

## Template 2

Fit for the **Future**

# Council Improvement Proposal

(Existing structure)



# Getting started . . .

Before you commence this template, please check the following:

- You have chosen the correct template – only councils that have sufficient scale and capacity and who do not intend to merge or become a Rural Council should complete this template (Template 2)
- You have obtained a copy of the guidance material for Template 2 and instructions for completing each question
- You have completed the self-assessment of your current performance, using the tool provided
- You have completed any supporting material and prepared attachments for your Proposal as PDF documents. Please limit the number of attachments and ensure they are directly relevant to your proposal. Specific references to the relevant page and/or paragraph in the attachments should also be included.
- Your Proposal has been endorsed by a resolution of your Council.

**Council name:** Hornsby Shire Council

**Date of Council resolution endorsing this submission:** 10 June 2015

## 1.1 Executive Summary

Provide a summary (up to 500 words) of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies and outcomes.

Council has been a willing participant in the local government reform exercise commenced by the State Government in 2011 and has been prepared to commission its own independent research during the intervening period to assist in its deliberations about reform. Following the release of the ILGRP's final report and the State Government's response to that report in its FFTF announcements, Council has also proactively entered into discussions with its neighbouring councils about having an independent merger business case prepared which could be used to consider amalgamation options and issues for Hornsby and those councils.

As no neighbouring council has indicated a willingness at this stage to even partner with Hornsby to have a merger business case prepared, Council now has no choice but to complete this Template 2 - Council Improvement Proposal - and submit it for formal assessment. Although Hornsby is aware that it will be found by IPART to be "not fit" under the scale and capacity requirements of FFTF (as it is not proposing to merge in line with the recommendations of the Panel or something similar), this document shows that Council has been a role model through the reform process and, because of all the hard work it has done over the past few years to review and enhance its own operations, is in a position to meet all the financial sustainability, infrastructure and services and efficiency requirements of FFTF over the coming years.

In respect of the two FFTF criteria that Council currently does not meet (i.e. the Building and Infrastructure Asset Renewal Ratio; and the Asset Maintenance Ratio), Council has been proactively reviewing its asset management processes to ensure that

sufficient and targeted funding is provided in the 2015/16 and future Budgets to improve the relevant Ratios to the required levels. These improvements are only expected to have minimal impact on the other Ratios.

It should be noted that Council has had difficulty in completing some parts of this Template because it is not making the claim that it is fit for the future (which the Template has been designed to show). Council recognises that it does not have the scale and capacity required under the FFTF criteria, and through an assessment of the independent research it has commissioned over the past few years, can see the benefits of at least progressing through the preparation of an independent merger business case with one or more of its neighbouring councils. Once that work was done, Hornsby and the other councils would be in a much better position to consider in an objective and reasoned manner whether a merger is or is not in the best interests of the communities they currently represent.

## 1.2 Scale and Capacity

Does your council have the scale and capacity broadly consistent with the recommendations of the Independent Local Government Review Panel?

*(ie, the Panel did not recommend your council needed to merge or become a Rural Council).*

**Yes / No**

If No, please indicate why you are not proceeding with a voluntary merger or creation of a Rural Council as recommended by the Independent Panel and demonstrate how your council has scale and capacity (up to 500 words).

Council has continually displayed a willingness to participate in voluntary merger discussions. It has gathered independent and professional advice in order to make an informed decision about potential mergers. The advice confirms the positive financial advantages of merger proposals.

Council has also consistently supported consideration of a merger with Ku-ring-gai Council in line with the recommendations of the Independent Local Government Review Panel, and endorsed by the State Government. In January 2015, Hornsby and Ku-ring-gai sought the assistance of an independent facilitator from the Office of Local Government to explore the potential for a voluntary merger. The facilitator met individually with each Council to identify its perception of benefits, opportunities and roadblocks offered by a potential merger. The facilitator then convened a joint workshop with both Councils to discuss the issues arising from the individual workshops.

Following that meeting, both Councils agreed to formalise their positions about whether or not the Councils should develop a

business case regarding a proposed merger. On 28 April 2015, Ku-ring-gai Council concluded that a merger was not in their best interests and that development of a business case would not be considered. Essentially, Ku-ring-gai Council confirmed its opposition to any further consideration of a merger. As a consequence, and in the absence of any of its neighbouring councils showing an interest in potentially merging, Hornsby Shire Council has no choice but to complete this Template.

Whilst it does not meet the scale and capacity requirements of FFTF, IPART may like to note that Hornsby Shire is one of the larger local government areas in metropolitan Sydney as evidenced by the Department of Planning and Environment population estimates provided below:

**New South Wales State and Local Government Area Population, Household and Dwelling Projections: 2014 Final**

**HORNSBY**

<b>TOTALS:</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>	<b>2031</b>
Total Population	163,800	171,400	181,100	191,300	201,750
Total Households	56,050	59,750	63,800	67,900	72,200
Average Household Size	2.88	2.82	2.78	2.76	2.73
Implied Dwellings	59,350	63,250	67,550	71,900	76,400
<b>CHANGE:</b>		<b>2011-16</b>	<b>2016-21</b>	<b>2021-26</b>	<b>2026-31</b>
Total Population Change		7,650	9,700	10,200	10,450
Average Annual Population Growth		0.9%	1.1%	1.1%	1.1%
Total Household Change		3,700	4,050	4,100	4,250
Average Annual Household Growth		0.8%	1.1%	1.1%	1.0%

## 2. Your council's current position

### 2.1 About your local government area

Explain the key characteristics of your local government area, your community's goals and priorities and the challenges you face in the future (up to 500 words).

*You should reference your Community Strategic Plan and any relevant demographic data for this section.*

Hornsby Shire is located in Sydney's northern suburbs - about 25 kilometres from the Sydney CBD. The Shire is characterised by large tracts of bushland, with approximately 10% of the Shire zoned and used for urban development, 15% for rural purposes, 5% for open space and the remaining 70% environmentally protected or National Park.

The 2016 estimated population is 171,400. The lifestyles of the population range from rural living in the north of the Shire to inner urban apartment living in parts of the Shire's south, and hence population density ranges from a low of 0.16 persons per hectare in Arcadia (north western rural) to a high of 63.04 persons per hectare in Waitara. The background of this population is equally diverse with 26% coming from countries where English is not the first language, including China, India, South Korea and Sri Lanka. Hornsby Shire is also home to over 15,000 businesses which provide 52,000 jobs. In 2014 the Shire's gross regional product was estimated at \$6.62 billion.

Statistics and research indicate that members of the community choose to live in Hornsby Shire because of the bushland aspect of the Shire, the village like atmosphere, transport networks and housing and school options; and have a relatively high socio-economic advantage. They describe their dream for the future as a quality lifestyle in an area that is responsive to the wellbeing and needs of its residents, is well serviced, well designed, prosperous and equitable. There are aspects of living in the Shire that are affecting the quality of life of residents and impacting on work-life balance. These aspects include safety, transport, increase in both parents working, high density housing and the provision of adequate infrastructure.

Hornsby Shire manages over \$1.1 billion worth of major infrastructure assets and, like the rest of Sydney, has been under

substantial and continued pressure to accommodate a rapidly growing population. Council has responded by developing a comprehensive Housing Strategy that encourages development along the railway line and other public transport. Council has also undertaken extensive research into recreational needs now and in the future via the Active Living Hornsby Strategy and the Community and Cultural Facilities study.

Council has a proven track record of responding to the implementation of State Government planning objectives including the preparation of local planning strategies to meet Council's urban consolidation and employment obligations under the framework within *A Plan for Growing Sydney* and any resulting Subregional planning strategies.

The 2009 draft *North Subregional Strategy* set a target for Hornsby LGA to achieve an extra 11,000 dwellings by 2031. In response, the *Hornsby Shire Housing Strategy* (2011), the Epping Urban Activation precinct and Hornsby West Side precinct rezoning provide an opportunity for a total of 8,180 dwellings within Hornsby Shire, which are expected to be completed over the next 20 years.

In addition, Council is currently investigating potential rezonings in the South Dural area and in Cherrybrook as part of the North West Rail Link Station Precinct. Collectively, the adopted strategies and potential future strategies will provide opportunities for additional housing in the order of 13,180 dwellings. This shows that Council is well placed to respond to any higher housing targets that might be set under the forthcoming North Subregional Plan.



## 2.2 Key challenges and opportunities

Strengths	Weaknesses
<p><b>STRENGTHS INTERNAL</b></p> <p><b>Sustainability</b>  Improved financial performance.  Forward thinking.  Meet all but one FFTF criteria.  Stable competent workforce and low staff turnover.  Committed to staff learning and development.  Ratio of staff to resident population amongst the lowest in NSW.</p> <p><b>Assets/Service Management</b>  Financially secure.  Able to take a proactive approach to opportunities e.g. NorthConnex and Hornsby Quarry.  Also providing biodiversity offsets for state significant projects such as North West Rail Link (NWRL) and Epping to Thornleigh Third Track (ETTT).</p> <p><b>Efficiency</b>  Strong financial and community research about FFTF.  Cultural change program and focus on innovation embedded in Council.  Been on incremental improvement path for past four years since IPART granted a Special Rate Variation (SRV).</p> <p><b>STRENGTHS EXTERNAL</b></p> <p><b>Sustainability</b>  Excellent industry reputation.  Positive relationship with State Government.  Positive relationship with community.  Politically stable environment.</p>	<p><b>Sustainability</b>  Does not meet scale and capacity requirement.  Residents do not fit a homogenous profile (different needs – Beecroft to Brooklyn to Arcadia).  Two speed economy (Epping versus Brooklyn).</p> <p><b>Assets/Service Management</b>  Geography and shape of the shire = requirement for more community assets.  Uneven population distribution.  Lack of employment opportunities in the Shire = dormitory suburbs.  Potential loss of part of Epping to Parramatta City Council.  Grant income frozen or decreased.</p> <p><b>Efficiency</b>  Potential to be forced by State Government to amalgamate with unwilling partners.  Improved knowledge of asset condition and documented and funded strategies to maintain community assets.</p>

<p><b>Assets/Service Management</b> Manageable infrastructure backlog with documented and funded plans to adequately maintain infrastructure into the future. Low debt service ratio.</p> <p><b>Efficiency</b> Strong financial and community research about FFTF. One of the larger councils – with 165,000 residents. Positive reputation for efficient delivery of offsets for major infrastructure providers working on state significant transport projects.</p>	
<p><b>Opportunities</b></p>	<p><b>Threats</b></p>
<p><b>Sustainability</b> Level of local development increasing based on Housing Strategy and urban activation.</p> <p><b>Assets/Service Management</b> Improvements to State infrastructure (NWRL, ETTT, NorthConnex, Hornsby Hospital).</p> <p><b>Efficiency</b> Stable political environment and respected local representation.</p>	<p><b>Sustainability</b> Does not meet scale and capacity requirement. Residents do not fit a homogenous profile (different needs – Beecroft to Brooklyn to Arcadia). Two speed economy (Epping versus Brooklyn).</p> <p><b>Assets/Service Management</b> Geography and shape of the shire = requirement for more community assets. Uneven population distribution. Lack of employment opportunities in the Shire = dormitory suburbs. Potential loss of part of Epping to Parramatta City Council. Grant income frozen or decreased.</p> <p><b>Efficiency</b> Potential to be forced by State Government to amalgamate with unwilling partners. Improved knowledge of asset condition and documented and funded strategies to maintain community assets.</p>

## 2.3 Performance against the Fit for the Future benchmarks

### Sustainability

Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	0.052	Yes	0.041	Yes
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	83.7%	Yes	74.7%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	78.9%	No	108.6%	Yes

If the Fit for the Future benchmarks are not being achieved, please indicate why.

*For example, historical constraints/context, one-off adjustments/factors, council policies and trade-offs between criteria.*  
Not applicable

## 2.3 Performance against the Fit for the Future benchmarks

### Infrastructure and service management

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	0.52%	Yes	0.56%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	79.1%	No	95.0%	No
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	4.21%	Yes	1.45%	Yes

If the Fit for the Future benchmarks are not being achieved, please indicate why.

In respect of the Asset Maintenance Ratio, Council has been proactively reviewing its asset management processes to ensure that sufficient and targeted funding is provided in the 2015/16 and future Budgets to improve the Ratio to the required levels (see increase from 79.1% to 95.0% over the 2013/14 to 2016/17 period). It is noted that on current projections, Council will meet the benchmark of 100% in 2018/19 and maintain that level into the future.

## 2.3 Performance against the Fit for the Future benchmarks

### Efficiency

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	\$630	Yes	\$611	Yes

If the Fit for the Future benchmarks are not being achieved, please indicate why.

Not applicable

## 2.4 Water utility performance

*NB: This section should only be completed by councils who have direct responsibility for water supply and sewerage management*

Does your council currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework?

**Yes / No**

If NO, please explain the factors that influence your performance against the Framework.

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How much is your council's current (2013/14) water and sewerage infrastructure backlog?

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## 2.4 Water utility performance

Identify any significant capital works (>\$1m) proposed for your council's water and sewer operations during the 2016-17 to 2019-20 period and any known grants or external funding to support these works.

### Capital works

Proposed works	Timeframe	Cost	Grants or external funding

## 2.4 Water utility performance

Does your council currently manage its water and sewerage operations on at least a break-even basis?

**Yes / No**

If No, please explain the factors that influence your performance.



## 2.4 Water utility performance

Identify some of your council's strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 period.

### Improvement strategies

Strategy	Timeframe	Anticipated outcome
1.		

## 3. How will your council become/remain Fit for the Future?

### 3.1 Sustainability

Summarise your council's key strategies to improve performance against the Sustainability benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

Council recognises that it does not have the scale and capacity required under the FFTF criteria, and through an assessment of the independent research it has commissioned over the past few years (particularly that undertaken by KPMG titled "Analysis of Local Government Reform Options in the Northern Sydney Area"), can see the benefits of at least progressing through the preparation of an independent merger business case with one or more of its neighbouring councils. Once that work is done, Hornsby and the other councils would be in a much better position to consider in an objective and reasoned manner whether a merger is or is not in the best interests of the communities they currently represent.

It should be noted that Council has undertaken reviews of all of its internal and external services over the past few years to ensure their sustainability into the future. These reviews, coupled with the reviews of asset management practices will see Council meet all the Sustainability benchmarks of Fit for the Future for 2016/17 and beyond.

Explain the key assumptions that underpin your strategies and expected outcomes.

*For example the key assumptions that drive financial performance including the use of SRVs, growth in rates, wage increases, Financial Assistance or other operating grants, depreciation, and other essential or major expense or revenue items.*

When TCorp reviewed the financial sustainability of all NSW councils in 2012, Council achieved a short term rating of financially moderate with a neutral outlook, meaning that the short term rating was likely to remain unchanged. Following decisions emanating from the internal and external reviews referred to above, there was a marked improvement in Council's income statement and projections in Council's long term financial plan. As a consequence, Council requested TCorp to repeat its financial assessment using the updated data. When that exercise was completed by TCorp in 2014, it indicated that Council's financial sustainability rating had been updated to financially sound with a neutral outlook.

## 3.1 Sustainability

Outline your strategies and outcomes in the table below.

### 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Have an independent merger business case prepared which investigates all issues associated with Council merging with one or more of its neighbouring councils.	<ul style="list-style-type: none"> <li>a) Achieve agreement with a neighbouring council/s for the preparation of an independent merger business case.</li> <li>b) Commission the business cases preparation.</li> <li>c) Review the recommendations of the merger business case.</li> <li>d) Take appropriate action.</li> </ul>			

## 3.2 Infrastructure and Service Management

Summarise your council's key strategies to improve performance against the Infrastructure and service management benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

Council recognises that it does not have the scale and capacity required under the FFTF criteria, and through an assessment of the independent research it has commissioned over the past few years (particularly that undertaken by KPMG titled "Analysis of Local Government Reform Options in the Northern Sydney Area"), can see the benefits of at least progressing through the preparation of an independent merger business case with one or more of its neighbouring councils. Once that work is done, Hornsby and the other councils would be in a much better position to consider in an objective and reasoned manner whether a merger is or is not in the best interests of the communities they currently represent.

It should be noted that Council has been proactively reviewing its asset management processes to ensure that sufficient and targeted funding is provided in the 2015/16 and future Budgets to improve the relevant Ratios to the required levels. These reviews will see Council meet all the Infrastructure and Service Management benchmarks of Fit for the Future for 2018/19 and beyond.

Explain the key assumptions that underpin your strategies and expected outcomes.

Over the past few years, Morrison Low has undertaken an assessment of Council's asset management practices and an assessment of its infrastructure backlog.

In respect of the asset management practices, Morrison Low stated that Council's practices are *".....comprehensive and cover a detailed appreciation of building components and the O&M requirements for them. The roads asset register uses a detailed condition assessment prepared under contract on a regular basis to a consistent specification. The package provides predictive roads management information. Council has comprehensively considered the sustainability of its assets and introduced financial measures to ensure the appropriate funding is in place over the medium term. Council has a management structure which allocates overall asset management responsibility in a senior management position to facilitate consistent practices across all asset groups."*

In respect of the infrastructure backlog, Morrison Low have stated that *"It would appear from the data provided that Council's overall asset backlog is under control and represents approximately 0.5% of value of Council's asset portfolio and is well within acceptable limits and well below the TCorp benchmark of 2%".*

Copies of the Morrison Low's reports can be made available if required.

## 3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

### 3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Have an independent merger business case prepared which investigates all issues associated with Council merging with one or more of its neighbouring councils.	<ul style="list-style-type: none"><li>a) Achieve agreement with a neighbouring council/s for the preparation of an independent merger business case.</li><li>b) Commission the business case's preparation.</li><li>c) Review the recommendations of the merger business case.</li><li>d) Take appropriate action.</li></ul>			

### 3.3 Efficiency

Summarise your council's key strategies to improve performance against the Efficiency measures in the 2016-20 period, including the outcomes you expect to achieve.

Council recognises that it does not have the scale and capacity required under the FFTF criteria, and through an assessment of the independent research it has commissioned over the past few years (particularly that undertaken by KPMG titled "Analysis of Local Government Reform Options in the Northern Sydney Area"), can see the benefits of at least progressing through the preparation of an independent merger business case with one or more of its neighbouring councils. Once that work is done, Hornsby and the other councils would be in a much better position to consider in an objective and reasoned manner whether a merger is or is not in the best interests of the communities they currently represent.

It should be noted that Council has undertaken reviews of all of its internal and external services over the past few years to ensure their sustainability into the future. These reviews, coupled with the reviews of asset management practices will see Council meet the Efficiency benchmarks of Fit for the Future for 2016/17 and beyond.

Explain the key assumptions that underpin your strategies and expected outcomes.

When TCorp reviewed the financial sustainability of all NSW councils in 2012, Council achieved a short term rating of financially moderate with a neutral outlook, meaning that the short term rating was likely to remain unchanged. Following decisions emanating from the internal and external reviews referred to above, there was a marked improvement in Council's income statement and projections in Council's long term financial plan. As a consequence, Council requested TCorp to repeat its financial assessment using the updated data. When that exercise was completed by TCorp in 2014, it indicated that Council's financial sustainability rating had been updated to financially sound with a neutral outlook.



### 3.3 Efficiency

Outline your strategies and outcomes in the table below.

### 3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Have an independent merger business case prepared which investigates all issues associated with Council merging with one or more of its neighbouring councils.	<ul style="list-style-type: none"><li>a) Achieve agreement with a neighbouring council/s for the preparation of an independent merger business case.</li><li>b) Commission the business case's preparation.</li><li>c) Review the recommendations of the merger business case.</li><li>d) Take appropriate action.</li></ul>			

### 3.4 Improvement Action Plan

Summarise the key improvement actions that will be achieved in the first year of your plan.

Council has had difficulty in completing this part of this Template because it is not making the claim that it is fit for the future. Council recognises that it does not have the scale and capacity required under the FFTF criteria, and through an assessment of the independent research it has commissioned over the past few years, can see the benefits of at least progressing through the preparation of an independent merger business case with one or more of its neighbouring councils. Once that work was done, Hornsby and the other councils would be in a much better position to consider in an objective and reasoned manner whether a merger is or is not in the best interests of the communities they currently represent.

#### Action plan

Actions	Milestones
Have an independent merger business case prepared which investigates all issues associated with Council merging with one or more of its neighbouring councils.	
* Please attach detailed action plan and supporting financial modelling	See below

Outline the process that underpinned the development of your Action Plan.

*For example, who was involved, any external assistance, consultation or collaboration, and how the council has reviewed and approved the plan.*

Hornsby Shire Council has commissioned a number of independent and authoritative research papers pertaining to the issues, benefits, and disadvantages relating to proposals flagged by the Independent Local Government Review Panel during its investigations. The research papers are:

- Preliminary merger investigation with neighbouring councils – PricewaterhouseCoopers (PWC)
- Attitudinal survey of Hornsby Shire residents and residents in surrounding local government areas – Crosby Textor
- Strategic and financial assessment – KPMG

Copies are attached for the Tribunal's information.

Hornsby Shire Council has made all research findings publicly available and briefed the Independent Panel regarding the Crosby Textor findings. Below is a summary of the main messages from the research findings.

**PWC research** – jointly commissioned by Hornsby Shire Council and The Hills Shire Council, indicated:

- Strategic Capacity - access to a larger pool of financial and non-financial resources would enable a merged Hornsby/The Hills Council to undertake new functions and deliver new services.
- Lobbying - a larger Council would have greater weight in applying for State and Federal funding in addition to having a stronger negotiating position when discussing tenders and preferred supplier arrangements.
- Asset Utilisation and Rationalisation - there would be an increased ability to utilise assets by sharing resources and disposing of surplus or duplicated assets.
- Administrative Rationalisation - both Hornsby and The Hills operate through a similar organisational structure based on the configuration of functional expertise and the delivery of services. This would reduce the execution risk of removing duplicate functions.
- Increased Service Delivery – removing duplicate activities in multiple community centres, standardisation of services and

increased scale of process would allow for more cost efficient delivery of services. Strategic location of newly developed infrastructure assets of a newly merged council would benefit a larger population, reducing the need to duplicate investment in infrastructure.

- Investment in Future Capital Assets – realisation of surplus assets may provide additional funds to reinvest in future capital projects, reduce the need to borrow or allow for the redeployment of reserves for new projects.
- Upgrade Existing Infrastructure – an amalgamation would allow for some facilities to be closed, delivering maintenance savings and income from property sales. An evaluation of the infrastructure requiring remediation would need to be undertaken to identify overlap and identify areas of potential savings.
- Re-calibrate Capital Structure – the loan funding levels of Hornsby and The Hills Councils are relatively low, with debt service ratios not exceeding 5%. There is capacity to increase borrowings to fund capital budgets and reduce backlogs in costs to bring assets to a satisfactory condition. There would also be an ability to refinance or repay existing debt to reduce borrowing costs given the stronger balance sheet position of the merged council.
- Strategic Alignment – there is an alignment of a number of strategic goals of Hornsby and The Hills. This alignment indicates that there are potential synergies to be gained in achieving these goals from an amalgamation of the two Councils e.g.
  - Ecology and environment strategies in relation to climate change, bushland and natural areas, environmental education, development and water.
  - Economy and infrastructure strategies in relation to transport, economic development, recreation, employment, assets and business development.
  - Community strategies in relation to community engagement, service provision, cultural engagement and crime.
  - Governance strategies in relation to reporting, internal policies, stakeholder management and risk management.
- In respect of financial benefits:
  - The rationalisation of corporate support functions like information technology, financial services, records, and human resources would lead to significant expense reductions.
  - Labour consolidation could also be applied to managerial staff, administrative support staff, property sections and strategy and communication groups.

- A review of the information system requirements of a combined council may result in reasonable savings in lease payments.
- Rationalisation of assets that on review are surplus to needs may present opportunities to improve cash-flow and address infrastructure backlogs. Reduced maintenance budgets may also be a side benefit.
- Reduced operating expenses due to labour consolidation and asset rationalisation to address infrastructure backlogs would improve a council's strategic ability to manage reliance on rate pegging allowances.

**Crosby Textor's research** indicated that:

- Local issues are low on the order of local residents' issues. Issues concerning matters of State Government rank higher on the top-of-mind agenda for the local residents of Hornsby, The Hills, Parramatta and Ryde. These issues predominantly include the provision of better public and social infrastructure and traffic congestion.
- There is a low level of awareness of local council amalgamation. Total awareness of the current local government reform process sits around 53%.
- There is a high level of indecision – “soft” support/opposition for reform. The recommended option from the ILGRP to amalgamate councils has a “soft” position of approximately 60% of surveyed people. This finding is particularly important because it shows that community members are neither genuinely in support or opposed to the proposed reforms.
- The shared services model is preferred over amalgamation. Total support for a shared services model sits at 73% with minimal “strong” opposition at 9%. Of the reform options proposed, a shared services model was the most readily accepted. A reduction in council costs and improved service delivery were viewed as the primary reasons to support the model.
- There are disparate Hornsby Ward views about amalgamation. The results show that the views of residents in A, B and C wards are different. The geographical distances between these wards and the change of community landscape shows that there is not homogeneity in their views.
- Attitudes are consistent amongst residents from all surveyed councils. There appears to be relative levels of parity in the views expressed by community members surveyed in neighbouring council areas. The results showed that varying levels of awareness, opposition and support were only marginal if any at all.
- There is potential to convince those who are undecided on amalgamations by explaining the arguments which support lower costs and improved efficiencies.

**KPMG research** – developed seven reform options including financial strategic analysis of those options. The overarching findings were that:

- Local governments in NSW perform crucial functions and are key platforms for local democracy and representation, however, their structure and functions have largely remained static despite structural changes in the economy.
- Financial sustainability is a key consideration for local government in NSW, with 46 percent of councils estimated to have a financial sustainability rating of “weak” or lower within three years.
- To support more sustainable local governments over the long term, there are a number of potential reform options, including – for example – amalgamations, boundary reform and shared services. The recent report by the ILGRP - Revitalising Local Government - provided a comprehensive analysis of these options in the NSW context.
- Although there are broader impacts associated with reform, a key consideration is the potential financial benefits. Evidence suggests that economies of scale can be achieved in Australia, as demonstrated by seven out of nine studies of domestic reform experience.
- Previous experience suggests that the quality of service delivery, financial sustainability and the effectiveness of local representation are consistently applied to develop and analyse the impacts of local government reform.

The seven reform options were developed based on the common underlying principles of previous reform experience and consultations with Hornsby Council. Reform options included both amalgamations and shared services arrangements.

- **Option 1 – Base Case Scenario**

- Under Option 1, where Hornsby, The Hills and Ku-ring-gai Councils remain as separate entities, it is estimated that:
  - Hornsby’s net operating result before capital items would be \$23.0 million in 2017/18, and over the ten year period from 2013/14 to 2022/23 would show a cumulative net operating result before capital items of \$209.0 million.
  - The Hills’ net operating result before capital items would be \$54.6 million in 2017/18, and over the ten year period from 2013/14 to 2022/23 would show a cumulative net operating result before capital items of \$500.7 million.
  - Ku-ring-gai’s net operating result before capital items would be \$43.1 million in 2017/18, and over the ten year period from 2013/14 to 2022/23 would show a cumulative net operating result before capital items of \$349.7 million.

million.

- **Options 2 and 5 - Amalgamation and Shared Services - Hornsby and The Hills**

- An amalgamation of Hornsby and The Hills Councils – Option 2 - is estimated to achieve a net operating result of about \$26.9 million in 2017/18 (for the Hornsby Shire entity – as per Table 7.13 on page 59 of KPMG's report), representing about a 17 percent improvement to the current forecast net operating result in Option 1.
- Under Option 2, the cumulative net operating result over the period 2013/14 to 2022/23 for the aggregate Hornsby/The Hills entity is estimated to be \$783.7 million (which is \$74.0 million – or 10 percent - greater than what the Councils are estimated to achieve as separate entities in the same period).
- A shared services model between Hornsby and The Hills Councils (where they would share an Infrastructure and Recreation Division) – Option 5 - is estimated to achieve a net operating result of around \$24.0 million in 2017/18 (for the Hornsby Shire entity - refer Table 7.16 on page 62 of KPMG's report), representing about a 4 percent improvement to the current forecast net operating result in Option 1.
- Under Option 5, the cumulative net operating result over the period to 2013/14 to 2022/23 for the Hornsby/The Hills shared services entity is estimated to be \$725.1 million (which is \$15.3 million – or 2 percent - greater than what the Councils are estimated to achieve as separate entities in the same period) – see Table below.

	2013-14	2014-15	2015-16	2016-17	2017-18	Cumulative 2013-14 to 2017-18	Cumulative 2013-14 to 2022-23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Option 1 (base case)</b>	79.6	39.8	46.9	61.8	77.7	305.9	709.8
<i>consisting of</i>							
<i>Hornsby</i>	16.1	13.5	12.1	19.7	23.0	84.5	209.0
<i>The Hills</i>	63.5	26.3	34.9	42.1	54.6	221.4	500.7
<b>Option 5</b>	77.6	41.5	48.7	63.6	79.5	311.0	725.1
Saving	-2.1	1.7	1.8	1.8	1.9	5.1	15.3

Note: Cumulative results are not discounted.

- **Options 3 and 6 - Amalgamation and Shared Services - Hornsby and Ku-ring-gai**

- An amalgamation of Hornsby and Ku-ring-gai Councils – Option 3 - is estimated to achieve a net operating result of about \$26.2 million in 2017/18 (for the Hornsby Shire entity - refer Table 7.14 on page 60 of KPMG's report), representing about a 14 percent improvement to the current forecast net operating result in Option 1.
- Under Option 3, the cumulative net operating result over the period 2013/14 to 2022/23 for the aggregate Hornsby/Ku-ring-gai entity is estimated to be \$609.1 million (which is \$50.4 million – or 9 percent - greater than what the Councils are estimated to achieve as separate entities in the same period) – see Table below.

	2013-14	2014-15	2015-16	2016-17	2017-18	Cumulative 2013-14 to 2017-18	Cumulative 2013-14 to 2022-23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Option 1 (base case)</b> <i>consisting of</i>	30.9	44.2	48.7	77.1	66.1	<b>267.1</b>	<b>558.7</b>
<i>Hornsby</i>	16.1	13.5	12.1	19.7	23.0	84.5	209.0
<i>Ku-ring-gai</i>	14.8	30.7	36.6	57.4	43.1	182.6	349.7
<b>Option 3</b>	27.3	49.3	54.0	82.6	71.9	<b>285.0</b>	<b>609.1</b>
Saving	-3.6	5.1	5.3	5.5	5.8	<b>18.0</b>	<b>50.4</b>

Note: Cumulative results are not discounted.

- A shared services model between Hornsby and Ku-ring-gai Councils (where they would share an Infrastructure and Recreation Division) – Option 6 - is estimated to achieve a net operating result of around \$23.9 million in 2017/18 (for the Hornsby Shire entity - refer Table 7.17 on page 63 of KPMG's report), representing about a 3 percent improvement to the current forecast net operating result in Option 1.
- Under Option 6, the cumulative net operating result over the period 2013/14 to 2022/23 for the Hornsby/Ku-ring-gai shared services entity is estimated to be \$569.2 million (which is \$10.5 million – or 2 percent - greater than what the Councils are estimated to achieve as separate entities in the same period) – see Table below.



	2013-14	2014-15	2015-16	2016-17	2017-18	Cumulative 2013-14 to 2017-18	Cumulative 2013-14 to 2022-23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Option 1 (base case)</b> <i>consisting of</i>	30.9	44.2	48.7	77.1	66.1	<b>267.1</b>	<b>558.7</b>
<i>Hornsby</i>	16.1	13.5	12.1	19.7	23.0	84.5	209.0
<i>Ku-ring-gai</i>	14.8	30.7	36.6	57.4	43.1	182.6	349.7
<b>Option 6</b>	28.8	45.4	50.0	78.4	67.5	<b>270.0</b>	<b>569.2</b>
Saving	-2.2	1.2	1.3	1.3	1.3	<b>3.0</b>	<b>10.5</b>

Note: Cumulative results are not discounted.

- **Options 4 and 7 - Amalgamation and Shared Services – Hornsby, The Hills and Ku-ring-gai**
  - An amalgamation of Hornsby, The Hills and Ku-ring-gai Councils – Option 4 - is estimated to achieve a net operating result of about \$29.0 million in 2017/18 (for the Hornsby Shire entity - refer Table 7.15 on page 61 of KPMG's report), representing about a 26 percent improvement to the current forecast net operating result in Option 1.
  - Under Option 4, the cumulative net operating result over the period 2013/14 to 2022/23 for the aggregate Hornsby/The Hills/Ku-ring-gai entity is estimated to be \$1,222.6 million (which is \$163.1 million – or 15 percent - greater than what the Councils are estimated to achieve as separate entities in the same period) – see Table below.

	2013-14	2014-15	2015-16	2016-17	2017-18	Cumulative 2013-14 to 2017-18	Cumulative 2013-14 to 2022-23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Option 1 (base case)</b> <i>consisting of</i>	94.4	70.5	83.6	119.2	120.8	<b>488.5</b>	<b>1,059.4</b>
<i>Hornsby</i>	16.1	13.5	12.1	19.7	23.0	84.5	209.0
<i>The Hills</i>	63.5	26.3	34.9	42.1	54.6	221.4	500.7
<i>Ku-ring-gai</i>	14.8	30.7	36.6	57.4	43.1	182.6	349.7
<b>Option 4</b>	94.3	85.9	99.6	135.8	138.2	<b>553.8</b>	<b>1,222.6</b>
Saving	-0.1	15.4	16.0	16.6	17.5	<b>65.3</b>	<b>163.1</b>

Note: Cumulative results are not discounted.

- A shared services model between Hornsby, The Hills and Ku-ring-gai Councils (where they would share an Infrastructure and Recreation Division) – Option 7 - is estimated to achieve a net operating result of around \$24.2 million in 2017/18 (for the Hornsby Shire entity - refer Table 7.18 on page 64 of KPMG's report), representing about a 5 percent improvement to the current forecast net operating result in Option 1.
- Under Option 7, the cumulative net operating result over the period 2013/14 to 2022/23 for the Hornsby/The Hills/Ku-ring-gai shared services entity is estimated to be \$1,086.6 million (which is 27.2 million – or 3 percent - greater than what the Councils are estimated to achieve as separate entities in the same period) – see Table below.

	2013-14	2014-15	2015-16	2016-17	2017-18	Cumulative 2013-14 to 2017-18	Cumulative 2013-14 to 2022-23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Option 1 (base case)</b> <i>consisting of</i>	94.4	70.5	83.6	119.2	120.8	<b>488.5</b>	<b>1,059.4</b>
<i>Hornsby</i>	16.1	13.5	12.1	19.7	23.0	84.5	209.0
<i>The Hills</i>	63.5	26.3	34.9	42.1	54.6	221.4	500.7
<i>Ku-ring-gai</i>	14.8	30.7	36.6	57.4	43.1	182.6	349.7
Option 7	91.8	73.4	86.6	122.3	124.0	<b>498.0</b>	<b>1,086.6</b>
Saving	-2.6	2.9	3.0	3.1	3.2	<b>9.5</b>	<b>27.2</b>

Note: Cumulative results are not discounted.

KPMG stated that implementing local government reform, whether through boundary reform or shared services, requires consideration of a variety of supporting factors in addition to the expected financial impacts. The supporting strategies and mechanisms include:

- Asset utilisation, renewal and financial sustainability, including:
  - valuation and stocktake of assets
  - maintenance of infrastructure
- Service delivery pathways to promote quality provision of council services, including consideration of:
  - service levels between councils
  - human resource management across councils
  - corporate support functions
- Governance structures of new council entities, including consideration of how governance may impact the effectiveness of local representation

- Transition measures to underpin the implementation of reforms

KPMG went on to say that Council's preferred option for reform should be identified using multi-criteria analysis to recognise that broader supporting strategies need to be considered in conjunction with the projected financial impacts for different reform options. The framework for conducting a multi-criteria analysis should, therefore, consider a range of appropriate financial and non-financial criteria, for example:

- the expected financial impacts of options
- risks to financial sustainability over the longer term
- strategic risks
- risks to service quality and effectiveness
- risks to the effectiveness of local representation
- risk to effective implementation and management over time

The approach recommended by KPMG was for Council to actively engage all relevant councils and the NSW Government concurrently to undertake a more comprehensive evaluation of the costs and benefits of all options. The approach to developing the analysis in KPMG's report has the flexibility to be extended and refined over time should further, more detailed, data become available.

KPMG went on to say that following the completion of due diligence, stakeholder engagement and agreement of a preferred option, there should be detailed implementation planning to ensure successful delivery of reform over time. A structured and effectively communicated approach to implementation and management of the reform process is critical for its overall success, including the realisation of the potential benefits.

### 3.5 Other actions considered

In preparing your Improvement Action Plan, you may have considered other strategies/actions but decided not to adopt them. Please identify what these strategies/actions were and explain why you chose not to pursue them.

*For example, neighbouring council did not want to pursue a merger, unable to increase rates or increase borrowing, changes in policy or service standards.*

On 24 November 2014, the General Manager wrote to the General Managers of Ku-ring-gai, The Hills, Parramatta and Ryde Councils advising them of Hornsby's resolution of 12 November 2014 in respect of the NSW Government's Fit for the Future announcements. Advice was sought from the General Managers about their Council's position in respect of participating in discussions to explore the possibility of merging with Hornsby Council to create a new entity which meets the scale and capacity requirements of the NSW Government's Fit for the Future announcements.

On the same date, the General Manager wrote to the Acting Chief Executive Officer of the OLG advising of the letters he had written to Ku-ring-gai, The Hills, Parramatta and Ryde Councils and putting the OLG on notice that Hornsby may require support from the appointed Regional Relationship Manager to assist in accessing skilled facilitators and technical experts who will be able to assist any of Hornsby's discussions with its neighbouring councils.

The following is a synopsis of discussions or known current positions of our neighbouring councils - The Hills, Parramatta, Ryde and Gosford Councils:

#### The Hills Council

- Hornsby's Fit for the Future Steering Committee (FFTFSC) met with representatives of The Hills Council in late January 2015.
- It was noted that the ILGRP had recommended that The Hills had the scale and capacity to stand alone into the future.
- The Hills supports reform of the local government sector and more logical boundaries with its neighbours that will result in fewer councils throughout Sydney.
- The Hills advised that it has adopted a position that would see its existing boundaries expanded to incorporate parts of Hornsby, Parramatta and Hawkesbury local government areas. In respect of Hornsby, The Hills proposes that most of the

rural areas and the suburbs of Cherrybrook, West Pennant Hills, Carlingford and Epping be incorporated into their local government area.

- Based on each Council's position, no follow up meetings have occurred with The Hills to date.

#### Parramatta Council

- Hornsby's FFTFSC met with representatives of Parramatta Council in early February 2015.
- It was noted that the ILGRP had recommended that the boundaries of Parramatta be expanded and that they were currently in discussions with The Hills, Auburn and Holroyd Councils in this regard.
- Although no follow up meetings have occurred with Parramatta, they have indicated an openness to further discussions about our joint boundary, particularly at Epping and Carlingford.
- It appears that Parramatta is favouring a possible Joint Organisation approach with their smaller neighbours.

#### Ryde Council

- Ryde considered Hornsby's and other northern Sydney councils' positions at its 17 February 2015 meeting and reaffirmed its rejection of the ILGRP's proposal to split Ryde partly between Parramatta, Holroyd and Auburn Councils and amalgamate the balance with Hunters Hill, Lane Cove, Mosman, North Sydney and Willoughby.
- Ryde believes it is Fit for the Future in its own right and will complete a Council Improvement Proposal and submit such to IPART for consideration.
- Ryde will investigate a modified Joint Organisation (regional body) proposal with other interested councils in northern Sydney i.e. Hunters Hill and Lane Cove.
- Ryde has endorsed a business case being undertaken for potential amalgamation with Hunters Hill, Lane Cove, Mosman, North Sydney and Willoughby.
- Ryde declined Hornsby's request to participate in discussions on merger opportunities.

#### Gosford Council

- Some of the river communities on the Gosford side of Hornsby's Hawkesbury River boundary indicated a keenness for Council to explore a boundary adjustment which would see them become part of Hornsby.
- In 2009, the Local Government Boundaries Commission undertook a detailed examination of a very similar boundary

proposal initiated by requests from local residents.

- The findings were that the proposal would not be in the public interest and the Commission recommended to the Minister of the day that the proposal not proceed. The Minister adopted the Commission's recommendations.
- Gosford's was contacted to see if it was interested in reopening the proposal.
- Advice was subsequently received that Gosford had no appetite to explore the issue as it was contrary to their Fit for the Future position and they did not see any utility in any further discussions with Hornsby.

### **Discussions With and Positions of NSROC Councils**

The following is a synopsis of discussions or known current positions of NSROC councils – North Sydney, Lane Cove, Willoughby and Hunters Hill Councils:

#### **North Sydney Council**

- Believes it is Fit for the Future and opposes forced amalgamations.
- Is not prepared to participate in a joint organisation study, a cost benefit study or a combined community engagement strategy with Ryde, Lane Cove, Willoughby, Mosman and Hunters Hill Councils.
- Will continue with its own community engagement strategy as appropriate.

#### **Lane Cove Council**

- Is concerned there is no evidence-base for the claims of any service or rate benefits to their residents.
- Believe they are in a strong financial position with no debt and are the only north shore council that meets the Fit for the Future financial criteria.
- Will be consulting with their community to gauge feedback on options available including proposal for a joint organisation approach with neighbouring councils.
- Lane Cove will investigate a modified Joint Organisation (regional body) proposal with other interested councils in northern Sydney i.e. Hunters Hill and Ryde.

#### **Willoughby Council**

- Notes the positions of Hunters Hill, Lane Cove, Ryde and Mosman Councils in respect of mergers and joint organisations.

- Is not interested in proposed investigations for a modified joint organisation.
- Is not interested in merger conversations with Ku-ring-gai Council.
- Will be consulting with its residents about the following options – Willoughby Council stand alone; Willoughby and North Sydney Councils merger; Willoughby, North Sydney and Lane Cove Councils merger; Willoughby, Lane Cove, Hunters Hill, Mosman, North Sydney and eastern two-thirds of Ryde Councils merger.
- Agree to specific talks between Willoughby and North Sydney for creation of a new entity to further inform deliberations.

#### Hunters Hill Council

- Hunters Hill will investigate a modified Joint Organisation (regional body) proposal with other interested councils in northern Sydney i.e. Lane Cove and Ryde.

#### **Discussions with Ku-ring-gai Council**

- In November 2014, the General Manager wrote to Ku-ring-gai's General Manager advising of Hornsby's resolution in respect of Deputy General Manager's Report No. CS42/14. Advice was sought about Ku-ring-gai's position in respect of participating in discussions to explore the possibility of merging with Hornsby Council to create a new entity which meets the scale and capacity requirements of the NSW Government's Fit for the Future announcements.
- Also in November 2014, Ku-ring-gai resolved in part that *"....Council proactively begin discussions with surrounding Councils about Merger proposals, engaging facilitators and other consultants as necessary to enable a report to be brought back to Council in February 2015 with possible configuration options before proceeding to the next step in the Merger proposal process and preparing a detailed business case for consultation with the community...."*.
- Following discussions between the General Managers, a joint approach was made by Hornsby and Ku-ring-gai to the OLG in January 2015 seeking the appointment and funding of an independent facilitator to assist merger discussions between the two Councils.
- In February 2015, the OLG advised that Morrison Low had been chosen to undertake the consultancy. Morrison Low subsequently advised that their Project Team would consist of Stephen Bunting as the facilitator and Tim McCarthy as the infrastructure expert. The Councils saw Morrison Low as a good choice for the consultancy as they had a good understanding of both Council's infrastructure (condition, infrastructure backlog, renewals and capital works program, maintenance expenditure and practices, etc). In this regard, Tim McCarthy had recently worked with both Councils in respect of infrastructure backlogs and consequently had an excellent understanding of their assets and issues.



- Mr Bunting met individually with Hornsby Councillors and senior staff (on 4 March 2015) and with Ku-ring-gai Councillors and staff (on 30 March 2015) to discuss benefits, opportunities and threats from a potential merger, as well as roadblocks, obstacles and key issues for the Council and its community.
- In respect of the meeting with Hornsby, Mr Bunting advised that:
  - Hornsby have commissioned a number of “due diligence” reports on the options and implications of a merger for Council.
  - There is positive support from the elected members for a merger with Ku-ring-gai as proposed by the ILGRP, or another local government area. Council is of the view that mergers lead to improved local government.
  - The key issues that a merger proposal would need to address are:
    - the impact on rates
    - the representation model
    - the infrastructure gap
  - The Council sees merit in moving to a business case in order to provide a better evidence base for later decision making.
- In respect of the meeting with Ku-ring-gai, Mr Bunting advised that:
  - Ku-ring-gai have conducted their own investigations into a merger and elected members and staff developed informed views on the costs and benefits of a merger.
  - While Ku-ring-gai is happy to discuss merger options they are unconvinced that a merger option is in the best interests of Ku-ring-gai residents.
  - The key issues for Ku-ring-gai that a merger proposal would need to address are:
    - the impact on rates
    - representation and ward structures
    - differences in services/service levels
    - legacy issues with the Hornsby Quarry

➤ urban planning and development issues

- Mr Bunting then convened a joint workshop between Councillors and senior staff of the two Councils on 7 April 2015 to discuss the issues arising from the individual workshops, and in particular, similarities, issues, barriers and possible solutions. In order to generate agreement on moving to a merger business case, Mr Bunting sought a focused joint discussion on significant issues and how those issues may be resolved; and areas where the greatest commonality exists and those which also rate the highest.
- Mr Bunting's report on the joint workshop indicated that:
  - Both Councils had different views on their own ability to be Fit for the Future.
  - A number of potential benefits of a merger were identified, however, there were differing views about whether these benefits were only available through a merger or could also be achieved by the Councils as standalone organisations.
  - The key issues/barriers to a joint merger proposal were:
    - The impact and distribution when merging rates – inequities unlikely to be resolved in merger without Government intervention.
    - Representation and ward structure – difficult to resolve under current options.
    - Hornsby Quarry – issues quantified by Hornsby and Hornsby offered separate briefing to Ku-ring-gai Councillors.
    - Ku-ring-gai advised they had developed a strategy to address their infrastructure backlog within two years.
    - Both Councils had different focuses for planning and development. These local priorities are likely to be able to be retained under a merger.
    - Unresolved concerns from Ku-ring-gai about control over future decision making regarding planning and development.
    - Differences in services/levels and community of interest can be addressed as part of merger investigation.
- At the conclusion of the joint workshop, both Councils agreed to discuss the matter at their respective Councils and resolve their positions about whether they should progress to the next step. That step would be the preparation of an independent merger business case to provide an evidence base for later decision making about whether or not the Councils should

merge.

- Hornsby indicated that it would be briefing all its Councillors about the proposed merger case in the third week of April and, depending on Ku-ring-gai's decision, would consider the matter formally at its 13 May 2015 General Meeting. Ku-ring-gai indicated that it would formally consider the matter at its Meeting on 28 April 2015.
- At its 28 April Meeting, Ku-ring-gai considered a report (Item GB.3) which provided details about the matter and concluded that it was not in Ku-ring-gai's best interests to merge. The summary of their report stated that:

*A detailed assessment of a merger with Hornsby Shire Council has identified the following impacts:*

*Representation:*

- *A merger is likely to result in 6 councillors elected from the former Ku-ring-gai area and 9 councillors from the former Hornsby Shire area.*
- *There would be an overall reduction in representation with the number of residents per councillor increasing from 11,903 currently for Ku-ring-gai to a minimum of 19,058 in the merged council.*

*Planning and Development:*

- *A merger may result in disproportionately increased development in the former Ku-ring-gai area, negatively impacting on the existing residential character, landscape and heritage values.*
- *Decisions about future development would be made by the merged council, with minority representation from councillors elected from the former Ku-ring-gai area.*
- *After a merger, there is a risk that s.94 developer contributions collected in the former Ku-ring-gai area may be spent in the former Hornsby Shire area.*

*Rates:*

- *Due to the higher land values in Ku-ring-gai, a merger would result in significantly increased rates in the former Ku-ring-gai area and a reduction in the former Hornsby Shire area.*
- *Hornsby Shire residents pay a greater percentage of property wealth in rates and therefore have less capacity to increase in the future if required. Any future additional rates income would be drawn disproportionately from the former Ku-ring-gai area due to higher land values.*

- *There would be greater volatility in rates (e.g. between different suburbs) in future years when land revaluations occur.*
- *Rural areas cover 60% of the rateable area of Hornsby Shire while only 1% of the total rates revenue is derived from farmland. Any cross subsidy of the rural areas would be shared with Ku-ring-gai ratepayers after a merger.*

#### *Hornsby Quarry:*

- *The latest scheme to remediate the Hornsby Quarry is to obtain fill from the NorthConnex project to part fill the Quarry (approximately one quarter) at an estimated cost of \$22 million of which Hornsby Council's share is \$7.33 million. In addition, there are estimated costs of \$15 to \$20 million for quarry stabilisation and landform, and \$10 million for recreational facilities. Hornsby Council have advised that all amounts are fully funded.*
- *As the estimated costs are at a concept level and detailed investigations have not yet commenced, there is uncertainty from Ku-ring-gai Council's perspective as to the reliability of these current estimates. The potential liability associated with the Hornsby Quarry is significant in the context of any proposal to merge.*

#### *Service Levels:*

- *Ku-ring-gai Council has higher revenue per capita than Hornsby Shire, with greater capacity to provide services. A merger would require the equalisation of services, resulting in either a reduction of services for the former Ku-ring-gai area or increased rates to raise the Hornsby Shire service levels.*
- *The rates would need to increase in the former Ku-ring-gai area by between 18% and 35% to raise the same revenue per capita across the whole of the merged council area as currently enjoyed by Ku-ring-gai.*

#### *Overall Financial Health:*

- *Hornsby Shire Council has lower working capital and reserves than Ku-ring-gai. Hornsby reports a lower infrastructure backlog than Ku-ring-gai, however its ongoing asset maintenance and renewal indicators are inferior.*
- *Hornsby Shire Council's overall financial position is weaker than that of Ku-ring-gai, a key consideration for a merger. T-Corp assessed Ku-ring-gai as being "Sound" with a "Neutral" outlook, while Hornsby was given the lower rating of "Moderate" with a "Neutral" outlook.*
- *Hornsby Shire does not need to merge with Ku-ring-gai to be Fit for the Future. It is a large council with an independent assessment from T-Corp as being Moderate. Hornsby Shire has advised that they are revising their*

*Long Term Financial Plan to meet the Fit for the Future criteria.*

*Cost Savings and Efficiencies:*

- *A merged council would result in a larger bureaucracy and there are differing views about whether mergers lead to cost savings and greater efficiency. Academic studies indicate that predicted savings from mergers are optimistic and do not eventuate.*
- *Nine of the biggest Councils in NSW run large operating deficits. These councils have an average population of 207,000 and an average operating deficit of \$8.7 million. By contrast, both Ku-ring-gai Council and Hornsby Shire Council run healthy operating surpluses.*

*Communities of Interest and Community Facilities:*

- *Hornsby Shire has a larger population than Ku-ring-gai that is more widely dispersed over an area more than five times the size. The merged council would be some 65 km in distance from the north to the south. The provision of services and facilities would be challenging, with likely conflict about the allocation of resources, service levels and cross subsidisation between different areas. A merger of Ku-ring-gai with the much larger area of Hornsby Shire would diminish current communities of interest and societal connectedness.*

*Environmental Issues:*

- *Ku-ring-gai and Hornsby have similar bushland environments, although Hornsby control of a much greater area. There is a concern that a large increase in the amount of overall bushland area managed could see a reduction in the service level for bushland management currently experienced in Ku-ring-gai.*
- *Ku-ring-gai Council has a special rates levy for the Environment, the continuation of which after a merger would require the support of the newly elected council. If it was not continued there would be an impact on both the environment and the community engagement due to the programs and funding it provides.*

*Workforce and Transition Costs:*

- *Transitioning to a merged council would take many years and be very costly. Based on the Queensland experience, it is expected that the costs would far exceed the funds being offered by the state government.*
- *During the transition, there would be disruption to service provision, loss of key staff, organisational knowledge and skills.*

*In conclusion, a merger with Hornsby Shire Council would be highly unfavourable for the residents and ratepayers of Ku-*

*ring-gai.*

*Ku-ring-gai Council is already a large council that is a demonstrated industry leader, is in a sound financial position and can meet the Fit for the Future Benchmarks. Accordingly, it is recommended that Council prepare an Improvement Proposal to meet the requirements of Fit for the Future.*

- Following its consideration of the report, Ku-ring-gai resolved:

*THAT Council advise Hornsby Shire Council that a merger would be highly unfavourable for the residents and ratepayers of Ku-ring-gai and will not be further considered and that the Mayor write to Hornsby Shire Council thanking the Councillors and staff for their interest in pursuing a merger and explaining the reasons for Council's decision and that Council prepare an Improvement Proposal to meet the requirements of Fit for the Future.*

## 4. How will your plan improve performance?

### 4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	0.076	0.037	0.041	0.0493	0.061	0.0544	Yes
<b>Own Source Revenue</b> Ratio (Greater than 60% average over 3 years)	73.6%	72.5%	74.7%	87.7%	87.9%	88.0%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	61.5%	108.7%	108.6%	109.1%	109.6%	103.4%	Yes
<b>Infrastructure Backlog Ratio</b> (Greater than 2%)	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	79%	95%	95%	98%	100%	100%	Yes
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	4.35%	1.54%	1.45%	1.32%	0.70%	0.48%	Yes
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	613	616	611	602	598	600	Yes

## 4.1 Expected improvement in performance

If, after implementing your plan, your council may still not achieve all of the Fit for the Future benchmarks, please explain the likely reasons why.

*For example, historical constraints, trade-offs between criteria, longer time required.*

Not applicable



## 5. Putting your plan into action

How will your council implement your Improvement Action Plan?

*For example, who is responsible, how the council will monitor and report progress against achieving the key strategies listed under Section 3.*

Council has had difficulty in completing this part of this Template because it is not making the claim that it is fit for the future. Council recognises that it does not have the scale and capacity required under the FFTF criteria, and through an assessment of the independent research it has commissioned over the past few years, can see the benefits of at least progressing through the preparation of an independent merger business case with one or more of its neighbouring councils. Once that work was done, Hornsby and the other councils would be in a much better position to consider in an objective and reasoned manner whether a merger is or is not in the best interests of the communities they currently represent.