

Meeting Date: Tuesday 12 November 2013
Location: Council Chambers, Level 6, Civic Centre, 1 Devlin Street, Ryde
Time: 7.30pm

ATTACHMENTS FOR COUNCIL MEETING

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**Review of ILGRP Structural
Change Options**



Draft Report

City of Ryde Council

October 2013

Independent insight.

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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au
Offices in Canberra, Hobart, Melbourne, Sydney

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EXECUTIVE SUMMARY

Background

This report has been commissioned by City of Ryde Council to evaluate the Independent Local Government Review Panel’s ILGRP’s preferred option to consolidate Sydney metropolitan Councils.

The ILGRP proposed amalgamation of Auburn, Holroyd, Parramatta Councils and that a Greater Parramatta Council would also include all (or in a variation most of) the City of Ryde. The ILGRP states that the amalgamated Council would create a city with a broad socio-economic mix and with the resources needed to facilitate the further development of Sydney’s ‘second CBD.’ The inclusion of Ryde in this grouping also reflect metropolitan planning that promotes links between Parramatta and the employment growth occurring in the Global Economic Corridor (including Macquarie Park).

This high level analysis is a desktop review of the publicly available information, and input from the Council staff project group.

Options for structural change

The ILGRP proposed option has been compared in this report with a variety of other options, including the base case which is the retention of current local government boundaries. Options considered include:

- **Base case:** current local government boundaries continued.
- **Option 1** (ILGRP preferred option): the amalgamation of Auburn, Holroyd, Parramatta and Ryde and moving northern boundary of Parramatta and Western Ryde to M2.
- **Option 1A:** as per option 1 but without the East Ward of Ryde in the amalgamated LGA boundaries.
- **Option 2** (North Shore Option): the amalgamation of Hunters Hill, Lane Cove, Ryde and Willoughby. This is one of the preferred options identified by the Ryde community in consultations.

These options range in population and employment from the current (2011) Ryde LGA population of approximately 110,000 to 520,000 population for the ILGRP option (option 1).

POPULATION PROJECTION (ERP) BY OPTION

Amalgamated Council Area	2011	2016	2021	2026	2031	2036	2041	2046	Change 2011 - 2046	AAGR 2011 - 2046
Base case	110,122	114,758	121,212	127,082	133,509	140,406	147,799	155,819	45,697	1.0%
Option 1	520,956	562,997	589,174	612,904	639,213	667,645	698,385	731,924	210,968	1.0%
Option 1A	495,266	535,772	560,307	582,866	607,957	635,058	664,492	696,606	201,340	1.0%
Option 2	230,305	240,373	251,481	261,348	272,334	284,235	297,131	311,230	80,925	0.9%

Source: BTS, (2012), SGS calculation, AAGR (Average Annual Growth Rate).

Strategic context

This report briefly touches on travel time mapping, household travel patterns and journey to work patterns. These show that the City of Ryde is within the ILGRP catchment of 30-45 minutes from the regional centre of Parramatta as well as from the major centre of Chatswood. However, the patterns of household travel trips from Ryde residents show a tendency to move to the north and east, as opposed

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to strong linkages to the western LGAs and Parramatta. In regards to journey to work patterns strong linkages form the north and west into Ryde for employment occur.

TCorp financial performance indicators

The first part of the financial analysis is based on the TCorp indicators of financial sustainability. These have been calculated against the benchmark for each council under the base case below. The figures displayed are the averages across the four years from 2009-2012, or for as many years as data was available.

COUNCIL INDICATOR PERFORMANCE BY BENCHMARK

	Councils in ILGRP's option				North Shore Councils			Benchmark
	Ryde	Auburn	Holroyd	Parramatta	Hunters Hill	Lane Cove	Willoughby	
Operating ratio	-0.01	0.01	-0.09	-0.02	-0.08	0	0.01	-0.04
Cash/expense cover ratio	4.53	5.08	1.28		27.48	1.15	1.47	3
Unrestricted current ratio	4.16	2.34	5.65	2.19	3.45	4.72	4.31	1.5
Own source operating revenue ratio	0.61	0.69	0.69		0.77	0.72	0.68	0.6
Debt service cover ratio	25.54	5.78	9.75	2.19	3.03		3.01	2
Interest cover ratio	78.09	15.7	241.48	4.41	16.19		4.07	4
Infrastructure backlog	0.09	0.15	0.07	0.04	0.16	0.06	0.1	0.02
Asset maintenance ratio	1.01	0.64	0.6	0.64	1.05	0.84	0.72	1
Infrastructure renewals ratio	0.75	0.55	0.68	0.8	0.49	0.88	0.77	1
Capital expenditure ratio	2.58	1.52	1.08	1.2	0.94	1.8	6.84	1.1

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

The table below contains a summary of TCorp performance indicators of the different options. Because the TCorp report for Parramatta was prepared during 2011/12, the report only contains the financial data up to the financial year ended 30 June 11. As a result, ratios below are calculated using the 2010/11 financial data contained in the relevant TCorp reports.

Performance on financial and infrastructure status indicators is assessed based on the TCorp benchmarks. Based on the results below, both base case and option 2 would fail to meet four out of nine benchmarks, while a combined council under option 1 would not meet three.

OPTION PERFORMANCE ON INDICATORS AGAINST BENCHMARK

	Base case	Option 1	Option 2	Benchmark	
Operating ratio	0.00		-0.03	-0.02	>-0.04
Cash/expense cover ratio	1.60		4.54	2.21	>3
Own source operating revenue ratio [^]	0.68			0.70	>0.60
Debt service cover ratio	29.76		4.70	10.41	>2.00
Interest cover ratio	92.68		13.58	8.96	>4.00
Infrastructure backlog	0.10		0.09	0.11	<2%
Asset maintenance ratio	0.98		0.81	0.83	>1.00
Infrastructure renewals ratio	0.48		0.58	0.55	>1.00
Capital expenditure ratio	1.58		1.13	2.36	>1.10

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

[^] OSOR figures for Option 1 are omitted, as the value of this ratio is not reported in the TCorp report prepared for Parramatta.

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The table below provides a summary of each option’s performance on financial and infrastructure status indicators, relative to the other options. The figures displayed are rankings, with 1 denoting the highest performing council and 3 denoting the lowest. Again, the highest performing option for each indicator is shaded. The bottom line of the table indicates the average rank of each option across the different indicators. This suggests that based on financial sustainability indicators, the base case performs the best, followed by option 2. It should be noted that the potential savings and costs associated with amalgamation, and their impact on these indicators, has not been considered in this comparison.

RANKING OF THE FINANCIAL INDICATORS BY OPTION

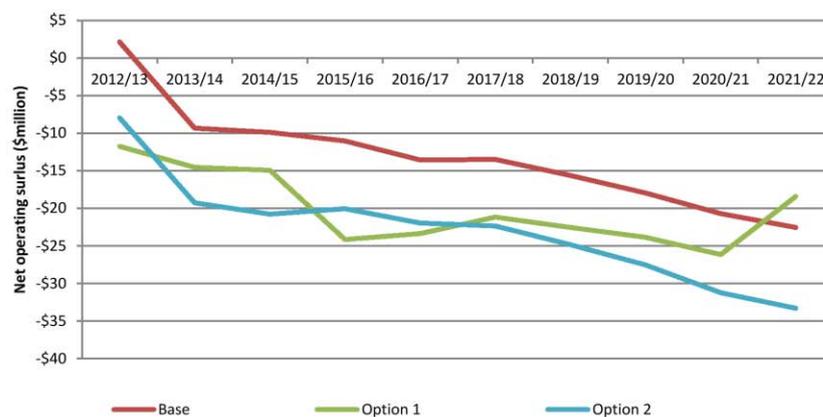
	Base case	Option 1	Option 2
Operating ratio	1	3	2
Cash/expense cover ratio	3	1	2
Own source operating revenue ratio	2		1
Debt service cover ratio	1	3	2
Interest cover ratio	1	2	3
Infrastructure backlog	2	1	3
Asset maintenance ratio	1	3	2
Infrastructure renewals ratio	3	1	2
Capital expenditure ratio	2	3	1
Average ranking	1.8	2.1	2.0

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

Financial forecast by option

Based on the financial forecast prepared by each relevant council, we have compiled a consolidated operating surplus/deficit (before capital) forecast for the amalgamation options, as shown in the graph below. Note that the forecast excludes net gains/losses on asset disposals, whilst including depreciation.

NET OPERATING RESULT BEFORE CAPITAL OVER 10 YEARS BY OPTION, \$MILLION



Source: SGS estimates, 2013; using the LTFPs prepared by each council.

The following table compares the present value of the operating surplus before capital for each option. Using a discount rate of 4 percent per annum (that is the current interest rate from a commercial bank), the present value of the operating result ranges from -\$101 million under base case to -\$180 million under option 2. However, the relatively higher operating deficit under options 1 and 2 could be due to the size of the combined council.

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To eliminate this effect, we have expressed the PV of the operating surplus before capital as a *proportion* of the projected operating revenue excluding capital (see last column). Based on this indicator, Option 1 performs better than option 2 and base case and is projected to experience a total operating deficit which represents 4 percent of the projected operating revenue (excluding capital) over 10 years. Again, the better performance of option 1 is largely a result of the positive operating surplus indicated in Parramatta’s LTFP.

PRESENT VALUE OF THE OPERATING SURPLUS OVER 10 YEARS, \$MILLION

	PV of the operating result before capital	PV of the operating revenue excluding capital	Net operating result before capital/operating revenue excluding capital	
Base	-\$101	\$820		-12%
Option 1	-\$160	\$3,830		-4%
Option 2	-\$180	\$2,141		-8%

Source: Calculated by SGS, 2013; using the Long Term Financial Plan made publicly available by each Council.

As the asset renewal backlog and the debt level vary by option, the present value of the projected operating surplus/deficit has been calculated by option, after reducing the infrastructure backlog and borrowings. This is shown in the following table.

PRESENT VALUE OF THE OPERATING SURPLUS AFTER REDUCING INFRASTRUCTURE BACKLOG AND BORROWINGS, \$MILLION

	Base case	Option 1	Option 2
PV of the operating surplus	-\$101	-\$160	-\$180
- After reducing infrastructure backlog	-\$180	-\$416	-\$327
- After reducing infrastructure backlog +borrowings	-\$184	-\$521	-\$335

Source: Calculated by SGS, 2013; using the 2011/12 financial statement made publicly available by each Council.

Impact on rating

The report assesses the likely impact on rating, as a result of structural change. The key concern expressed by Council was whether the relatively high land values in Ryde would lead to Ryde residents and business paying a greater proportion of the total rates within a combined Council area.

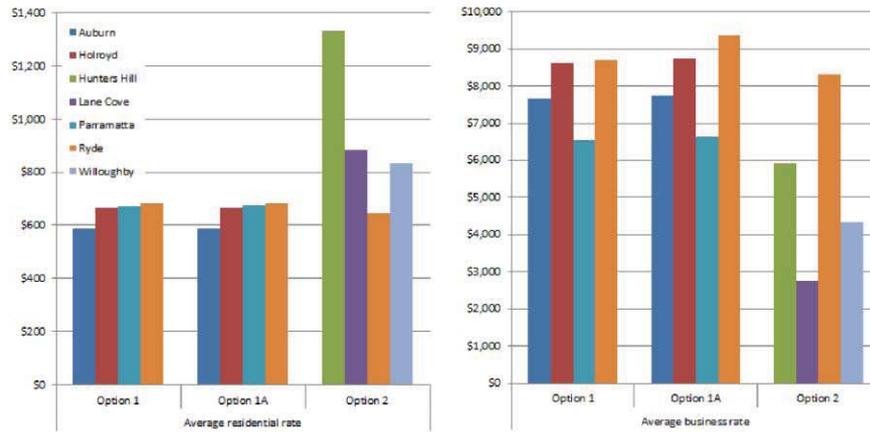
The average rates were assessed on a per property basis with total rate income being maintained. SRVs for individual Councils were excluded from this comparison and would continue to apply to part of an amalgamated Council. Two scenarios were considered, with 50 percent and 20 percent respectively of the total rates under each option to derive a base rate.

The following table shows the average residential and business rates by option and LGA, if the base amount will contribute 50 percent of the total rates.

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AVERAGE ANNUAL RATES BY OPTION AND LGA, ASSUMING BASE AMOUNT CONTRIBUTES 50 PERCENT OF THE TOTAL RATES

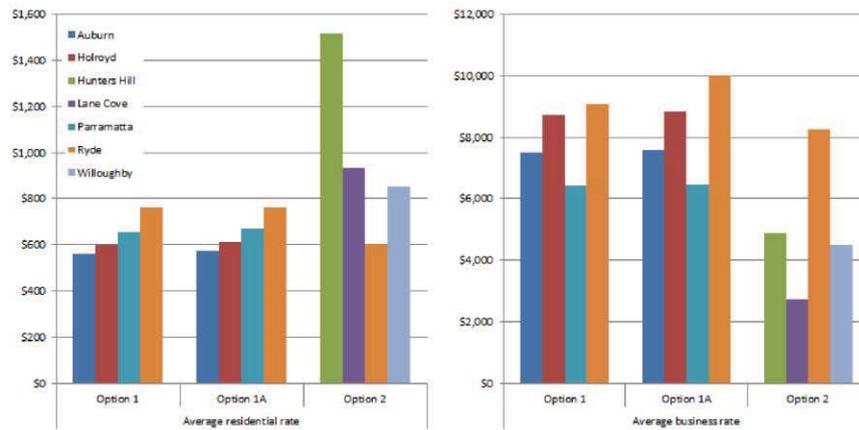


Source: estimated by SGS, 2013

Compared to Holroyd, ratepayers in Ryde would expect to pay around \$20 more in residential rates and around \$80 more in business rates per rateable property, under option 1. On the other hand, under option 2 ratepayers in Ryde would expect to pay around \$700 less in residential rates, but around \$2400 more in business rates compared to Hunters Hill.

The following table shows the average residential and business rates by option and LGA, if the base amount will contribute only 20 percent of the total rates.

AVERAGE ANNUAL RATES BY OPTION AND LGA, ASSUMING BASE AMOUNT CONTRIBUTES 20 PERCENT OF THE TOTAL RATES



Source: estimated by SGS, 2013

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In this case, ratepayers in Ryde, compared to Auburn, would expect to pay around \$200 more in residential rates and around \$1500 more in business rates, under option 1. On the other hand, ratepayers in Ryde, compared to Hunters Hill, would expect to pay around \$900 less in residential rates, but around \$3500 more in business rates under option 2.

Whilst there is a variation in rates based on changes in property values across the options, it is clear that a high base rate of 50 percent minimises these differences. In addition the equitable distribution is maintained if property value is seen as an indicator of change in ability to pay.

Conclusion

In conclusion a number of options have been developed and tested in a desktop review for potential change to the structure of local government for the City of Ryde. This report mainly focuses on a number of financial factors including TCorp financial sustainability indicators, considerations of financial projections and operating surplus or deficits over a 10 year period and impact on rates. In addition some limited work on spatial analysis of accessibility, major centres and communities of interest (through household travel patterns) have been identified.

The following major points summarise the analysis:

Base case (current LGA boundaries)

- The current City of Ryde performs better than the options 1 and 2 in regards to TCorp financial sustainability indicators.
- Ratio of operating deficit to operating revenue is highest (worst) for City of Ryde compared to options 1 and 2.
- Impact on rates not applicable.
- Current LGA boundaries.

Option 1 (ILGRP proposal)

- Option 1 performs worse than option 2 in regards to TCorp financial sustainability indicators (and worse than the base case).
- Ratio of operating deficit to operating revenue is lowest (best) for Option 1 compared to base case and option 2.
- Impact on rates for Ryde area is that higher average rates per property for residential and business than grouping of Councils, to maintain total rate income.
- Accessible within 30-45 minutes from the Parramatta CBD, weaker household travel patterns between Ryde and Parramatta, stronger journey to work linkages between NW and Ryde (Macquarie Park in particular).

Option 1A (ILGRP variation)

- Same as above for financial performance.
- Financial performance 1A has not been assessed due to lack of sub-LGA information.
- As above, except that east ward in City of Ryde has been linked with North Shore Council grouping.

Option 2 (North shore)

- Option 2 performs better than option 1 in regards to TCorp financial sustainability indicators (but not as well as base case).
- Ratio of operating deficit to operating revenue for option 2 is higher (worse) than Option 1 but is lower (better) than the base case).
- Impact on rates for Ryde area is that lower average rates per property for residential and business than grouping of Councils, to maintain total rate income.
- Accessible within 30-45 minutes from the Chatswood CBD, stronger household travel patterns between Ryde and North Shore and to North.

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This report does not identify a preferred option. The information is to inform Council review of the ILGRP preferred option.

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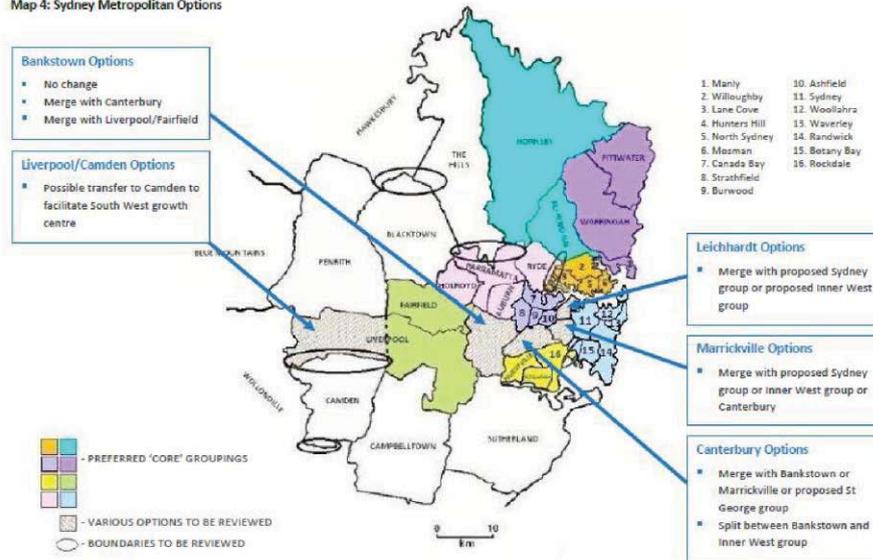
1 INTRODUCTION

The NSW Local Government Minister announced the establishment of an independent expert panel to investigate structural arrangements for councils across NSW. The Independent Local Government Review Panel (ILGRP) is currently investigating ways to create stronger and better councils for the future. The review is to achieve key strategic directions identified in the Destination 2036 initiative and support the broader objectives for NSW as outlined in NSW 2021: A Plan to Make NSW Number One (the State Plan).

The Panel has released its latest report - "Future Directions for NSW Local Government – Twenty Essential Steps" in April 2013. This report identifies a reshaping of metropolitan governance arrangements and consolidation of local government in the Sydney metropolitan area. The preferred option for discussion, at this stage of the review, is shown below (ILGRP April 2013).

FIGURE 1. PREFERRED OPTION FOR LOCAL GOVERNMENT STRUCTURAL CHANGE

Map 4: Sydney Metropolitan Options



Under the preferred option, the ILGRP report proposed amalgamation of Auburn, Holroyd, Parramatta Councils and that a Greater Parramatta Council would also include all (or most of) the City of Ryde. The ILGRP state that the amalgamated Council will create a city with a broad socio-economic mix and with the resources needed to facilitate the further development of a 'second CBD.' The inclusion of Ryde in this grouping also reflect metropolitan planning that promotes links between Parramatta and the employment growth occurring in the Global Economic Corridor (including Macquarie Park).

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1.1 Scope of the work

SGS Economics and Planning was engaged by City of Ryde to evaluate the ILGRP's proposal and to undertake a desktop review of the publicly available information. The scope of this work includes:

- Review of the preferred ILGRP option and identification with Council of additional options (including no change) for structural change to be tested.
- Establish a base case of the current local government areas in all the identified options, including Auburn, Holroyd, Hunters Hill, Lane Cove, Parramatta, Ryde and Willoughby LGAs. This base case will use financial assessment reports prepared by TCorp (2013) regarding each LGA and the Long Term Financial Plans (LTFPs) published by councils.
- Conduct a strategic analysis regarding matters of relevance when considering local government boundaries, limited in scope for this report to analysis of broad communities of interest and accessibility as shown by travel time mapping for major centres, household travel patterns (regarding non-work trips) and journey-to-work patterns.
- Complete an initial financial analysis of the various options identified for structural reform. As part of this financial analysis, a consolidated financial forecast for all the options will be prepared based on the LTFPs published by each individual council and a present value of the projected operating surplus over 10 years will be calculated and compared between the options. Where relevant data is publicly available, the TCorp indicators are used to compare the financial sustainability of the different options. Lastly, a broad assessment will be carried out to understand the impact on levels of residential and business rates under various amalgamation options.
- Preparation of report for Council consideration.

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2 OPTIONS FOR STRUCTURAL CHANGE

Following discussions with the Council project management group, four options for structural change to local government boundaries have been identified. These include the ILGRP preferred option. These options are:

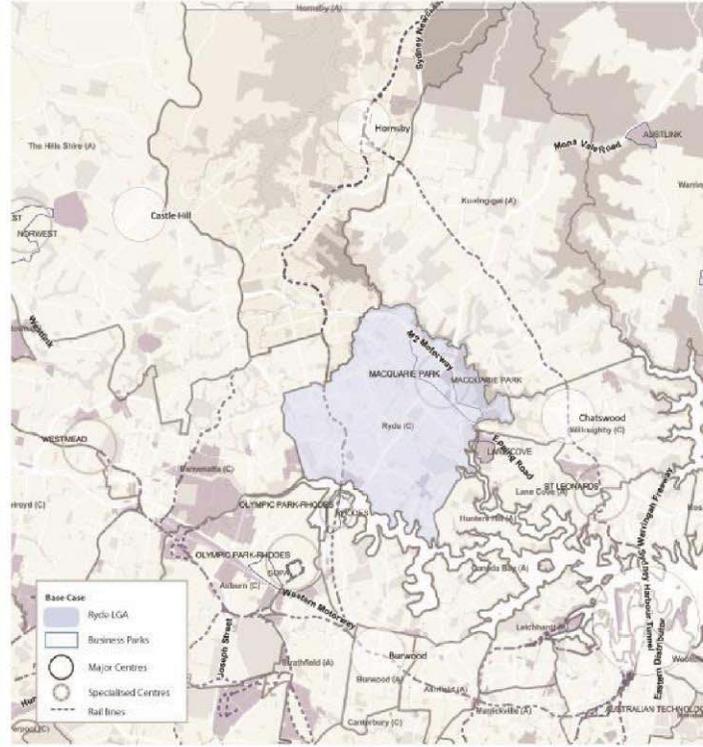
- **Base case:** current local government boundaries continued.
- **Option 1** (ILGRP preferred option): the amalgamation of Auburn, Holroyd, Parramatta and Ryde and moving northern boundary of Parramatta and Western Ryde to M2.
- **Option 1A:** as per option 1 but without the East Ward of Ryde in the amalgamated LGA boundaries.
- **Option 2** (North Shore Option): the amalgamation of Hunters Hill, Lane Cove, Ryde and Willoughby. This is one of the preferred options identified by the Ryde community in consultations.

The boundaries of these options are illustrated in the following figures.

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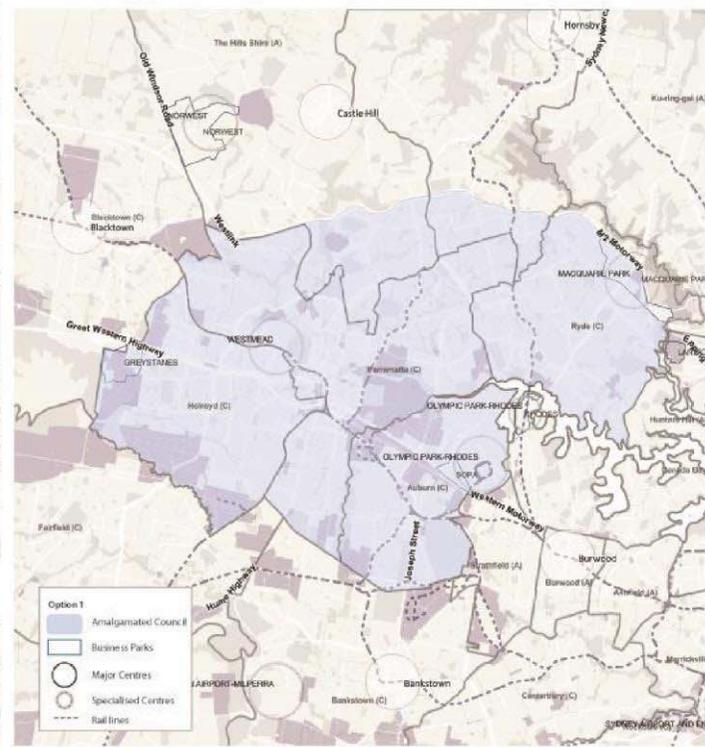
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FIGURE 2. BASE CASE



Source: SGS Economics and Planning, 2013

FIGURE 3. OPTION 1 (ILGRP PREFERRED OPTION)

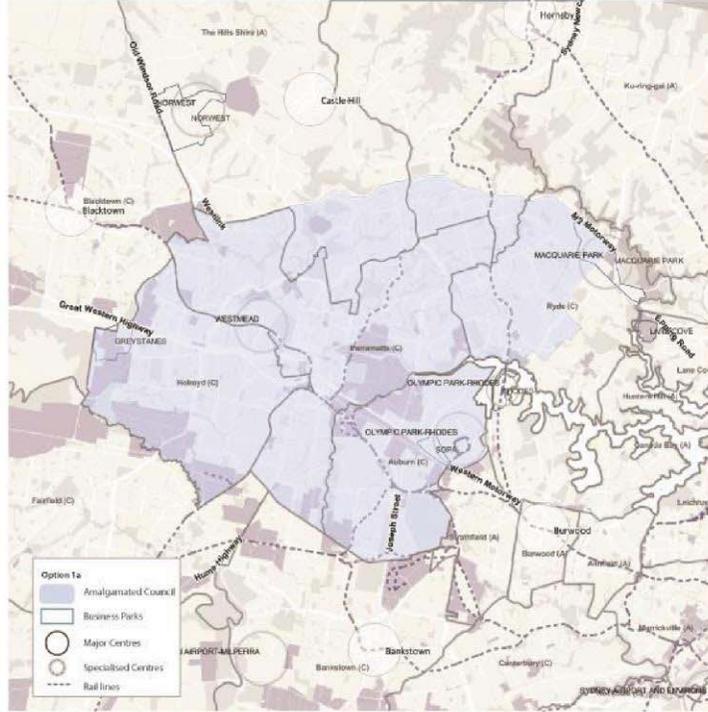


Source: SGS Economics and Planning, 2013

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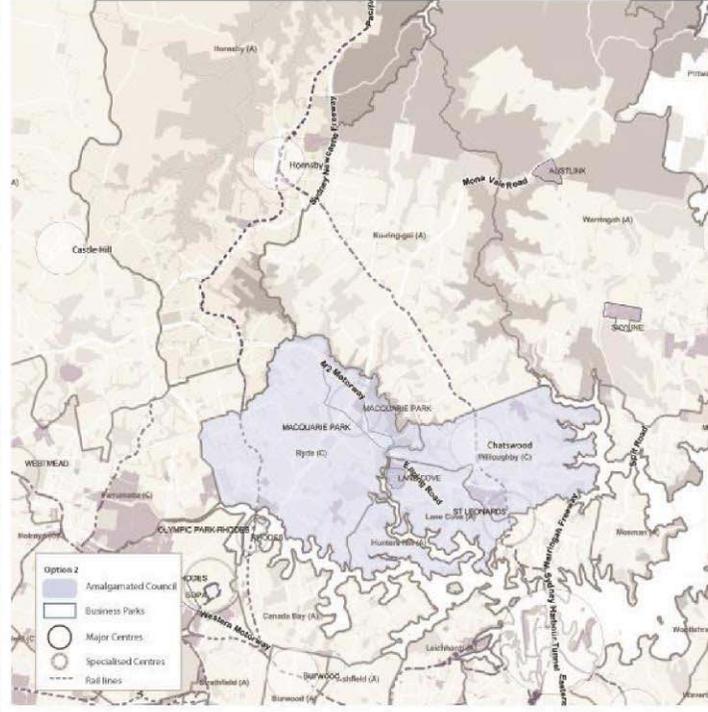
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FIGURE 4. OPTION 1A



Source: SGS Economics and Planning, 2013

FIGURE 5. OPTION 2 (NORTH SHORE OPTION)



Source: SGS Economics and Planning, 2013

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Population and employment projections

The following tables show the employment and population projections (prepared by Bureau of Transport Statistics) within the amalgamated council area by option. According to these forecasts, the amalgamated council area under option 1 (i.e. ILGRP’s preferred option) is projected to have approximately 732,000 residents and be the location for 411,450 local jobs by 2046.

TABLE 1. POPULATION PROJECTION (ERP) BY OPTION

Amalgamated Council Area	2011	2016	2021	2026	2031	2036	2041	2046	Change 2011 - 2046	AAGR 2011 - 2046
Base case	110,122	114,758	121,212	127,082	133,509	140,406	147,799	155,819	45,697	1.0%
Option 1	520,956	562,997	589,174	612,904	639,213	667,645	698,385	731,924	210,968	1.0%
Option 1A	495,266	535,772	560,307	582,866	607,957	635,058	664,492	696,606	201,340	1.0%
Option 2	230,305	240,373	251,481	261,348	272,334	284,235	297,131	311,230	80,925	0.9%

Source: BTS, (2012), SGS calculation, AAGR (Average Annual Growth Rate).

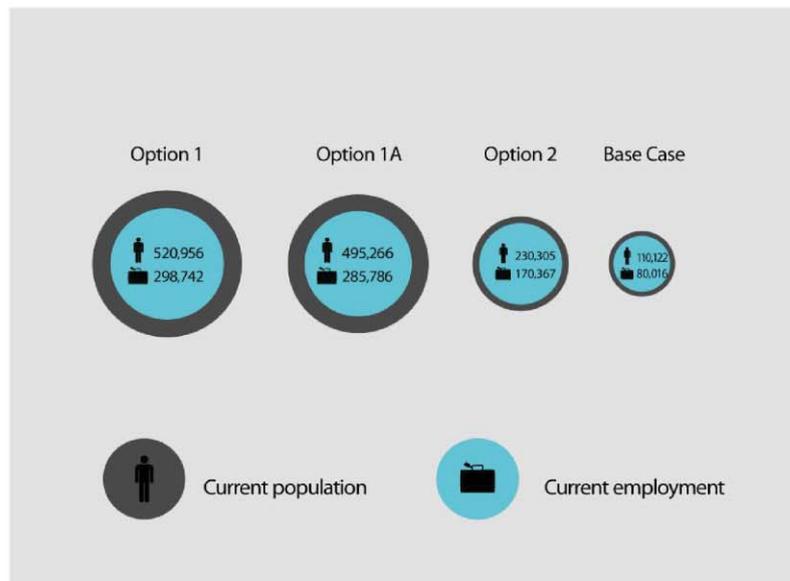
TABLE 2. EMPLOYMENT PROJECTION (PERSONS) BY OPTION

Amalgamated Council Area	2011	2016	2021	2026	2031	2036	2041	2046	Change 2011 - 2046	AAGR 2011 - 2046
Base case	80,016	85,165	89,631	93,942	97,840	101,652	105,873	110,100	30,084	0.9%
Option 1	298,742	318,111	334,983	352,170	366,351	380,848	395,807	411,450	112,708	0.9%
Option 1A	285,786	304,698	321,267	338,206	352,141	366,360	380,886	395,927	110,141	0.9%
Option 2	170,367	180,673	190,062	198,738	206,661	214,638	223,083	231,990	61,623	0.9%

Source: BTS, (2012), SGS calculation, AAGR (Average Annual Growth Rate).

These figures are shown in the following diagram, which represents the relevant population and employment size of the options being assessed.

FIGURE 6. POPULATION AND EMPLOYMENT BY OPTION, 2011



Source: SGS 2013

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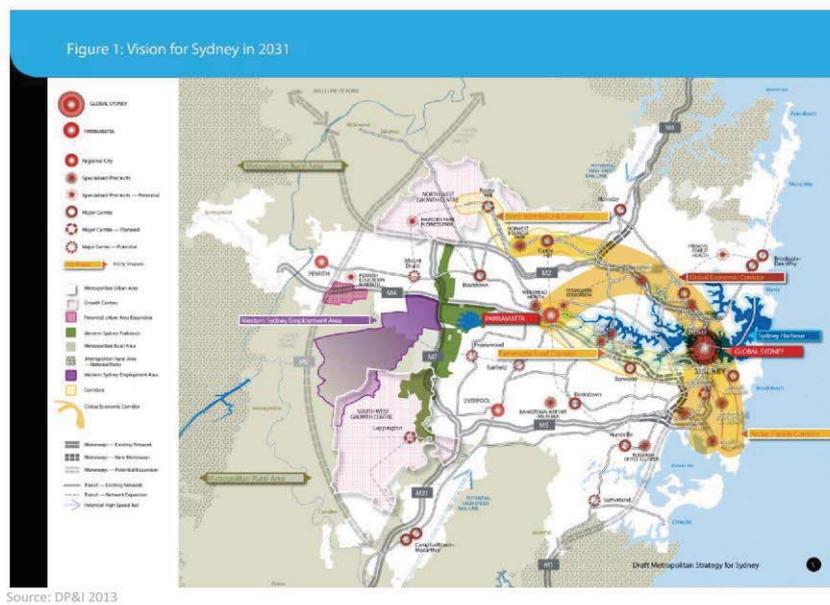
3 STRATEGIC CONTEXT

The scope for review of the strategic context in this project is limited. As a result this section focuses on the analysis of travel time issues to consider a key point raised by the ILGRP regarding accessibility within metropolitan councils allowing for access to a central administrative centre in 30-45 minutes. In addition whilst a full analysis of communities of interest is outside the scope of this report, household travel patterns for shopping, social/recreation and education as well as journey to work patterns have been considered. These represent some key social and economic linkages for communities and start to understand the structure of the metropolitan area. The reflection of a functional planning area and also communities of interest that reflect local social and economic linkages (as opposed to regional) are an important consideration in identification in review of local government administrative boundaries.

3.1 Metropolitan context

The metropolitan planning context, locates the City of Ryde as part of the Global Economic Corridor. This major employment corridor connects the Ports/Airport, Sydney-North Sydney CBDs, and to the north including Chatswood and Macquarie Park. Linkages are seen developing for the Global Economic Corridor to the metropolitan 'second CBD' of Parramatta areas.

FIGURE 2. DRAFT METROPOLITAN PLAN VISION



In the recent Draft Metropolitan Strategy for Sydney to 2031 (DP&I 2013), the implementation of the plan is seen through sub-regional planning. The draft sub-regions include the City of Ryde in a 'central' sub-region which includes LGAs to the east (north and south of the harbour). Parramatta is seen in a 'west central – north west' sub region. These sub-regions are draft at this stage, and may change.

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FIGURE 3. DRAFT METROPOLITAN PLAN SUB-REGIONS



Source: DP&I 2013

The alignment with metropolitan planning objectives and sub-regional planning areas, to be used for implementation of metropolitan planning objectives and providing direction for local plans, is only been briefly noted.

3.2 Travel time mapping

Travel time mapping has been completed to illustrate the relationship between centres and major employment areas and access (and service catchments) from the surrounding areas. This has been completed for car use as well as for public transport. The travel time mapping is an indicator of the potential service catchments and the accessibility of centres and assists in developing an understanding of functional regions.

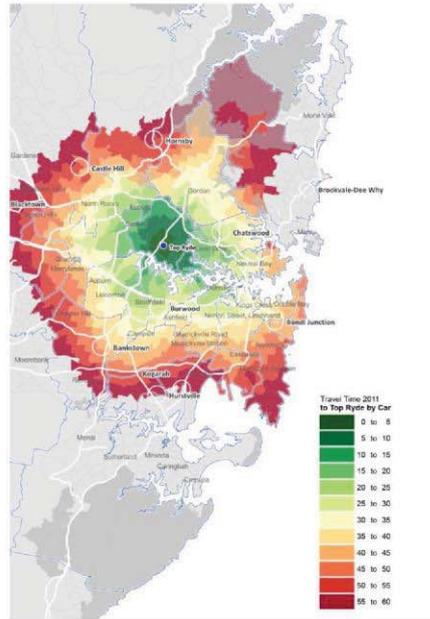
The ILGRP (2012) suggested that in the metropolitan area a travel time of 30-45 minutes from the administrative centre of an LGA was a suitable scale to consider for 'local' government.

The travel time mapping for car/vehicle use shows 5 minute intervals up to one hour to the centre. Note that the travel time is to the nominated centre destination from a point.

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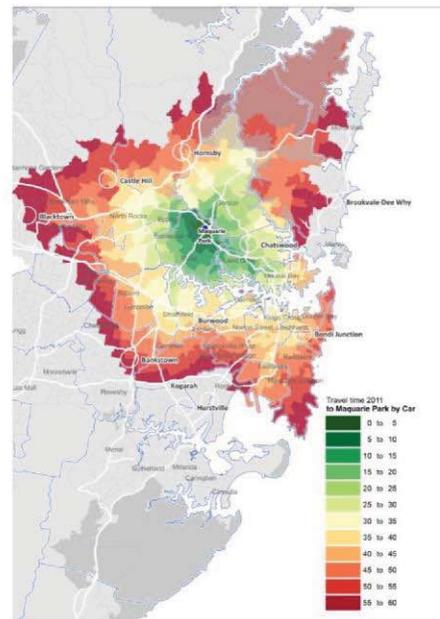
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FIGURE 6. TRAVEL TIME BY CAR (AM PEAK) TO TOP RYDE SHOPPING CENTRE



Source: SGS Economics and Planning, 2013

FIGURE 7. TRAVEL TIME BY CAR (AM PEAK) MACQUARIE PARK CENTRE

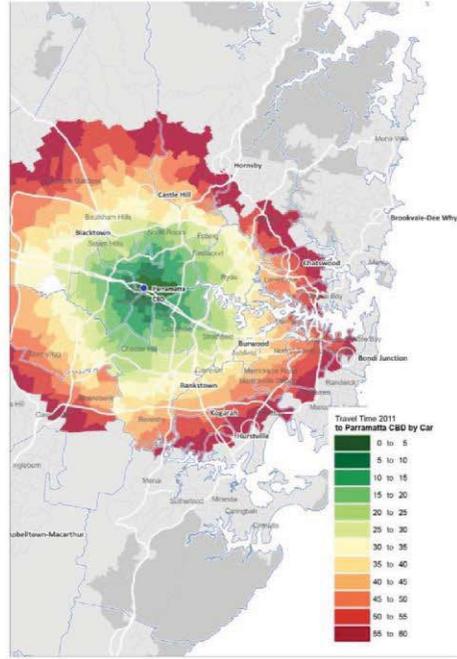


Source: SGS Economics and Planning, 2013

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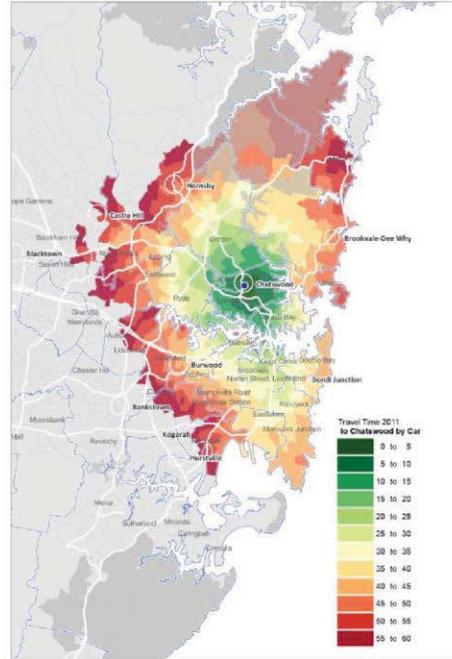
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FIGURE 8. TRAVEL TIME BY CAR (AM PEAK) TO PARRAMATTA



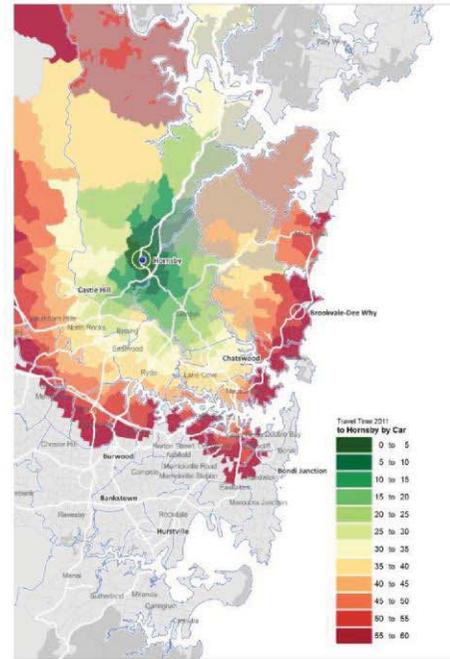
Source: SGS Economics and Planning, 2013

FIGURE 9. TRAVEL TIME BY CAR (AM PEAK) TO CHATSWOOD



Source: SGS Economics and Planning, 2013

FIGURE 10. TRAVEL TIME BY CAR (AM PEAK) TO HORNSBY



Source: SGS Economics and Planning, 2013

ITEM 10 (continued)

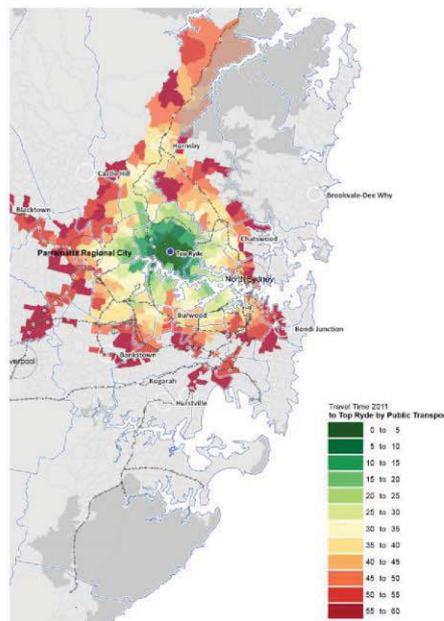
ATTACHMENT 1

The travel time mapping for car trips illustrates an east - west connectivity for centres in Ryde LGA, and that regional /major centres of Parramatta to the west and Chatswood to the east are accessible from Ryde within 30-45 minutes at AM peak by car. When considering the travel times form Parramatta as a regional centre and Chatswood as a major centre, the location of Ryde LGA has good access from both centres.

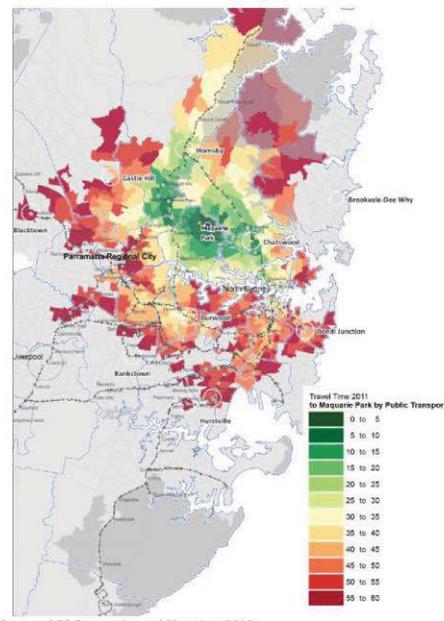
The travel time mapping for public transport shows 5 minute intervals up to 1 hour, and does not include waiting times and walking to public transport.

FIGURE 11. TRAVEL TIMES BY PUBLIC TRANSPORT TO TOP RYDE SHOPPING CENTRE

FIGURE 12. TRAVEL TIMES BY PUBLIC TRANSPORT TO MACQUARIE PARK



Source: SGS Economics and Planning, 2013

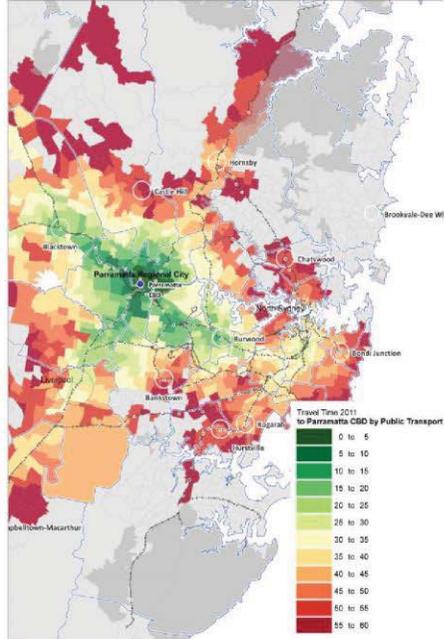


Source: SGS Economics and Planning, 2013

ITEM 10 (continued)

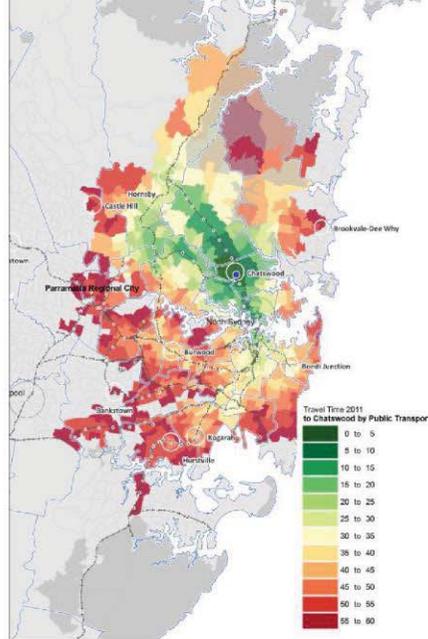
ATTACHMENT 1

FIGURE 13. TRAVEL TIMES BY PUBLIC TRANSPORT TO PARRAMATTA CBD



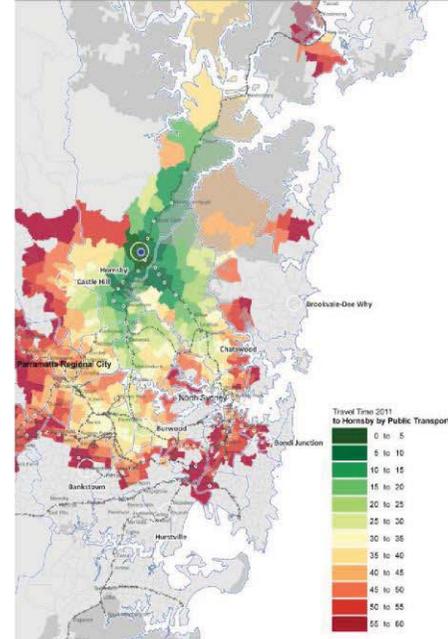
Source: SGS Economics and Planning, 2013

FIGURE 14. TRAVEL TIMES BY PUBLIC TRANSPORT TO CHATSWOOD



Source: SGS Economics and Planning, 2013

FIGURE 15. TRAVEL TIMES BY PUBLIC TRANSPORT TO HORNSBY



Source: SGS Economics and Planning, 2013

ITEM 10 (continued)

ATTACHMENT 1

The public transport accessibility mapping illustrate overall strong connections between Ryde LGA and the east, through the Chatswood to Epping rail extension. The current transport connections to Parramatta by public transport are weaker without a Parramatta to Epping rail connection.

3.3 Journey to work patterns

A second way to look at communities of interest is through identification of the spatial patterns of where people work and where they live. This is assessed through the use of BTS journey to work data.

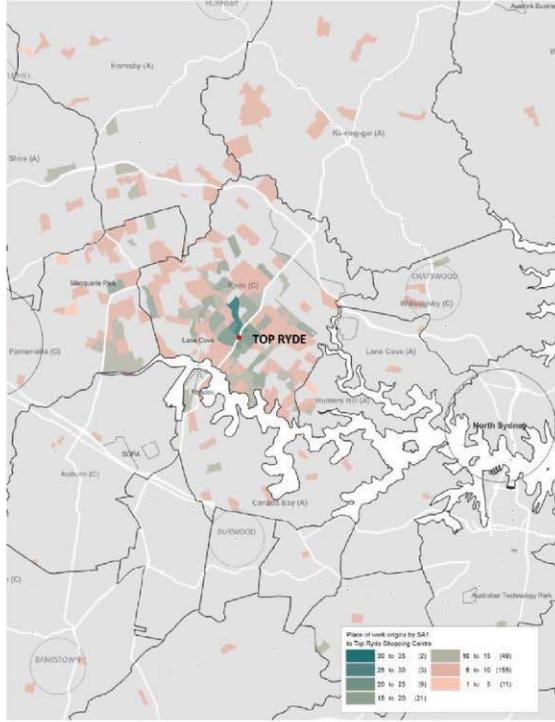
Journey to work data has been mapped for major employment centres:

- Top Ryde shopping centre
- Macquarie Park
- Parramatta CBD
- Chatswood, and
- Hornsby.

ITEM 10 (continued)

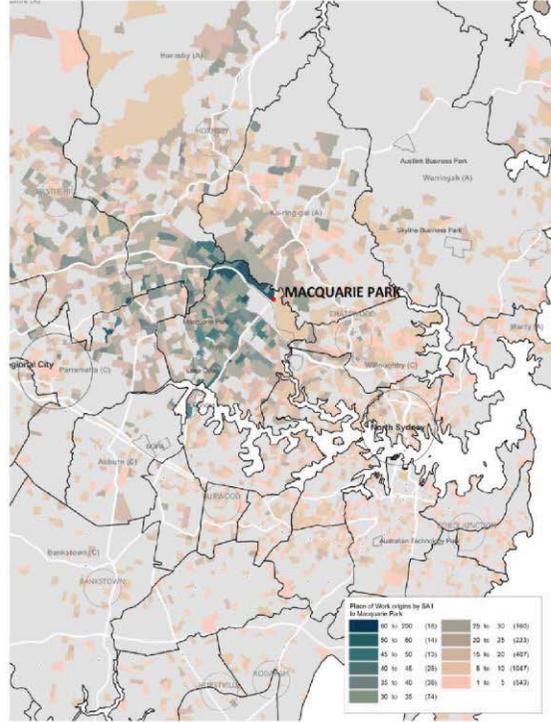
ATTACHMENT 1

FIGURE 16. JOURNEY TO WORK TO TOP RYDE SHOPPING CENTRE



Source: SGS Economics and Planning, 2013

FIGURE 17. JOURNEY TO WORK TO MACQUARIE PARK

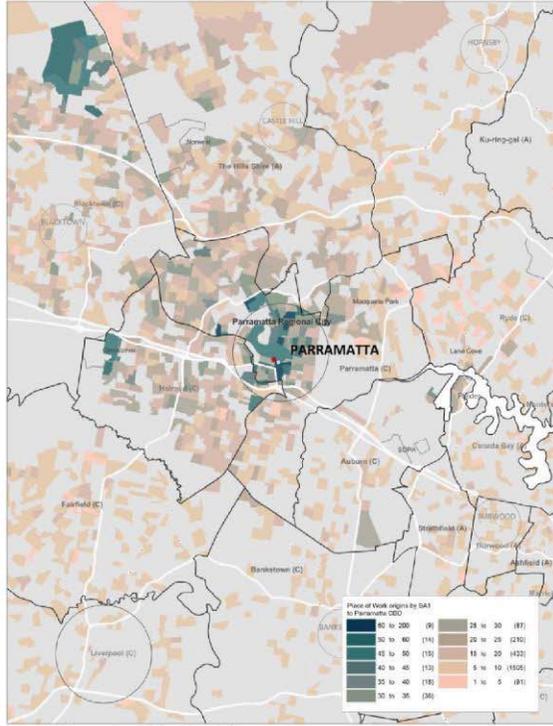


Source: SGS Economics and Planning, 2013

ITEM 10 (continued)

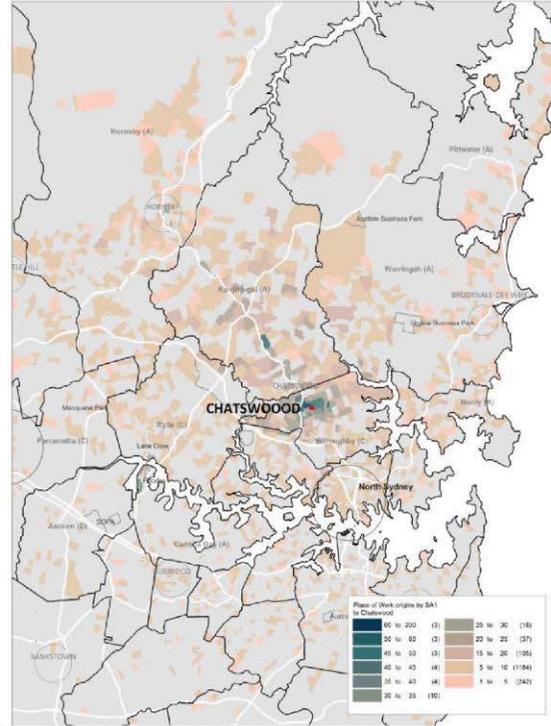
ATTACHMENT 1

FIGURE 18. JOURNEY TO WORK TO PARRAMATTA CBD



Source: SGS Economics and Planning, 2013

FIGURE 19. JOURNEY TO WORK TO CHATSWOOD

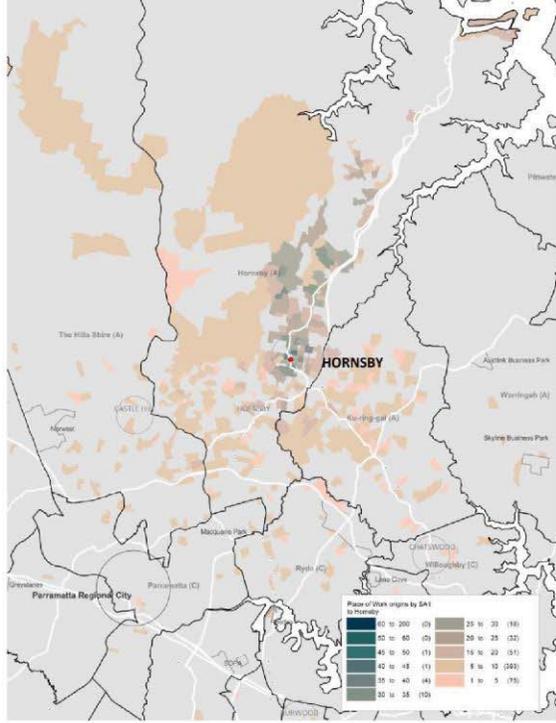


Source: SGS Economics and Planning, 2013

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FIGURE 20. JOURNEY TO WORK TO HORNSBY



Source: SGS Economics and Planning, 2013

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In terms of connections between where people live and work, there is a strong connection between people working at Macquarie Park and living locally within Ryde or in the adjoining LGAs to the immediate north or from the west – including Parramatta, Hornsby and the Hills Shire. People employed at Parramatta come from a broader regional catchment, including from Ryde LGA.

Meanwhile, workers employed within the major centre of Chatswood are largely travelling from adjacent suburbs along the upper and lower north shore of Sydney, including lesser numbers from parts of Ryde LGA.

3.4 Household travel patterns

The final analysis looks at the spatial patterns for communities of interest through use of patterns of household travel.

The following maps show the number of trips for the purposes of shopping, social, and education originating from Ryde, Parramatta and Willoughby LGAs. This can be seen as an indicator of local communities of interest and the relationship between where people live and do their shopping and other local activities. The data was sourced from Sydney Household Travel survey, conducted by the Bureau of Transport Statistics.

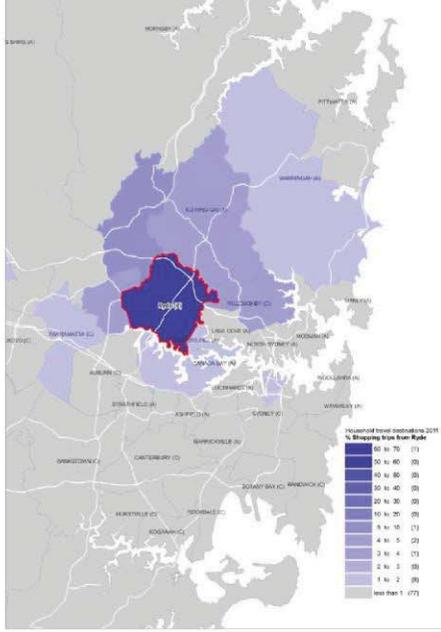
The household travel survey data shows destinations of trips from residents in Ryde, Parramatta and Willoughby LGAs.

As highlighted in the following mapping, shopping trips are generally dominated by the location of major regional shopping centres (for example such as Westfield) in nearby LGAs. This can include for example Hornsby Westfield, Macquarie Centre, Parramatta Westfield and Top Ryde City Shopping Centre. Shopping trips from Ryde LGA generally move to the north and east. This pattern is also reproduced in regards to social trips. Education trips are heavily contained within the origin and its contiguous LGAs.

ITEM 10 (continued)

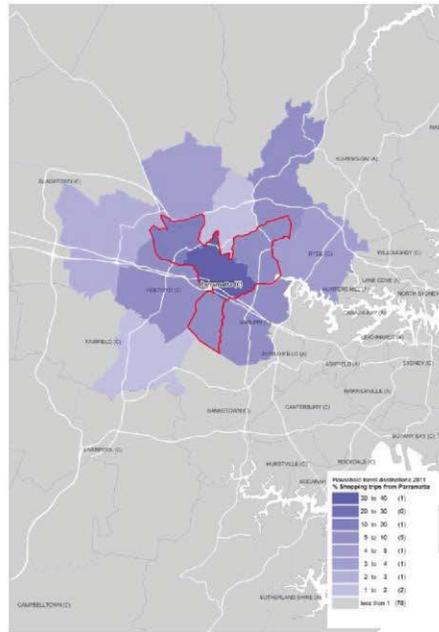
ATTACHMENT 1

FIGURE 21. HOUSEHOLD TRAVEL PATTERNS – SHOPPING TRIPS – RYDE



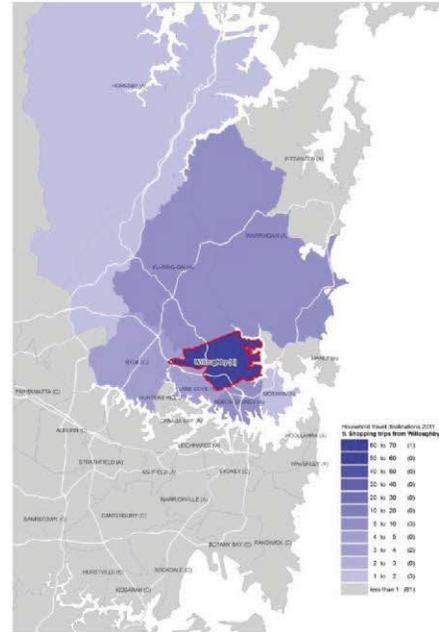
Source: SGS Economics and Planning, 2013

FIGURE 22. HOUSEHOLD TRAVEL PATTERNS – SHOPPING TRIPS – PARRAMATTA



Source: SGS Economics and Planning, 2013

FIGURE 23. HOUSEHOLD TRAVEL PATTERNS – SHOPPING TRIPS – WILLOUGHBY

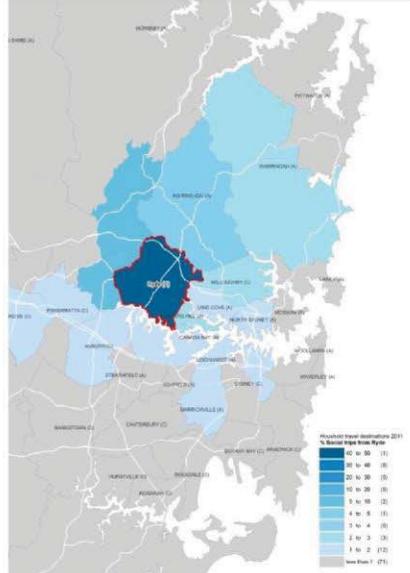


Source: SGS Economics and Planning, 2013

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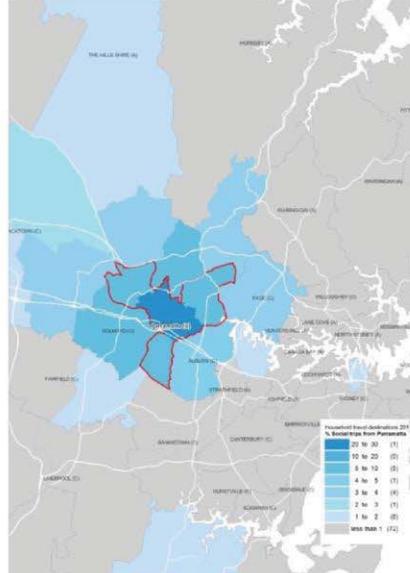
ATTACHMENT 1

FIGURE 24. HOUSEHOLD TRAVEL PATTERNS – SOCIAL TRIPS – RYDE



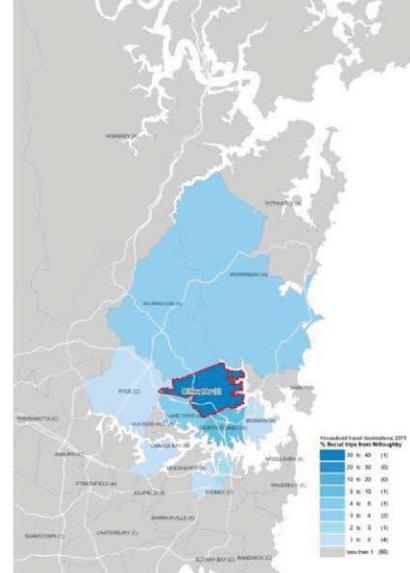
Source: SGS Economics and Planning, 2013

FIGURE 25. HOUSEHOLD TRAVEL PATTERNS – SOCIAL TRIPS – PARRAMATTA



Source: SGS Economics and Planning, 2013

FIGURE 26. HOUSEHOLD TRAVEL PATTERNS – SOCIAL TRIPS – WILLOUGHBY

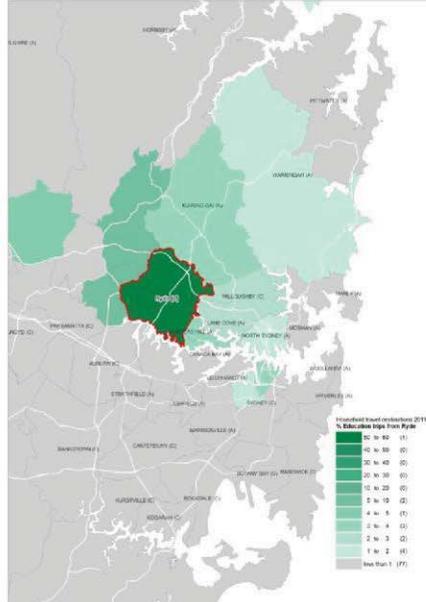


Source: SGS Economics and Planning, 2013

ITEM 10 (continued)

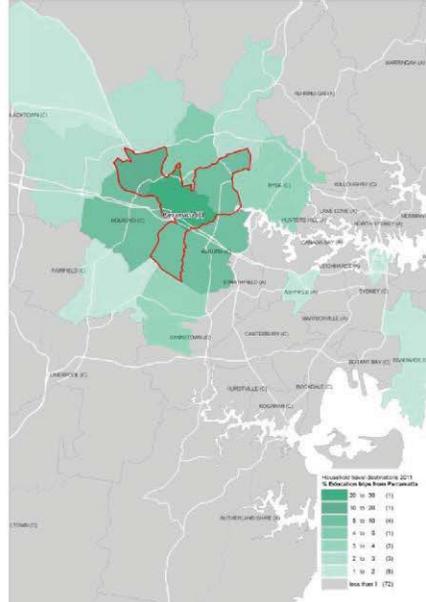
ATTACHMENT 1

FIGURE 27. HOUSEHOLD TRAVEL PATTERNS – EDUCATION TRIPS – RYDE



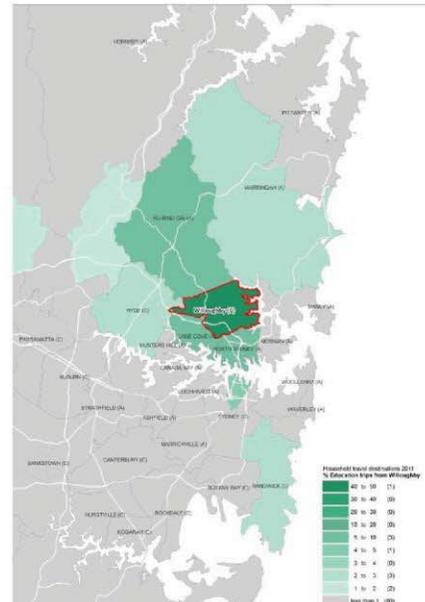
Source: SGS Economics and Planning, 2013

FIGURE 28. HOUSEHOLD TRAVEL PATTERNS – EDUCATION TRIPS – PARRAMATTA



Source: SGS Economics and Planning, 2013

FIGURE 29. HOUSEHOLD TRAVEL PATTERNS – EDUCATION TRIPS – WILLOUGHBY



Source: SGS Economics and Planning, 2013

ITEM 10 (continued)

ATTACHMENT 1

4 BASE CASE

This section identifies and compares the key indicators for the councils identified in the ILGRP's preferred option:

- Auburn
- Holroyd
- Parramatta
- Ryde

In addition, as option 2 considers the amalgamation of Ryde and the North Shore councils, the information regarding the following councils is also included in the comparison.

- Hunters Hill
- Lane Cove
- Willoughby.

The information presented in the following sections is compiled using publicly available documents and the recent report by TCorp on financial sustainability. This review is to understand revenue and cost structure of each council and to compare the rates/charges, service costs and current and long-term financial sustainability between the seven councils under the base case (that is without amalgamation). The financial information gathered is summarised in the following sections, and forms the base case.

It should be noted that this is a desktop analysis of information available publicly, and has not involved discussions with the individual councils concerning specific service provision costs and issues. As such, it is a high level analysis and would be impacted by any inaccuracies or variations in approach to reporting.

4.1 LGA & local council profile

The following table compares key attributes of the LGAs and functional aspects of the local councils being considered. In geographic terms, Ryde is one of the larger council areas, nearly four times the size of Lane Cove and seven times the size of Hunters Hill. It also has the second highest population after Parramatta.

In terms of functional attributes of the Council, Ryde has the fourth highest number of FTE staff. Given its large population, this translates to fairly low per capita service expenditure, with only Auburn having lower expenditure per capita. In line with the size of its rate base, Ryde generates the second highest figure for annual revenue out of the seven Councils.

Of the seven councils, Ryde has the highest infrastructure backlog. In part this reflects its large portfolio of infrastructure assets. The total value of council infrastructure in Ryde exceeds that of Parramatta. When the backlog is taken as a percentage of total infrastructure value, Ryde performs roughly in the middle of the councils under consideration.

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TABLE 3. LGA AND COUNCIL PROFILE COMPARISON

	Councils in ILGRP's option				Other North Shore Councils		
	Ryde	Auburn	Holroyd	Parramatta	Hunters Hill	Lane Cove	Willoughby
Locality & Size							
Locality	Sydney Outer	Sydney Outer	Sydney Outer	Sydney Outer	Sydney Inner	Sydney Inner	Sydney Inner
Area	40.5 km ²	32.5km ²	40.2km ²	61km ²	6km ²	10.5 km ²	23 km ²
DLG Group	3	3	3	3	2	2	2
Demographics							
Population as at 2011 [^]	103,038	73,738	99,163	176,355	13,215	31,510	67,356
% under 20	22.00%	26% (under 18)	27.00%	25.00%	28%	24.4%	24.2%
% between 20 and 59	59.00%	65.5% (18-59)	56.00%	59.00%	47%	56.8%	63.4%
% over 60	15.00%	8.6% (over 65)	17.00%	16.00%	25%	18.8%	12.4%
Council operations							
Number of employees (FTE)	427	284	454	740	59	174	445
Annual revenue	\$90.0m	\$58.1m	\$77.5m	\$175m	\$12.6m	\$36.7m	\$84.9m
Infrastructure							
Roads	321 km	238km	333km	519km	69km	110.0 km	211 km
Bridges	26 400,000m ² (footpaths)		19		1	16.0 km (river foreshore)	71
Infrastructure backlog value	\$78.9m	\$50.1m	\$49.4m	\$77m	\$3.7m	\$21.3m	\$50.6m
Total infrast. value	\$896.6m	\$479.0m	\$585.2m	\$629m	\$56.8m	\$264.8m	\$424.8m

Source: compiled by SGS, 2013; using publicly available TCorp Financial assessment reports prepared for the Division of Local Government.

[^]These are estimated resident population (ERP) published by ABS at the time when the Tcorp reports were prepared for each council. They are not as up-to-date as the population numbers reported in Table 4.

4.2 Service costs and rates

The table below compares the service costs, broken down by function or activity, amongst the seven councils. Ryde currently incurs total service expenditure (including depreciation) of \$834 per capita; with just over 20 percent associated with its administration function. This proportion is slightly below the average across all the councils. Ryde's per capita service expenditure is the second lowest out of the seven councils.

On a per capita basis, Ryde Council is able to service its population relatively cost-effectively. Its residential rates are lower, while its business rates are somewhat higher than other councils in the region.

ITEM 10 (continued)

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TABLE 4. SERVICE COSTS BY FUNCTION AND ACTIVITY

	Councils in ILGRP's option				Other North Shore Councils		
	Ryde	Auburn	Holroyd	Parramatta	Hunters Hill	Lane Cove [^]	Willoughby
Estimated Resident Population (2011)	108,371	78,286	103,869	174,554	13,880	31,510	71,637
Service function (\$ '000)							
Governance	\$1,355	\$430	\$1,458	\$2,469	\$1,231	\$2,915	\$1,639
Administration	\$19,854	\$11,390	\$20,475	\$86,030	\$3,055	\$4,399	\$21,189
Public order and safety	\$4,919	\$1,723	\$2,130	\$5,917	\$677	\$1,251	\$3,938
Health	\$546	\$452	1,056	\$750	\$111	\$1,020	\$1,013
Environment		\$10,914	\$14,539		\$2,490	\$6,017	\$17,797
Community services and education	\$3,170	\$2,681	\$10,969	\$8,493	\$591	\$2,821	\$7,033
Housing and community amenities	\$26,265	\$4,707	\$7,540	\$25,411	\$1,286	\$1,397	\$5,848
Recreation and culture	\$20,495	\$11,587	\$16,366	\$26,140	\$2,128	\$10,489	\$22,584
Mining, manufacturing and construction	\$640	\$396	\$1,039	\$5,709	\$50		\$1,281
Transport and communication	\$12,559	\$11,118	\$15,049	\$10,722	\$2,672	\$4,521	\$12,873
Economic Affairs	\$622	\$193	\$1,672	\$2,961	\$1	\$0	\$1,326
Total service costs (\$ '000)	\$90,425	\$55,591	\$92,294	\$174,601	\$14,292	\$36,115	\$96,521
Per capita total service cost (\$)	\$834	\$710	\$889	\$1,000	\$1,030	\$1,146	\$1,347

Source: compiled by SGS, 2013; using publicly available Council documents.
[^]Lane Cove population based on ABS figures as in Table 3

The table below compares the rates of the seven councils. It shows that Ryde has the second lowest residential rates after Auburn, and the second highest business rates after Parramatta. Broadly, the pattern of rates in Ryde is more similar to the LGAs of Auburn, Holroyd and Parramatta than it is to the North Shore LGAs of Lane Cove and Hunters Hill.

TABLE 5. ANNUAL RATES AND CHARGES 2010-11

	Average Residential Rate	Average Business Rate
Auburn	\$552	\$6,218
Holroyd	\$637	\$4,983
Hunters Hill	\$1,270	\$856
Lane Cove	\$994	\$3,107
Parramatta	\$697	\$9,509
Ryde	\$610	\$6,737
Willoughby	\$775	\$5,147

Source: NSW Division of Local Government, *Comparative information on NSW Local Gov. Councils 2010/11, 2012.*

4.3 Financial forecasts

Based on the Long Term Financial Plans (LTFPs) published by each council and the information provided by Ryde Council, we have compiled a 10-year operating surplus forecast for each council, as shown in the chart below.

However, due to the lack of the publicly available LTFP for Holroyd Council, we have prepared a forecast for its operating surplus, primarily based on the historical trend from 2009 to 2012.

The following figures compare the forecast net operating results before capital for the four councils included in ILGRP's option as well as all the seven councils considered.

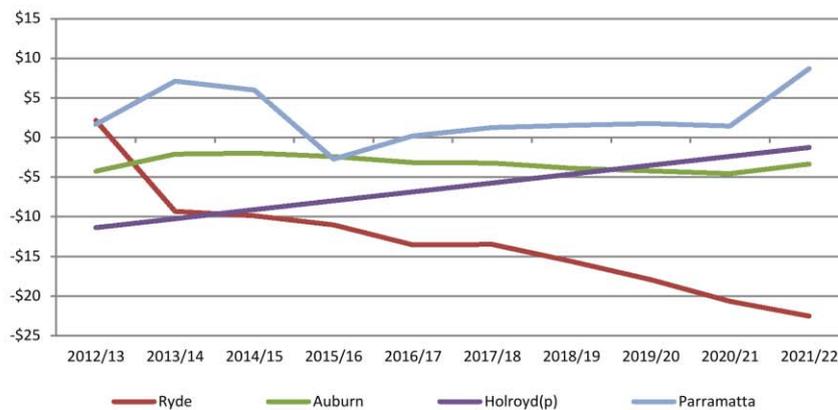
In each forecast, the net operating surplus/deficit is calculated by subtracting the operating expenditure from the operating income. The operating income mainly comprises rates and charges income, operating grants and contributions, while the operating expenditure largely consists of employee costs, materials and contractual services and depreciation.

ITEM 10 (continued)

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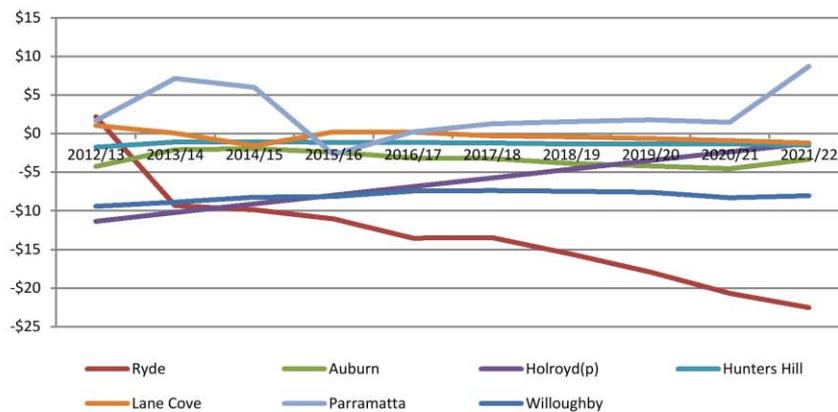
As per the income statement compiled by TCorp for each council, the forecast net operating result shown above excludes any grants and contributions for capital purposes and any net gains/losses on asset disposals. Therefore, the net operating surplus/deficit represents the funds available **after** funding the depreciation, but before the capital contributions/grants and asset sales.

FIGURE 30. FORECAST OPERATING SURPLUS (MILLION \$), 2012/13 – 2021/22, FOR COUNCILS IN ILGRP'S OPTION



Source: Compiled by SGS, 2013; using the information provided by City of Ryde Council and Long Term Financial Plans, made publicly available by other councils.

FIGURE 31. FORECAST OPERATING SURPLUS (MILLION \$), 2012/13 – 2021/22, FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using the information provided by City of Ryde Council and Long Term Financial Plans, made publicly available by other councils.

Although the charts above show a declining operating deficit for Holroyd over time, it is worth noting that the asset depreciation in Holroyd has been growing rapidly from \$9.8 million in 2009 to \$23 million in 2012. If this trend continues, Holroyd will see a very sharp decline in its net operating result. However, for the purpose of the base case analysis, we have assumed its appreciation to remain constant at the 2012 level (\$23 million per annum).

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Ryde is forecast to experience an increasing operating deficit over time, resulting in a total operating deficit of around \$131.8 million over 10 years. This indicates that Ryde would not be able to generate sufficient operating income to cover its growing operating expense, particularly the depreciation.

After funding the depreciation, all other councils, except Parramatta, are forecast to return an operating deficit, although the total deficit over 10 years is considerably lower compared to Ryde.

On the other hand, it seems that Parramatta will be able to fully fund its operating expenses including depreciation using its operating revenue, resulting in a total operating surplus of \$27 million over 10 years.

4.4 Financial indicators

Six key financial indicators are used to compare the financial performance of the seven councils. Each indicator is discussed, and comparisons are conducted against benchmarks. The indicators are based on financial assessments conducted by TCorp, and pertain to performance from 2009 to 2012 (where available).

Most financial management indicators suggest that Ryde Council is performing above the benchmarks. Ryde performs in the middle to upper range of its counterparts on most criteria.

Operating ratio

Benchmark: Better than negative 4%

Ratio: (operating revenue excluding capital grants and contributions – operating expenses) / operating revenue excluding capital grants and contributions.

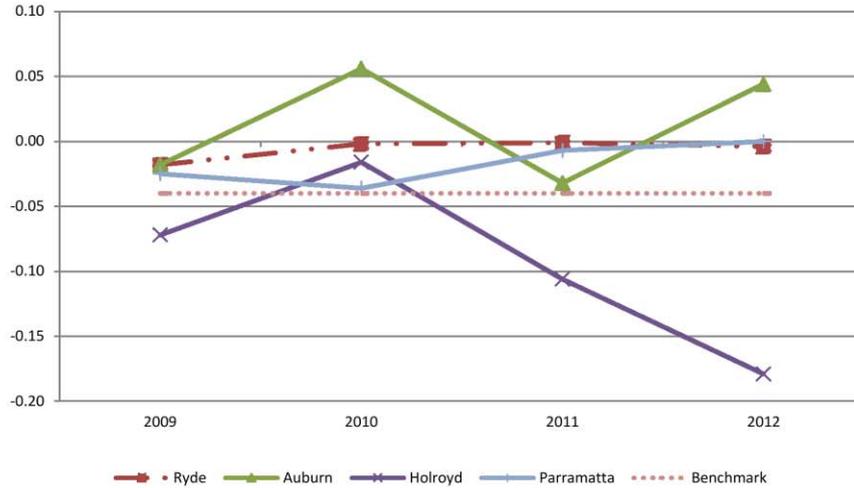
Aim: This ratio measures a council's ability to contain operating expenditure within operating revenue.

The following figures shows the Operating Ratio (OR) for the four councils included in ILGRP's option as well as all the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. This shows that Ryde has consistently performed above the benchmark (positive ratio), roughly in the middle of the range of its counterparts.

ITEM 10 (continued)

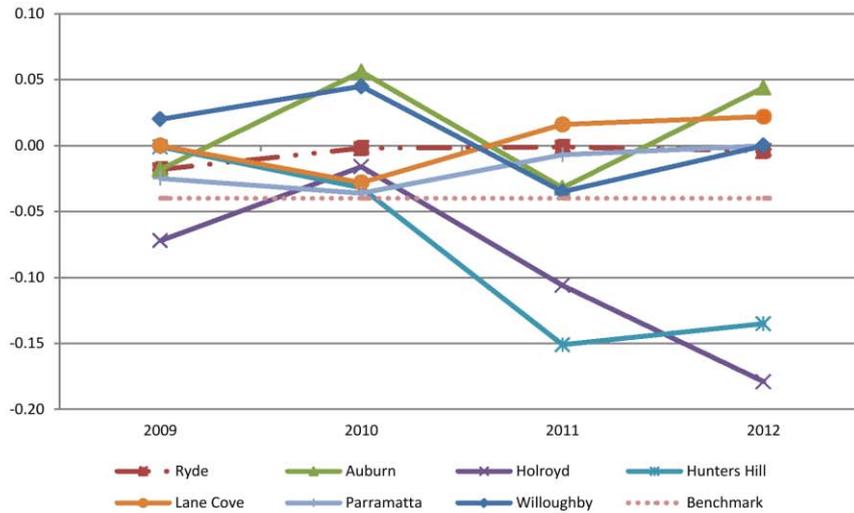
ATTACHMENT 1

FIGURE 32. OPERATING RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

FIGURE 33. OPERATING RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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Cash Expense Cover Ratio

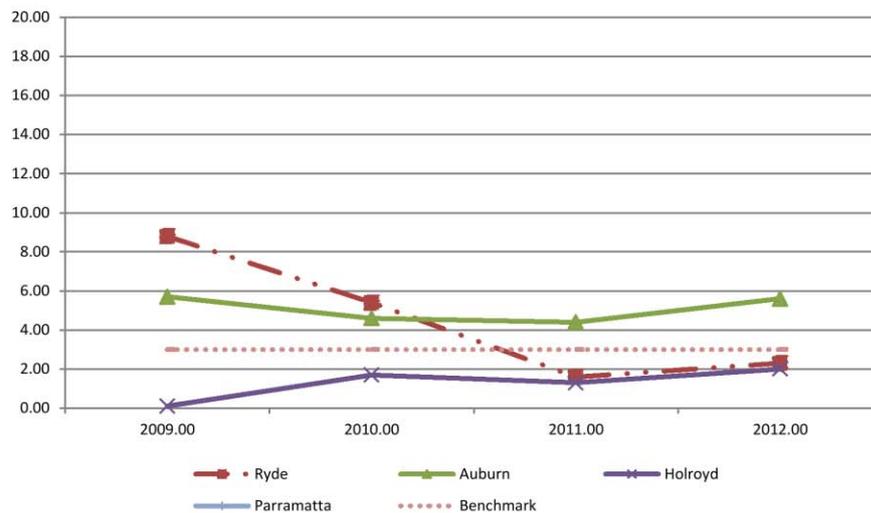
Benchmark: Greater than 3.0 months

Ratio: current year's cash and cash equivalents / (total expenses – depreciation – interest costs)*12

Aim: This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

The following figures show the Cash Expense Cover Ratio (CECR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. Ryde over-performed against the benchmark of three months of liquidity for 2009 and 2010, but underperformed in 2011 and 2012. Of the seven councils, Hunters Hill has achieved the highest CECR ratio from 2009 to 2012, followed by Auburn and Ryde.

FIGURE 34. CASH EXPENSE COVER RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION

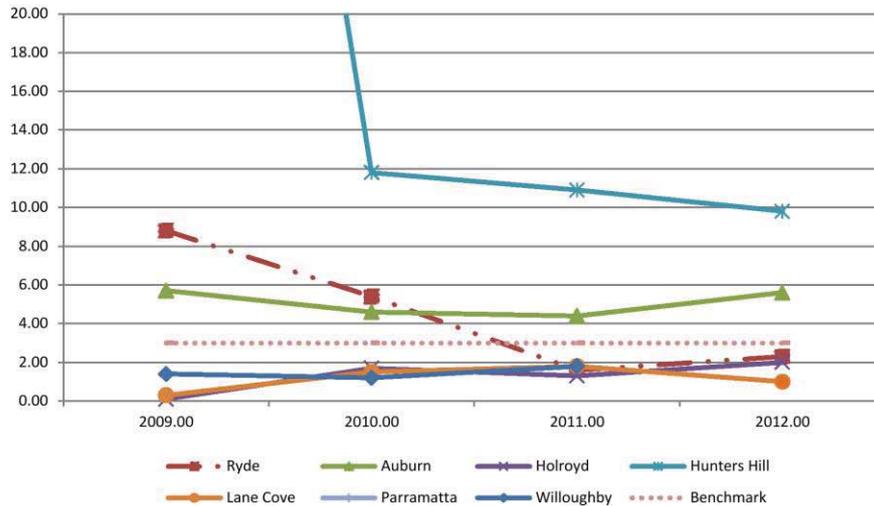


Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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FIGURE 35. CASH EXPENSE COVER RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

Unrestricted Current Ratio

Benchmark: 1.5¹

Ratio: Current assets less all external restrictions / current liabilities less specific purpose liabilities

Aim: The UCR is specific to local government and is designed to represent a council's ability to meet debt payments as they fall due.

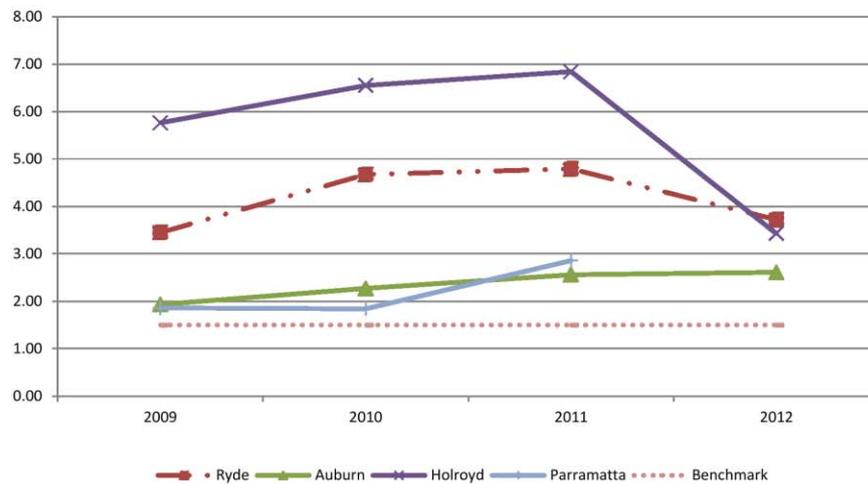
The following figures show the Unrestricted Current Ratio (UCR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. These show that Ryde has been performing well above the benchmark of 1.5, ranging from 3.5 to 4.8 over the last few years, and suggests that Ryde has a strong ability to meet its short-term debt payments. In the most recent figures (2012), Ryde has the highest performance out of all seven councils (except Holroyd) against this benchmark.

¹ This is based on based on IPART December 2009 Revenue Framework for Local Government report.

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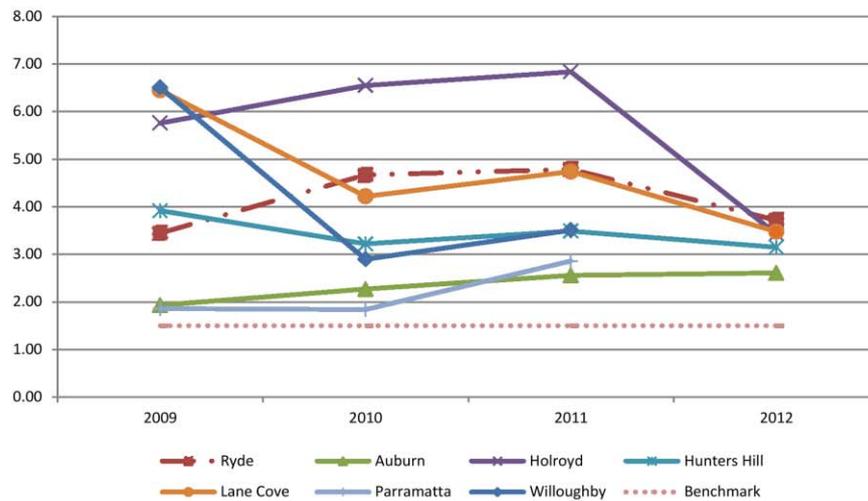
ATTACHMENT 1

FIGURE 36. UNRESTRICTED CURRENT RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

FIGURE 37. UNRESTRICTED CURRENT RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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Own Source Operating Revenue Ratio (OSOR)

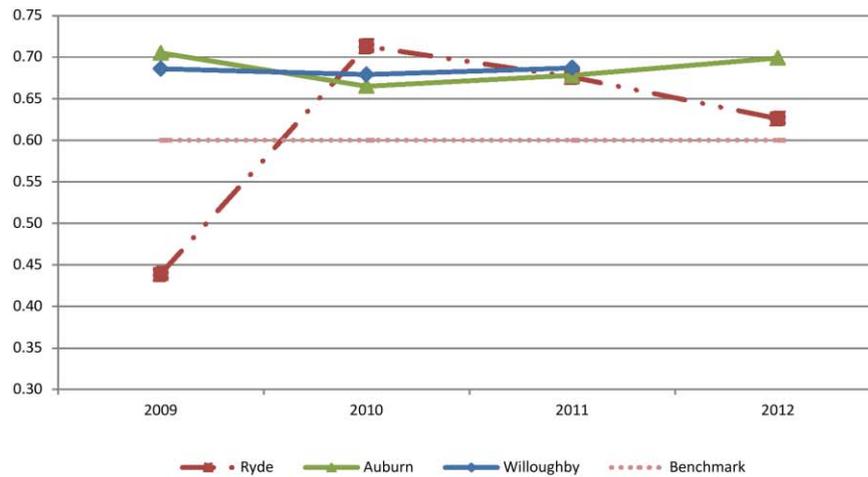
Benchmark: Greater than 60%

Ratio: rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)

Aim: measure the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue.

The following figures show the Own Source Operating Revenue Ratio (OSOR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. Ryde performed below the benchmark of 60% in 2009, but has exceeded this ratio in subsequent years. Relative to its counterparts, Hunters Hill has the highest performance on this benchmark out of the seven Councils. This suggests that the rates, utilities, and charges make up a relatively higher proportion to its operating revenue base, rendering it less dependent on external funding sources for its operations. Note that Parramatta's OSOR is not included in the TCorp report and therefore is not shown in the following two figures.

FIGURE 38. OWN SOURCE OPERATING REVENUE RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION

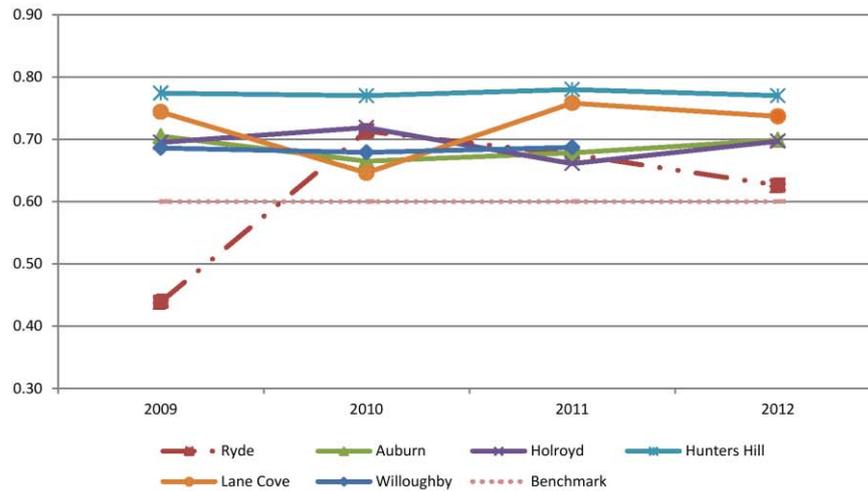


Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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FIGURE 39. OWN SOURCE OPERATING REVENUE RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

Debt Service Cover Ratio (DSCR)

Benchmark: Greater than 2.0

Ratio: operating results before interest and depreciation (EBITDA) / principal repayments (from the statement of cash flows) + borrowing interest costs (from the income statement)

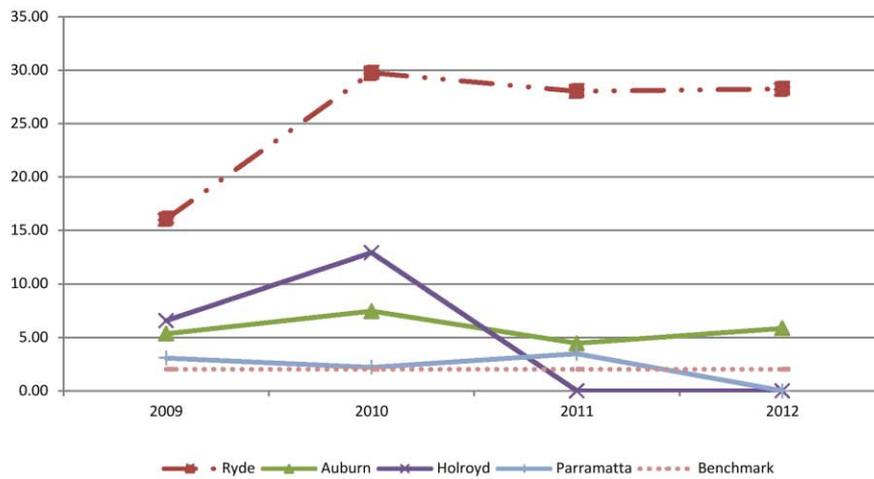
Aim: measure the availability of cash to service debt including interest, principal and lease payments

The following figures show the Debt Service Cover Ratio (DSCR) for the four councils included in ILGRP’s option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. Ryde has consistently performed well above the benchmark of 2, significantly outperforming all of its counterparts.

ITEM 10 (continued)

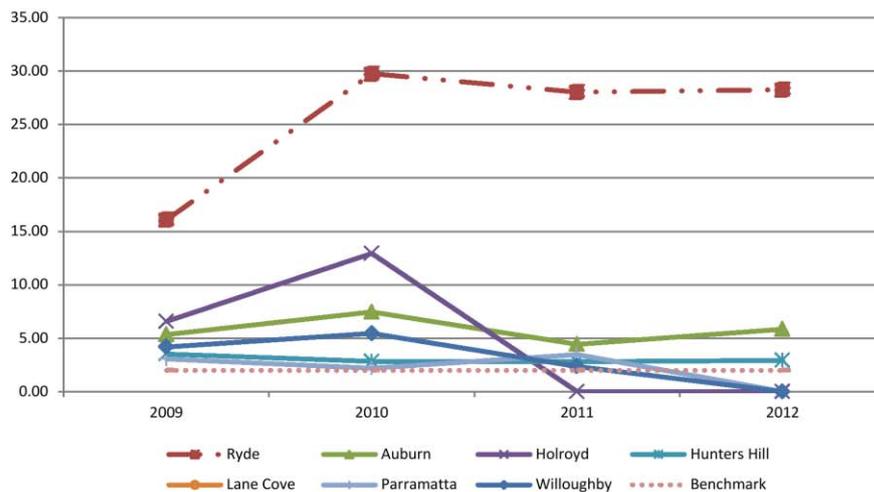
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FIGURE 40. DEBT SERVICE COVER RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

FIGURE 41. DEBT SERVICE COVER RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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Interest Cover Ratio (ICR)

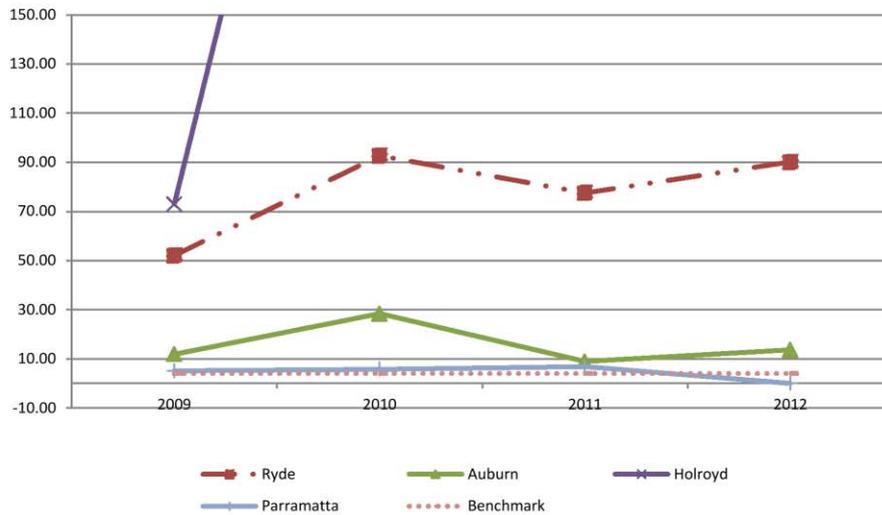
Benchmark: Greater than 4.0

Ratio: EBITDA / interest expense (from the income statement)

Aim: indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash.

The following figures show the Interest Cover Ratio (ICR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. Ryde has consistently performed well above the benchmark of 4, and has done significantly better than all of its counterparts other than Holroyd.

FIGURE 42. INTEREST COVER RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION

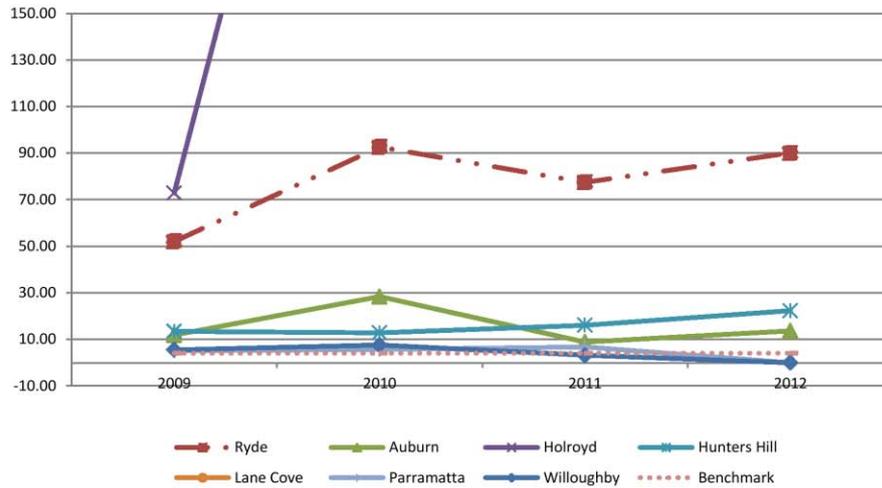


Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

ITEM 10 (continued)

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FIGURE 43. INTEREST COVER RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

4.5 Infrastructure status indicators

Four key infrastructure status indicators are used to compare the infrastructure status of the seven councils. Each indicator is discussed, and comparisons are conducted against benchmarks. The indicators are based on financial assessments conducted by TCorp, and pertain to performance from 2009 to 2012 (where available).

Most indicators suggest that Ryde Council has been meeting infrastructure status benchmarks. Ryde has been maintaining and renewing its large base of infrastructure assets in order to keep them close to a satisfactory level.

Building and infrastructure backlog ratio (BR)

Benchmark: Less than 0.02

Ratio: estimated cost to bring assets to a satisfactory condition / total infrastructure assets

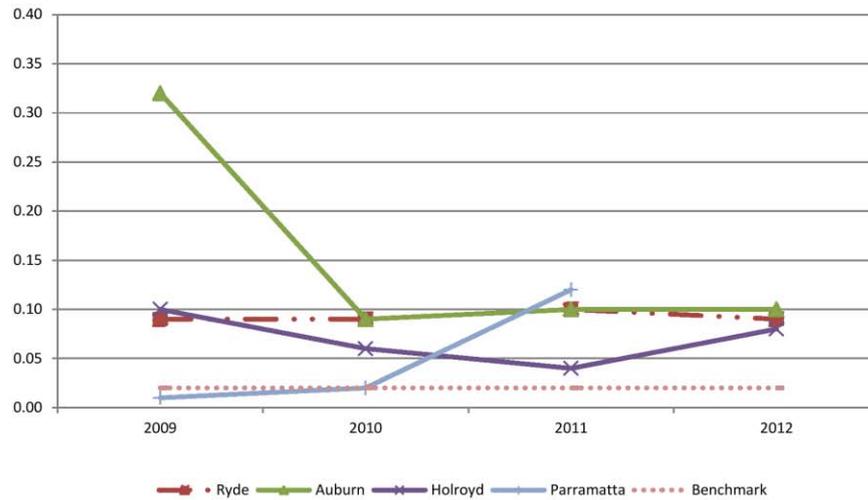
Aim: show what proportion the backlog is against total value of a council's infrastructure.

The following figures show the Building and Infrastructure Backlog Ratio (BR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. Ryde, along with almost all of its counterparts, has consistently failed to meet this benchmark. However, from 2009 to 2012, all councils except Parramatta have lowered their infrastructure backlog as a proportion of total value of their infrastructure, and as of 2012, all councils (where data is available) kept this ratio below 10 percent.

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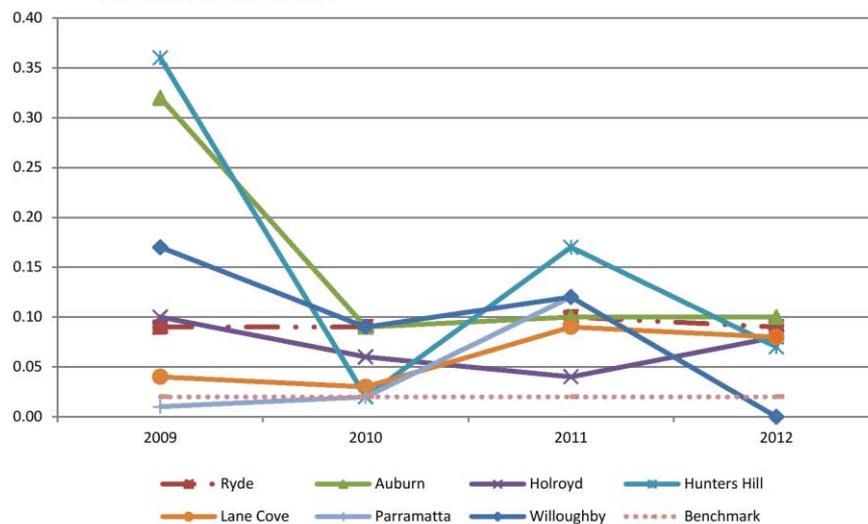
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FIGURE 44. BUILDING AND INFRASTRUCTURE BACKLOG RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

FIGURE 45. BUILDING AND INFRASTRUCTURE BACKLOG RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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Asset maintenance ratio (AR)

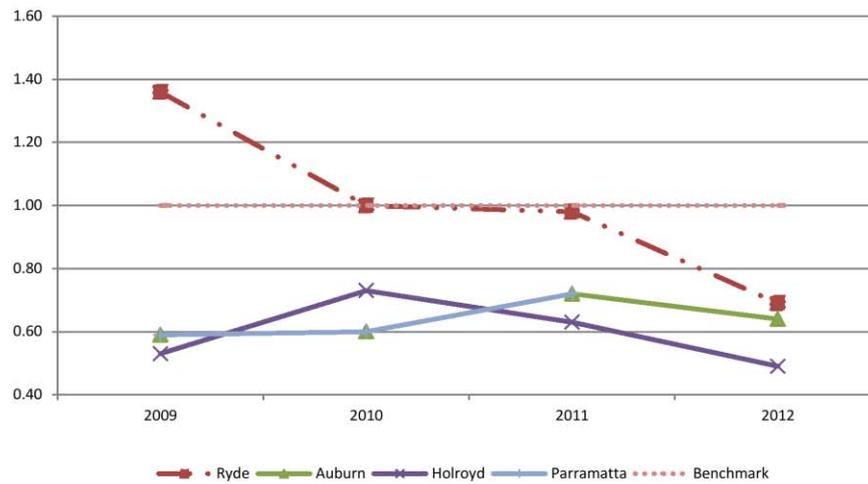
Benchmark: Greater than 1.0x

Ratio: actual asset maintenance / required asset maintenance

Aim: To compare actual versus required annual asset maintenance. A ratio of above 1.0 indicates that the council is investing enough funds within the year to stop the infrastructure backlog from growing.

The following figures show the Asset maintenance ratio (AR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. As of 2012, none of the Councils were meeting the benchmark in terms of keeping up with required level of asset maintenance (ratio greater than one). Ryde has slipped from a ratio of 1.4 in 2009 to 0.7 in 2012. However, in relative terms, the North Shore councils outperformed the Western Sydney councils as of 2012.

FIGURE 46. ASSET MAINTENANCE RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION

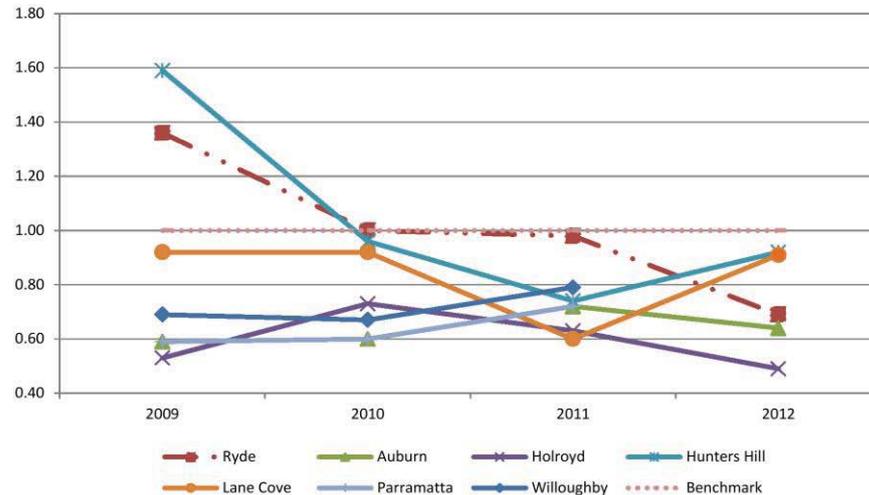


Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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FIGURE 47. ASSET MAINTENANCE RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

Building and Infrastructure Renewals Ratio (BIRR)

Benchmark: Greater than 1.0x

Ratio: Asset renewals / depreciation of building and infrastructure assets

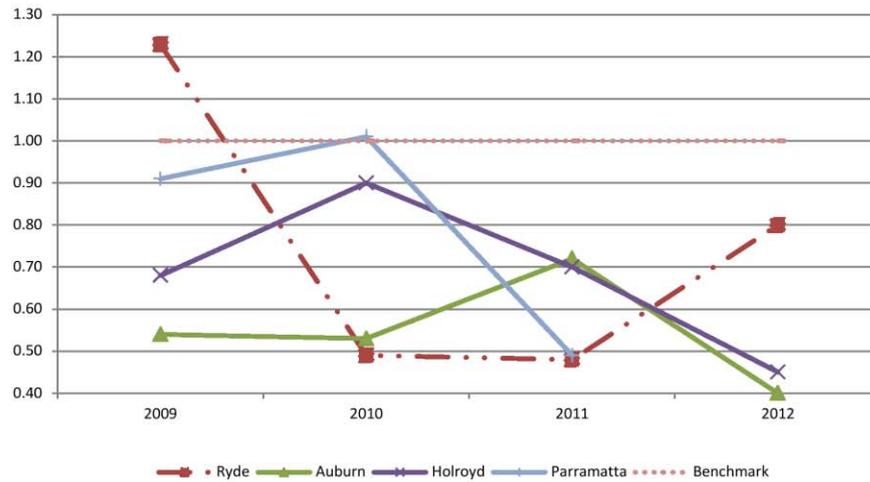
Aim: To compare the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

The following figures show the Building and Infrastructure Renewals Ratio (BIRR) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. This shows that Ryde has been performing below the benchmark, along with all of its counterparts. This suggests that all councils considered have not been consistently renewing its assets in order to keep up with depreciation. However, as of 2012, Ryde performed much better on this measure than any of the other Councils under consideration.

ITEM 10 (continued)

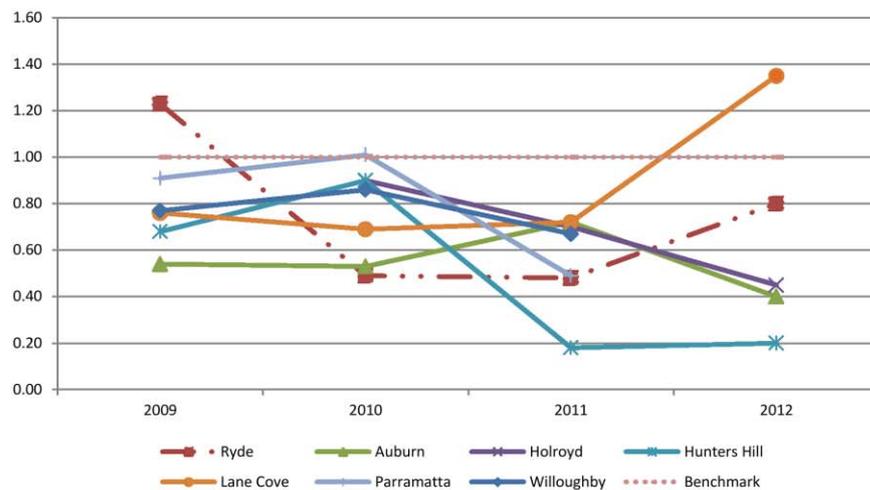
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FIGURE 48. BUILDING AND INFRASTRUCTURE RENEWALS RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

FIGURE 49. BUILDING AND INFRASTRUCTURE RENEWALS RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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Capital expenditure Ratio (CER)

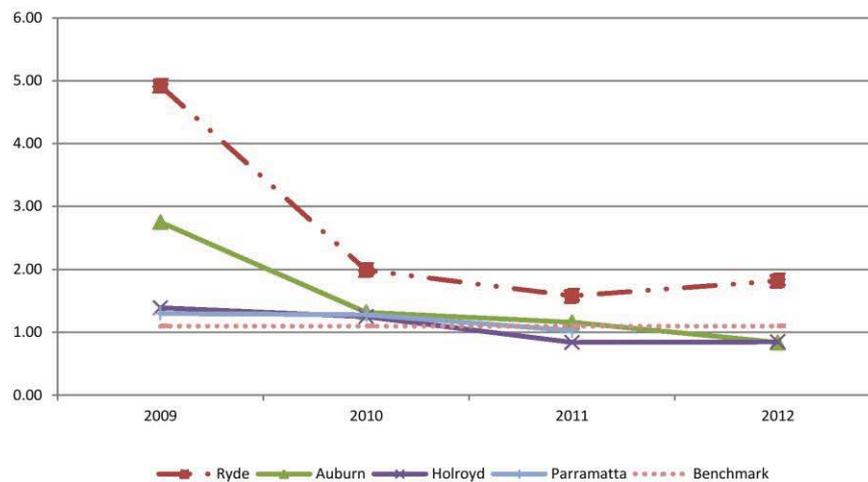
Benchmark: Greater than 1.1

Ratio: annual capital expenditure / annual depreciation

Aim: This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets, and replacement and renewal of existing assets.

The following figures show the Capital expenditure Ratio (CER) for the four councils included in ILGRP's option as well as the seven councils considered. The benchmark figure is given by the dotted line, and Ryde is the semi-dotted red line. This shows that Ryde has consistently performed above the benchmark, and done better than most of its counterparts (except Willoughby). Overall, Ryde's performance in this criterion indicates that Ryde has consistently been investing funds for capital expenditure.

FIGURE 50. CAPITAL EXPENDITURE RATIO FOR COUNCILS INCLUDED IN ILGRP'S OPTION

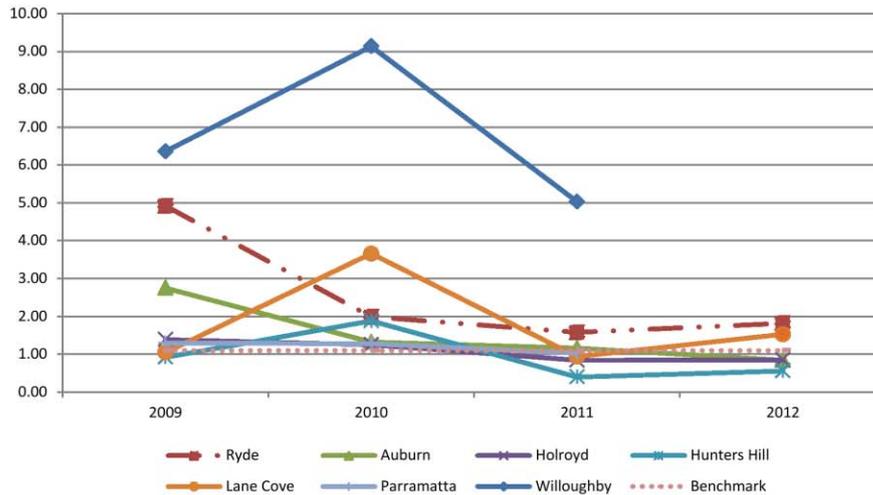


Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

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FIGURE 51. CAPITAL EXPENDITURE RATIO FOR ALL SEVEN COUNCILS CONSIDERED



Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

4.6 Summary of TCorp indicators

The table below contains a summary of Council performance on financial and infrastructure status indicators. The figures displayed are the averages across the four years from 2009-2012, or for as many years as data was available. The top two performing councils for each indicator are shaded in green.

TABLE 6. AVERAGE COUNCIL INDICATOR COMPARISON

	Councils in ILGRP's option				North Shore Councils			Benchmark
	Ryde	Auburn	Holroyd	Parramatta	Hunters Hill	Lane Cove	Willoughby	
Operating ratio	-0.01	0.01	-0.09	-0.02	-0.08	0	0.01	-0.04
Cash/expense cover ratio	4.53	5.08	1.28		27.48	1.15	1.47	3
Unrestricted current ratio	4.16	2.34	5.65	2.19	3.45	4.72	4.31	1.5
Own source operating revenue ratio	0.61	0.69	0.69		0.77	0.72	0.68	0.6
Debt service cover ratio	25.54	5.78	9.75	2.19	3.03		3.01	2
Interest cover ratio	78.09	15.7	241.48	4.41	16.19		4.07	4
Infrastructure backlog	0.09	0.15	0.07	0.04	0.16	0.06	0.1	0.02
Asset maintenance ratio	1.01	0.64	0.6	0.64	1.05	0.84	0.72	1
Infrastructure renewals ratio	0.75	0.55	0.68	0.8	0.49	0.88	0.77	1
Capital expenditure ratio	2.58	1.52	1.08	1.2	0.94	1.8	6.84	1.1

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

The table below contains the same average figures as above. But this time, cells shaded in red indicate that the Council is not meeting the performance benchmark for this indicator.

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TABLE 7. COUNCIL INDICATOR PERFORMANCE BY BENCHMARK

	Councils in ILGRP's option				North Shore Councils			Benchmark
	Ryde	Auburn	Holroyd	Parramatta	Hunters Hill	Lane Cove	Willoughby	
Operating ratio	-0.01	0.01	-0.09	-0.02	-0.08	0	0.01	-0.04
Cash/expense cover ratio	4.53	5.08	1.28		27.48	1.15	1.47	3
Unrestricted current ratio	4.16	2.34	5.65	2.19	3.45	4.72	4.31	1.5
Own source operating revenue ratio	0.61	0.69	0.69		0.77	0.72	0.68	0.6
Debt service cover ratio	25.54	5.78	9.75	2.19	3.03		3.01	2
Interest cover ratio	78.09	15.7	241.48	4.41	16.19		4.07	4
Infrastructure backlog	0.09	0.15	0.07	0.04	0.16	0.06	0.1	0.02
Asset maintenance ratio	1.01	0.64	0.6	0.64	1.05	0.84	0.72	1
Infrastructure renewals ratio	0.75	0.55	0.68	0.8	0.49	0.88	0.77	1
Capital expenditure ratio	2.58	1.52	1.08	1.2	0.94	1.8	6.84	1.1

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

The table below contains a summary of Council performance on financial and infrastructure status indicators, this time relative to the other councils under consideration. The figures displayed are rankings, with 1 denoting the highest performing council and 7 denoting the lowest. Again, the two highest performing councils for each indicator are shaded. The bottom line of the table denotes the average rank of each council across the different indicators.

TABLE 8. AVERAGE COUNCIL INDICATOR RANKINGS

	Councils in ILGRP's option				North Shore Councils			Average ranking
	Ryde	Auburn	Holroyd	Parramatta	Hunters Hill	Lane Cove	Willoughby	
Operating ratio	4	1	7	5	6	3	2	
Cash/expense cover ratio	3	2	5		1	6	4	
Unrestricted current ratio	4	6	1	7	5	2	3	
Own source operating revenue ratio	6	4	3		1	2	5	
Debt service cover ratio	1	3	2	6	4		5	
Interest cover ratio	2	4	1	5	3		6	
Infrastructure backlog	4	6	3	1	7	2	5	
Asset maintenance ratio	2	5	7	6	1	3	4	
Infrastructure renewals ratio	4	6	5	2	7	1	3	
Capital expenditure ratio	2	4	6	5	7	3	1	
Average ranking	3.2	4.1	4	4.6	4.2	2.8	3.8	

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

In summary, the tables above indicate that,

- Ryde is one of the top two performing councils for **four** out of 10 TCorp indicators, whereas all other councils (except Lane Cove) are in the top two for only **two or three** indicators.
- Ryde only fails to meet **two** out of 10 TCorp benchmarks, whereas none of other six councils are meeting these two benchmarks.
- Out of the seven councils, Ryde is ranked at an average position of **3.2** in terms of 10 TCorp indicators. This is a higher average performance than any other council apart from Lane Cove.

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5 FINANCIAL ANALYSIS OF OPTIONS

In addition to the comparison of baseline financials, we have completed a high-level financial analysis of the options.

A key focus of the financial analysis is to compare the financial performance of different options, including the base case (that is City of Ryde remains in current boundaries). As with the base case analysis, this comparison focuses on the performance indicators used in the TCorp report, but also assesses the aggregate financial forecast, debt levels and infrastructure backlog to be borne by a combined council. The financial analysis has been completed using the publicly available information regarding each council, including the TCorp reports (used in the previous section), council's financial statements and LTFFPs. Note that option 1A is not included in the comparison, due to the lack of sub-LGA financial data.

As part of the financial analysis, we have examined the likely impacts of amalgamation options on the ratepayers in Ryde LGA. This assessment considers the difference in the land values between the relevant LGAs and the resultant distribution of total *ad valorem* rates across an amalgamated council area. The average residential and business rates within the current administrative boundaries are estimated for each amalgamation option.

5.1 TCorp financial performance indicators

The table below contains a summary of TCorp performance indicators of the different options. Note that the Unrestricted Current Ratio is not reported below, as council's specific purpose liabilities are not included in the TCorp report.

The other nine ratios are derived by aggregating the relevant financial figures from the most recent TCorp reports for which data is available for all of the relevant councils. In fact, because the TCorp report for Parramatta was prepared during 2011/12, the report only contains the financial data up to the financial year ended 30 June 11. As a result, ratios below are calculated using the 2010/11 financial data contained in the relevant TCorp reports.

Performance on financial and infrastructure status indicators is assessed based on the TCorp benchmarks. Cells shaded in red below indicate that the Option is not meeting the TCorp benchmark for this indicator. Based on the results below, both base case and option 2 would fail to meet four out of nine benchmarks, while a combined council under option 1 would not meet three.

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TABLE 9. OPTION PERFORMANCE ON INDICATORS AGAINST BENCHMARK

	Base case	Option 1	Option 2	Benchmark
Operating ratio	0.00	-0.03	-0.02	>-0.04
Cash/expense cover ratio	1.60	4.54	2.21	>3
Own source operating revenue ratio [^]	0.68		0.70	>0.60
Debt service cover ratio	29.76	4.70	10.41	>2.00
Interest cover ratio	92.68	13.58	8.96	>4.00
Infrastructure backlog	0.10	0.09	0.11	<2%
Asset maintenance ratio	0.98	0.81	0.83	>1.00
Infrastructure renewals ratio	0.48	0.58	0.55	>1.00
Capital expenditure ratio	1.58	1.13	2.36	>1.10

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

[^] OSOR figures for Option 1 are omitted, as the value of this ratio is not reported in the TCorp report prepared for Parramatta.

The table below provides a summary of each option’s performance on financial and infrastructure status indicators, relative to the other options. The figures displayed are rankings, with 1 denoting the highest performing council and 3 denoting the lowest. Again, the highest performing option for each indicator is shaded. The bottom line of the table indicates the average rank of each option across the different indicators.

Of the three options, the base case performs the best (with the lowest rank) on average on financial and infrastructure status indicators, followed by option 2.

TABLE 10. RANKING OF THE FINANCIAL INDICATORS BY OPTION

	Base case	Option 1	Option 2
Operating ratio	1	3	2
Cash/expense cover ratio	3	1	2
Own source operating revenue ratio	2		1
Debt service cover ratio	1	3	2
Interest cover ratio	1	2	3
Infrastructure backlog	2	1	3
Asset maintenance ratio	1	3	2
Infrastructure renewals ratio	3	1	2
Capital expenditure ratio	2	3	1
Average ranking	1.8	2.1	2.0

Source: Compiled by SGS, 2013; using TCorp Financial assessment reports for each Council, made publicly available by the Division of Local Government.

5.2 Financial forecasts by option

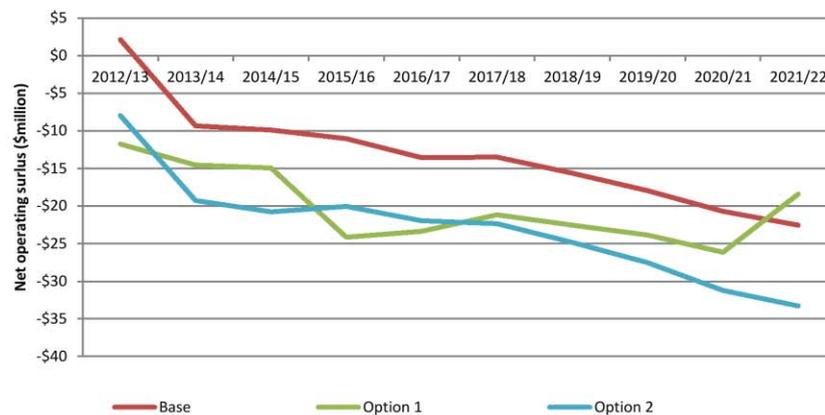
Based on the financial forecast prepared by each relevant council (see section 4), we have compiled a consolidated operating surplus (before capital) forecast for the amalgamation options. Note that the forecast excludes any grants and contributions for capital purposes and net gains/losses on asset disposals.

The chart below compares the projected net operating result before capital between the options. Due to the increase in the net operating deficit shown in Ryde’s LTFP, both options 1 and 2 are forecast to experience a growing operating deficit over the 10 year to 2021/22. Since it is foreseen that Parramatta will return a positive operating surplus over time, option 1 (which includes Parramatta) performs slightly better than option 2 particularly beyond 2017/18.

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FIGURE 52. NET OPERATING RESULT BEFORE CAPITAL OVER 10 YEARS BY OPTION, \$MILLION



Source: Compiled by SGS, 2013; using the Long Term Financial Plan made publicly available by each Council.

The following table compares the present value of the operating surplus before capital for each option. Using a discount rate of 4 percent per annum (that is the current interest rate from a commercial bank), the present value of the operating result ranges from -\$101 million under base case to -\$180 million under option 2. However, the relatively higher operating deficit under options 1 and 2 could be due to the size of the combined council.

To eliminate this effect, we have expressed the PV of the operating surplus before capital as a proportion of the projected operating revenue excluding capital (see last column). Based on this indicator, Option 1 performs better than option 2 and base case and is projected to experience a total operating deficit which represents 4 percent of the projected operating revenue over 10 years. Again, the better performance of option 1 is largely a result of the positive operating surplus indicated in Parramatta’s LTFP.

TABLE 11. PRESENT VALUE OF THE OPERATING SURPLUS OVER 10 YEARS, \$MILLION

	PV of the operating result	PV of the operating revenue	Net operating result/operating revenue
Base	-\$101	\$820	-12%
Option 1	-\$160	\$3,830	-4%
Option 2	-\$180	\$2,141	-8%

Source: Calculated by SGS, 2013; using the Long Term Financial Plan made publicly available by each Council.

5.3 Infrastructure backlog and debt

As with the financial forecast, we have combined each relevant council’s infrastructure backlog and borrowings to derive the following aggregate figures for each option.

The table below shows that an amalgamated council under option 1 needs to address a total infrastructure backlog of around \$256 million, which is around \$109 million higher than the combined backlog under option 2.

In terms of external debts, option 1 would have over \$105 million borrowings on its balance sheet, of which \$85 million is currently borrowed by Parramatta Council. This is significantly higher than the combined debt levels under the other options.

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TABLE 12. COMBINED INFRASTRUCTURE BACKLOG AND BORROWINGS, \$'000

	Base case	Option 1	Option 2
Infrastructure backlog	\$78,887	\$255,639	\$146,478
Borrowings (current + non-current)	\$3,904	\$105,055	\$8,488

Source: Calculated by SGS, 2013; using the 2011/12 financial statement made publicly available by each Council.

The following table shows the present value of the projected operating surplus by option, after reducing the infrastructure backlog and borrowings.

TABLE 13. PRESENT VALUE OF THE OPERATING SURPLUS AFTER REDUCING INFRASTRUCTURE BACKLOG AND BORROWINGS, \$MILLION

	Base case	Option 1	Option 2
PV of the operating surplus	-\$101	-\$160	-\$180
- After reducing infrastructure backlog	-\$180	-\$416	-\$327
- After reducing infrastructure backlog + borrowings	-\$184	-\$521	-\$335

Source: Calculated by SGS, 2013; using the 2011/12 financial statement made publicly available by each Council.

Amongst the three options, option 1 would return the highest net deficit of \$521 million (in NPV) due to its high level of combined infrastructure backlog and borrowings.

On the other hand, base case (that is City of Ryde itself) would return a relatively low operating deficit of \$184 million (in NPV), after paying off the debt and infrastructure backlog.

5.4 Impact on rating – review of legal framework

Part of the brief for this desktop review is to help Council understand the likely impact on rating, especially the ratepayers in Ryde, as a result of structural change. The key concern expressed by Council is that with the relatively higher land values in Ryde, compared to the other LGAs included in the ILGRP's option, residents and businesses in Ryde would be paying a greater proportion of the total rates within a combined council area under the ILGRP's option.

The sub-section below provides an overview of the current framework for the Local Government rating system in NSW, including the principles for application of Council rating and different elements of the ordinary rates.

Section 491 of the Local Government Act 1993 sets out the main income sources for NSW local government, including:

- rates
- charges
- fees
- grants
- borrowings, and
- investments.

Although varying between councils, the main financial resource of a council has traditionally been ordinary rating revenue (DLG, 2007).

The types of rates that can be made by a council (s.492 LG Act 1993) are:

- ordinary rates, and
- special rates.

An ordinary rate is required for all rateable property in each LGA. Other characteristics of an ordinary rate are:

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- Can be differentiated into 4 categories (and sub-categories) including farmland, residential, mining and business.
- Can be wholly calculated as an ad valorem rate, or as a base amount (which can be up to 50% of the value from the category) plus an ad valorem amount.
- The ad valorem amount can be different for different categories.
- The term ad valorem means "to the value" and is commonly applied to a tax imposed on the value of property. Ad valorem rates are a tax based on the value of property and in NSW are imposed by local councils for municipal services.

A special rate can be made in addition to the ordinary rate for part, or all, of an LGA. By virtue of section 495(2), the special rate is to be levied on such rateable land in council's area as, in council's "opinion": benefits or will benefit from the works, services, facilities or activities; or contributes or will contribute to the need for the works, services, facilities or activities; or has or will have access to the works, services, facilities or activities.

Whereas council must make and levy an ordinary rate each year, council has discretion as to whether or not to make and levy one or more special rates.

In addition to rates, the LG Act also enables Councils to raise revenue from the making and levying of charges. Charges are in addition to the ordinary or special rate and may be annualised or based upon levels of usage. A charge may be for a specific service provided by council (e.g. domestic waste management) and may be set at a level to enable part or full cost recovery.

Principles for application of rating

The Council rating and revenue raising manual (NSW DLG, 2007:14) identifies two guiding criteria to establish "fairness" or "appropriateness" of rates. These criteria are:

- *The extent to which those who receive the benefits of council's services also pay for those services - the so called "benefit principle".*
- *The extent to which those who pay for council's services have the ability to pay for those services - the so called "ability to pay principle".*

The manual discusses these criteria of benefit and ability to pay (DLG,2007:14-15):

It goes without saying that a rate which is fair when judged by the benefit principle may not be fair according to the ability to pay principle, and vice versa.

At best, the value of land can be said to "approximate" ability to pay. The value of land (particularly land which is not income producing) is often no indication of the means of the owner. A rate based solely on the value of rateable land ignores the cost and value of common services and facilities from which all properties benefit, regardless of their rateable value. In many local government areas the making of a wholly ad valorem based rate could be seen by owners of highly valued land as causing unacceptably uneven distribution of the costs of local government because they might have to bear a higher share of the total rate burden than the owners of lower valued land.

The Local Government Act 1993 seeks to give councils more options and greater flexibility in the types and the nature of the rates and charges that may be made and levied. For example, choosing to levy a special rate as an adjunct to an ordinary rate and/or choosing to structure a rate with a base amount may represent a successful method for a council to use to flatten the incidence of rates across ratepayers, and thus reduce the magnitude of variations in rate levies between different properties of varying rateable value.

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The opposite alternative of a rate based solely on land value may have been deemed unacceptable because the resulting rating burden it would have created, if used, would have departed too greatly from the "benefit" or, "ability to pay" principles.

Much debate on local government finance emphasises equity. No one can deny the importance of equity considerations. However, efficiency considerations are also important.

Ultimately, each council has to decide for itself what combination of rates, charges and fees (and pricing policies) is "appropriate" for its area and its community. The annual statement of revenue policy will ensure that the community has access to sufficient information to enable it to judge the appropriateness of council's proposals (i.e. is the service actually required) and to determine whether it is receiving "value for money" (i.e. would a less costly service produce acceptable results).

Sub-Categories

Sub-categories may be determined for example for residential land according to whether the land is 'rural residential land' or within a 'centre of population'.

This categorisation does not permit council to determine sub-categories solely or predominantly on the basis of land value, whether on a property-by-property basis or otherwise (DLG, 2007:22). This should be achieved through structure of rates to include base amounts, while not disturbing the land valuation relativities between parcels of land.

A council may determine sub-categories for the "business" category, including a sub-category as 'a centre of activity'. A 'centre of activity' for example could comprise a business or town centre, industrial estate or other concentration of like activities such as a business park (DLG, 2007: 26).

There is also the opportunity to address mixed-use development. Mixed Development Apportionment Factors (MDAFs) are established to provide a rating option for mixed development lands - councils can rate parcels of land with both residential and business uses proportionally according to those uses. MDAF are determined by the Valuer General.

Setting base amount

A base charge is a fixed fee levied equally against all properties. Rates based on property value are then levied to provide the additional revenue required by the council. The effect is to reduce the influence that property values have in determining the relative amounts paid by different ratepayers.

Where council resolves to make an ordinary or special rate with a two part structure (i.e. with a base amount), the base amount may be uniform or may vary between categories or sub-categories: section 499. However, whatever the amount of the base amount, it must apply uniformly to all rateable land subject to the rate (or category or sub-category of rate in the case of an ordinary rate).

If council decides to impose a base amount, it must be specified in the resolution making the rate: section 499(1). This is a requirement which is mandatory so as to affect the validity of the rate. In addition, in the resolution that specifies a base amount of a rate, or the base amount of a rate for a category or sub-category of an ordinary rate, council must state (DLG, 2007:37):

- the amount in dollars of the base amount, and
- the percentage of the total amount derived from the base amount from each category or sub-category (section 537).

If council makes a rate with a 2 part structure, the application of the base amount for the rate (or category or sub-category of the rate) must not produce more than 50% of the total amount payable by the levying of the rate (or category or sub-category of the rate):

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Setting the *ad valorem* amount

Irrespective of whether or not council specifies a base amount, the *ad valorem* amount of a rate is to be levied on the land value of all land that is to be rateable to the rate (section 498) and the rate in the dollar is to apply uniformly (DLG, 2007:37):

- in the case of an ordinary rate - to the land value of all rateable land in the area within the category or sub-category of the rate, and
- in the case of a special rate - to the land value of all rateable land in the area or such rateable land as is specified by council in accordance with section 538.

The *ad valorem* amount of the ordinary rate may be the same for all categories or it may be different for different categories: section 528(1).

In accordance with section 498(3) and 499(4) parcels of land must have the same *ad valorem* and/or base rate as other parcels of land in the same category or sub-category unless the land values of the parcels were last determined by reference to different base dates and the Minister approves the different *ad valorem* amounts. This also applies to minimum rates under section 548(8) of the Act.

Minimum amounts of rates

The decision as to whether a council will or will not use minimum rates is entirely left to the discretion of each council.

If a council resolves to specify one or more minimum amounts of a rate, the size of any minimum amount must not exceed the limits provided for in Local Government (General) Regulation 2005, unless special Ministerial approval for a higher amount has been granted. The minimum rate is currently \$474. The minimum amount of a special rate is \$2.

Possible rating structures

In summary, rates should be predominantly determined via the *ad valorem* method. An ordinary or special rate may comprise one of the following three structures only:

- an *ad valorem* rate only
- an *ad valorem* rate subject to a minimum amount, or
- an *ad valorem* rate plus a base amount (which rises up to 50% of the income from the particular rate).

This makes it clear that any particular ordinary rate for a category or sub-category, or any special rate may not have both a base amount and minimum amount applied to it. Therefore, it is up to the discretion of a council to use minimum or base rates in their rating structure.

5.5 Assessment of the impact on rates

In order to understand the likely impact on rates in the current Ryde area, we have estimated the average residential and business rates within each of the relevant LGAs that would form part of the amalgamated council. Based on the comparison of these average rates, the influence that property values have in determining the relative amounts paid by different ratepayers in different LGA is assessed.

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This assessment utilises a number of key assumptions regarding the rating structure as follows:

- the total ordinary rates income to be levied by a larger council post the amalgamation is equal to the aggregate of the rates currently levied by the relevant LGAs for residential and business categories
- retention of current special rates by current LGAs
- no minimum rate specified by a larger council, and
- the base amount is set at 50 percent (i.e. the maximum level) of the total rates to be levied by a larger council, leaving another 50 percent for the ad valorem amount. This is to minimise the impact that the property values would have on the distribution of the total rates across different areas. A sensitivity test to this distribution is also conducted, based on a base amount set at 20 percent of the total amount.

Total rates income

At first, we have compiled the total residential and business rates levied by each relevant council in 2011/12, using council's financial statement. These are shown in the table below.

TABLE 14. TOTAL RESIDENTIAL AND BUSINESS RATES BY COUNCIL IN 2011/12, \$'000

	Auburn	Holroyd	Hunters Hill	Lane Cove	Parramatta	Ryde	Willoughby
Total ordinary rates	28,893	32,880	6,210	18,953	84,039	42,507	37,985
Residential	13,220	22,474	6,005	13,893	42,154	29,755	21,332
Business	15,673	10,406	205	5,060	41,885	12,752	16,653

Source: Compiled by SGS, 2013; using the financial statement made publicly available by each Council.

Special rate variation

Some of the councils above have requested a special rate variation (SRV) for their ordinary rates in 2011/12. The table below shows that IPART have approved special rate variations for Auburn, Lane Cove and Parramatta Councils for 2011/12. The table also indicates the additional increase in rates income by which these councils can increase their general income above the rate peg (2.8 percent for 2011/12).

According to IPART, Lane Cove have been approved to increase their rates by 10.24 percent in 2011/12, which is around 7.5 percent over the rate peg set by IPART.

TABLE 15. APPROVED INCREASE ABOVE THE RATE PEG IN 2011/12

	Auburn	Lane Cove	Parramatta
Approved total increase in rates	6.00%	10.24%	4.30%
Increase above the rate peg	3.20%	7.44%	1.50%

Source: Summary of variations requested by councils and decisions by IPART, 2011.

As the SRV approved by IPART only applies to a specific (current) Council area, the additional rates income associated with the SRV are not distributed across any amalgamated council area for the purpose of this analysis. As such, the additional increase above the rate peg has been removed from the total rates income indicated in Table 14. The following table shows the total residential and business rates by council in 2011/12, without any of the SRVs approved by IPART.

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TABLE 16. TOTAL RESIDENTIAL AND BUSINESS RATES BY COUNCIL IN 2011/12, WITHOUT SRVS, \$'000

	Auburn	Holroyd	Hunters Hill	Lane Cove	Parramatta	Ryde	Willoughby
Total ordinary rates	27,997	32,880	6,210	17,641	82,797	42,507	37,985
Residential	12,810	22,474	6,005	12,931	41,531	29,755	21,332
Business	15,187	10,406	205	4,710	41,266	12,752	16,653

Source: estimated by SGS, 2013.

The table below shows the aggregate rates income under the different amalgamation options. Option 1, which considers an amalgamation of Auburn, Holroyd, Parramatta and Ryde, would have generated total rates of \$186 million in 2011/12. This is about \$13 million higher than the rates generated by option 1A, which does not contain the East Ward of Ryde.

TABLE 17. TOTAL RESIDENTIAL AND BUSINESS RATES BY OPTION IN 2011/12, WITHOUT SRVS, \$'000

	Option 1	Option 1A	Option 2
Total ordinary rates	186,181	173,834	104,343
Residential	106,570	95,564	70,023
Business	79,611	78,270	34,320

Source: estimated by SGS, 2013.

Setting the base and *ad valorem* amount

As the total rates are assumed to be split equally between the base and *ad valorem* amount, we have spread:

- 50 percent of the total rates under each option over all rateable land parcels within an amalgamated council area to derive a base rate, and
- 50 percent of the total rates under each option over the total value of all rateable land to derive an *ad valorem* rate.

Note that the derived base and *ad valorem* rate are for per parcel of rateable land, which may differ from the per property rates where multiple properties (e.g. strata units) occupy a same land parcel.

The table below shows the total number and value of rateable land parcels under each option. These estimates are obtained using the LEP zoning layers published by DP&I and the Valuer General database.

TABLE 18. TOTAL NUMBER AND VALUE OF RATEABLE LAND UNDER EACH OPTION

	Option 1	Option 1A	Option 2
No. of rateable land parcels			
Residential	101,006	92,161	51,823
Business	7,363	7,090	3,020
Value of rateable land			
Residential	\$41,236,425,762	\$35,746,920,122	\$38,255,836,491
Business	\$9,715,454,590	\$9,495,867,090	\$4,768,738,720

Source: estimated by SGS, 2013

The estimated base and *ad valorem* rates are provided in the table below. Again, these rates assume that the base amount would contribute 50 percent of the total ordinary rates income.

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TABLE 19. BASE AND AD VALOREM RATES BY OPTION AND SUB-CATEGORY, ASSUMING AN EQUAL SPLIT

	Option 1	Option 1A	Option 2
Residential			
Base rate	\$527.54	\$518.46	\$675.60
Ad Valorem rate	\$0.13	\$0.13	\$0.09
Business			
Base rate	\$5,406	\$5,520	\$5,682
Ad Valorem rate	\$0.41	\$0.41	\$0.36

Source: estimated by SGS, 2013

The table below shows the alternative base and ad valorem rates, if the base amount is to be set at 20 percent of the total rates. The higher ad valorem rate would significantly increase the difference in rates to be paid by owners of properties with different values.

TABLE 20. BASE AND AD VALOREM RATES BY OPTION AND SUB-CATEGORY, THE BASE AMOUNT SET AT 20 PERCENT OF THE TOTAL RATES

	Option 1	Option 1A	Option 2
Residential			
Base rate (per land parcel)	\$211.02	\$207.39	\$270.24
Ad Valorem rate (per cent of land value)	\$0.21	\$0.21	\$0.15
Business			
Base rate (per land parcel)	\$2,162	\$2,208	\$2,273
Ad Valorem rate (per cent of land value)	\$0.66	\$0.66	\$0.58

Source: estimated by SGS, 2013

Average rates per rateable property

By applying the ad valorem rate to the average value of rateable property in each relevant LGA, we have then derived the average ad valorem amount per rateable property within each of the LGAs that form part of the options. Together with the average base rate identified earlier, we have calculated the average residential and business rates per rateable property within each current LGA under the different amalgamation options.

The following table shows the average residential and business rates by option and LGA, if the base amount will contribute 50 percent of the total rates.

Compared to Holroyd, ratepayers in Ryde would expect to pay around \$20 more in residential rates and around \$80 more in business rates per rateable property, under option 1. On the other hand, under option 2 ratepayers in Ryde would expect to pay around \$700 less in residential rates, but around \$2400 more in business rates compared to Hunters Hill.

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TABLE 21. AVERAGE ANNUAL RATES BY OPTION AND LGA, ASSUMING BASE AMOUNT CONTRIBUTES 50 PERCENT OF THE TOTAL RATES

	Auburn	Holroyd	Hunters Hill	Lane Cove	Parramatta	Ryde	Willoughby
Residential rate							
Option 1	\$585	\$665			\$671	\$684	
Option 1A	\$589	\$668			\$677	\$683	
Option 2			\$1,332	\$883		\$644	\$834
Business rate							
Option 1	\$7,645	\$8,618			\$6,551	\$8,691	
Option 1A	\$7,749	\$8,732			\$6,641	\$9,354	
Option 2			\$5,935	\$2,750		\$8,330	\$4,353

Source: estimated by SGS, 2013

The following table shows the average residential and business rates by option and LGA, if the base amount will contribute only 20 percent of the total rates.

In this case, ratepayers in Ryde, compared to Auburn, would expect to pay around \$200 more in residential rates and around \$1500 more in business rates, under option 1. On the other hand, ratepayers in Ryde, compared to Hunters Hill, would expect to pay around \$900 less in residential rates, but around \$3500 more in business rates under option 2.

TABLE 22. AVERAGE ANNUAL RATES BY OPTION AND LGA, ASSUMING BASE AMOUNT CONTRIBUTES 20 PERCENT OF THE TOTAL RATES

	Auburn	Holroyd	Hunters Hill	Lane Cove	Parramatta	Ryde	Willoughby
Residential rate							
Option 1	\$560	\$600			\$657	\$760	
Option 1A	\$573	\$613			\$672	\$764	
Option 2			\$1,516	\$934		\$602	\$852
Business rate							
Option 1	\$7,493	\$8,738			\$6,418	\$9,066	
Option 1A	\$7,561	\$8,815			\$6,476	\$10,025	
Option 2			\$4,891	\$2,746		\$8,242	\$4,485

Source: estimated by SGS, 2013

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6 CONCLUSION

In conclusion a number of options have been developed and tested in a desktop review for potential change to the structure of local government for the City of Ryde.

This report mainly focuses on a number of financial factors including TCorp financial sustainability indicators, considerations of financial projections and operating surplus or deficits over a 10 year period and impact on rates. In addition some limited work on spatial analysis of accessibility, major centres and communities of interest (through household travel patterns) have been identified.

In conclusion the following major points summarise the analysis:

Base case (current LGA boundaries)

- The current City of Ryde performs better than the options 1 and 2 in regards to TCorp financial sustainability indicators
- Ratio of operating deficit to operating revenue is highest (worst) for City of Ryde compared to options 1 and 2.
- Impact on rates not applicable.
- Current LGA boundaries.

Option 1 (ILGRP proposal)

- Option 1 performs worse than option 2 in regards to TCorp financial sustainability indicators (and worse than the base case).
- Ratio of operating deficit to operating revenue is lowest (best) for Option 1 compared to base case and option 2.
- Impact on rates for Ryde area is that higher average rates per property for residential and business than grouping of Councils, to maintain total rate income.
- Accessible within 30-45 minutes from the Parramatta CBD, weaker household travel patterns between Ryde and Parramatta, stronger journey to work linkages between NW and Ryde (Macquarie Park in particular).

Option 1A (ILGRP variation)

- Same as above for financial performance
- Financial performance 1A has not been assessed due to lack of sub-LGA information.
- As above, except that east ward in City of Ryde Ryde has been linked with North Shore Council grouping.

Option 2 (North shore)

- Option 2 performs better than option 1 in regards to TCorp financial sustainability indicators (but not as well as base case).
- Ratio of operating deficit to operating revenue for option 2 is higher (worse) than Option 1 but is lower (better) than the base case).
- Impact on rates for Ryde area is that lower average rates per property for residential and business than grouping of Councils, to maintain total rate income.
- Accessible within 30-45 minutes from the Chatswood CBD, stronger household travel patterns between Ryde and North Shore and to North.

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Contact us

CANBERRA

Level 1, 55 Woolley Street
Dickson ACT 2602
+61 2 6262 7603
sgsact@sgsep.com.au

HOBART

Unit 2, 5 King Street
Bellerive TAS 7018
+61 (0)439 941 934
sgstas@sgsep.com.au

MELBOURNE

Level 5, 171 La Trobe Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY

Suite 12, 50 Reservoir Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

