainability of the council. This planning has set the foundation for a strong result against the Fit for the Future financial, asset and efficiency criteria, with the council meeting all benchmarks now and into the future (with the exception of the debt service ratio, as the council has not debt).

## 5.2 Amalgamated positions (Options 2 to 7)

While each of the amalgamation options considered will face considerable amalgamation costs in the short term, according to modelling, this will create a strong foundation for future improvements in efficiency and service delivery and the ability to deliver larger projects, with annual surpluses by the tenth year of operation of between $8m and $57m.

### Option 2 Randwick + Botany

| | |
|---|---|
| **Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000** | **$28,323** |
| **Funds Surplus / (Deficit) per resident $** | **$153** |
| | |
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **6** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **6** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **$16,391** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **$0** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **$15,337** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $15,263 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $13,859 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

As expected, the addition of the smallest council of the five, generates the smallest surplus over ten years of $28m. The size and strength of Randwick pulls this amalgamation option over the Fit for the Future benchmarks, however Randwick's results are weaker with the addition of Botany.

The level of cash Botany has set aside to fund the large liabilities for employee leave entitlements and bonds and deposits is much lower than is considered acceptable by Randwick Council's Cash Reserves Strategy. To bring these cash reserves up to the same level approximately $2.6m would be required for bonds and deposits and $2.3m for employee leave entitlements. This $4.9m shortfall in cash may need to be funded from the surplus above as the council's internal and unrestricted cash reserves represent only half of the total liability.

It has been difficult to investigate the asset expenditure requirements of Botany Council as there is little information available publically. If this option was to be pursued additional information would be required from Botany Council in order to further understand the financial implications of this amalgamation.

### Option 3 Randwick + Waverley

| | |
|---|---|
| **Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000** | **$103,344** |
| **Funds Surplus / (Deficit) per resident $** | **$485** |
| | |
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **4** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **6** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **$13,297** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **$4,147** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **$9,746** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $497 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $13,024 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $357 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

With over three times the surplus per resident generated over ten years than an amalgamation of Botany and Randwick Councils, this two-council amalgamation is considerably stronger. While this option only meets 4 of the 6 ratios (excl debt service ratio) due to asset renewal and maintenance expenditure levels in 2017, by 2020 all the benchmarks have been met. With more scope for savings, this option is able to almost eliminate the asset expenditure gap by 2020 and completely by 2026.

Waverley's debt is repaid once the asset expenditure gap is addressed. This equates to $9.7m in loan repayments.

Waverley's cash reserve for Employee Leave Entitlements is $3m lower than it would be under Randwick's strategy for funding this liability. This shortfall may need to be funded from the above surplus, however the council does have sufficient internally restricted cash reserves to shift cash to this reserve if required.

Grant Thornton advised Waverley Council that this is "the strongest option for Waverley", with Randwick being a "strongly attractive option as part of any combination, but more so when it is not diluted by any other council"[27].

[27] Grant Thornton, *Waverley Council – Technical Assistance FFTF*, Mar 2015, p28

### Option 4 Randwick + Waverley + Botany

| | |
|---|---|
| **Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000** | **$143,346** |
| **Funds Surplus / (Deficit) per resident $** | **$559** |
| | |
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **4** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **6** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **$25,136** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **$4,147** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **$25,083** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $928 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $25,622 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $13,859 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

While this option initially fails to meet the 6 benchmarks as both Botany and Waverley's asset renewal and maintenance levels are lower than required, by 2020 the ratios are met. While the asset expenditure gap is still significant in 2020 at $13.8m, it is eliminated by 2026.

Waverley's debt is repaid once the asset expenditure gap is addressed. This equates to $4.1m in loan repayments.

$7.9m of the $142m surplus may need to be allocated to cash reserves under this option to cover the potential shortfall in funds for Botany and Waverley's employee leave entitlements and bonds and deposits liabilities.

As discussed earlier, it has been difficult to investigate the asset expenditure requirements of Botany Council as there is little information available publically. If this option was to be pursued additional information would be required from Botany Council in order to further understand the financial implications of this amalgamation.

## Option 5 Randwick + Waverley + Woollahra

| | |
|---|---|
| **Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000** | **$235,262** |
| **Funds Surplus / (Deficit) per resident $** | **$869** |
| | |
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **5** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **6** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **$26,269** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **$5,266** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **$16,751** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $144 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $21,671 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $357 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

This is the strongest 3-council amalgamation option, with the surplus per resident over 50 per cent higher than a Randwick, Waverley and Botany amalgamation. Woollahra Council recently sold their old works depot within the Green Square development area for $56m. Within their draft LTFP they have utilised these funds, along with another $9.1m from the sale of another site, to boost their capital expenditure on assets over the next ten years. This increase in expenditure and a review of the asset backlog balance in 2015 have reduced the council's asset expenditure gap considerably.

At the start of this model, Option 5 fails the asset maintenance ratio, however by 2020 all ratios are met and the asset expenditure gap is almost eliminated. An additional $5.3m in loan repayments is made from the surplus to repay the operational loans of Waverley and Woollahra Councils. This excludes Woollahra's loan from Woolworths under their joint venture in Double Bay.

As Woollahra and Waverley already share a newly constructed depot in Alexandria, the costs of amalgamation are comparatively lower considering this would be a larger organisation than Option 4.

Woollahra has acknowledged their employee leave entitlements cash reserve needs to be reviewed and is planning this as part of their LTFP review this year. At present the gap between their reserve and what would be required under Randwick's strategy is $3.3m. In addition to Waverley's potential $3m shortfall, a $6.3m top up of this reserve may be required. However both of these councils have sufficient capacity within their own internal cash reserves to address this potential issue.

### Option 6 Randwick + Waverley + Woollahra + Botany

| | |
|---|---|
| **Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000** | **$277,637** |
| **Funds Surplus / (Deficit) per resident $** | **$884** |
| | |
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **5** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **6** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **$35,735** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **$5,266** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **$32,088** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $575 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $34,269 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $13,859 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

There is very little change in the surplus generated per resident in the amalgamation of these four councils compared to an amalgamation excluding Botany. The Fit for the Future ratios are met by 2020 and the asset expenditure gap eliminated by 2026. Early repayments of Waverley and Woollahra's debts are made totalling $5.3m.

However, at $32m, almost double the funds are required to address the asset expenditure gap over ten years.

A shortfall in liability related cash reserves of $11.2m may need to be funded from the above surplus, however both Waverley and Woollahra Councils do have considerable internally restricted cash reserves to address their share.

As discussed earlier, it has been difficult to investigate the asset expenditure requirements of Botany Council as there is little information available publically. If this option was to be pursued additional information would be required from Botany Council in order to further understand the financial implications of this amalgamation.

### Option 7 Randwick + Waverley + Woollahra + Botany + Sydney

| | |
|---|---|
| **Funding result after amalgamation cost (+ closing asset expenditure gap and repaying debt where feasible) - SURPLUS / (DEFICIT) $'000** | **$145,566** |
| **Funds Surplus / (Deficit) per resident $** | **$288** |
| | |
| **FFF Benchmarks met by 2017 (excl debt ratio) - 1 year** | **5** |
| **FFF Benchmarks met by 2020 (excl debt ratio) - 4 years** | **5** |
| **FFF Benchmarks met by 2026 (excl debt ratio) - 10 years** | **6** |
| | |
| **Amalgamation cost - 10 years - NPV** | **$106,889** |
| **Surplus funds applied to early loan repayments over 10 years (NPV)** | **$5,266** |
| **Surplus funds applied to the asset expenditure gap over 10 years (NPV)** | **$91,752** |
| | |
| **Asset expenditure gap - short, medium and long term** | |
| Asset expenditure gap in 2017 (Year 1) - to meet ratios $'000 | $1,952 |
| Asset expenditure gap in 2017 (Year 1) - cost to reduce to $nil - $'000 | $85,129 |
| Asset expenditure gap in 2020 (Year 4) - to meet ratios $'000 | $0 |
| Asset expenditure gap in 2020 (Year 4) - cost to reduce to $nil - $'000 | $45,607 |
| **Asset expenditure gap in 2026 (Year 10) - to meet ratios $'000** | **$0** |
| **Asset expenditure gap in 2026 (Year 10) - cost to reduce to $nil - $'000** | **$0** |

City of Sydney has a considerable asset portfolio with a matching sizeable asset renewal and maintenance obligation. The demands of these assets have a large impact on the surplus generated by this model with over $91m required over ten years to top up the council's asset expenditure. This is over three times the amount required by Option 6.

While meeting all the ratios, repaying Waverley and Woollahra's debt and eliminating the asset expenditure gap over ten years, the ongoing demands of Sydney's assets result in a much lower annual surplus by year 10 ($41m) than that achieved by Option 6 ($57m). Furthermore, no economies or diseconomies of scale have been factored into this model for the addition of Sydney into the amalgamation group. There is a concern the difference in service requirements and the complexity that would result may actually result in diseconomies of scale, which would erode the benefits generated through the amalgamation of the eastern suburbs councils seen in Option 6.

Of the group, Sydney has set aside the lowest amount of cash to fund employee leave entitlement of the five councils. At $5.8m, only 10% of the liability, this reserve is $19.1m lower than it would need to be under Randwick's strategy. However Sydney has $79.3m in unrestricted cash which could be used to top up their ELE reserve.

As discussed earlier, it has been difficult to investigate the asset expenditure requirements of Botany Council as there is little information available publically. If this option was to be pursued additional information would be required from Botany Council in order to further understand the financial implications of this amalgamation.

## 5.3 Fit for the Future benchmarks comparison

### Operating performance ratio

The operating performance result meets the benchmark in all years modelled for all options. However the result for the larger amalgamation options (three or more councils) are comparatively lower during the first two years than the status quo or the amalgamation of two councils due to the much larger amalgamation costs. The result for the Global City amalgamation is only two thirds the size of the largest eastern suburbs amalgamation (option 6) in part due to lost rental income as additional council staff would occupy property currently leased commercially by the City of Sydney.

### Own source revenue result

All options continue to meet the own source revenue result as these councils are not highly dependent on grants and contributions.

### Building and Infrastructure Asset Renewal Result

After adjusting each council's depreciation rate to Randwick's rate only two councils required additional expenditure on asset renewals in order to meet this ratio - Waverley ($16.5m shortfall over ten years) and Sydney ($83.5m). The amalgamation of Randwick and Botany was marginally stronger than the Randwick stand alone position. Other options were weakened by the inclusion of Waverley and Sydney in the short term, with surplus funds closing this renewal gap in later years.

### Infrastructure Backlog

All councils have focussed on their infrastructure backlogs in recent years with further works planned in future years. No amalgamation option fails to meet this benchmark at any point in the ten years.

### Asset Maintenance

Similar to the asset renewal ratio, maintenance is also a weak ratio for many councils, although the gap in expenditure is not as high. Over ten years Botany's maintenance gap is $4.7m while Sydney's is $15.1m. Any amalgamation brings the ratio down from Randwick's current position. In the first year of the model only Randwick or a Randwick/Botany amalgamation would meet this benchmark. By 2020 all options meet this ratio.

### Debt Service

Assuming a debt free position is a strong position, the only options that are debt free from day one are an amalgamation of Botany and Randwick or Randwick's stand alone position. However, the only councils with debt (Waverley and Woollahra) have very low levels of operational debt. Woollahra's loan related to their joint venture with Woolworths is not considered an operational loan as it is related to an income generating activity (refer to pages 39-40).

### Real Operating Expenditure per Capita

All options result in a decrease in operating expenditure per capita in every year of the model.

## 5.4 Additional costs to consider

It has not been possible to forecast all costs as not all information is available for each council (for example wage equalisation, service delivery details, asset conditions and plant and equipment status) and information on transition arrangements is not available. Furthermore, potential shortfalls in cash reserves for bonds and deposits and employee leave entitlements will need to be addressed.

## 5.5 Financial benefits and costs - how will these be achieved/addressed

Extensive research has been undertaken on both the financial costs and benefits of an amalgamation. Some areas where costs savings are anticipated include:

- Governance and senior management - Reduction in the number of senior staff and councillors.
- Staff redeployment - With an average 8.5%[28] turnover per year, it is assumed a new council would replace core frontline staff, and redeploy other positions to new or increased service levels.
- Procurement and operational expenditure savings due to the size and increased capacity of the amalgamated council.
- Rationalisation of administration and depot buildings and plant and equipment.
- Information and Communication Technology (ICT).

These cost savings will provide an opportunity to enhance existing services and provide new services.

The costs of an amalgamation will be funded through an internal loan from internally restricted cash reserves over the first two years of the new council's operation. These funds will be paid back over the preceding two years from surplus funds generated through operating efficiencies.

[28] Based on the turnover rate reported in each council's publically available Workforce Strategy.

## 5.6 What does each Council 'bring to the table' in terms of finances?

**Randwick**

| Strengths | Weaknesses |
|---|---|
| 1. Meets 6 of the 6 'Fit for the Future' benchmarks (excl Debt Ratio)<br>2. 'Sound' financial assessment with a 'positive' outlook – TCorp May 2014<br>3. No debt<br>4. Infrastructure backlog eliminated by 2021 in current LTFP.<br>5. Internally restricted and unrestricted cash reserve $33m<br>6. Strong employee leave entitlements reserve linked to liability<br>7. Commercial property in Maroubra and Randwick along with residential investment properties. | 1. A considerable proportion of council's major contributors to the economy are non-rateable (including the university and hospital precinct) |
| **Opportunities** | **Threats** |
| 1. Further development of the council's strong property portfolio. | 1. The council is paid the minimum Financial Assistance Grant ($3.8m) - this may be reduced or lost under a planned review of the distribution of these grants across the state. |

**Botany**

| Strengths | Weaknesses |
|---|---|
| 1. No debt | 1. Currently only meets 3 of the 6 Fit for the Future ratios (excl debt ratio).<br>2. Insufficient expenditure on assets, with a backlog of works at $11.4m on 30 June 2014.<br>3. 'Moderate' financial assessment with a 'neutral' outlook – TCorp July 2014<br>4. Bonds, deposits and retentions liability ($8m) exceeds total unrestricted and internally restricted cash by $400k<br>5. Over 65% of the current workforce is aged 46 and over and 31% of the workforce is over 55[29]. TCorp reported "this will lead to high attrition rates"[30], yet the council holds only 15% of its employee leave entitlements (ELE) in a cash reserve. ELE is currently $8m, also exceeding the council's total unrestricted and restricted cash ($7.6m).<br>6. No investment property owned<br>7. $6.4m airport cleaning and maintenance commercial contract is currently generating a loss ($663k in 2013-14)[31]<br>8. Availability of public information is poor, so asset expenditure assumptions may be understated |

Continued over page

[29] Office of Local Government, 'Promoting Better Practice Report – The Council of the City of Botany Bay', May 2013, pp41-42.
[30] NSW Treasury Corporation, 'City of Botany Bay – Financial Assessment, Sustainability and Benchmarking Report', 9 April 2013, p19
[31] Office of Local Government, 'Promoting Better Practice Report – The Council of the City of Botany Bay', May 2013, p72 also raised this as an issue and was advised it was due to the way internal transactions were being recorded.

**Botany continued…**

| Opportunities | Threats |
|---|---|
| 1. Review the airport business unit, possibly incorporating it with Randwick's existing commercial waste service. | 1. Annual contribution in lieu of rates ($3.1m in 2013-14) from Sydney Airport Corporation is required under SACL's 50 year lease from the Commonwealth (expires 2052 with a 49 year extension option), however the amount payable has been subject to dispute in recent years.[32]<br>2. Maintenance and cleaning contract with the airport has been signed for six years[33] but this revenue (and expenditure) has been assumed to be in the Council's revenue base for the entire 10 years of the LTFP. There is a risk the contract may not be extended when it is due to expire in 2019.<br>3. Soil and groundwater contamination resulting from the legacy of former industries within the area (TCorp p19) may cause significant costs to the council in terms of monitoring, management and any groundworks undertaken in parks, etc.<br>4. Metropool - Member of an insurance pool with eight other councils - may expose the council to the cost of claims against pool member councils<br>5. Defined benefits super scheme - high exposure to the risk of a deficiency in the scheme's fund - required to pay an additional $522k to the fund in 2013-14 to address the scheme's deficit (considering Randwick was required to pay $581k, yet has 60% more staff, it is assumed a larger percentage of Botany's workforce is in this scheme).<br>6. Risk the Financial Assistance Grant may reduce or be lost as part of the reform of Local Government. |

[32] The Daily Telegraph, 'Sydney Airport Corporation accused of not paying $500k rates bill by Rockdale City Council', 2 Sept 2013, http://www.dailytelegraph.com.au/news/nsw/sydney-airport-corporation-accused-of-not-paying-500k-rates-bill-by-rockdale-city-council/story-fni0cx12-1226708595798, accessed 11 March 2015.
[33] NSW Treasury Corporation, 'City of Botany Bay – Financial Assessment, Sustainability and Benchmarking Report', 9 April 2013, p24

**Waverley**

| Strengths | Weaknesses |
|---|---|
| 1. 'Moderate' financial assessment with a 'positive' outlook – TCorp May 2014<br>2. Infrastructure backlog eliminated by 2020 in current LTFP.<br>3. Internally restricted and unrestricted cash reserve $44m included 100% funded bonds and deposits liability of $15.6m on 30 June 2015. $82m sale of former depot occurred in December 2014.<br>4. Commercial property within Bondi Junction and Waverley<br>5. New operational depot (shared with Woollahra– land owned by Waverley) | 1. Currently only meets 1 of the 6 Fit for the Future ratios (excl debt ratio)<br>2. Debt - $3m on 30 June 2014 with an additional $9.7m in external loans planned + $1.7m borrowed from the domestic waste cash reserve |
| **Opportunities** | **Threats** |
| 1. Further development of the council's strong property portfolio<br>2. Do not currently charge a Stormwater Management Charge – their AMP (2013) identified there is a need to build up a reserve fund for drainage works (p9) with an annual shortfall in required expenditure of $300k (p100). | 1. 24% ($27m) of operating income comes from parking meters, car parks and fines – this is subject to market volatility and community and political issues.<br>2. The council is paid the minimum Financial Assistance Grant ($1.9m) - this may be reduced or lost under a planned review of the distribution of these grants across the state. |

**Woollahra**

| Strengths | Weaknesses |
|---|---|
| 1. 'Moderate' financial assessment with a 'positive' outlook – TCorp Feb 2014<br>2. Internally restricted and unrestricted cash reserve $26m plus depot sale proceeds due in 2015 (approx. $36m of the proceeds is uncommitted)<br>3. New operational depot (shared with Waverley – land owned by Waverley)<br>4. Woolworths development (refer to 2.9) | 1. Currently only meets 4 of the 6 Fit for the Future ratios (excl debt ratio)<br>2. Debt $6m on 30 June 2015 (excl the Woolworths joint venture).<br>3. Infrastructure backlog is below the 2% ratio benchmark at $5.4m. While remaining under the benchmark, the current LTFP forecasts this backlog will grow to $7.2m by 2024.<br>4. ELE - Only $1.2m is held in reserve for the $10.5m ELE liability (11%) (although the council has sufficient cash to increase this reserve). |
| **Opportunities** | **Threats** |
| 1. Further development of the council's strong property portfolio | 1. The Woolworths development is geared at 63.9% (value of $120m with $76.7m borrowed). TCorp stated "in the event of termination (of the lease with Woolworths) the level of gearing could make Council more vulnerable to a downturn in the market" should a "new tenant not be found at a comparable rental"[34].<br>2. 10% ($8m) of operating income comes from parking meters, car parks and fines – this is subject to market volatility and community and political issues.<br>3. The council is paid the minimum Financial Assistance Grant ($1.6m) - this may be reduced or lost under a planned review of the distribution of these grants across the state. |

[34] NSW Treasury Corporation, 'Woollahra Municipal Council – Financial Assessment and Sustainability Report', 10 February 2014, pp4-5.

**Sydney**

| Strengths | Weaknesses |
|---|---|
| 1. 'Strong' financial assessment with a 'positive' outlook – TCorp Jan 2013<br>2. No debt<br>3. Infrastructure backlog reduced from $67m to $6m by 2024 in current AMP.<br>4. In the process of constructing a new operational depot (adjacent to the Waverley-Woollahra Alexandria depot)<br>5. Significant property portfolio<br>6. Internally restricted and unrestricted cash reserve $458m ($118m excl funds committed to major projects and workers comp) | 1. Currently only meets 2 of the 6 Fit for the Future ratios (excl debt ratio)<br>2. Asset renewal - expenditure not sufficient to cover depreciation ($14.5m gap in 2013-14).<br>3. Asset maintenance - Expenditure is below required levels ($1.1m gap in 2013-14).<br>4. ELE - Only $5.8m is held in reserve for the $58m ELE liability (10%) (this is only a policy conflict with Randwick - this council has sufficient cash to increase this reserve) |
| **Opportunities** | **Threats** |
| 1. Further development of the council's strong property portfolio | 1. 15% ($73m) of operating income comes from parking meters, car parks and fines – this is subject to market volatility and community and political issues.<br>2. TCorp stated the council is vulnerable in the instance of an economic downturn[35] as over 77% of rates income comes from businesses, in addition to the council's own commercially leased properties.<br>3. Risk the Financial Assistance Grant may reduce or be lost as part of reform of Local Government. |

[35] NSW Treasury, 'City of Sydney Financial Assessment, Sustainability and Benchmarking Report', Jan 2013, p17

# Financial context

6. Assurance report

## 6. Assurance Report

Council's independent external auditors, Hill Rogers Spencer Steer, have reviewed the financial modelling presented in this report. An Assurance Report, issued by the auditors, is contained within the Attachment 6 of this report.

Furthermore, assurance testing and auditing have been conducted on the Randwick documents which underpin this model. An Assurance Report has been issued by the auditors on Randwick's Long Term Financial and Audit Reports on the Financial Statements including the Special Schedule 7 Report on the Condition of Infrastructure Assets.

# Financial context

7. Attachments

FINANCIAL CONTEXT

Appendix C

# 7. ATTACHMENTS

## ATTACHMENT 1: Fit for the Future Benchmarks[36]

This is an extract from the NSW State Government's Fit for the Future Self-Assessment Tool released in October 2014.

### 1. 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.

### 2. 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.

[36] 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.

## 3. Building and infrastructure asset 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.

## 4. 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.

## 5. 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.

## 6. 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.

## 7. Real operating expenditure per capita

**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).

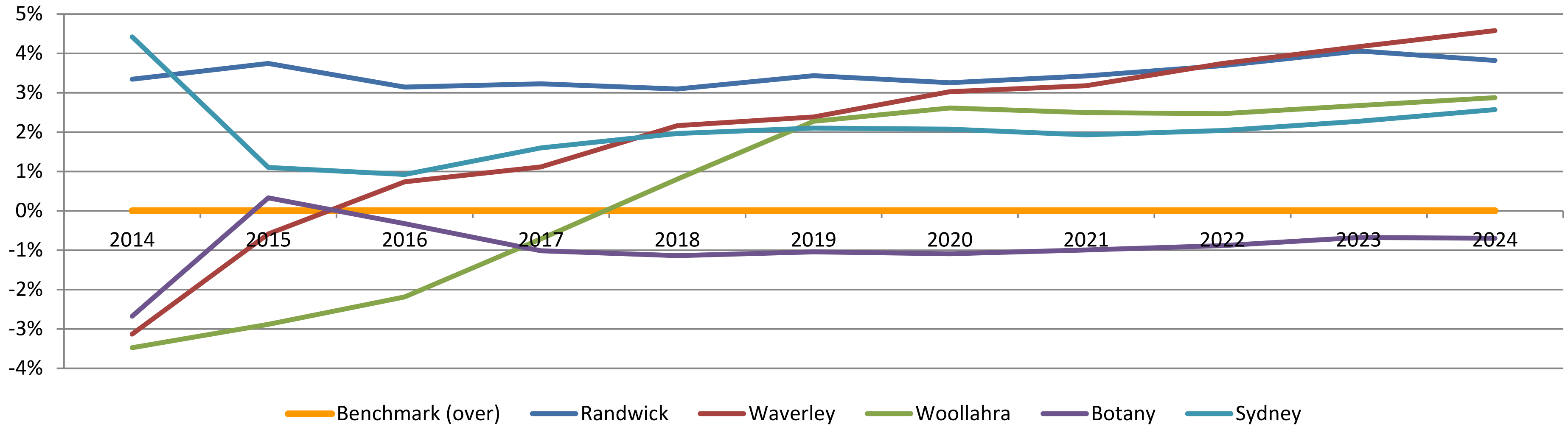
**Description and Rationale for Benchmark:**

- 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.

Status Quo

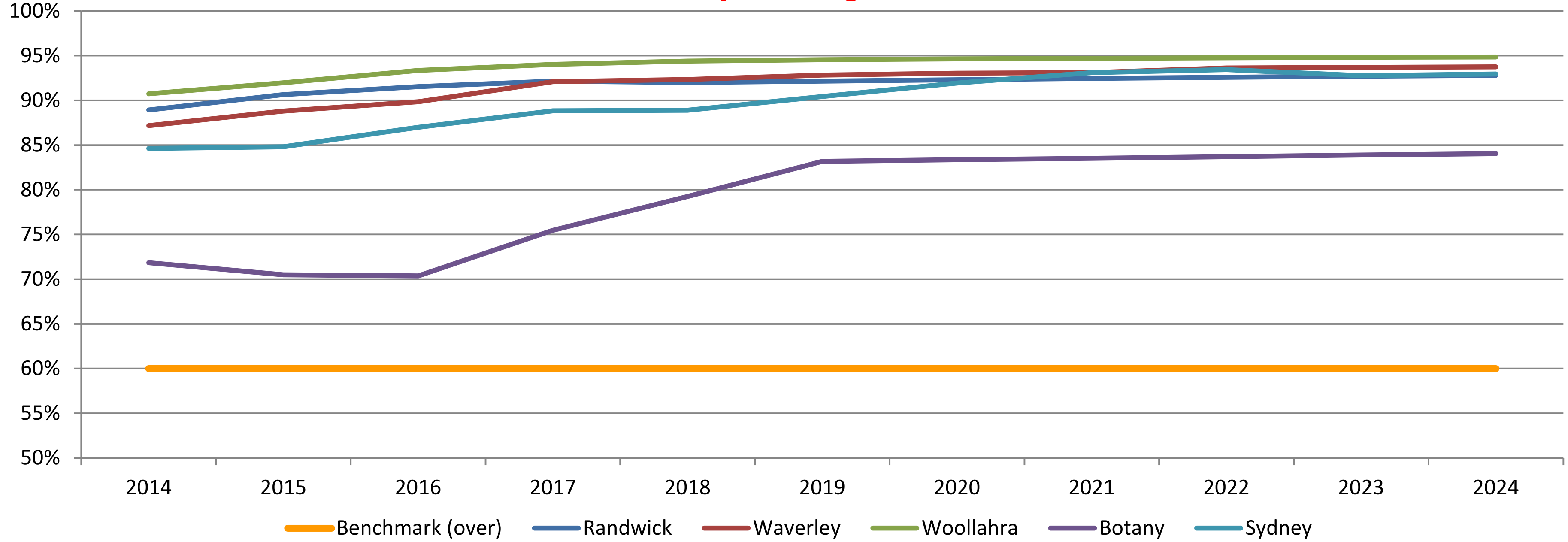
# Operating performance ratio




| Council | Benchmark 3 year average | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | **Yr 3 2017** | Yr 4 2018 | Yr 5 2019 | **Yr 6 2020** | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | Greater or equal to 0 | 0% | 3.3% | 3.7% | 3.1% | 3.2% | 3.1% | 3.4% | 3.3% | 3.4% | 3.7% | 4.1% | 3.8% |
| Waverley | | 0% | -3.1% | -0.6% | 0.7% | 1.1% | 2.2% | 2.4% | 3.0% | 3.2% | 3.7% | 4.2% | 4.6% |
| Woollahra | | 0% | -3.5% | -2.9% | -2.2% | -0.7% | 0.8% | 2.3% | 2.6% | 2.5% | 2.5% | 2.7% | 2.9% |
| Botany | | 0% | -2.7% | 0.3% | -0.3% | -1.0% | -1.1% | -1.0% | -1.1% | -1.0% | -0.9% | -0.7% | -0.7% |
| Sydney | | 0% | 4.4% | 1.1% | 0.9% | 1.6% | 2.0% | 2.1% | 2.1% | 1.9% | 2.0% | 2.3% | 2.6% |

Status Quo

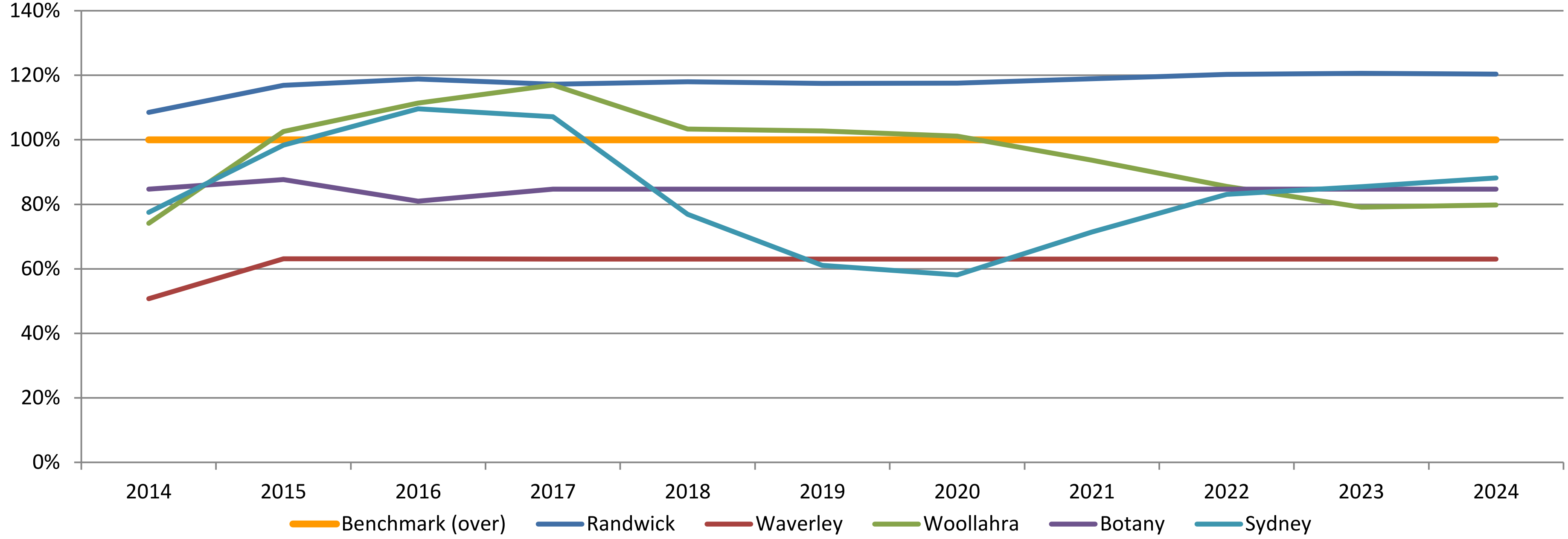
## Own source operating revenue ratio




| Council | Benchmark 3 year average | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | Yr 3 2017 | Yr 4 2018 | Yr 5 2019 | Yr 6 2020 | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | Greater than 60% | 60% | 88.9% | 90.7% | 91.5% | 92.1% | 92.0% | 92.1% | 92.3% | 92.4% | 92.6% | 92.7% | 92.8% |
| Waverley | | 60% | 87.2% | 88.8% | 89.8% | 92.1% | 92.3% | 92.8% | 93.0% | 93.1% | 93.6% | 93.7% | 93.7% |
| Woollahra | | 60% | 90.7% | 92.0% | 93.4% | 94.0% | 94.4% | 94.5% | 94.6% | 94.7% | 94.8% | 94.8% | 94.9% |
| Botany | | 60% | 71.8% | 70.5% | 70.4% | 75.5% | 79.2% | 83.2% | 83.4% | 83.5% | 83.7% | 83.9% | 84.0% |
| Sydney | | 60% | 84.6% | 84.8% | 87.0% | 88.8% | 88.9% | 90.4% | 91.9% | 93.1% | 93.4% | 92.8% | 93.0% |

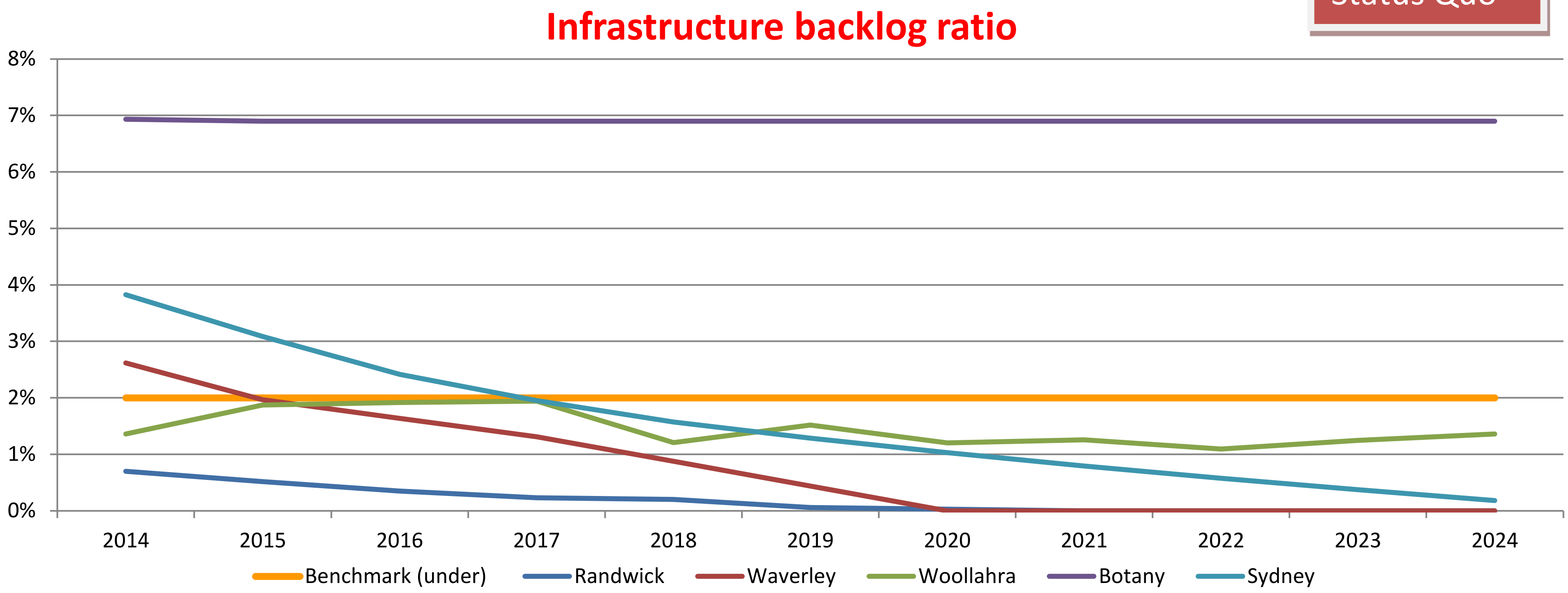
Status Quo

## Building and infrastructure renewals ratio




| Council | Benchmark 3 year average | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | **Yr 3 2017** | Yr 4 2018 | Yr 5 2019 | **Yr 6 2020** | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | Greater than 100% | 100% | **108.5%** | **116.9%** | **118.8%** | **117.2%** | **118.0%** | **117.5%** | **117.6%** | **119.0%** | **120.3%** | **120.6%** | **120.3%** |
| Waverley | | 100% | **50.8%** | **63.1%** | **63.1%** | **63.0%** | **63.0%** | **63.0%** | **63.0%** | **63.0%** | **63.0%** | **63.0%** | **63.0%** |
| Woollahra | | 100% | **74.2%** | **102.6%** | **111.4%** | **117.0%** | **103.3%** | **102.7%** | **101.2%** | **93.7%** | **85.6%** | **79.1%** | **79.8%** |
| Botany | | 100% | **84.7%** | **88.1%** | **81.4%** | **84.7%** | **84.7%** | **84.7%** | **84.7%** | **84.7%** | **84.7%** | **84.7%** | **84.7%** |
| Sydney | | 100% | **77.5%** | **98.3%** | **109.6%** | **107.2%** | **76.9%** | **61.1%** | **58.1%** | **71.5%** | **83.1%** | **85.5%** | **88.2%** |

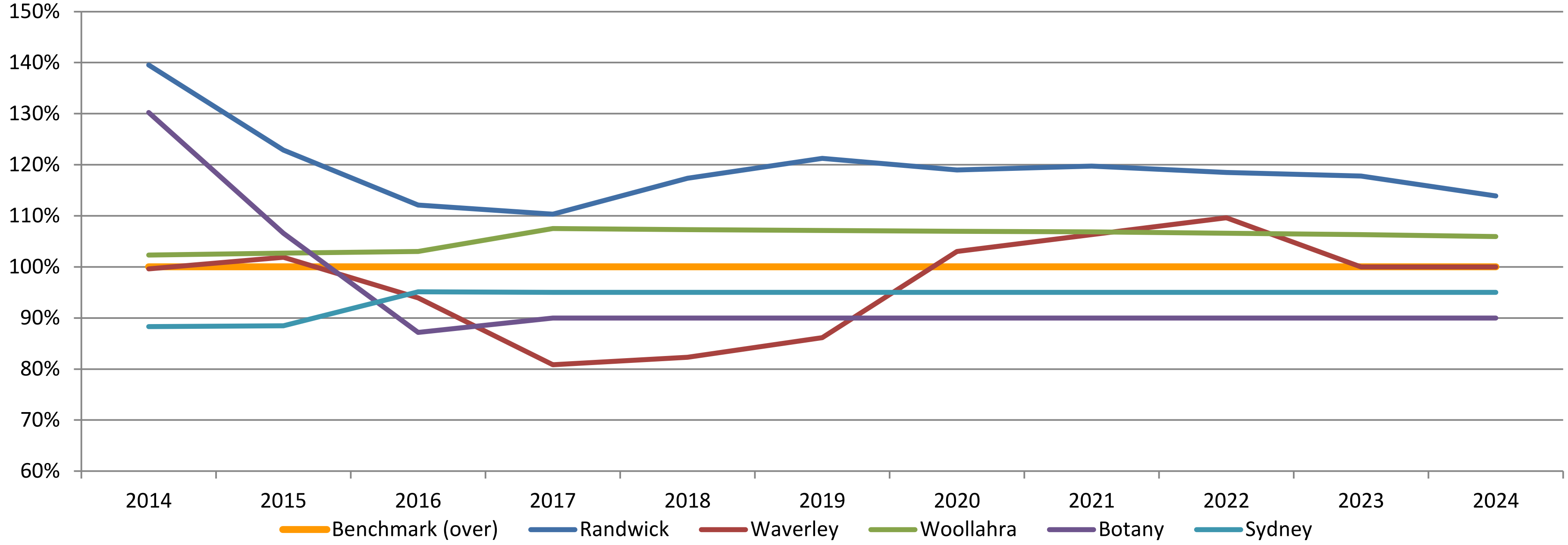
Status Quo




| Council | Benchmark as at 30 June | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | **Yr 3 2017** | Yr 4 2018 | Yr 5 2019 | **Yr 6 2020** | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | Less than 2% | 2% | 0.7% | 0.5% | 0.3% | 0.2% | 0.2% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Waverley | | 2% | 2.6% | 2.0% | 1.6% | 1.3% | 0.9% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Woollahra | | 2% | 1.4% | 1.9% | 1.9% | 1.9% | 1.2% | 1.5% | 1.2% | 1.3% | 1.1% | 1.2% | 1.4% |
| Botany | | 2% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% |
| Sydney | | 2% | 3.8% | 3.1% | 2.4% | 2.0% | 1.6% | 1.3% | 1.0% | 0.8% | 0.6% | 0.4% | 0.2% |

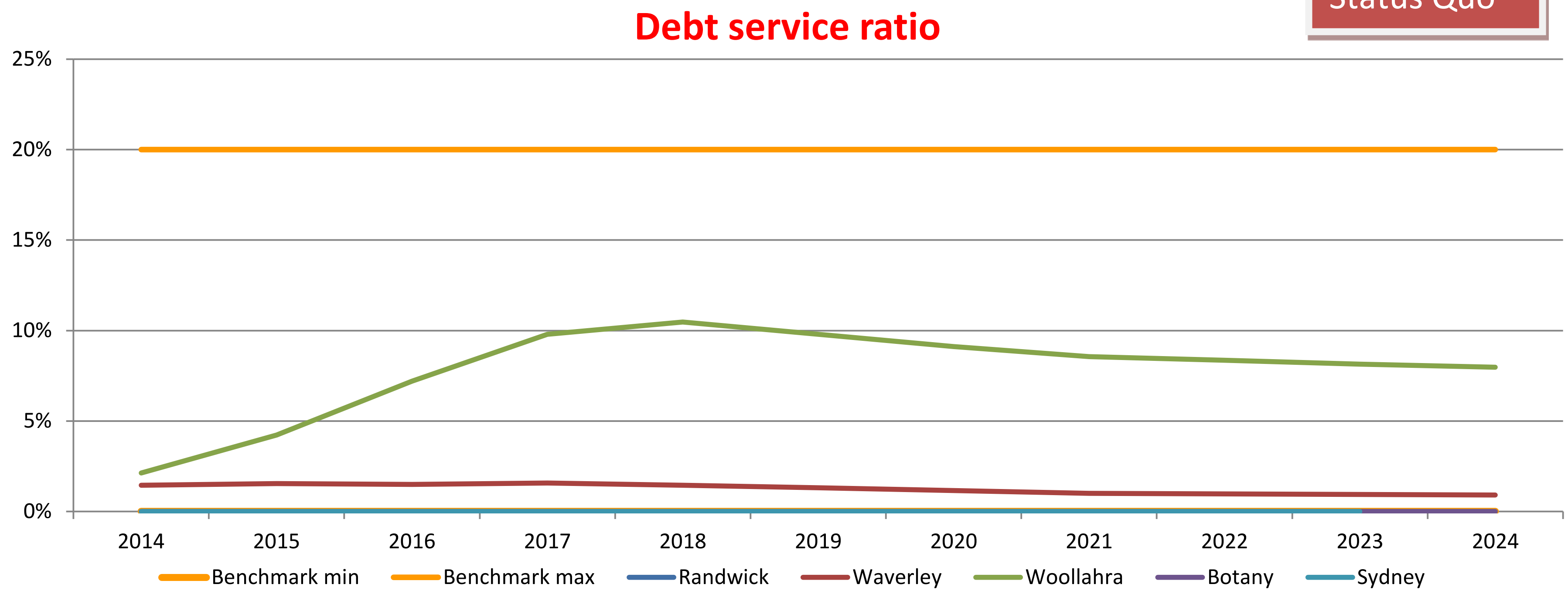
Status Quo

## Asset maintenance ratio




| Council | Benchmark 3 year average | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | **Yr 3 2017** | Yr 4 2018 | Yr 5 2019 | **Yr 6 2020** | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | Greater than 100% | 100% | **139.5%** | **122.9%** | **112.1%** | **110.3%** | **117.4%** | **121.2%** | **119.0%** | **119.7%** | **118.5%** | **117.8%** | **113.9%** |
| Waverley | | 100% | **99.6%** | **101.9%** | **93.9%** | **80.9%** | **82.3%** | **86.2%** | **103.0%** | **106.3%** | **109.6%** | **100.0%** | **100.0%** |
| Woollahra | | 100% | **102.3%** | **102.7%** | **103.0%** | **107.5%** | **107.3%** | **107.1%** | **107.0%** | **106.8%** | **106.6%** | **106.3%** | **105.9%** |
| Botany | | 100% | **130.3%** | **116.3%** | **87.1%** | **90.0%** | **90.0%** | **90.0%** | **90.0%** | **90.0%** | **90.0%** | **90.0%** | **90.0%** |
| Sydney | | 100% | **88.3%** | **88.5%** | **95.1%** | **95.0%** | **95.0%** | **95.0%** | **95.0%** | **95.0%** | **95.0%** | **95.0%** | **95.0%** |

Status Quo




| Council | Benchmark 3 year average | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | Yr 3 2017 | Yr 4 2018 | Yr 5 2019 | Yr 6 2020 | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | Greater than 0% up to 20% | 0.01% to 20% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Waverley | | | 1.4% | 1.5% | 1.5% | 1.6% | 1.4% | 1.3% | 1.2% | 1.0% | 1.0% | 0.9% | 0.9% |
| Woollahra | | | 2.1% | 4.2% | 7.2% | 9.8% | 10.5% | 9.8% | 9.1% | 8.6% | 8.4% | 8.1% | 8.0% |
| Botany | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Sydney | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Status Quo

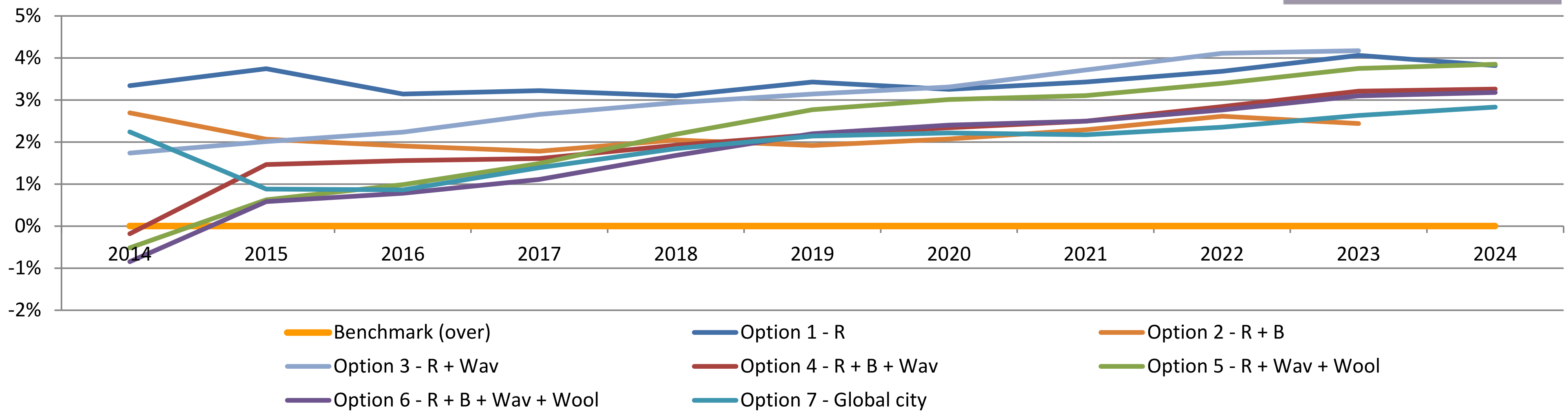
# Change in real operating expenditure per capita

| Council | Benchmark | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | **Yr 3 2017** | Yr 4 2018 | Yr 5 2019 | **Yr 6 2020** | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | No upward trend over 5yrs | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Waverley | | Decrease ↘ | Increase ↗ | Decrease ↘ | Increase ↗ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Woollahra | | Decrease ↘ | Decrease ↘ | Increase ↗ | Increase ↗ | Increase ↗ | Increase ↗ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Botany | | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Sydney | | Decrease ↘ | Increase ↗ | Increase ↗ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |

## ATTACHMENT 3 Assessment against Fit for the Future Benchmarks - Options (sum of individual council projections only)

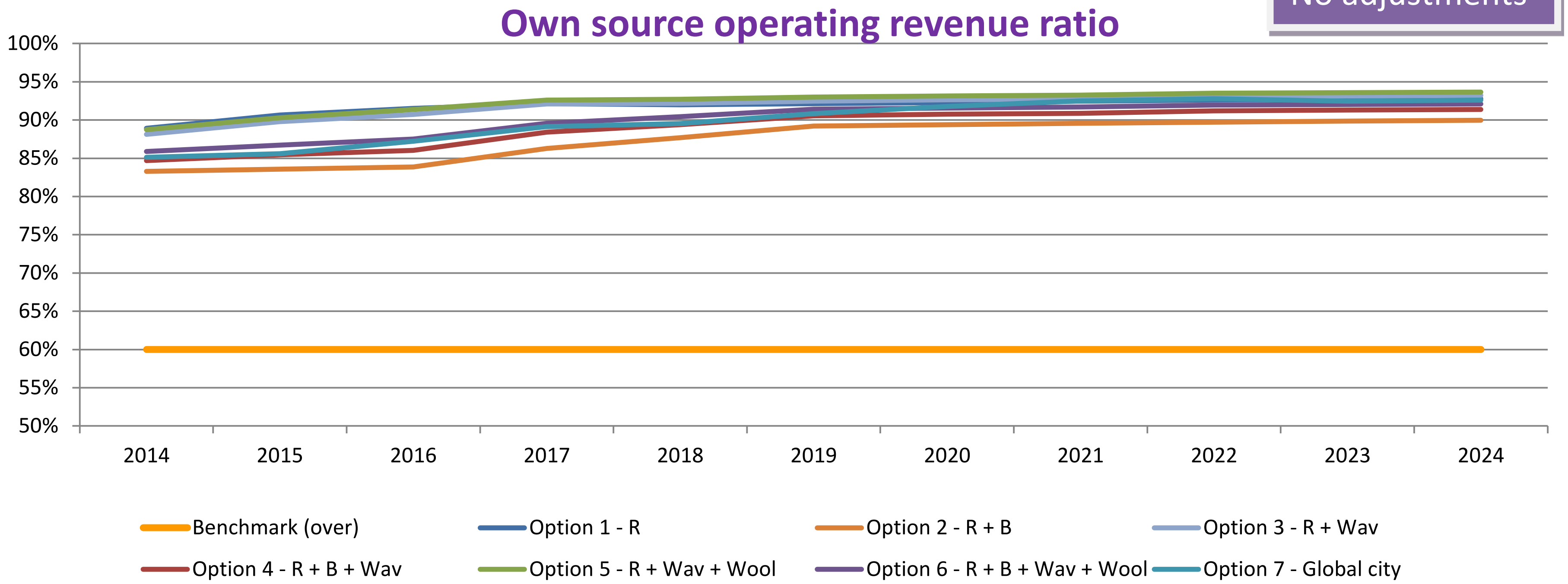
### Operating performance ratio

No adjustments




| Criteria for Fit for the Future | | | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | **BENCHMARK** | **Benchmark** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **1. Operating Performance Ratio** | | | | | | | | | | | | | |
| Option 1 - R | Greater or equal to 0 | 0% | 3.3% | 3.7% | 3.1% | 3.2% | 3.1% | 3.4% | 3.3% | 3.4% | 3.7% | 4.1% | 3.8% |
| Option 2 - R + B | | 0% | 1.5% | 2.7% | 2.1% | 1.9% | 1.8% | 2.0% | 1.9% | 2.1% | 2.3% | 2.6% | 2.4% |
| Option 3 - R + Wav | | 0% | 0.4% | 1.7% | 2.0% | 2.2% | 2.7% | 2.9% | 3.1% | 3.3% | 3.7% | 4.1% | 4.2% |
| Option 4 - R + B + Wav | | 0% | -0.2% | 1.5% | 1.6% | 1.6% | 1.9% | 2.2% | 2.3% | 2.5% | 2.8% | 3.2% | 3.3% |
| Option 5 - R + Wav + Wool | | 0% | -0.5% | 0.6% | 1.0% | 1.5% | 2.2% | 2.8% | 3.0% | 3.1% | 3.4% | 3.8% | 3.8% |
| Option 6 - R + B + Wav + Wool | | 0% | -0.8% | 0.6% | 0.8% | 1.1% | 1.7% | 2.2% | 2.4% | 2.5% | 2.8% | 3.1% | 3.2% |
| Option 7 - Global city | | 0% | 2.2% | 0.9% | 0.9% | 1.4% | 1.8% | 2.1% | 2.2% | 2.2% | 2.4% | 2.6% | 2.8% |

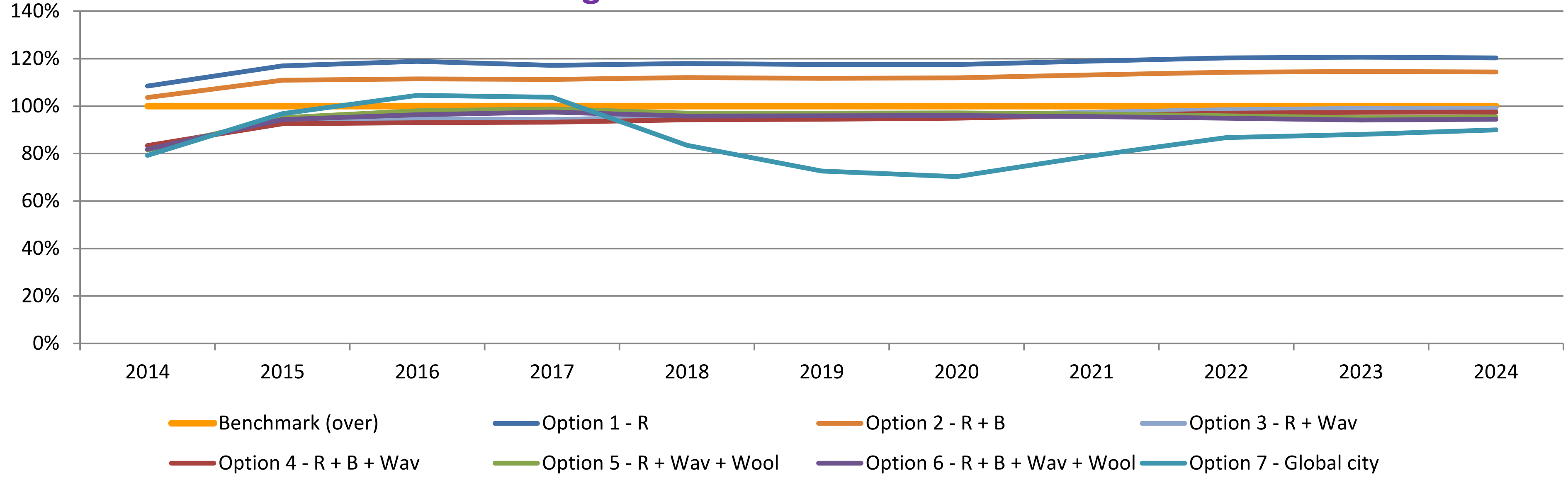
No adjustments




| Criteria for Fit for the Future | BENCHMARK | Benchmark | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | | | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **2. Own Source Operating Revenue Ratio** | | | | | | | | | | | | | |
| Option 1 - R | Greater than 60% | 60% | 88.9% | 90.7% | 91.5% | 92.1% | 92.0% | 92.1% | 92.3% | 92.4% | 92.6% | 92.7% | 92.8% |
| Option 2 - R + B | | 60% | 83.3% | 83.6% | 83.9% | 86.3% | 87.7% | 89.2% | 89.4% | 89.6% | 89.7% | 89.9% | 90.0% |
| Option 3 - R + Wav | | 60% | 88.1% | 89.8% | 90.7% | 92.1% | 92.2% | 92.5% | 92.6% | 92.8% | 93.1% | 93.2% | 93.2% |
| Option 4 - R + B + Wav | | 60% | 84.7% | 85.5% | 86.0% | 88.4% | 89.4% | 90.6% | 90.8% | 90.9% | 91.2% | 91.3% | 91.4% |
| Option 5 - R + Wav + Wool | | 60% | 88.7% | 90.3% | 91.4% | 92.6% | 92.7% | 93.0% | 93.1% | 93.2% | 93.5% | 93.6% | 93.6% |
| Option 6 - R + B + Wav + Wool | | 60% | 85.9% | 86.7% | 87.5% | 89.6% | 90.5% | 91.4% | 91.6% | 91.7% | 91.9% | 92.0% | 92.1% |
| Option 7 - Global city | | 60% | 85.1% | 85.6% | 87.2% | 89.1% | 89.5% | 90.9% | 91.8% | 92.5% | 92.8% | 92.5% | 92.6% |

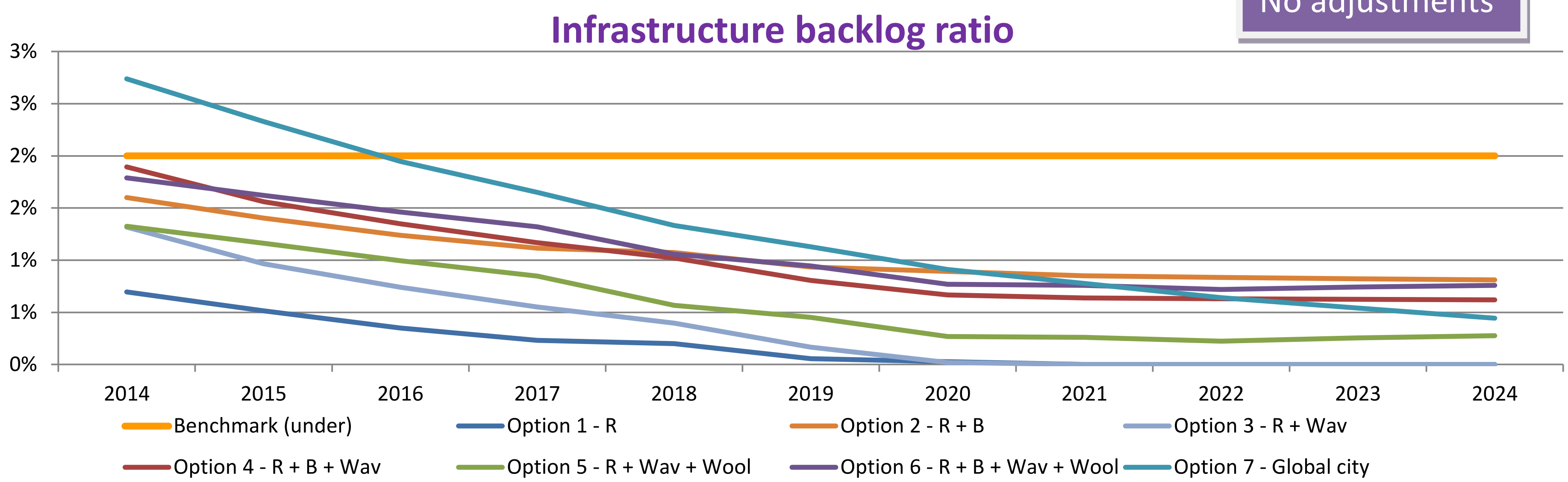
No adjustments

## Building and infrastructure renewals ratio



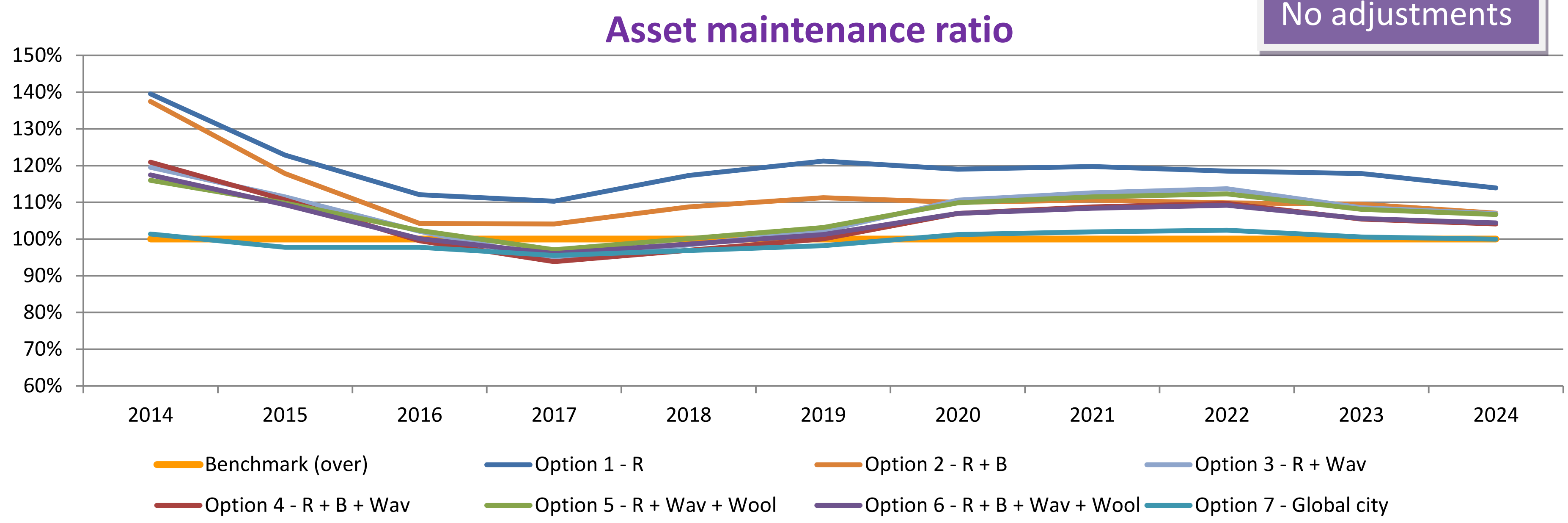

| Criteria for Fit for the Future | | | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | **BENCHMARK** | **Benchmark** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **3. Building and Infrastructure Renewals Ratio** | | | | | | | | | | | | | |
| Option 1 - R | Greater than 100% | 100% | 108.5% | 116.9% | 118.8% | 117.2% | 118.0% | 117.5% | 117.6% | 119.0% | 120.3% | 120.6% | 120.3% |
| Option 2 - R + B | | 100% | 103.6% | 111.0% | 111.5% | 111.3% | 112.0% | 111.7% | 111.9% | 113.1% | 114.3% | 114.6% | 114.4% |
| Option 3 - R + Wav | | 100% | 83.2% | 93.3% | 94.7% | 94.4% | 95.5% | 95.7% | 96.2% | 97.4% | 98.5% | 99.0% | 99.1% |
| Option 4 - R + B + Wav | | 100% | 83.4% | 92.6% | 93.0% | 93.2% | 94.3% | 94.4% | 94.9% | 96.0% | 97.0% | 97.4% | 97.5% |
| Option 5 - R + Wav + Wool | | 100% | 81.4% | 95.2% | 98.0% | 98.9% | 97.0% | 97.0% | 97.2% | 96.7% | 95.9% | 95.1% | 95.4% |
| Option 6 - R + B + Wav + Wool | | 100% | 81.8% | 94.4% | 96.4% | 97.5% | 95.8% | 95.9% | 96.0% | 95.6% | 94.9% | 94.1% | 94.4% |
| Option 7 - Global city | | 100% | 79.2% | 96.8% | 104.6% | 103.7% | 83.4% | 72.6% | 70.3% | 79.0% | 86.7% | 88.1% | 90.0% |

No adjustments



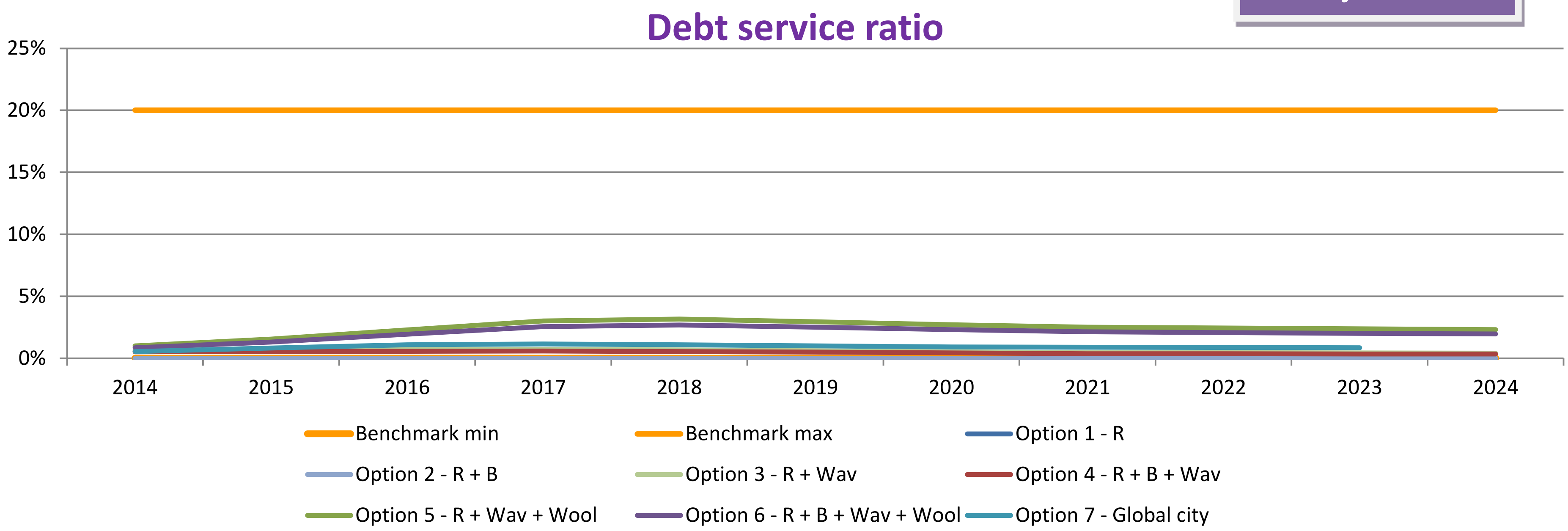

| Criteria for Fit for the Future | | | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | **BENCHMARK** | **Benchmark** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **4. Infrastructure Backlog Ratio** ***(SS7) (data is not averaged over 3 years - backlog as at 30 June of each year)*** | | | | | | | | | | | | | |
| Option 1 - R | | 2% | 0.7% | 0.5% | 0.3% | 0.2% | 0.2% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 2 - R + B | | 2% | 1.6% | 1.4% | 1.2% | 1.1% | 1.1% | 0.9% | 0.9% | 0.9% | 0.8% | 0.8% | 0.8% |
| Option 3 - R + Wav | | 2% | 1.3% | 1.0% | 0.7% | 0.6% | 0.4% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 4 - R + B + Wav | Less than 2% | 2% | 1.9% | 1.6% | 1.3% | 1.2% | 1.0% | 0.8% | 0.7% | 0.6% | 0.6% | 0.6% | 0.6% |
| Option 5 - R + Wav + Wool | | 2% | 1.3% | 1.2% | 1.0% | 0.8% | 0.6% | 0.5% | 0.3% | 0.3% | 0.2% | 0.3% | 0.3% |
| Option 6 - R + B + Wav + Wool | | 2% | 1.8% | 1.6% | 1.5% | 1.3% | 1.1% | 0.9% | 0.8% | 0.8% | 0.7% | 0.7% | 0.8% |
| Option 7 - Global city | | 2% | 2.7% | 2.3% | 1.9% | 1.7% | 1.3% | 1.1% | 0.9% | 0.8% | 0.6% | 0.5% | 0.4% |

No adjustments




| Criteria for Fit for the Future | | | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | **BENCHMARK** | **Benchmark** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **5. Asset Maintenance Ratio *(SS7)*** | | | | | | | | | | | | | |
| Option 1 - R | Greater than 100% | 100% | 139.5% | 122.9% | 112.1% | 110.3% | 117.4% | 121.2% | 119.0% | 119.7% | 118.5% | 117.8% | 113.9% |
| Option 2 - R + B | | 100% | 137.5% | 117.8% | 104.3% | 104.1% | 108.7% | 111.3% | 110.0% | 110.6% | 109.9% | 109.5% | 107.1% |
| Option 3 - R + Wav | | 100% | 119.6% | 111.5% | 102.1% | 94.7% | 98.4% | 102.2% | 110.6% | 112.6% | 113.7% | 108.5% | 106.9% |
| Option 4 - R + B + Wav | | 100% | 120.9% | 110.7% | 99.5% | 93.9% | 97.0% | 100.0% | 107.0% | 108.7% | 109.7% | 105.4% | 104.1% |
| Option 5 - R + Wav + Wool | | 100% | 116.0% | 109.8% | 102.3% | 97.1% | 100.1% | 103.1% | 109.9% | 111.5% | 112.3% | 108.1% | 106.7% |
| Option 6 - R + B + Wav + Wool | | 100% | 117.5% | 109.3% | 100.1% | 96.0% | 98.7% | 101.2% | 107.0% | 108.4% | 109.2% | 105.6% | 104.4% |
| Option 7 - Global city | | 100% | 101.4% | 97.7% | 97.7% | 95.5% | 96.9% | 98.2% | 101.2% | 102.0% | 102.4% | 100.6% | 100.0% |

No adjustments




| Criteria for Fit for the Future | | | Actual - 3 year average to 2013-14 | Projected - 3 year average to 30 June... | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Yr 1 | Yr 2 | **Yr 3** | Yr 4 | Yr 5 | **Yr 6** | Yr 7 | Yr 8 | Yr 9 | Yr 10 |
| | **BENCHMARK** | **Benchmark** | 2014 | 2015 | 2016 | **2017** | 2018 | 2019 | **2020** | 2021 | 2022 | 2023 | 2024 |
| **6. Debt Service Ratio** | | | | | | | | | | | | | |
| Option 1 - R | Range 0.01% to 20% | 0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 2 - R + B | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 3 - R + Wav | | to | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.6% | 0.5% | 0.5% | 0.5% | 0.4% | 0.4% |
| Option 4 - R + B + Wav | | | 0.5% | 0.6% | 0.6% | 0.6% | 0.6% | 0.5% | 0.4% | 0.4% | 0.4% | 0.4% | 0.3% |
| Option 5 - R + Wav + Wool | | 20% | 1.0% | 1.6% | 2.3% | 3.0% | 3.2% | 3.0% | 2.7% | 2.5% | 2.4% | 2.4% | 2.3% |
| Option 6 - R + B + Wav + Wool | | | 0.9% | 1.3% | 1.9% | 2.6% | 2.7% | 2.5% | 2.3% | 2.1% | 2.1% | 2.0% | 2.0% |
| Option 7 - Global city | | | 0.4% | 0.6% | 0.8% | 1.1% | 1.2% | 1.1% | 1.0% | 0.9% | 0.9% | 0.9% | 0.9% |

No adjustments

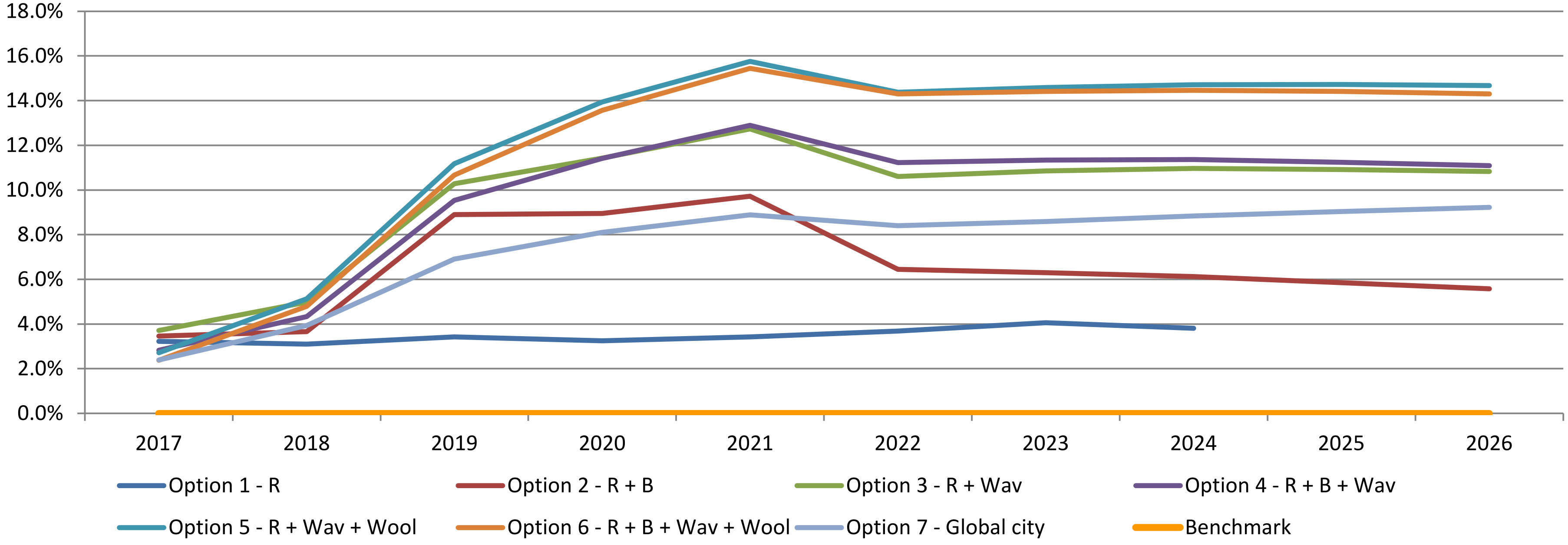
# Change in real operating expenditure per capita

| Council | Benchmark | | Actual 2014 | Yr 1 2015 | Yr 2 2016 | **Yr 3 2017** | Yr 4 2018 | Yr 5 2019 | **Yr 6 2020** | Yr 7 2021 | Yr 8 2022 | Yr 9 2023 | Yr 10 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Randwick | No upward trend over 5yrs | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Waverley | | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Woollahra | | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Botany | | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Sydney | | Decrease ↘ | Increase ↗ | Increase ↗ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |

**ATTACHMENT 4 Assessment against Fit for the Future Benchmarks - Options (includes costs and benefits of amalgamation, early loan repayments and closure of the asset expenditure gap)**

Model

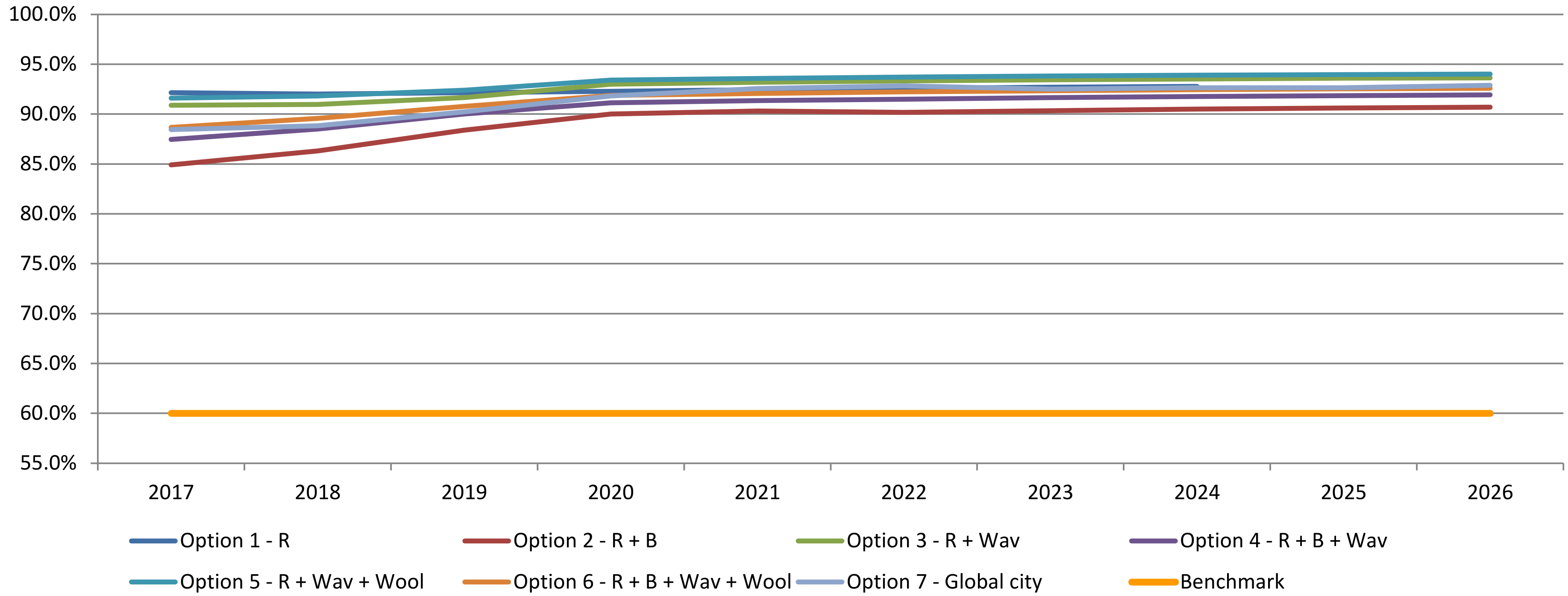
## Operating performance ratio



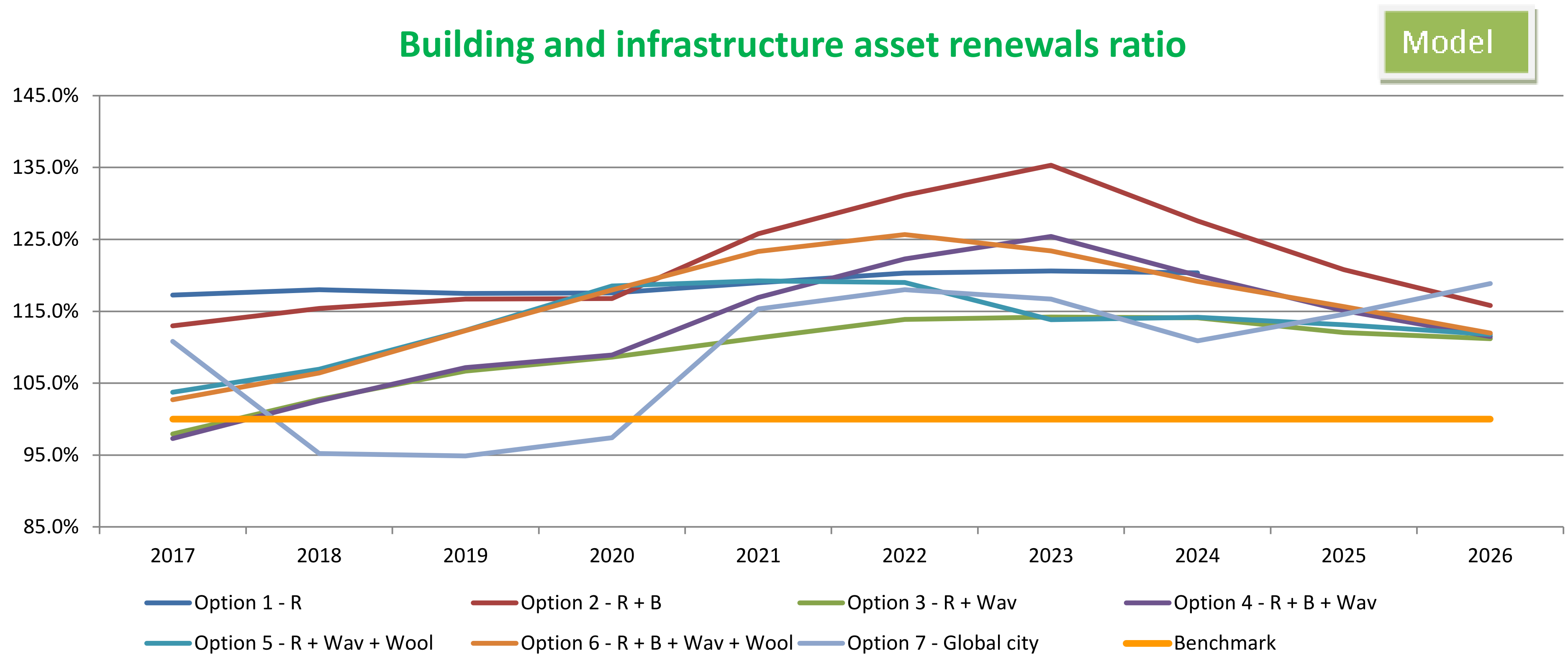

| 3 year average | benchmark | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 0.00% | 3.2% | 3.1% | 3.4% | 3.3% | 3.4% | 3.7% | 4.1% | 3.8% | | |
| Option 2 - R + B | 0.00% | 3.5% | 3.7% | 8.9% | 9.0% | 9.7% | 6.4% | 6.3% | 6.1% | 5.9% | 5.6% |
| Option 3 - R + Wav | 0.00% | 3.7% | 5.0% | 10.3% | 11.4% | 12.7% | 10.6% | 10.9% | 11.0% | 10.9% | 10.8% |
| Option 4 - R + B + Wav | 0.00% | 2.8% | 4.3% | 9.5% | 11.4% | 12.9% | 11.2% | 11.3% | 11.4% | 11.2% | 11.1% |
| Option 5 - R + Wav + Wool | 0.00% | 2.7% | 5.1% | 11.2% | 13.9% | 15.8% | 14.4% | 14.6% | 14.7% | 14.7% | 14.7% |
| Option 6 - R + B + Wav + Wool | 0.00% | 2.4% | 4.8% | 10.7% | 13.6% | 15.4% | 14.3% | 14.4% | 14.5% | 14.4% | 14.3% |
| Option 7 - Global city | 0.00% | 2.4% | 3.9% | 6.9% | 8.1% | 8.9% | 8.4% | 8.6% | 8.8% | 9.0% | 9.2% |

Model

## Own source revenue ratio



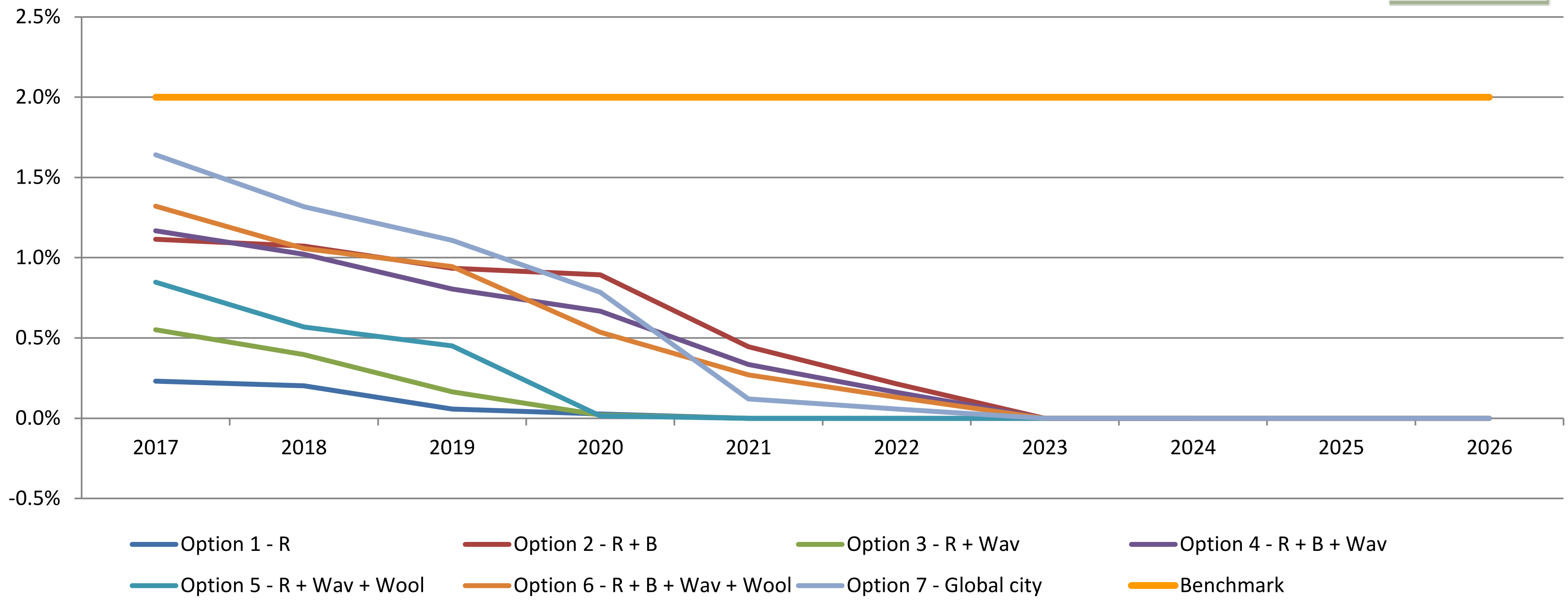

| 3 year average | benchmark | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 60.00% | 92.1% | 92.0% | 92.1% | 92.3% | 92.4% | 92.6% | 92.7% | 92.8% | | |
| Option 2 - R + B | 60.00% | 84.9% | 86.3% | 88.4% | 90.0% | 90.3% | 90.2% | 90.3% | 90.5% | 90.6% | 90.7% |
| Option 3 - R + Wav | 60.00% | 90.9% | 91.0% | 91.7% | 93.0% | 93.2% | 93.3% | 93.4% | 93.5% | 93.6% | 93.6% |
| Option 4 - R + B + Wav | 60.00% | 87.5% | 88.5% | 90.0% | 91.1% | 91.4% | 91.5% | 91.6% | 91.8% | 91.9% | 91.9% |
| Option 5 - R + Wav + Wool | 60.00% | 91.6% | 91.8% | 92.4% | 93.4% | 93.6% | 93.7% | 93.8% | 93.9% | 94.0% | 94.0% |
| Option 6 - R + B + Wav + Wool | 60.00% | 88.7% | 89.6% | 90.8% | 91.9% | 92.1% | 92.2% | 92.3% | 92.5% | 92.5% | 92.6% |
| Option 7 - Global city | 60.00% | 88.4% | 88.8% | 90.2% | 91.8% | 92.6% | 92.8% | 92.5% | 92.7% | 92.6% | 92.9% |



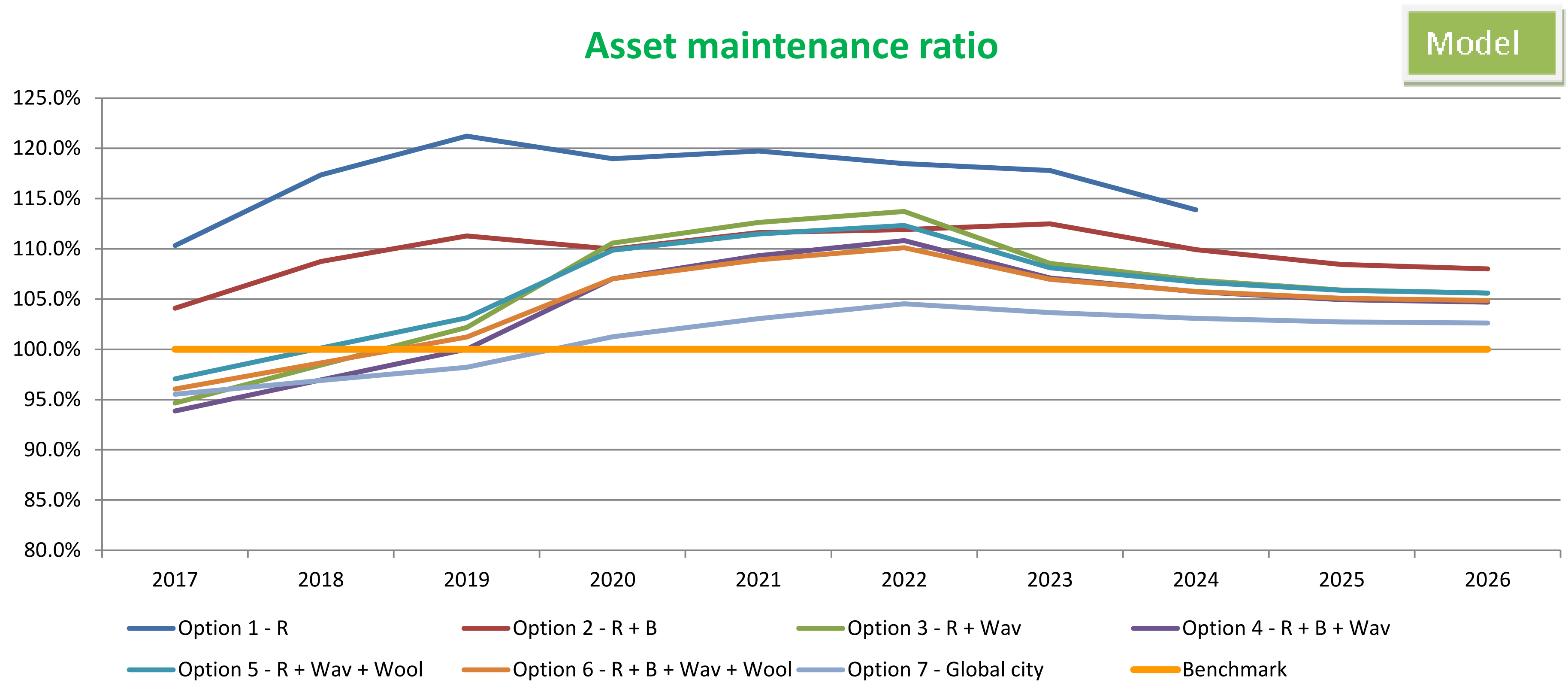

| 3 year average | benchmark | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 100.00% | 117.2% | 118.0% | 117.5% | 117.6% | 119.0% | 120.3% | 120.6% | 120.3% | | |
| Option 2 - R + B | 100.00% | 113.0% | 115.4% | 116.7% | 116.8% | 125.8% | 131.1% | 135.3% | 127.6% | 120.8% | 115.8% |
| Option 3 - R + Wav | 100.00% | 97.9% | 102.7% | 106.7% | 108.6% | 111.3% | 113.9% | 114.3% | 114.2% | 112.1% | 111.2% |
| Option 4 - R + B + Wav | 100.00% | 97.3% | 102.6% | 107.1% | 108.9% | 117.0% | 122.3% | 125.5% | 120.0% | 115.2% | 111.6% |
| Option 5 - R + Wav + Wool | 100.00% | 103.7% | 106.9% | 112.3% | 118.5% | 119.3% | 119.1% | 113.9% | 114.2% | 113.2% | 111.8% |
| Option 6 - R + B + Wav + Wool | 100.00% | 102.7% | 106.4% | 112.3% | 118.0% | 123.4% | 125.7% | 123.4% | 119.2% | 115.7% | 112.0% |
| Option 7 - Global city | 100.00% | 110.8% | 95.2% | 95.0% | 97.6% | 115.4% | 118.0% | 116.7% | 110.9% | 114.6% | 118.8% |

Model

## Infrastructure backlog ratio



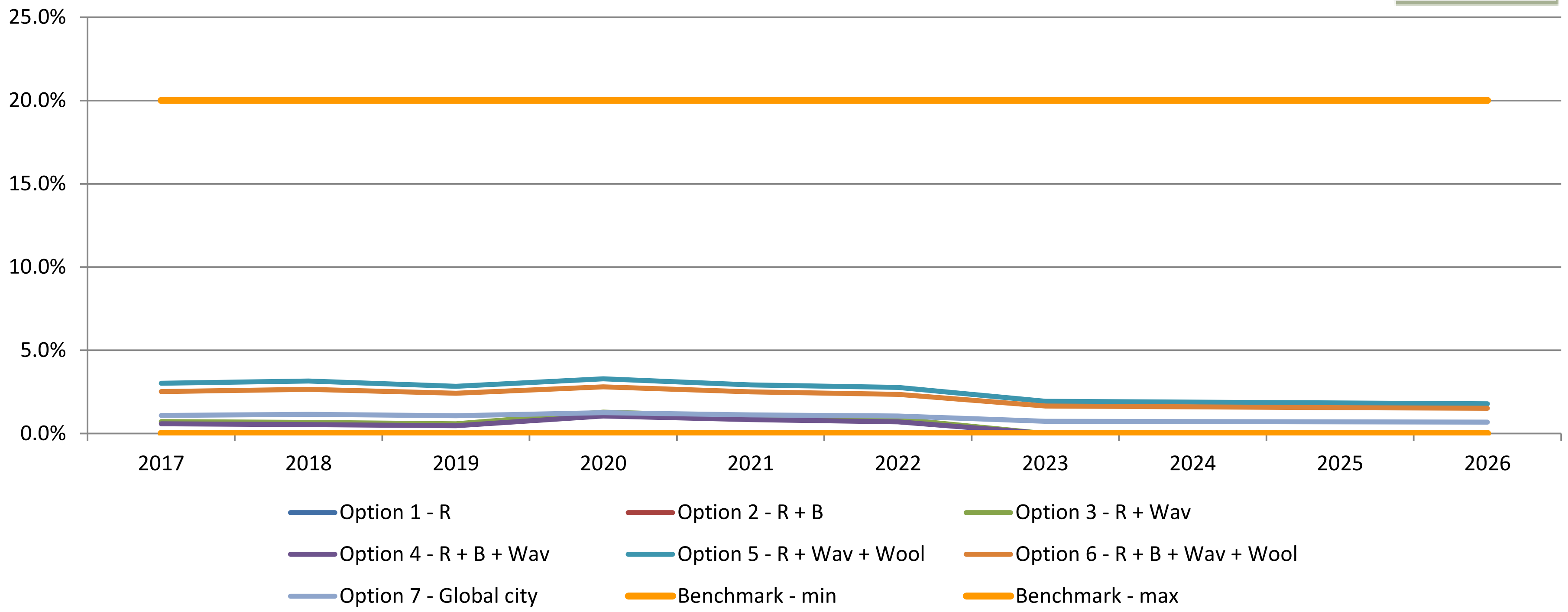

| 30 June | benchmark | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 2.00% | 0.2% | 0.2% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | |
| Option 2 - R + B | 2.00% | 1.1% | 1.1% | 0.9% | 0.9% | 0.4% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 3 - R + Wav | 2.00% | 0.6% | 0.4% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 4 - R + B + Wav | 2.00% | 1.2% | 1.0% | 0.8% | 0.7% | 0.3% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 5 - R + Wav + Wool | 2.00% | 0.8% | 0.6% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 6 - R + B + Wav + Wool | 2.00% | 1.3% | 1.1% | 0.9% | 0.5% | 0.3% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 7 - Global city | 2.00% | 1.6% | 1.3% | 1.1% | 0.8% | 0.1% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |




| 3 year average | benchmark | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 100.00% | 110.3% | 117.4% | 121.2% | 119.0% | 119.7% | 118.5% | 117.8% | 113.9% | | |
| Option 2 - R + B | 100.00% | 104.1% | 108.7% | 111.3% | 110.0% | 111.6% | 111.9% | 112.5% | 109.9% | 108.5% | 108.0% |
| Option 3 - R + Wav | 100.00% | 94.7% | 98.4% | 102.2% | 110.6% | 112.6% | 113.7% | 108.5% | 106.9% | 105.9% | 105.6% |
| Option 4 - R + B + Wav | 100.00% | 93.9% | 97.0% | 100.0% | 107.0% | 109.3% | 110.8% | 107.1% | 105.7% | 104.9% | 104.7% |
| Option 5 - R + Wav + Wool | 100.00% | 97.1% | 100.1% | 103.1% | 109.9% | 111.5% | 112.3% | 108.1% | 106.7% | 105.9% | 105.6% |
| Option 6 - R + B + Wav + Wool | 100.00% | 96.0% | 98.7% | 101.2% | 107.0% | 108.9% | 110.1% | 107.0% | 105.8% | 105.1% | 104.9% |
| Option 7 - Global city | 100.00% | 95.5% | 96.9% | 98.2% | 101.2% | 103.1% | 104.5% | 103.7% | 103.1% | 102.7% | 102.6% |

Model

## Debt service ratio




| 3 year average | benchmark | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | 0.01% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | |
| Option 2 - R + B | to | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 3 - R + Wav | 20.00% | 0.7% | 0.7% | 0.6% | 1.3% | 1.0% | 0.9% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 4 - R + B + Wav | | 0.6% | 0.5% | 0.5% | 1.0% | 0.8% | 0.7% | 0.0% | 0.0% | 0.0% | 0.0% |
| Option 5 - R + Wav + Wool | | 3.0% | 3.2% | 2.8% | 3.3% | 2.9% | 2.8% | 1.9% | 1.9% | 1.8% | 1.8% |
| Option 6 - R + B + Wav + Wool | | 2.5% | 2.7% | 2.4% | 2.8% | 2.5% | 2.4% | 1.7% | 1.6% | 1.6% | 1.5% |
| Option 7 - Global city | | 1.1% | 1.2% | 1.1% | 1.3% | 1.1% | 1.1% | 0.7% | 0.7% | 0.7% | 0.7% |

Model

## Change in real operating expenditure per capita

| No upward trend over 5 years | Yr 1 2017 | Yr 2 2018 | Yr 3 2019 | Yr 4 2020 | Yr 5 2021 | Yr 6 2022 | Yr 7 2023 | Yr 8 2024 | Yr 9 2025 | Yr 10 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| Option 1 - R | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | | |
| Option 2 - R + B | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Option 3 - R + Wav | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Option 4 - R + B + Wav | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Option 5 - R + Wav + Wool | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Option 6 - R + B + Wav + Wool | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |
| Option 7 - Global city | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ | Decrease ↘ |

## ATTACHMENT 5 Property interests and commercial activities

Each Council must declare Business Activities for National Competition Policy purposes. The nature and size of businesses declared varies vastly between the 5 Eastern Suburbs councils. A summary has been produced of those business activities declared, and also a listing of non-declared business activities where other councils have declared them for NCP purposes.

### NCP Declared Business Activities

| Randwick | Botany | Waverley | Woollahra | Sydney City |
|---|---|---|---|---|
| Property Management | Contract Services | Property Management | | Parking Stations |
| Trade Waste | Golf Course | Cemetery | | |
| Childcare Centre | | Commercial Trade Waste Service | | |
| Leisure Centre | | | | |
| Plant Nursery | | | | |

## Waverley Council

Waverley Council has declared three (3) business activities for National Competition Policy purposes.

1. Commercial Trade Waste Service with a turnover of $2,798k per annum
2. Cemetery Business (Waverley Cemetery) with a turnover of $1,351k per annum; *and*
3. Property Portfolio with a turnover of $8,342k per annum.

### Property Portfolio

Waverley Council has a large diverse property portfolio across its LGA. This portfolio includes a large amount of affordable housing, aged care accommodation and child care centres.

Waverley Council has a strong real estate presence in Bondi Junction with ownership of a variety of key locations including:

- 65 Ebley St Bondi Junction (Spotlight)
- 14-26 Ebley Street (Office Works)
- Mill Hill Centre (Spring Street)
- 55 Spring Street (Customer Service Centre)
- Level 5 Eastgate Carpark

Other significant properties include:

- 1 Bondi Road
- 276 Bronte Road Waverley
- Bondi Pavilion Commercial Section

Waverley also operate 4 Child Care Centres with an annual turnover of $3,679k

## Woollahra Council

Woollahra Council has not declared any business activities for National Competition Policy purposes.

However, Woollahra does undertake activities that are similar to other Eastern Suburb councils declared businesses:

1. Commercial Trade Waste Service with a turnover of $1,994k per annum;
2. Property Portfolio with rental revenue of $5,591k per annum;

This property portfolio includes both investment properties and Council owned properties which would include operational sites such as libraries, community centres, etc.

## City of Sydney Council

City of Sydney Council has declared one (1) business activity for National Competition Policy purposes.

1. Parking Stations with a turnover of $9,262k per annum.

However, City of Sydney does undertake activities that are similar to other Eastern Suburb councils declared businesses:

1. Property Portfolio with rental revenue of $54,442k per annum;

***Property Portfolio***

The City of Sydney Council has a large real estate portfolio consisting of *224* real properties around their LGA. They are located in the following suburbs:

| | | | |
|---|---|---|---|
| Alexandria | 27 | Newtown | 4 |
| Annandale | 6 | Paddington | 2 |
| Beaconsfield | 2 | Potts Point | 4 |
| Camperdown | 3 | Pyrmont | 9 |
| Chippendale | 3 | Redfern | 10 |
| Darlinghurst | 20 | Rosebery | 3 |
| Darlington | 1 | Rushcutters Bay | 3 |
| Dawes Point | 1 | St Peters | 2 |
| Elizabeth Bay | 6 | Surry Hills | 10 |
| Erskineville | 8 | Sydney | 30 |
| Eveleigh | 1 | The Rocks | 3 |
| Glebe | 18 | Ultimo | 10 |
| Haymarket | 8 | Waterloo | 6 |
| Millers Point | 8 | Woolloomooloo | 7 |
| | | Zetland Count | 9 |

While many of these properties also include facilities such as aquatic centres, community centres, and libraries; where they are being leased out this revenue is contributing to the $54,442k per annum turnover. It appears that their aquatic and leisure centres are managed by third parties.

## City of Botany Bay Council

Botany Bay Council has declared two (2) business activities for National Competition Policy purposes.

Contract Services with a turnover of $6,382k per annum; *and*

Golf Course with a turnover of $413k per annum.

As part of the Contract Services Business Unit, Council is contracted by Sydney Airports Corporation Limited (SACL) to undertake works in and around Sydney's Kingsford Smith Airport. This contract with SACL is for a six year period. In addition the business unit has secured numerous contracts with other organisations for maintenance and cleaning including Centennial Parklands.

Botany Golf Course is a 2,411 metre 9-hole public golf course located off Botany Road. A privately managed club house is located at the course.

Botany Bay Council also operates other business activities including an Aquatic Centre with a turnover of $537k per annum.

# ATTACHMENT 6 Assurance Report

RANDWICK CITY COUNCIL

MERGER OPTIONS FINANCIAL MODEL

INDEPENDENT ASSURANCE REPORT

We have been engaged by Randwick City Council ("Council") to report on the Merger Options Financial Model ("Model") to assist in formulating a submission in respect of the NSW State Government's "Fit for the Future" reform package ("submission"). As agreed in our engagement letter dated 28 January 2015, this report is prepared solely for the submission by Council.

**Scope**

You have requested Hill Rogers Spencer Steer to review the Model included in the submission. The stated basis of preparation used in the preparation of the Model is the accounting policies in the Local Government Code of Accounting Practice and Financial Reporting (Update No.22) issued by the Office of Local Government.

***Responsibility of Council for the Model***

Council is responsible for the preparation of the Model included in the submission, including the best-estimate assumptions underlying the Model. This includes responsibility for such internal controls as Council determines are necessary to enable the preparation of the Model that is free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility, based on our work performed is to express limited assurance on the best-estimate assumptions underlying the Model and on the reasonableness of the Model, and reasonable assurance on whether the Model is prepared based on those assumptions and the stated basis of preparation. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

A review is substantially less in scope than an reasonable assurance engagement conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

**Independence**

In conducting the assurance engagement, we followed applicable independence requirements of Australian professional ethical pronouncements.

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**Conclusion**

- Based on our limited assurance procedures, nothing has come to our attention which causes us to believe that Council's best estimate assumptions do not provide reasonable grounds for the preparation of the Model included in the submission prepared by Council;
- Based on our reasonable assurance procedures, the Model is, in all material respects, prepared on the basis of Council's best-estimate assumptions as described in the Model; and is presented fairly in accordance with the stated basis of preparation, being the accounting policies in the Local Government Code of Accounting Practice and Financial Reporting (Update No.22) issued by the Office of Local Government; and
- Based on our limited assurance procedures, nothing has come to our attention which causes us to believe that the Model is unreasonable.

Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which prospective financial information is based, such evidence is generally future oriented and therefore speculative in nature.

Council's best-estimate assumptions on which the Model are based relate to future event(s) and/or transaction(s) that Council expects to occur and actions that Council expects to take and are also subject to uncertainties and contingencies, which are often outside the control of the Council. Evidence may be available to support Council's best-estimate assumptions on which the Model is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly provide a lesser level of assurance on the reasonableness of Council's best-estimate assumptions. The limited assurance conclusion expressed in this assurance report has been formed on the above basis.

Readers of the document should be aware of the inherent uncertainty relating to the Model. Accordingly, readers should have regard to the risks and sensitivities as described in Model. The sensitivity analysis as described in the Model demonstrates the impact on the Model of changes in key best-estimate assumptions. We express no opinion as to whether the Model will be achieved.

This report has been prepared for distribution to the Council for the purpose of the submission. We disclaim any assumption of responsibility for any reliance on this report or on the matter to which it relates to any person other than the Council, or for any purpose other than that for which it was prepared.

We have assumed, and relied on representations from Council that all material information concerning the Model has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

**Emphasis of Matter**

Without modification to the conclusion expressed above, the Council's best-estimate assumptions as described in the Model are fundamental to the users' understanding of the financial models and assessments.

**HILL ROGERS SPENCER STEER**
Assurance Partners

**Gary Mottau**
Partner

Dated at Sydney this 8th day of April 2015

Randwick City Council
a sense of community