

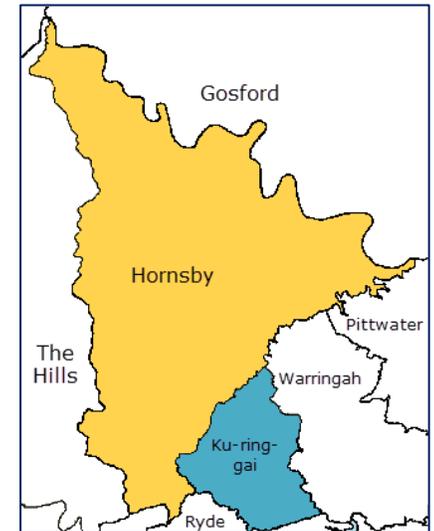
KU-RING-GAI COUNCIL – CIP

NOT FIT

Area (km ²)	85	Population 2011	114,600
OLG Group	3	(2031)	151,100
ILGRP Group	Sydney Metro	Merger 2011	278,400
		(2031)	352,850
Operating revenue (2013-14)	\$102.4m	TCorp assessment	Sound FSR, Neutral Outlook

ILGRP options (preference in bold) **Merge with Hornsby Council**, (yellow) or combine as a strong JO with Hornsby Council and move the boundary with Parramatta northward to the M2.

Assessment summary	Scale and capacity	Does not satisfy
	Financial criteria:	Satisfies overall
	• Sustainability	Satisfies
	• Infrastructure and service management	Satisfies
	• Efficiency	Satisfies



Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- The council satisfies the financial criteria overall. It satisfies the sustainability, infrastructure and service management and efficiency criteria.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 151,100 by 2031 compared with the forecast merger population of 352,850. Our analysis suggests the council does not have sufficient scale to partner effectively with the governments compared to the merger.
- Hornsby Shire Council submitted a business case which showed that a merger of Ku-ring-gai and Hornsby Shire councils produces net benefits. Based on this model, our analysis suggests the merger produces net benefits of \$61m over 20 years (including the Government grant).
- In addition, our independent economic consultants Ernst and Young have estimated gains from the merger of \$88m over 20 years using public data (not including the Government grant).
- All analyses showed large net benefits to the local community from the merger. Variances in calculations result from different inputs and underlying methodologies.
- Our analysis is consistent with the ILGRP's preferred option for Ku-ring-gai to merge.

Sustainability – satisfies

- The council satisfies the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building and infrastructure renewal ratio by 2019-20.
- We estimate that adjusting the operating performance ratio by removing interest income on section 94 Reserves would reduce the ratio by approximately 2.7 percentage points to 2.2% in 2019-20 which is still above the benchmark.

Infrastructure and service management – satisfies

- The council satisfies the infrastructure and service management criterion as it meets the infrastructure backlog, asset maintenance and debt service benchmarks by 2019-20.
- The council implemented a new funding model in June 2015 to address its infrastructure backlog, and is forecasting an infrastructure backlog ratio of 0.2% in 2019-20.
- In its long term financial plan, the council shows it intends to repay all loans and have a zero debt service ratio by 2023-24. While this would not meet the benchmark, it is beyond our assessment period.

Efficiency - satisfies

- The council meets the criterion for efficiency based on the forecast for a reducing real opex per capita ratio for 2014-15 to 2019-20.

Other relevant factors

Social and community context	<p>Ku-ring-gai Council disagrees with the ILGRP's preferred option, and suggests a better option would be for it to merge with Warringah Council, and for Hornsby Shire Council to merge with The Hills Shire Council due to the closer demographic and economic links.</p> <p>However, Ku-ring-gai submitted a demographic study of the North Sydney councils. This study finds:</p> <ul style="list-style-type: none">• similar degrees of economic linkage between Ku-ring-gai and Hornsby councils and between Hornsby and The Hills councils• demographic links between Ku-ring-gai and Hornsby councils, but did not consider demographics in The Hills LGA, and• close economic links and some demographic links between Ku-ring-gai and Willoughby councils. <p>Ku-ring-gai considers there is some misalignment of priorities between the merger councils, eg, it has a larger focus on environmental protection whereas Hornsby has a larger focus on strategic development.</p>
Community consultation	<p>Ku-ring-gai undertook broad community consultation which shows the community largely opposes the merger. This included an information brochure and media advertising showing arguments for and against the merger.</p> <p>In a survey of 402 residents, 77% of respondents preferred to remain stand alone. This increased to 87% after hearing the council's arguments against a merger, which included that the council was already financially sustainable and capable, that rates would increase, the council's financial position would weaken, and Ku-ring-gai residents would have minority representation.</p>
Water and/or sewer	<p>The council does not have a water/sewer business.</p>
Submissions	<p>We received 4 submissions relating to Ku-ring-gai's submission:</p> <ul style="list-style-type: none">• two opposed merging the council because the council is already strong• one submission from a community group questioned reliability of the council's infrastructure backlog ratio and raised a local carpark issue• one confidential submission.
