



CUMBERLAND
CITY COUNCIL

Economic Statement

from Cumberland City Council

2020





Message from the GM

General Manager
Hamish McNulty



The financial pressures experienced by Cumberland City Council are well-known and we are now considering measures to achieve \$4.5 million in savings and reduce the cost of services by 10 per cent. We expect this will include changes to our organisational structure and reducing the size of our workforce.

“Our focus is on a ‘back to basics’ approach to ensure that our available resources are spent on council services that are important to the community, including essential services, critical works and infrastructure. We also need to ensure that those services are delivered in the most cost effective way possible,”

Hamish McNulty,

General Manager of Cumberland City Council



Economic statement from Cumberland City Council

This Economic and Fiscal Update shows the impact of two key factors, which have negatively impacted Council's financial situation; namely the amalgamation that led to Cumberland Council and the financial crisis created by COVID-19 pandemic.

Prior to COVID-19, Council's finances were already under severe pressure due to significant losses being realised in three consecutive years following the proclamation of this Council. Over three years there has been a \$41 million decline in unrestricted cash, which now has a negative balance of \$3 million.

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To further detail the impact of these two key factors:

Amalgamation

The justification for compulsory amalgamation provided by the State Government and supported by Mr Michael Bullen of the NSW Boundaries Commission, was that it would deliver \$43 million in benefits to the community. This was based on the KPMG financial analysis of salary and contract savings.

- Boundary changes from amalgamation: \$4 million per annum of business income was removed due to boundary changes in amalgamation. There were no possible cost savings associated with the delivery of services to business rate payers. This was replaced with an additional \$4.5 million per annum of residential income, which came with 28,000 additional residents and costs that exceeded the income attached to these properties. This cost the new Council over \$4.5 million per annum.
- 13,000 residents were removed from Cumberland City's boundaries, including residents from Newington, Wentworth Point and Sydney Olympic Park from what were the former Local Government Areas. Amalgamation also saw 41,000 residents included in our Council's area from the Woodville Ward of Parramatta City Council.

The SEIFA Index for the areas lost to Parramatta were ranked in the 99th Percentile for social advantage while the suburbs gained by the new Cumberland Council were ranked in the 10th-15th percentile, a significantly higher degree of social disadvantage.

In reality, Council inherited a difficult challenge in servicing these areas with a severely reduced level of rates income to support this service delivery.

- Impact on employee costs: significant additional resources were required to service the increase in residential properties gained by inheriting the Woodville Ward of Parramatta. Council's FTE (Full Time Equivalent) numbers increased by 130 from 796 in 16/17 to 926 in 18/19 (based on Audited accounts).
- Total Costs for Council: it was forecast in 2018/19 under KPMG modelling that Council's total costs would reduce by 2% after allowing for CPI increases as a result of proposed annual savings of \$9.8 million for this year. The actual costs experienced by Council saw an increase of 9.6%, effectively meaning a \$20 million increase in the cost of operations in one financial year.
- Reduction in Federal Assistance: there was an unexpected \$1 million per annum reduction in Federal Assistance Grants that Council has tried to have rectified, without success.
- Mr Bullen's final report identified that over one-third of submissions identified issues of financial factors and the loss of income flowing from business rates.

In summary, the amalgamation process has resulted in the new Council struggling to remain financially viable, without substantially increasing rates and achieving substantial cost efficiency to fund the services required to be delivered.



COVID-19 Crisis



The epidemic has impacted Council's budget at a time when our finances were already in significant trouble.

This, coupled with year-on-year declines in operating surplus, as opposed to the fiscal improvements promoted by the State Government, has prompted a necessary and unprecedented review of Council's finances and services.

Our financial position has also been detrimentally impacted by other matters not considered at the time of amalgamation such as the reduction in the Federal Assistance Grant (- \$1 million) and a declining interest income of (- \$2 million) per annum.

Current financial situation:

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Forecast Budget Surplus 20/21:

\$500,000

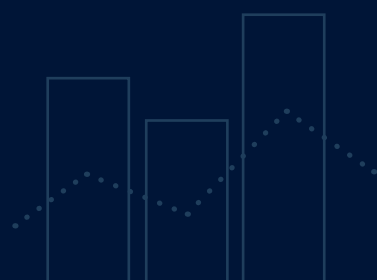
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Loss of Income during COVID-19:

\$10 - \$11 million

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Forecast negative available cash:

\$6 million
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Financial Recovery



Council's response to this ongoing economic decline is to undertake the fiscal measures required to realise operating cost efficiencies. This will allow Council to build financial capacity without increasing rates above the rate cap.

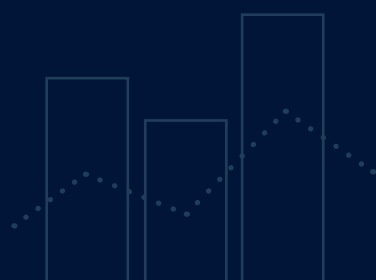
To ensure we can build financial capacity without increasing rates, Council must implement a business transformation program that focuses on our key service offerings. This will be achieved by reviewing and prioritising services delivered to the community.

Current financial situation:

- Temporary savings in employment costs in 2020/21 using any opportunities that arise. This will not impact service delivery.
- Permanent savings implemented by December 2020 that will have a full year impact from 2021/22. This will impact some services we deliver and which have been identified by rate payers in the Community Satisfaction Surveys as being of a lesser importance in terms of degree of impact on overall satisfaction with Council.

These immediate actions will allow Council to restore its financial position within 12 months and generate \$75 million in cash over the next ten years, which will be reinvested into community infrastructure and to strengthen the financial capacity of Council by creating a reasonable buffer for any additional unforeseen circumstances. Council, however, needs to do more than this to ensure long-term sustainability.

Financial Recovery



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Mid term

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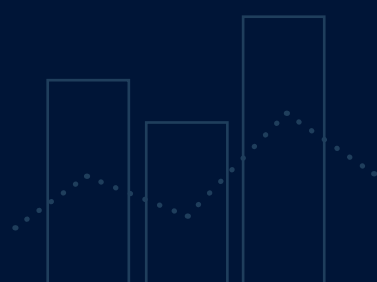
The benefit of running services as a business should be to provide a return to all residents. From our internal strategic reviews it has become apparent, when we calculate all costs, that rather than these services providing a return, which can be reinvested, our residents are actually subsidising these services and in effect, Council is losing money.

The root cause of this is that we do not operate all our service offerings as efficiently as other market providers can and we also cannot charge for all services like a market competitor. This means we have higher costs and lower revenue in these services, when compared with other providers of the same services.

In view of this, the belief that Council can operate as a business, in Cumberland City's circumstances, is flawed.

To address these issues and to improve the longer term financial position of Council the following actions are being actively investigated:

Financial Recovery



- Undertake market testing of the Education and Care service to identify the most efficient operating model such as outsourcing the operation and management of these centres to a suitably qualified provider from the not-for-profit, community or non-government sector with Council retaining the ownership of the sites and the number of places in our community. This approach will ensure Council is not operating at a loss, and that the current losses borne by our ratepayers are removed. Council is also committed to ensuring that the same number of education and care places and the same employment numbers attached to this service remain within our LGA.
- Undertake a market testing of the Senior's Living Units with a view to outsourcing the management and development of the existing 70 units owned by Council with Council retaining ownership. This will also review the potential to expand affordable housing as part of the redevelopment.
- Undertake a business review of The Holroyd Centre to determine the viability or otherwise of Council continuing to operate this facility and whether there are options that can be identified to improve its performance or if this is an operation Council should consider ceasing to operate on the basis that it is outside of our core business activities and cannot be run profitably.
- Undertake a market testing activity on the operations of swim centres. Private operators have had success with one of our swim centres and have proven they can run these facilities at a higher return than Council can generate when running the facility. The most appropriate time to do this is whilst the Wentworthville Swim Centre facility is nearing the completion of its refurbishment.
- Undertake a 'keep or drop' analysis on the use of open space at Auburn Golf Course which is adjacent to Woodville Golf Course. Having two golf courses within such close proximity is not the best use of the land or the resources required to maintain a golf course.

Progress updates will be reported to Council on these activities, with options provided for the delivery of services and the budget repair process, which is now critical if we are to secure Council's long term future.