

30 June 2015

Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir

Local Government Reform – Fit for the Future

At its 10 June 2015 General Meeting, Council considered Deputy General Manager's Report No. CS13/15 – Local Government Reform – Fit for the Future (FFTF) – The Process Since 2011 and Council's Submission to IPART – and resolved that Council:

1. *Advise IPART that it has proactively entered into discussions and undertaken research since 2011 which shows that Hornsby Shire would benefit from local government reform.*
2. *Advise IPART that it has discussed with its neighbouring councils the opportunity to commission the preparation of an independent merger business case which would incorporate joint community consultation and be used objectively and reasonably by the councils to consider amalgamation options and issues.*
3. *Advise IPART that as no neighbouring council has indicated a willingness to partner with Hornsby to commission a merger business case, Council is aware that it will be deemed "not fit" under the scale and capacity criteria of Fit for the Future (FFTF) but now has no choice but to complete a Council Improvement Proposal for IPART's assessment.*
4. *Endorse the Council Improvement Proposal incorporated in Deputy General Manager's Report No. CS13/15 for submission to IPART, noting that Council will meet all the financial sustainability, infrastructure and services and efficiency criteria under FFTF by 2018/19.*
5. *Encourage the State Government to remain committed to working with the industry to achieve local government reform in line with the FFTF package.*
6. *Write to the Minister for Local Government and IPART requesting that if the State Government decides to pursue a merger option for Hornsby with Ku-ring-gai (or another council/s) because Hornsby has been deemed "not fit" for the future by IPART, that the Government take the opportunity to also consider the following changes to Hornsby's existing boundaries as part of the process:*
 - a) *That part of the suburb of Carlingford, east of Marsden Road, currently within the Parramatta City Local Government Area (LGA), be transferred to the Hornsby Shire LGA*
 - b) *That part of the suburb of Eastwood currently within the Parramatta City LGA be transferred to the Hornsby Shire LGA*

- c) *That part of the suburb of Epping currently within the Parramatta City LGA be transferred to the Hornsby Shire LGA*
 - d) *That part of the suburb of Eastwood currently within the City of Ryde LGA be transferred to the Hornsby Shire LGA*
 - e) *The suburb of Marsfield, currently within the City of Ryde LGA, be transferred to the Hornsby Shire LGA*
 - f) *The suburb of Macquarie Park, currently within the City of Ryde LGA, be transferred to the Hornsby Shire LGA*
7. *Make a submission to the NSW Legislative Council's General Purpose Standing Committee No. 6 – Inquiry into local government in New South Wales in terms consistent with the contents of Deputy General Manager's Report No. CS13/15 and Council's resolution.*
8. *Write to the Chair of the NSW Legislative Council's General Purpose Standing Committee No. 6 – Inquiry into local government reform in New South Wales requesting that the Mayor appear as a witness before the Inquiry on behalf of Hornsby Shire Council.*

As you are no doubt aware, Hornsby Shire 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 Independent Local Government Review Panel's (ILGRP) final report in 2013 and the State Government's response to that report in its FFTF announcements in 2014, Council has also proactively entered into discussions with its neighbouring councils about having an independent merger business case prepared which could be used to objectively consider amalgamation options and issues for Hornsby and those councils.

As no neighbouring council has indicated a willingness to even partner with Hornsby to have a merger business case prepared, Council had no choice, following its consideration of the abovementioned Report, but to complete a "Template 2 - Council Improvement Proposal" and submit the Proposal to IPART for formal assessment. Although Hornsby understands that it is likely that it will be found by IPART to be "not fit" under the scale and capacity requirements of FFTF (as it is not merging in line with the recommendations of the ILGRP), the Proposal shows that Council has been a role model through the reform process and is well placed in meeting all the financial sustainability, infrastructure and services and efficiency requirements of FFTF.

It is noted that the Council Improvement Proposal has now been loaded on to the IPART website and has attached to it a copy of the Report referred to above as well as copies of the various pieces of research that Council has commissioned on this matter.

In line with point 6 of the above resolution, if IPART determines that Hornsby Shire Council is "not fit" for the future following a formal assessment of its Council Improvement Proposal, it will be appreciated if any recommendations that IPART makes to the State Government about Hornsby's future take account of the boundary adjustments proposed in points 6 a) – f).

In this regard, Council's rationale in including point 6 in its resolution was that it is clear from the volumes of reports, investigations and evidence into local government reform that there is a need to significantly reduce the number of councils in the metropolitan area. In respect of northern Sydney, it is proposed that the number of councils should be reduced from eleven to three - comprising an "Upper North Shore Council", a "Lower North Shore Council" and a "Northern Beaches Council".

By combining Hornsby with the existing Ku-ring-gai local government area and rationalising suburbs in the Parramatta and Ryde local government areas, an Upper North Shore Council would be well placed to deliver on the increased strategic capacity and improvements to services and infrastructure that the community in that combined area deserves. Such a proposal would also bring the whole of suburbs of Wahroonga, Epping, Eastwood, and the substantial part of the suburb of Carlingford, into a single local government area bringing significant improvements in the delivery of services and infrastructure to those communities. It would also bring the business hub at Macquarie Park into the same local government area as the feeder suburbs to which it services and enhances the viability of a strong Upper North Shore Council.

Council looks forward to continue working with the State Government to achieve local government reform, and to the appearance of the Mayor to explain Council's position at the NSW Legislative Council's General Purpose Standing Committee No. 6's inquiry into local government in NSW.

If you have any questions or require further information about any of the above or Council's Improvement Proposal, please do not hesitate to let me know.

Yours faithfully

Scott Phillips
General Manager

TRIM Reference: F2014/00494

1 LOCAL GOVERNMENT REFORM - FIT FOR THE FUTURE (FFTF) - THE PROCESS SINCE 2011 AND COUNCIL'S SUBMISSION TO IPART

EXECUTIVE SUMMARY

- This Report provides details of the Destination 2036 local government reform exercise commenced by the State Government in 2011; the independent research commissioned by Council to assist in deliberations about reform; the research and findings of the Independent Panel in 2012 and 2013; the Government's response in 2014 to the Panel's findings in its FFTF package; and subsequent discussions Hornsby has had with its neighbouring councils about having an independent merger business case prepared which could be used by the councils to objectively and reasonably consider amalgamation options and issues.
- As no neighbouring council has indicated a willingness to partner with Hornsby to have a merger business case prepared, Council now has no choice but to complete a "Council Improvement Proposal" and submit such to IPART for formal assessment. Although Hornsby will be found by IPART to be "not fit" under the scale and capacity requirements of FFTF (as it is not merging in line with the recommendations of the Panel), the Proposal shows that Council has been a role model through the reform process and will meet all the financial sustainability, infrastructure and services and efficiency requirements of FFTF by 2018/19.

RECOMMENDATION

THAT Council:

1. Advise IPART that it has proactively entered into discussions and undertaken research since 2011 which shows that Hornsby Shire would benefit from local government reform.
2. Advise IPART that it has discussed with its neighbouring councils the opportunity to commission the preparation of an independent merger business case which would incorporate joint community consultation and be used objectively and reasonably by the councils to consider amalgamation options and issues.
3. Advise IPART that as no neighbouring council has indicated a willingness to partner with Hornsby to commission a merger business case, Council is aware that it will be deemed "not fit" under the scale and capacity criteria of Fit for the Future (FFTF) but now has no choice but to complete a Council Improvement Proposal for IPART's assessment.
4. Endorse the Council Improvement Proposal incorporated in Deputy General Manager's Report No. CS13/15 for submission to IPART, noting that Council will meet all the financial sustainability, infrastructure and services and efficiency criteria under FFTF by 2018/19.
5. Encourage the State Government to remain committed to working with the industry to achieve local government reform in line with the FFTF package.

PURPOSE

The purpose of this Report is to provide Council with a complete record of the local government reform process that has been in train since 2011; to explain Council's significant contribution to the reform process throughout which it has been prepared to take an industry-wide (rather than just a Hornsby-specific) view to proposals included in the State Government's Destination 2036 and Fit for the Future (FFTF) initiatives; and, based on Ku-ring-gai Council's recent advice that it is unwilling to participate in the appointment of an independent consultancy (50% funded by the State Government) to research and prepare a merger business case providing the advantages/disadvantages of a combined Hornsby/Ku-ring-gai Council for individual consideration by each of the Councils; to recommend that the "Council Improvement Proposal" for Hornsby Shire Council detailed in this Report be approved for submission to IPART by the deadline of 30 June 2015.

BACKGROUND**Destination 2036**

In August 2011, the Mayors and General Managers of all 152 NSW councils and representatives of various local government industry groups met in Dubbo to discuss and plan the future of local government in NSW for the next 25 years. Following the Dubbo conference, the Division (now Office) of Local Government (OLG) released a Destination 2036 Outcomes Report and set out the proposed process and timeframe for consultation and preparation of a related Action Plan. This included the setting up of an Implementation Steering Committee (ISC) to oversee the process. When the ISC was set up, it comprised the Chief Executive of the OLG; the Presidents of the Local Government and Shires Associations (now Local Government NSW) (LGNSW); and the President of the NSW Local Government Managers' (now Local Government Professionals Australia) (LGPA).

In December 2011, the ISC released a draft Destination 2036 Action Plan and sought comments from interested stakeholders. Following the public exhibition period, minor changes were made by the ISC to the Action Plan and it was approved by the Minister for Local Government. The Plan also referenced the Minister's establishment of an Independent Local Government Review Panel (ILGRP) who would assume responsibility for some of the key actions.

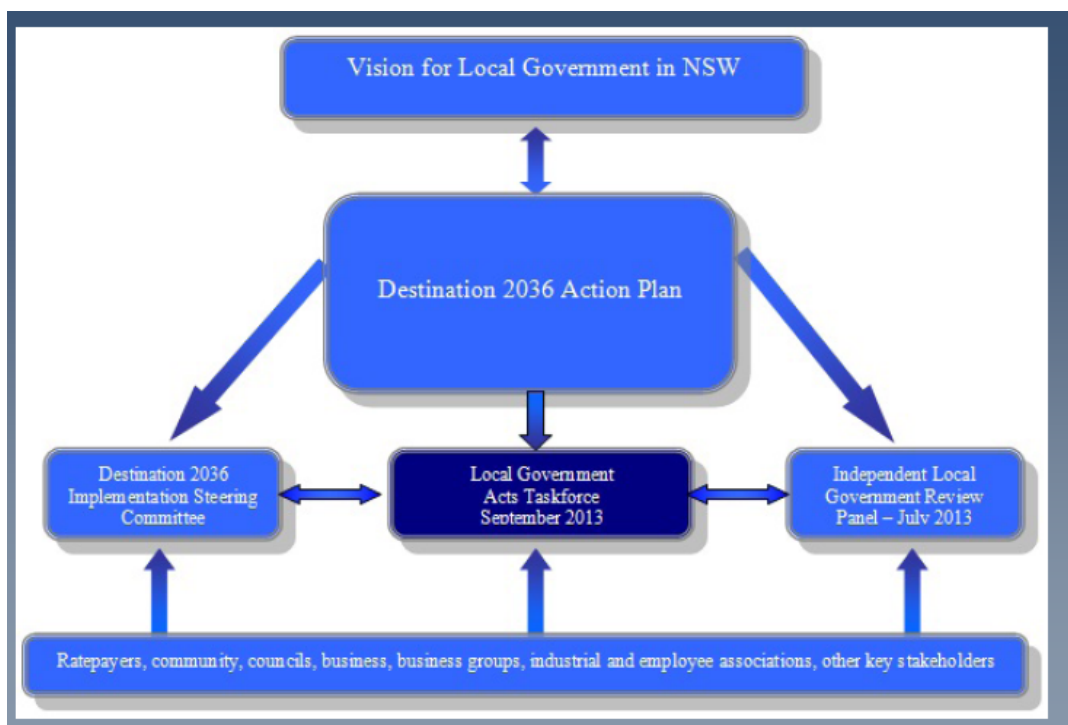
The Destination 2036 key actions were grouped under the following initiatives: establish local government as an employer of choice; encourage and facilitate innovation; ensure the Local Government Act supports stronger local government; ensure strong and effective local governance; review the revenue system to ensure greater flexibility and self reliance; develop strategies that maximise opportunities to secure funding from other levels of government; establish a range of funding models to enable the long term maintenance, replacement and creation of different classes of assets; develop a number of different structural models of local government; more clearly define the functions, roles and responsibilities of local and State Government; align State and local government planning frameworks; negotiate a new inter-governmental agreement; and recognise local government as a legitimate and important sphere of government

Each of the key actions, which were grouped under the above initiatives, had an expected completion date and a coordinating agency responsible for their achievement. Those agencies included the OLG, LGPA, LGNSW and the ILGRP. Progress updates for each of the key actions were reported quarterly on the OLG website. The ILGRP, which has since received the most press, was allocated responsibility for the following actions:

- Develop options and models to enhance collaboration on a regional basis through Regional Organisations of Councils (ROCs)

- Undertake research into innovation and better practice in local government in NSW, Australia and internationally
- Examine the current local government revenue system to ensure the system is contemporary, including rating provisions and other revenue options
- Examine the pros and cons of alternative governance models
- Research and develop alternative structural models, identifying their key features and assessing their applicability to NSW
- Identify barriers and incentives to encourage the voluntary amalgamation or boundary adjustment of councils
- Identify those functions that are clearly State or local government responsibility, those that cannot be readily defined and those that have been legislated/regulated as core functions

In August 2012, the Minister for Local Government also announced that the legislative framework for local government in NSW was to be rewritten and modernised. He appointed a Local Government Acts Taskforce to make recommendations in respect of this process. As a consequence, the Taskforce took on the key actions associated with the amendment of the Local Government Act and the City of Sydney Act.



Independent Local Government Review Panel (ILGRP)

The ILGRP, which was launched in May 2012, was originally scheduled to present its final report to the State Government in July 2013. That timeline was extended until September 2013 which was in line with the reporting requirements of the Local Government Acts Taskforce. The Panel was chaired by Professor Graham Sansom who was a previous Director of the Australian Centre for Excellence in Local Government. The other members of the Panel were Ms Jude Munro (a former CEO of four metropolitan councils across three states – including Brisbane City Council); and Mr Glenn Inglis (who had extensive experience as a Council General Manager in rural and regional NSW).

Apart from considering several actions from the Destination 2036 Action Plan; the Panel examined possible future arrangements for local governance and service delivery in the far western districts of NSW; and proposals to combine the existing 104 council-owned water utilities across non-metropolitan NSW into 32 larger regional operations. The ILGRP also closely followed the Government's reform of the land use planning system, and the review of local government compliance and enforcement activities by IPART.

The Panel released an initial Consultation Paper in July 2012 and then held 32 consultation sessions during a Listening Tour around the State. More than 200 submissions were subsequently received by the ILGRP (including one from Hornsby). As part of its deliberations, the ILGRP also reviewed a wide range of already published research and reports of inquiries into various aspects of local government in NSW, across Australia and internationally. In November 2012, it released a paper titled "Better Stronger Local Government – The Case for Sustainable Change". That paper set out the Panel's thinking on some key aspects of local government and its relationship to the State that appeared to be in most need of fresh thinking and new ideas.

As part of "The Case for Sustainable Change" the ILGRP included "signposts for reform" under the headings of:

- The local government system and challenges faced – understanding the system and defining strategic capacity to deal with future challenges
- Fiscal responsibility and financial management – distribution of Financial Assistance Grants; rate pegging; etc.
- Services and infrastructure – whole of government responses; tackling infrastructure backlogs; greater efficiencies; regional collaboration
- Structures and boundaries – shared services models; benefits and drawbacks of amalgamation; consolidation of councils in Sydney; how to support amalgamation process
- Good governance – role and stature of Mayors; working relationships with GM's; expanded benchmarking and performance reporting
- A compact for change and improvement – arrangements between State and local government

The ILGRP commissioned or was informed by further studies including: an examination of the scope to enhance regional collaboration through ROC's; a cluster factor analysis to identify types of communities that have similar characteristics and are facing similar challenges; a review of the processes and outcomes of the 2004 amalgamations in NSW; an analysis of a range of opinion polls and resident satisfaction surveys to assess community attitudes towards local government; an examination of the effectiveness of the NSW rating system; an analysis of the financial sustainability of all 152 councils by the NSW Treasury Corporation (TCorp); and an assessment of each council's infrastructure backlog by the DLG (now OLG).

In respect of the regional collaboration paper, two options were proposed by the Panel. The first was that if the current structure of local government is not changed much, there should be a strengthening of ROC's and a greater commitment to collaboration between councils in the ROC's. The second was that if there are extensive changes to the structure, there should be a Council of Mayors which would effectively be a streamlined County Council structure from which there would be a stronger requirement to engage in regional processes.

The main issues/themes that came out of the paper on previous amalgamations were: there needs to be clarity about what any boundary change aims to achieve; there needs to be a recognition about the importance of engaging and communicating with stakeholders at all stages of the process; there is a

necessity for detailed planning; the successes of previous structural reforms have been as a result of the commitment of key people rather than the models of decision making at the time. They have been beneficial to communities but at a cost; and for amalgamation to be successful in the future, there needs to be:

- A partnering approach
- A fresh start
- Stakeholder involvement
- Sound planning and implementation
- Removal of barriers (and addition of incentives)
- Transitional arrangements for elected representation
- Independent monitoring and evaluation

The paper dealing with polls and surveys drew on a number of Statewide polls and 22 individual surveys undertaken by councils (one of which was for Hornsby in respect of its rate increase application a few years ago). The paper found that: NSW councils are good at running libraries, collecting waste and looking after parks and sportsgrounds; they are not so good at fixing roads and footpaths or processing development applications; ratepayers are probably willing to pay more rates if local services are maintained and local facilities are improved; local government rated much higher than Federal and State Governments in caring for the community, providing a voice for residents and an opportunity for involvement in decision making (N.B. Local government had a 70% satisfaction rating compared to a less than 16% satisfaction rating for other levels of government); and there has been general support in recent polls for consolidation of councils in the Sydney metropolitan area – but not on what the final or desired number of councils should be.

TCorp's analysis of the financial sustainability of the 152 councils across NSW provided a Financial Sustainability Rating (FSR) and an Outlook Rating (OR) for each council. In respect of FSR's, no councils were rated as very strong, two were rated as strong, 32 were rated as sound, 79 were rated as moderate, 34 were rated as weak and five were rated as very weak. For OR's, five councils outlooks were positive, 74 were neutral and 73 were negative. Hornsby's FSR rating was moderate and its OR was neutral. The seven key recommendations made by TCorp in respect of Hornsby Council were:

- Council should aim for at least breakeven operating positions each year
- Pricing paths are needed for the medium term
- Rate increases must meet underlying costs
- Asset management planning must be prioritised
- Councillor and management capacity must be developed
- There must be an improved use of restricted funds
- There should be an increased use of debt

The ILGRP subsequently released a further consultation paper titled "Future Directions for NSW Local Government – Twenty Essential Steps" which set out the Panel's thinking as it entered the final three to four months of its work program. It built on the "Case for Sustainable Change" document released in November 2012. The Media Statement that accompanied the release of the Consultation Paper

detailed a summary of the ILGRP's thoughts at that time. That summary, particularly as it was applicable to Hornsby, is provided below:

- *We have prepared a package of Future Directions for NSW Local Government aimed at transforming its culture, structures, finances and operations, as well as its relations with the State Government. The paper gives councils and the community another opportunity to have their say and inform our ideas before we complete our final report in September. 40 years ago, the Barnett Committee recommended some similar changes for NSW local government, including a reduction in the total number of councils to less than 100. Some of those changes have been implemented but many have not, and new challenges now have to be faced. NSW cannot afford to wait another 40 years for vital improvements to the local government system.*
- *The Panel's goal is for a more sustainable system of democratic local government that has added capacity to address the needs of local and regional communities, and to be a valued partner of State and Federal governments. NSW needs more effective local government to harness the skills and resources of local communities, improve quality of life and advance State development. Many councils are performing very well. However, on the whole our investigations and consultations have revealed a local government sector that is weighed down with too many out-of-date ideas, attitudes and relationships. There are many factors involved, but at the heart of the problem we still have too many councils chasing too little revenue.*
- *As revealed in a TCorp report about the matter, it is "time to act". TCorp's results paint a disturbing picture and confirm the Panel's view that underlying weaknesses in the financial position of NSW local government have been allowed to build up for far too long. In three years' time, 48% of councils could have a weak or worse financial sustainability rating. There is no point in seeking to apportion blame: what is needed now is a healthy dose of reality-testing and an acceptance that there are no easy answers. It is clear that the financial base of NSW local government is in urgent need of repair, with many councils facing very serious problems that threaten their sustainability and ability to provide adequate services and infrastructure for their local communities. Addressing the issues will be uncomfortable for all concerned: politicians, senior managers, staff and ratepayers. As TCorp makes clear, a concerted, medium-long term strategy is required.*
- *Stronger regional and metropolitan governance must be a central plank of local government reform to make better use of scarce resources and to facilitate more efficient and effective State-local relations especially in strategic planning, economic development, infrastructure provision and service delivery. To achieve this in regional NSW, the Panel has proposed the establishment of around 20 "new look", multi-purpose County Councils. These have been focused on existing or potential major regional centres, which could also be strengthened by some amalgamations with adjoining councils. The paper also proposes extensive restructuring of local government in the Sydney Metropolitan Area, Lower Hunter and Central Coast. This includes in particular:*
 - *A new "global city" of Sydney, encompassing the whole area from the CBD east to the coast and south to Botany Bay. The Panel sees this as vital to create a capital city that, like those of Brisbane, Auckland and many other competitors around the world, will match Sydney's international status.*
 - *Reducing the unnecessary fragmentation of local government in Sydney's southern suburbs and the inner west, on the north shore and along the northern beaches.*

- *Greatly expanded cities of Parramatta and Liverpool that will have the scale and resources needed to support the regional centres envisaged in the draft Metropolitan Strategy.*
 - *A combined city of Newcastle-Lake Macquarie to drive development in the Lower Hunter.*
 - *A merger of Gosford and Wyong to provide stronger local government in the Central Coast.*
- *Opponents of amalgamations rely heavily on the argument that local identity will be lost in bigger local government units. However, the Panel can find no evidence that loss of local identity is an inevitable consequence of creating larger local government areas. To assist the transition for councils considering voluntary amalgamation, the Panel proposes a range of ways to ensure local voices are heard. These include place management approaches, use of wards, citizen's panels and modern customer service systems. We also propose the option of "Local Boards" – a new type of elected, community-based local government unit with limited responsibilities delegated from a local council or County Council. These could be used to replace small rural and remote councils that will not have the resources to continue in their current form, as well as to assist the transition to larger local government areas in the Sydney metropolitan area.*
- *Amalgamations and boundary changes are not the panacea for local government's problems. However, many out of date boundaries and structures remain in place today and our terms of reference require that we provide options to address those issues. We believe that amalgamations and boundary changes are an essential element of a wider package of reforms. In doing so, the Panel has kept in mind the Government's commitment to "no forced amalgamations" and understands that change will require councils and communities to accept the benefits of mergers. Detailed planning and business cases will be needed and further consultation will be required under the provisions of the Local Government Act. The Panel's report proposes a wide-ranging package of financial and other incentives for voluntary mergers. But in the end, arguments about amalgamations are essentially a distraction from the core issue we need to face, which is how the role and capacity of NSW local government can best be strengthened in the interests of the communities it is expected to represent. We are faced with challenges that demand a fresh look at the system of local government and its relationship with the State, and a willingness to explore new options with an open mind. That is what we will be doing for the remaining four months of the review.*
- *The Consultation Paper provides a detailed progress report on the Panel's work to date and provides a basis for further consultation. The Panel's ideas are crystallising but are not set in concrete. A number of important research projects are still under way and the Panel wants to discuss the options included in the paper with councils and communities. The paper fulfils the Panel's commitment to ensure that all concerned can discuss the options being considered for its final report, which is now due in September 2013, to give the Panel time to consider the expected significant feedback from the Future Directions stage of the review.*
- *The Panel's Future Directions consultation will include visits to 29 regional cities and towns and eight locations in the Sydney metropolitan area from 9 May until 14 June 2013. Councils Workshops will provide the opportunity for Mayors, Councillors and senior staff to discuss the paper and explore the options put forward for their region. Community Hearings will also be held to provide the opportunity for local people and organisations to express their views directly to the Panel and discuss the various ideas and proposals set out in the paper.*

Chapter 15 of the ILGRP's paper dealt with the reshaping of metropolitan governance and had the most relevance to Hornsby Shire Council at the time. The Panel said that for Sydney to remain Australasia's pre-eminent global city, very substantial changes are needed to the way the region is governed at both local and State levels. The Panel believed that without changes to council boundaries there will be an increasingly severe imbalance in the structures of local government between eastern and western Sydney and that this would be inequitable and impede sound strategic planning and effective State-local collaboration.

The ILGRP concluded that the number of local councils in the Sydney basin should be significantly reduced, especially in the inner and eastern suburbs, on the lower North Shore and around Parramatta and Liverpool. In this regard, the Panel's objectives were to: create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and Federal agencies; establish a more equitable pattern of local government across the metropolitan area, taking into account planned development; underpin Sydney's status as a global city; and support implementation of the Metropolitan Strategy. The Panel's view was that on balance, looking ahead to the mid-21st Century when Sydney's population will reach about 7 million, having about 15 councils is appropriate.

The Metropolitan Strategy placed particular emphasis on the planning and development of a series of major centres. The ILGRP considered the lessons to be learned from the history of efforts over the past 40 years to establish Parramatta as Sydney's "second CBD". One of those lessons is that a strong, well-resourced local council is an essential factor: there is little doubt that Parramatta's development has been hindered by the limited scale and narrow boundaries of the current local government area. The Panel therefore considered that major centres need to be managed by suitably large and capable councils. This requires:

- A major expansion of the City of Parramatta to include Auburn, Holroyd, most or all of Ryde, and areas of Hornsby and The Hills south of the M2. This will create a city with a broad socio-economic mix and with the resources needed to develop a "second CBD".
- Amalgamation of the local government areas of Liverpool, Fairfield and perhaps Bankstown to support the planned Liverpool "regional city".
- Amalgamation of local government areas on the lower North Shore, in the inner west, and in the St George area. These amalgamations are also needed to reduce excessive fragmentation into small or relatively small units.

The Panel saw considerable benefits in sharing the wealth and revenue base of the Sydney CBD across a much wider area. The new city would have the capacity to undertake major sub-regional projects, such as light rail and cycleway networks, from its own resources. It may also be able to assume responsibility for some State-managed facilities, such as Centennial Park and the Botanic Gardens, freeing-up funds for allocation to projects in more needy local government areas.

The Panel indicated that if there is little or no restructuring of existing boundaries in the metropolitan area, then as in the rest of NSW multi-purpose (but in this case sub-regional) County Councils should be established to undertake a wide range of functions on behalf of their members, thus ensuring effective and ongoing collaboration in shared services, strategic planning and advocacy, as well as a basis for partnership with State and Federal agencies. If restructuring takes place as preferred by the ILGRP, sub-regional groupings of councils would be set up for joint strategic planning and implementation with State agencies of proposed Delivery Plans under the Metropolitan Strategy, as well as Regional Action Plans under the State Plan. Sub-regional boundaries have been indicated in the draft Metropolitan Strategy, but may require adjustments in light of the Panel's proposals.

The specific recommendation in respect of Hornsby Shire Council contained in Table 4 of the Consultation Paper was that Hornsby amalgamate with Ku-ring-gai Council. If this proposal was not acceptable to the State Government because of its current policy position of no forced amalgamations, the Panel recommended that the two Councils combine under a strong County Council model. Under this model, the County Council would undertake a broad range of strategic functions to support both Hornsby and Ku-ring-gai Councils. The County Council would replace the existing regional organisation (NSROC) with Hornsby and Ku-ring-gai remaining much as they are except that they would “own” and resource the County Council and refer some regional functions to the County Council. The Panel also recommended, in line with its proposed expansion of the Parramatta City Council boundaries, that Hornsby’s current boundary with Parramatta and/or Ryde Councils be shifted north to the M2.

Deputy General Manager’s Report No. CS22/13, which was submitted for Council’s consideration at the 19 June 2013 General Meeting, provided background details about the establishment of the ILGRP together with Council’s response to the Panel’s April 2013 consultation paper titled “Future Directions for NSW Local Government – Twenty Essential Steps”. Council’s submission, which was sent on 27 June 2013, was one of many that the ILGRP received and considered in developing its final report.

The ILGRP submitted its final report to the Minister for Local Government in October 2013 and it was subsequently released for public comment by the Minister in January 2014. Comments on the final report were originally due by 7 March 2014, but this date was extended by the Minister until 4 April 2014.

The Panel made a total of 65 recommendations which respond to the following 12 key themes that run throughout the report:

- The overarching imperative is to ensure the long-term sustainability and effectiveness of NSW local government. In its present form and under current policy settings the system as a whole will not remain sustainable and fit-for-purpose for much longer.
- The focus of policy should be on strengthening ‘strategic capacity’ – ensuring that local government has the right structures, governance models, skills and resources to discharge its responsibilities and realise its potential.
- Major new initiatives are required to tackle the underlying problems of financial weakness and infrastructure backlogs.
- In particular, a series of measures must be put in place to promote greater ‘fiscal responsibility’ within local government and to make associated improvements to local government’s efficiency, accountability and political governance.
- Changes to the rating system and rate-pegging are essential to generate the revenues needed to fund infrastructure and services, and – equally as important – to make the system more equitable.
- Given limited funds, the distribution of grants must change to direct more assistance to areas of greatest need.
- Stronger regional organisations are vital to ensure increased resource sharing and joint planning, and to support vulnerable rural-remote councils.
- Structural reform – including council amalgamations – is another essential component of reform, notably in metropolitan Sydney.

- The process for considering possible amalgamations and boundary changes needs to be overhauled, and a package of incentives introduced to encourage voluntary mergers.
- The particular issues and problems facing the Far West of NSW require special arrangements.
- Working relations between local government and State agencies need to be improved across the board, and regional coordination should be the centrepiece of this effort.
- Reforms must be pursued as an integrated package, not one-off measures.

The ILGRP's principal recommendations in response to the above key themes can be summarised as follows (noting that the relevant section of the Panel's report is shown in brackets for those interested in obtaining further information):

Fiscal Responsibility

- Establish an integrated Fiscal Responsibility Program, coordinated by the Division of Local Government (now OLG) and also involving the Treasury Corporation (TCorp), the Independent Pricing and Regulatory Tribunal (IPART) and Local Government NSW (LGNSW)... (5.1 and 5.3)
- Introduce more rigorous guidelines for Delivery Programs... (5.2)
- Place local government audits under the aegis of the Auditor General... (5.4)

Strengthening the Revenue Base

- Commission IPART to undertake a further review of the rating system focused on: options to reduce or remove excessive exemptions and concessions... (6.2); more equitable rating of apartments and other multi-unit dwellings... (6.3)
- Either replace rate-pegging with a new system of 'rate benchmarking' or streamline current arrangements to remove unwarranted complexity, costs, and constraints to sound financial management... (6.5)
- Subject to any legal constraints, seek to redistribute Federal Financial Assistance Grants and some State grants in order to channel additional support to councils and communities with the greatest needs... (6.6)
- Establish a State-wide borrowing facility to enable local government to make increased use of debt where appropriate... (6.7)

Meeting Infrastructure Needs

- Maintain the Local Infrastructure Renewal Scheme (LIRS) for at least five years, with a focus on councils facing the most severe infrastructure problems... (7.2)
- Pool a proportion of funds from the roads component of Federal Financial Assistance Grants and, if possible, the Roads to Recovery program in order to establish a Strategic Projects Fund for roads and bridges... (7.2)
- Adopt a similar model to Queensland's of Regional Roads and Transport Groups... (7.4)

Improvement, Productivity and Accountability

- Commission IPART to undertake a whole-of-government review of the regulatory, compliance and reporting burden on councils... (8.2)

- Amend Integrated Planning and Reporting (IPR) Guidelines to require councils to incorporate regular service reviews in their Delivery Programs... (8.4)
- Strengthen requirements for internal and performance auditing as proposed in Box 17... (8.5)

Political Leadership and Good Governance

- Require councils to undertake regular Representation Reviews ... (9.1)
- Amend the legislated role of councillors and mayors and introduce mandatory professional development programs... (9.2 and 9.3)
- Amend the legislated role and standard contract provisions of General Managers... (9.5)
- Develop a Good Governance Guide ...(9.7)

Advancing Structural Reform

- Introduce additional options for local government structures, including regional Joint Organisations, 'Rural Councils' and Community Boards, to facilitate a better response to the needs and circumstances of different regions... (10.1)
- Legislate a revised process for considering potential amalgamations and boundary changes through a re-constituted and more independent Boundaries Commission... (10.3)
- Encourage voluntary mergers of councils through measures to lower barriers and provide professional and financial support... (10.4)

Regional Joint Organisations

- Establish new Joint Organisations (JOs) for each of the regions shown on Map 2 under new provisions of the Local Government Act that replace those for County Councils... (11.5)
- Establish Regional Water Alliances in each JO along the lines proposed in the 2009 Armstrong-Gellatly report... (11.3)

'Rural Councils' and Community Boards

- Establish a working party to further develop the concept of 'Rural Councils'... (12.1)
- Include provisions for optional Community Boards... (12.2)

Metropolitan Sydney, Hunter and Central Coast

- Seek evidence-based responses from councils to the Panel's proposals for mergers and major boundary changes... (13.3, 14.1, 14.2)
- Maximise utilisation of the local government revenue base in the eastern half of the Sydney region in order to free-up State resources...(13.6)

Non-Metropolitan Regions

- Progressively refer (non-metropolitan) councils to the reconstituted Boundaries Commission in accordance with Table 11 and the proposed timeline... (15.1)

The Far West

- Agree in principle to the establishment of a Far West Regional Authority... (16.3)
- Adopt the preferred new arrangements for local government set out in Box 40... (16.4)

State-Local Government Relations

- Introduce new arrangements for collaborative, whole-of-government strategic planning at a regional level... (17.3)
- Amend the State Constitution to strengthen recognition of elected local government... (17.4)

Chapter 13 of the ILGRP's report deals with metropolitan Sydney and had the most relevance to Hornsby Shire Council. A summary of the matters raised by the Panel in Chapter 13 is provided below:

Reshaping metropolitan governance

- The Panel is convinced that for Sydney to remain Australasia's pre-eminent global city, very substantial changes are needed to the way the region is governed at both local and State levels.
- Achieving more effective metropolitan governance requires a partnership approach involving State, local and, if possible, Federal governments.

Alternative futures for local government

- The Panel sees two distinct alternatives for the future structure of metropolitan local government:
 - Retain more or less the current number and distribution of councils, and rely heavily on sub-regional Joint Organisations to contribute to metropolitan issues, engage with State agencies at a sub-regional level, undertake joint planning and projects, and promote increased delivery of shared services.
 - Substantially reduce the number of councils so that each has the resources and credibility to be a player in metropolitan affairs in its own right, and so that they can all come together in a strong metropolitan-wide organisation such as a 'Council of Mayors'.
- In considering these options the Panel took the following factors into account.
 - With 41 councils in metropolitan Sydney (excluding the Central Coast) local government is fragmented (especially in the eastern half of the region) and lacks credibility as a significant player and partner in metropolitan planning and management.
 - There is continuing unnecessary duplication between councils in planning and service delivery, and scarce expertise and resources are not being used to their full potential.
 - Without changes to council boundaries there will be an increasingly severe imbalance in the structures of local government between eastern and western Sydney.
 - Coordination and cooperation between councils would undoubtedly be improved by the establishment of robust sub-regional organisations.
 - Enhanced capacity for local government to play a major role in strategic planning, delivery of major infrastructure and improvement projects, and partnering effectively with State and Federal agencies is more likely to be achieved if the basic building blocks – individual councils – are larger and more capable.
 - There is an often expressed community concern that creating substantially larger local government areas will reduce local representation and destroy local identity. However, there are a number of ways in which local identity and representation can be maintained.

Options for mergers

- The Panel concluded that the number of local councils in the Sydney basin should be significantly reduced. This applies mainly to the inner and eastern suburbs, the lower North Shore and around Parramatta and Liverpool.
- The Panel's proposals were amended in several key respects from those put forward in its earlier Future Directions Discussion Paper to take into account issues raised in submissions, as well as the opportunity to align sub-regional boundaries with those to be used for the State Plan and Metropolitan Strategy.
- In particular, the Metropolitan Strategy places particular emphasis on the planning and development of a series of regional centres. Looking ahead, it will be important to ensure that the centres of both Parramatta and Liverpool are governed by councils with considerably greater capacity and strength in sub-regional leadership than has been the case.
- The options put forward are far-reaching but not as radical as some might prefer. The Panel's view is that on balance, looking ahead to the mid-21st Century when Sydney's population will reach about 7 million, having about 15-18 councils is appropriate. A smaller number could tend to create several 'mini-states', which would not be helpful at this stage. The Panel's proposals leave scope to make further structural changes in the future if required.
- Amalgamated councils should have the option of establishing Community Boards. This would help smooth the transition to much larger local government areas and enable ongoing representation of local communities of interest.
- Submissions to the Panel indicate intense opposition to mergers amongst some metropolitan councils, but also a significant degree of support for change. The same applies in the community, and analysis of polling suggests that initial 'reflex' opposition to amalgamations is not as firm as it might appear. At least three councils (including Hornsby) have commissioned studies to explore the potential benefits of mergers, and others have suggested substantial boundary changes.
- It is essential that any changes to boundaries in metropolitan Sydney occur within a consistent strategic framework designed to support strategic planning and infrastructure provision, and to complement State government efforts to improve metropolitan governance. The Panel therefore believes that the best way forward would be first, to seek evidence-based responses from councils to its proposals; then to refer both the proposals and responses to the proposed Ministerial Advisory Group; and then, if warranted, to the Boundaries Commission for further consideration. The Panel would caution against supporting any isolated voluntary amalgamations until there is a clear long-term strategy. Experience with the 'semi-voluntary' mergers that occurred in Adelaide in the mid-1990s indicates that, whilst some benefits are achieved, the overall outcome can be a very unsatisfactory 'patchwork quilt'.

Sub-regional arrangements

- If the number of councils in the Sydney region is substantially reduced, then sub-regional arrangements would be focused primarily on working with the Department of Planning and Infrastructure (DPI) and the Department of Premier and Cabinet (DPC) to prepare and implement sub-regional Delivery Plans and Regional Action Plans.
- If there is little or no restructuring of existing council boundaries, then multi-purpose JOs should be established to undertake a wide range of functions on behalf of their members, as

in the rest of NSW. Close collaboration in strategic planning, infrastructure provision and shared services would be especially important. The JOs would also be critical for strengthening partnerships with State and Federal agencies to bring about more effective metropolitan governance and growth management. Given the large number of councils in the inner and middle rings of Sydney, there may be a need to split some of the sub-regions shown on Map 3.

Maximising available resources

- Restructuring local government in the eastern half of metropolitan Sydney would maximise opportunities to make more use of the revenue potential from high land values and, in particular, the surge in medium and high-density residential development.
- 23 Sydney councils (including Hornsby) receive only the minimum general-purpose financial assistance grants (FAGs), suggesting little or no need for external support. Property owners in most of those areas pay relatively low rates as a proportion of land values. Preliminary calculations show that if they paid a similar percentage of land value as the metropolitan average, the councils concerned could collectively raise more than \$150 million extra each year.
- Local councils in relatively affluent areas and with significant under-utilised revenue potential can and should contribute more to the task of managing metropolitan growth and change. This would free-up State resources to provide greater assistance to councils in western Sydney and elsewhere in NSW that are struggling to fund essential infrastructure and services.

A metropolitan Council of Mayors

- Sydney needs a metropolitan councils organisation that can provide a 'voice' for the region, and that can represent local government and local communities in high-level consultations with State and Federal governments, as well as internationally. With many fewer councils, there would be an opportunity – as well as a strong case – to establish a body similar to the South East Queensland Council of Mayors. If restructuring takes place along the lines suggested by the Panel, such a Council of Mayors would logically be chaired by the Lord Mayor of either Sydney or Parramatta.
- If the number of councils remains more or less as at present, then an alternative model would be several sub-regional Councils of Mayors that come together periodically as a metropolitan local government assembly.

The specific recommendation for Hornsby Shire Council detailed in Table 8 of the Panel's report was that Hornsby amalgamate with Ku-ring-gai Council; or that Hornsby and Ku-ring-gai Councils combine as a strong Joint Organisation. The Panel also recommended, in line with its proposed expansion of the Parramatta City Council boundaries, that Hornsby's current boundary with Parramatta and/or Ryde Councils be shifted north to the M2. Under the Joint Organisation (JO) model, the JO would undertake a broad range of strategic functions to support both Hornsby and Ku-ring-gai Councils e.g. strategic regional and sub-regional planning; inter-government relations and regional advocacy; road network planning and major projects; collaboration with State and Federal agencies in infrastructure and service provision; strategic procurement; high level corporate services or back office functions; etc. It is noted, however, that the Panel recommended that establishment of JO's in metropolitan Sydney should be deferred pending further consideration of potential mergers by the State Government.

Research Undertaken by Council

Apart from responding to papers prepared by the ILGRP and the LGAT about local government reform (refer to Deputy General Manager's Report Nos CS5/14 and CS6/14 – 12 March 2014 General Meeting), Council has been collecting and developing its own research about reform options.

Firstly, Hornsby and The Hills Councils jointly commissioned PWC to undertake a project to investigate potential mergers of Hornsby and The Hills with each other and/or with neighbouring councils. Secondly, Hornsby contracted Crosby Textor to undertake independent, scientifically robust and informative research to assist Council in understanding community opinion about the local government reform process as it affects the community.

Whilst the PWC research details the potential issues, benefits and disadvantages associated with Hornsby amalgamating with its neighbouring councils; Crosby Textor's research provides insights into the community's view about reforms proposed by the ILGRP in its April 2013 Discussion Paper and, in particular, council amalgamations and/or shared services.

The main messages emanating from the PWC research were:

- 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.

Following the receipt and consideration of the Crosby Textor and PWC research at its 21 August 2013 General Meeting, Council unanimously resolved that:

1. *The research undertaken for Council by Crosby Textor and PricewaterhouseCoopers be received and noted and briefings on the Crosby Textor research continue to be offered to the Independent Local Government Review Panel and the Minister for Local Government.*
2. *Due to public interest in this matter, copies of the PricewaterhouseCoopers and Crosby Textor quantitative research be made available with other relevant information on a "Local Government Reform" section of Council's website.*
3. *Prior to formalising its position on local government reform, Council commission an independent, high level strategic and financial assessment of potential options for structural reform of local government in the northern Sydney area. Such assessment would be similar to assessments already undertaken by Randwick and Warringah Councils for the eastern suburbs and northern beaches areas respectively.*

In respect of point 1 of the resolution, Council offered both the ILGRP and the Minister for Local Government briefings on the Crosby Textor findings to assist them in their continuing deliberations on local government reform. The ILGRP took the opportunity to be briefed on the Crosby Textor research and to then referred favourably to the research in its final report.

In line with point 2 of the resolution, copies of the PWC and Crosby Textor research were made available on Council's website.

In respect of point 3 of the resolution, KPMG was commissioned to undertake the high level strategic and financial assessment of options for structural reform. The scope of Council's engagement of KPMG was to:

- Develop up to seven local government reform options (including a base case) with reference to a predetermined set of local government reform principles.
- Conduct a financial strategic analysis of options, including:
 - detailed financial statement analysis of Hornsby Shire Council data
 - high level financial statement analysis of publicly available council data for neighbouring councils
 - financial modelling and sensitivity testing of options
 - internal stakeholder consultations and testing with up to three internal stakeholders at Hornsby Shire Council

- analysis of broader supporting strategies and mechanisms, including service delivery pathways, asset utilisation and renewal, socio-economic and cultural considerations, and governance structures
- multi-criteria analysis with up to five financial and non-financial criteria to determine the preferred option for Hornsby Shire Council
- Seek input to the analysis from neighbouring councils that may be impacted by local government reform options considered in KPMG's report.

Following its appointment, KPMG worked with Council to develop the following set of local government reform principles to be used in its analysis.

Reform Principles	Indicators	Key Considerations
Local Government Capacity - <i>the ability of local government to maintain or enhance service delivery</i>	Quality of service delivery Quality of planning and infrastructure delivery Capacity to attract specialist skills	With effective coordination and management, larger councils tend to have greater capacity than smaller councils to leverage financial and operational scale to: <ul style="list-style-type: none"> • better manage planning and infrastructure delivery • concurrently maintain or improve the quality and efficiency of services to residents
Financial Sustainability - <i>the ability of the council to sustainably fund adequate and effective services</i>	The capacity to secure economies of scale and scope Scope and scale of the resource base	Continued or improved financial sustainability is crucial in maintaining the capacity to deliver services, and it is often a key motivation of pursuing boundary reforms. Ensuring that any boundary reforms increase the financial sustainability of council is vital, and this will be assessed through the financial statement analysis and cost benefit analysis.
Local Representation - <i>the ability of the local government authority to effectively represent ratepayers</i>	Quality of local representation Communities of interest Quality of stakeholder management	Boundary reform options should be evaluated with respect to their impact on the effectiveness of local representation. The effectiveness of representation affects the quality of governance. Representation that is more reflective of the community is more likely to lead to outcomes aligned with the needs of the governed. Effective representation also helps manage the diverse (and sometimes competing) communities of interest that form a council locality.

KPMG and Council also agreed that the following seven local government reform options were those to be investigated as part of this project:

Reform Options	Description
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Option 1 - Base Case	Option 1 is the base case – or “do nothing” option – in which the current structure of local government areas considered were assumed to remain constant.
Amalgamation Options	
Option 2 - Hornsby and The Hills Councils	Option 2 is an amalgamation option that would involve combining Hornsby and The Hills Councils, with minor adjustments to each Council’s southern boundaries.
Option 3 - Hornsby and Ku-ring-gai Councils	Option 3 is an amalgamation option that would involve combining Hornsby and Ku-ring-gai Councils, with a minor adjustment to the southern boundary of Hornsby Council. The specification of Option 3 is consistent with the recommendation made in the ILGRP’s Final Report.
Option 4 - Hornsby, The Hills and Ku-ring-gai Councils	Option 4 is an amalgamation option that would involve combining Hornsby, The Hills and Ku-ring-gai Councils, with an adjustment to the southern boundary of Hornsby and The Hills Councils.
Shared Services Options	
Option 5 - Shared Infrastructure and Recreation Division between Hornsby and The Hills Councils	Option 5 is a shared services model between Hornsby and The Hills Councils, where an Infrastructure and Recreation Division would be shared across the Councils.
Option 6 - Shared Infrastructure and Recreation Division between Hornsby and Ku-ring-gai Councils	Option 6 is a shared services model between Hornsby and Ku-ring-gai Councils, where an Infrastructure and Recreation Division would be shared across the Councils.
Option 7 - Shared Infrastructure and Recreation Division between Hornsby, The Hills and Ku-ring-gai Councils	Option 7 is a shared services model between Hornsby, The Hills and Ku-ring-gai Councils, where an Infrastructure and Recreation Division would be shared across the Councils.

KPMG completed its research and provided Council with its final report (together with a summary version of the report which may be useful for interested members of the public). The key findings of KPMG’s research 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.
- **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 – refer 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) – 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
Option 1 (base case) <i>consisting of</i>	79.6	39.8	46.9	61.8	77.7	305.9	709.8
<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
Option 2	76.8	47.0	54.5	69.7	85.9	333.8	783.7
Saving	-2.8	7.2	7.5	7.8	8.2	27.9	74.0

Note: Cumulative results are not discounted.

- 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
Option 1 (base case) <i>consisting of</i>	79.6	39.8	46.9	61.8	77.7	305.9	709.8
<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
Option 5	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
Option 1 (base case) <i>consisting of</i>	30.9	44.2	48.7	77.1	66.1	267.1	558.7
<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
Option 3	27.3	49.3	54.0	82.6	71.9	285.0	609.1
Saving	-3.6	5.1	5.3	5.5	5.8	18.0	50.4

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
Option 1 (base case) <i>consisting of</i>	30.9	44.2	48.7	77.1	66.1	267.1	558.7
<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
Option 6	28.8	45.4	50.0	78.4	67.5	270.0	569.2
Saving	-2.2	1.2	1.3	1.3	1.3	3.0	10.5

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
Option 1 (base case) <i>consisting of</i>	94.4	70.5	83.6	119.2	120.8	488.5	1,059.4
<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 4	94.3	85.9	99.6	135.8	138.2	553.8	1,222.6
Saving	-0.1	15.4	16.0	16.6	17.5	65.3	163.1

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
Option 1 (base case) <i>consisting of</i>	94.4	70.5	83.6	119.2	120.8	488.5	1,059.4
<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	498.0	1,086.6
Saving	-2.6	2.9	3.0	3.1	3.2	9.5	27.2

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

KPMG provided a framework (see table below and Section 7.5 – pages 77-78 of KPMG's report) which Council could use to undertake the multi-criteria analysis.

Financial Criteria	
The net financial benefits of the options	Ranking of percentage point impacts relative to the base case net operating results.
Risks to financial sustainability over the medium to long term	Informed by the financial analysis and financial statement analysis of Hornsby Shire Council and neighbouring councils in the northern Sydney area.
Non-Financial Criteria	
Strategic Risks	Determined with respect to the analysis of supporting strategies and mechanisms and high level implementation considerations.
Risks to service quality and effectiveness over time	Determined with respect to the analysis of supporting strategies and mechanisms and high level implementation considerations.
Risks to quality and effectiveness of local representation	Determined with respect to the analysis of supporting strategies and mechanisms and high level implementation considerations.

Risks to effective implementation and management over time	Determined with respect to the analysis of supporting strategies and mechanisms and high level implementation considerations.
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KPMG did, however, indicate that further consultation and analysis is required to determine:

- the scoring for each criteria, particularly non-financial
- appropriate weightings for each criterion, to be determined by stakeholders

KPMG noted that there are a number of precursors to the finalisation and implementation of a preferred option by Council. These include, for example:

- Continued engagement in the broader local government reform debate in NSW, particularly when the NSW Government formalises its position to the *Revitalising Local Government* report recently released by the ILGRP.
- Further, more detailed, due diligence of reform options, particularly from the perspective of other councils in the reform process.

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.

KPMG have provided a high level implementation plan for an amalgamation or shared services reform model (see Section 8 – pages 79-84 of KPMG's report), however, they noted that a more complete implementation plan would be required following the completion of all required due diligence that provides:

- greater detail that is targeted to the specific option being considered
- target completion dates for actions
- accountabilities for those actions in agreed timeframes

Following its consideration of KPMG's report at the 11 June 2014 General Meeting, Council resolved that:

1. *KPMG's "Analysis of local government reform options in the Northern Sydney area" report be made available on Council's website and a copy sent to the Minister for Local Government and The Hills and Ku-ring-gai Councils.*
2. *The NSW Government be encouraged to facilitate local government reform having regard to the research undertaken for Council by KPMG, PWC and Crosby Textor; and the recommendations made by the ILGRP and the LGAT.*
3. *The Hills and Ku-ring-gai Councils be requested to provide their comments on the reform options outlined by KPMG.*

4. *When the NSW Government releases its responses to the recommendations made by the ILGRP and the LGAT, a further report be prepared for Council's consideration incorporating any feedback received from The Hills and Ku-ring-gai Councils about the KPMG reports.*

Following the Meeting, KPMG's report was placed on Council's website under the Local Government Reform tab; the Mayor provided a copy of the report to the Minister for Local Government and encouraged the NSW Government to commence reform of the local government industry; and the General Manager provided a copy of the report to the General Managers of The Hills and Ku-ring-gai Councils asking those Councils to provide any comments they may have on the reform options outlined in KPMG's report.

Ku-ring-gai Council considered the KPMG report at its 12 August 2014 Ordinary Meeting and resolved that:

Council note that the report commissioned by Hornsby Council "Analysis of local government reform options in the Northern Sydney area – 22 May 2014" does not support the case for amalgamation of Ku-ring-gai and Hornsby Councils as the forecast saving is small compared to the risks involved, representing only 1.6% of the combined budgets over 10 years. This forecast:

- i. Is based on simplistic assumptions derived from case studies of Council amalgamations of much larger scale and range of services offered*
- ii. Is likely to be optimistic and does not include an adequate allowance for transition costs*
- iii. Does not provide an adequate return for the substantial risks and disruption involved in an amalgamation*
- iv. Does not take into account the impact on Ku-ring-gai ratepayers in sharing in substantial costs to rehabilitate and stabilise the Hornsby Quarry*
- v. Does not take into account the impact of rates redistribution on Ku-ring-gai ratepayers due to higher land values, resulting in an increase in rates likely to be much greater than the forecast savings from amalgamation*
- vi. Does not address the loss of councillor representation, nor the operational difficulties, social challenges, town planning issues and political complexities in managing an amalgamation of two large, diverse council areas that stretch from the rural locality of Wisemans Ferry through to the urban suburb of Roseville, some 65 km to the south*
- vii. That Ku-ring-gai Council's response to the report commissioned by Hornsby Council be sent to the State MPs for Ku-ring-gai, Davidson and Hornsby*

Ku-ring-gai's report on the matter states that it would be exposed to the following risks if there was an amalgamation of Ku-ring-gai and Hornsby Councils:

- Reduced representation and less say in decision making for the local area; the risk of decisions about the Ku-ring-gai area being made by a majority of councillors elected from the Hornsby area due to a larger population
- Increased rates for Ku-ring-gai ratepayers due to redistribution of the rates burden from areas of lower land value (Hornsby) to areas of higher land value (Ku-ring-gai)
- Unknown financial liabilities such as for rehabilitation of the Hornsby Quarry

- Impact on the composition, quality and quantity of services due to the rationalisation of facilities and services
- Disruption to service provision, loss of skilled workers, fall in staff morale and productivity loss
- Utilising simplistic assumptions based on anecdotal evidence from the KPMG report could lead to increased costs rather than savings
- Forecast financial savings are small in comparison to the substantial risks and disruption from amalgamation

NSW's Fit for the Future Announcements

Deputy General Manager's Report No. CS42/14 was considered by Council on 12 November 2014. It advised that on 10 September 2014, the NSW Government released its responses to the ILGRP and LGAT recommendations contained in their respective reports from 2013 titled "Revitalising Local Government" and "A New Local Government Act for New South Wales and Review of the Sydney of City Act 1988". A copy of the Government's responses to the recommendations from the ILGRP and LGAT reports is held in TRIM (refer Document No. D03932915) and is also available on the NSW Government's website www.fitforthefuture.nsw.gov.au. The Government's responses are in line with Council's responses to the same recommendations.

The Government stated that more than one-third of the State's councils are facing financial problems, infrastructure backlogs are overwhelming, many of our growing suburbs are being constrained by boundaries that date back to the horse and cart days, and councils are missing out on opportunities to take a more active role in regional and State planning because they lack the scale and structures to engage. The work of the ILGRP and the NSW Treasury Corporation (TCorp) has helped the Government to build a clearer picture of what they believe a sustainable council looks like.

Based on the above, the Government released a number of publications which outline in more detail how they intend to move down the local government reform path under the banner Fit for the Future. The publications include the following:

- Fit for the Future – A Roadmap for Stronger, Smarter Councils
- Fit for the Future – A Blueprint for the Future of Local Government
- Fit for the Future – Frequently Asked Questions

Copies of the documents are held in TRIM (refer Document Nos D03932917, D03932936 and D03932939 respectively) and are also available on www.fitforthefuture.nsw.gov.au.

The Government indicated that, in its view, a Fit for the Future council will have the following features which will ensure that the council has the strategic capacity to govern effectively and partner with industry and the Government to deliver key priorities:

- it will be sustainable
- it will be efficient
- it will effectively manage infrastructure and deliver services for communities
- it will have the scale and capacity to engage effectively across community, industry and government

Financial Sustainability

For councils to meet the service and infrastructure needs of their communities, they will need to be financially sustainable. TCorp has defined a sustainable council as one that, over the long term, is

able to generate sufficient funds to provide the level and scope of services and infrastructure, agreed with the community through the Integrated Planning and Reporting (IP&R) process.

The criteria proposed to be used by the Government to determine if a council is Fit for the Future in terms of financial sustainability are:

- Operating Performance Ratio – a score greater than or equal to break-even averaged over a three year period is required
- Own Source Revenue Ratio – a score greater than 60% of total operating revenue is required
- Building and Infrastructure Asset Renewal Ratio – a score greater than 1 averaged over a three year period is required

Infrastructure and Services

In respect of effectively managing infrastructure and services, a Fit for the Future council will be one that:

- knows the current and future infrastructure needs of the community
- develops, maintains and renews infrastructure using the right mix of revenue and borrowing
- works with others to deliver cost effective services
- delivers services and infrastructure that meets the needs of communities as identified through the IP&R reporting process
- delivers services and infrastructure on time and on budget

The criteria proposed to be used by the Government to determine if a council is Fit for the Future in terms of infrastructure and services management are:

- Infrastructure Backlog Ratio – a score less than 2% is required
- Asset Maintenance Ratio – a score greater than 1 is required
- Debt Service Ratio – a score greater than 0% and less than 20% is required

Efficiency

The Government has indicated that an efficient Fit for the Future council will be able to:

- minimise unnecessary burden on business and the community
- provide value for money to the community
- manage resources well to deliver services and infrastructure

The criteria proposed to be used by the Government to determine if a council is Fit for the Future in terms of efficiency is:

- Movement in Real Operating Expenditure per Capita over a five year period

Scale and Capacity

The Government believes that scale is a key component of strategic capacity – both in creating individual councils with the resources and skills to provide leadership on regional planning and to advocate on behalf of communities by creating a system of local government where State and Local Government can work together effectively. As a consequence, a Fit for the Future council will be one that:

- saves money on bureaucracy and administration, freeing up funds for frontline services and community facilities
- can contribute to projects and tackle issues that impact on its residents and extend beyond the council boundary
- has credibility and influence across councils, across government and with industry

The criteria proposed to be used by the Government to determine if a council is Fit for the Future in terms of scale and capacity is:

- whether the scale and capacity of the local government area being assessed is consistent with the recommendations of the ILGRP

The Government believes that councils who have made the changes necessary to become Fit for the Future will have the capacity, strength, expertise and credibility to help shape the future of NSW. In recognition of that, the Government has indicated that it will give Fit for the Future councils:

- access to a streamlined IPART process for rate increases above the rate pegging limit, particularly focused on infrastructure funding needs, making it easier for councils to increase rates to fund services and infrastructure the community has said it wants and is willing to pay for
- access to a TCorp borrowing facility that will save NSW councils up to \$600 million on the cost of borrowing, helping them to fund the crucial infrastructure that communities need
- priority access to other State funding and grants
- eligibility for additional devolved planning powers in relation to the making of local environmental plans and development decisions, and opportunities for devolving further planning powers

In respect of metropolitan Sydney, which has the most relevance to Hornsby, the Government commented that Sydney is the fastest growing capital city in Australia. In the next 20 years, a further two million people will make Sydney their home with most of them settling in the western suburbs. A new international airport will be established and major growth centres will be developed in the north-west and south-west regions. Some communities will quadruple their size. New motorways and freight hubs will be needed, as well as hospitals, schools and large scale sporting facilities. To cope with this growth and Sydney's emerging role as a global city, NSW needs a modern, more connected system of local government.

There are currently 41 councils in Greater Sydney, all with their own rules and regulations. This means multiple licences, fees and approvals for small business and different development rules for people who want to build or renovate their homes. It also means people in different suburbs receive different levels of service. The Government believes everyone in Sydney deserves a strong future and that Sydney cannot continue to be constrained by boundaries that were set over 100 years ago. If governments are to deliver the housing, jobs and transport people will need in the next 20 years, a more connected system of local government must be created.

The Fit for the Future program was established to help councils and their communities take advantage of emerging opportunities. Fit for the Future councils will be provided with a seat at the table in planning Greater Sydney's future, and will receive more local planning powers. They will also have access to cheaper finance to build and maintain the facilities that communities need, such as roads, parks, footpaths, sporting facilities and community centres. The Government intends to invest up to

\$1 billion to create a more connected Global city and a smarter system of local government that can provide the services our growing communities need.

In its document “Fit for the Future – A Blueprint for the Future of Local Government”, the Government requested that councils across NSW review their situation, prepare a submission and then transition to being Fit for the Future.

Reviewing the Current Situation

Each council was requested to look at its current situation and consider the future needs of its community and the recommendations of the ILGRP. The Government provided a self-assessment tool to help guide the discussion. The assessment helps councils to get a clear picture of how they are performing in financial management, service delivery and scale of operations. It also helps them to identify what they may need to do to ensure they are Fit for the Future. Councils were encouraged to discuss ideas and options with their community and neighbouring local government areas. The OLG helped with guidelines and templates and councils will be able to access support from their regional relationship manager through the OLG’s One Stop Shop.

Preparing a Submission

After considering their situation, councils were asked to submit a proposal by 30 June 2015 about how they intend to be/become Fit for the Future. The Government assisted by providing guidelines and templates. Councils were able to get support from their OLG relationship manager and also had access to expert assistance if they wanted to look at voluntary merger options. In this regard, the ILGRP’s recommendations were proposed as a good starting point for how councils can achieve the scale and capacity they require to become Fit for the Future. For some councils, joining forces with their neighbours may be the best option. The Government committed to providing generous support if councils wanted to pursue that path. Larger councils who are already performing well may develop strategies to strengthen their operations and improve efficiencies. The proposals will be assessed by an independent expert panel and councils will receive feedback. The panel will then make recommendations to the Minister for Local Government.

Making the Transition

Once councils have a plan in place to become Fit for the Future, they will receive assistance and support from the Government to implement their plan. For merging councils, this includes funding to support the transition process and establish their new Fit for the Future venture. When Fit for the Future councils have completed their transition, they will have access to a range of opportunities including cheaper finance options, simplified reporting requirements, priority access to State funding and grants and options for additional planning powers.

The Government proposed the following four stages in its Fit for the Future process:

Stage 1

Councils were provided with a self-assessment tool to help them review their current performance against the Fit for the Future criteria. Based on these results, councils progress to Stage 2 to prepare a roadmap demonstrating how they will move towards becoming Fit for the Future.

Stage 2

Councils need to prepare a roadmap for becoming Fit for the Future, taking account of their community’s needs and future outlook. Consideration of scale and capacity were the starting point and are based on the ILGRP’s recommendations for each council. Councils may submit proposals for scale and capacity that are different to the recommendations made by the ILGRP so long as they are broadly consistent with the recommendations. Councils will not need to address the other three

criteria (i.e. sustainability, efficiency and effective services and infrastructure) until they have made the changes to have the right scale and capacity. Councils that already have the right scale and capacity based on the ILGRP's recommendations will need to prepare a roadmap for how they will address the other three criteria. Fit for the Future roadmaps must be submitted by 30 June 2015 for review by a team of independent experts (the Expert Panel).

Stage 3

During this stage, the Expert Panel will review each Council's roadmap. The Panel will make recommendations to the Minister for Local Government based on the Panel's assessment.

Stage 4

In Stage 4, councils who are Fit for the Future will begin to implement their roadmaps and take advantage of the benefits of being a Fit for the Future council. Newly formed councils will provide a plan for how they will meet the sustainability, efficiency and effective services and infrastructure criteria.

Assistance in Preparing a Roadmap

The Government committed to supporting councils to develop their roadmap and to make the changes necessary to become Fit for the Future. The support and funding includes:

- A One Stop Shop, hosted by the OLG, giving councils access to Regional Relationship Managers to assist them explore options and access additional support.
- Access to fully funded skilled facilitators, to assist in bringing councils to the table to identify risks, benefits and options for voluntary mergers.
- Establishing a panel of technical experts, with skills in financial analysis, asset management and governance, to support councils gaining access to the information and skills they need.
- Access to a structural change expert panel for councils that commit to structural change, to provide affordable access to technical advice to undertake due diligence and community consultation to support voluntary merger proposals. The State will fund 50% of the cost to councils.

The Government's recommendation for Hornsby Shire Council was that it voluntarily merge with Ku-ring-gai Council to form a new local government area with a population of approximately 280,000. If Council was supportive of such a recommendation, Council was eligible for the following support from the Government to progress the matter:

- Access to an OLG Relationship Manager to assist in exploring options and additional support which may be available.
- Access to fully funded skilled facilitators, to assist Hornsby and Ku-ring-gai to meet and to identify risks, benefits and options for such a merger.
- Access to a panel of technical experts to assist in gathering all the information required to make a decision.
- If there was agreement to the merger, access to a structural change expert panel who could provide affordable access (50% of cost covered by the Government) to technical advice to undertake due diligence and community consultation to support voluntary merger proposals.

If a merger was approved to take place, the new local government area would also be eligible for at least \$10.5 million (and possibly up to \$13.5 million if the total population estimate reached 300,000)

from the Government to implement the merger. It would also be eligible for other components of the Government's Fit for the Future package.

Having regard to all of the above, and in particular the requirement for Council to make a submission to the OLG by 30 June 2015 about how it will be Fit for the Future, Council needed to move down the following path or similar:

- October/November 2014 - undertake the self-assessment questionnaire distributed by the OLG to determine Council's placement against the Fit for the Future criteria.
- November/December 2014 - continue discussions with Ku-ring-gai Council (and potentially other neighbouring councils) to formally determine their willingness to participate in discussions about the potential for merger opportunities – this may involve assistance from the OLG's Relationship Manager and/or an experienced facilitator.
- January-June 2015 - depending on the response from Ku-ring-gai (or other neighbouring councils), commence preparation of a joint or single submission showing how a merged council, or Hornsby as a single entity, is Fit for the Future.

Following its consideration of Deputy General Manager's Report No. CS42/14 – Local Government Reform – NSW Government's "Fit for the Future" Announcements - at the 12 November 2014 General Meeting, Council unanimously resolved that:

1. *The contents of Deputy General Manager's Report No. CS42/14, which details the NSW Government's response to the final reports of the Independent Local Government Review Panel (ILGRP) and the Local Government Acts Taskforce under the banner of "Fit for the Future", be received and noted.*
2. *Council note that to be Fit for the Future under the Government's criteria, a council firstly needs to have sufficient Scale and Capacity (broadly in line with the recommendations of the ILGRP) which the Government believes will equip the council to engage effectively across community, industry and government. A Fit for the Future council will then also need to be able to demonstrate against the Government's criteria that it is sustainable, efficient and able to effectively manage infrastructure and deliver services for its community.*
3. *As Council does not have sufficient Scale and Capacity to be Fit for the Future under the Government's requirements, a Steering Committee comprising the Mayor and Councillors Tilbury, Singh and Hutchence be established to undertake discussions with our neighbouring councils regarding the possibility of merging with one or a number of those councils to create a new entity which meets the Scale and Capacity requirements of the Government.*
4. *In respect of the Government's Fit for the Future criteria for sustainability, efficiency and effectively managing infrastructure and services, it be noted that Hornsby Shire Council currently meets the Government's requirements to be Fit for the Future in respect of:*
 - *Operating Performance Ratio*
 - *Own Source Revenue Ratio*
 - *Infrastructure Backlog Ratio*
 - *Debt Service Ratio*
 - *Real Operating Expenditure per capita**but does not currently meet the requirements to be Fit for the Future in respect of:*
 - *Building and Infrastructure Asset Renewal Ratio*

- *Asset Maintenance Ratio*
5. *The General Manager advise the Fit for the Future Regional Relationship Manager/s appointed by the Office of Local Government for northern Sydney councils of Council's resolution and seek their support in providing access to skilled facilitator/s and technical experts who will be able to assist the discussions with our neighbouring councils.*
 6. *The General Manager and members of Council's Steering Committee provide regular briefings to all Councillors in respect of the progress of discussions with our neighbouring councils.*
 7. *A further report be prepared for Council's consideration in early 2015 which details how Council should progress the development of its Fit for the Future roadmap.*

DISCUSSION

The remainder of this Report provides details of actions and events that have occurred since Council's 12 November 2014 resolution in respect of Deputy General Manager's Report No. CS42/14.

One matter that has only recently been announced by the NSW Government is that they have appointed the Independent Pricing and Regulatory Tribunal (IPART) to be the Expert Panel who will be responsible for assessing council submissions made by 30 June 2015.

Fit for the Future Criteria and Benchmarks

To be Fit for the Future under the Government's criteria, Council is firstly required to have Scale and Capacity broadly in line with the recommendations of the ILGRP. As the ILGRP recommendation was for Hornsby to merge with Ku-ring-gai, to meet the Government's requirements for Scale and Capacity, Council would need to have a population of about 280,000.

If Council was able to meet the Scale and Capacity benchmark on its own, it would also need to be able to demonstrate against the Government's criteria that it is sustainable, efficient and able to effectively manage infrastructure and deliver services for its community. Using the Self Assessment Tool provided by the OLG, staff have calculated Council's scores against the Government's Fit for the Future criteria. The calculation is for 2013/14 specifically and for a three year average of the years 2011/12 to 2013/14. Council currently meets those criteria which are shown in **bold**.

Criteria	Benchmark	Council Score 2013/14	Council Score Avg 11/12-13/14
Scale and Capacity			
• Population	> 280,000	166,855	165,778
Financial Sustainability			
• Operating Performance Ratio	> or = to 0	0.052	0.013
• Own Source Revenue Ratio	> 60%	83.7%	85.0%
• Building and Infrastructure Asset Renewal Ratio	> 100%	78.9%	64.3%
Infrastructure and Services			

• Infrastructure Backlog Ratio	< 2%	0.52%	0.52%
• Asset Maintenance Ratio	> 100%	79.1%	85.7%
• Debt Service Ratio	> 0% and < 20%	4.21%	4.22%
Efficiency			
• Real Operating Expenditure per Capita over time	A reduction	\$630	\$640

Discussions With and Positions of Adjoining Councils – Other than Ku-ring-gai

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.

Council Improvement Proposal – Template 2

Whilst Hornsby has continually displayed a willingness over the period since 2011 to gather whatever evidence and independent and professional advice is required to make an informed decision about potential mergers with its neighbouring councils, Ku-ring-gai Council decided at its 28 April 2015 Meeting that it requires no further information than what it has already has to make its decision that a merger of Hornsby and Ku-ring-gai would not be in the best interests of its community.

As a consequence, and in the absence of any of its other neighbouring councils showing an interest in potentially merging, Hornsby Council now has no choice but to complete Template 2 – Council Improvement Proposal – which will show that apart from Scale and Capacity, Council is able to meet all the NSW Government's FTF criteria over the coming years.

As such, staff have completed a draft Template 2 (see below) using the guidelines provided by the OLG. The draft requires endorsement by Council prior to being submitted to IPART (as the NSW Government's Expert Panel) for formal assessment under the FFTF criteria.

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? (i.e. the Panel did not recommend your council needed to merge or become a Rural Council).

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**

TOTALS:	2011	2016	2021	2026	2031
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

CHANGE:	2011-16	2016-21	2021-26	2026-31
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

	<i>Sustainability</i>	<i>Assets/Service Management</i>	<i>Efficiency</i>
<i>Strengths Internal</i>	<p>Improved financial performance</p> <p>Forward thinking</p> <p>Meet all but one FFTF criteria</p> <p>Stable competent workforce and low staff turnover</p> <p>Committed to staff learning and development</p> <p>Ratio of staff to resident population amongst the lowest in NSW</p>	<p>Financially secure</p> <p>Able to take a proactive approach to opportunities e.g. NorthConnex and Hornsby Quarry.</p> <p>Also providing biodiversity offsets for state significant projects such as North West Rail Link (NWRL) and Epping to Thornleigh Third Track (ETTT).</p>	<p>Strong financial and community research about FFTF</p> <p>Cultural change program and focus on innovation embedded in Council</p> <p>Been on incremental improvement path for past four years since IPART granted a Special rate Variation (SRV)</p>
<i>Strengths External</i>	<p>Excellent industry reputation</p> <p>Positive relationship with State Government</p> <p>Positive relationship with community</p> <p>Politically stable environment</p>	<p>Manageable infrastructure backlog with documented and funded plans to adequately maintain infrastructure into the future</p> <p>Low debt service ratio</p>	<p>Strong financial and community research about FFTF</p> <p>One of the larger councils - with 165,000 residents</p> <p>Positive reputation for efficient delivery of offsets for major infrastructure providers working on state</p>

			significant transport projects
Opportunities	Level of local development increasing based on Housing Strategy and urban activation	Improvements to State infrastructure (NWRL, ETTT, NorthConnex, Hornsby Hospital)	Stable political environment and respected local representation
Threats and Weaknesses	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)	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	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

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?
Operating Performance Ratio - (greater than or equal to break-even average over 3 years)	0.052	Yes	0.043	Yes
Own Source Revenue Ratio - (greater than 60% average over 3 years)	83.7%	Yes	74.7%	Yes
Building and Infrastructure Asset Renewal Ratio - (greater than 100% average over 3 years)	78.9%	No	109.0%	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

Infrastructure and service management

Measure/ benchmark	2013/2014 performance	Achieves FFTF benchmark?	Forecast 2016 /2017 performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio - (less than 2%)	0.52%	Yes	0.56%	Yes
Asset Maintenance Ratio - (greater than 100% average over 3 years)	79.1%	No	95.0%	No
Debt Service Ratio - (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.

Efficiency

Measure/ benchmark	2013/2014 performance	Achieves FFTF benchmark?	Forecast 2016 /2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita – (a decrease in Real Operating Expenditure per capita over time)	\$630	Yes	\$767	Yes

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

Not applicable

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.

Outline your strategies and outcomes in the table below.

3.1 *Sustainability*

<i>Objective</i>	<i>Strategies</i>	<i>Key milestones</i>	<i>Outcome</i>	<i>Impact on other measures</i>
Have an independent merger business case prepared which investigates all issues associated with Council merging with one or more of its neighbouring councils.	Achieve agreement with a neighbouring council/s for the preparation of an independent merger business case.			

	Commission the business case's preparation. Review the recommendations of the merger business case. Take appropriate action.			
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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.

Outline your strategies and outcomes in the table below.

3.2 Infrastructure and service management

Objective	Strategies	Key milestone s	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.	Achieve agreement with a neighbouring council/s for the preparation of an independent merger business case. Commission the business case's preparation. Review the recommendations of the merger business case. Take appropriate action.			

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.

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.	Achieve agreement with a neighbouring council/s for the preparation of an independent merger business case. Commission the business case's preparation. Review the recommendations of the merger business case. Take appropriate action.			

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

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.

- **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
Option 1 (base case)	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
Option 5	77.6	41.5	48.7	63.6	79.5	311.0	725.1
<i>Saving</i>	-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
Option 1 (base case) <i>consisting of</i>	30.9	44.2	48.7	77.1	66.1	267.1	558.7
<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
Option 3	27.3	49.3	54.0	82.6	71.9	285.0	609.1
Saving	-3.6	5.1	5.3	5.5	5.8	18.0	50.4

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
Option 1 (base case) <i>consisting of</i>	30.9	44.2	48.7	77.1	66.1	267.1	558.7
<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
Option 6	28.8	45.4	50.0	78.4	67.5	270.0	569.2
Saving	-2.2	1.2	1.3	1.3	1.3	3.0	10.5

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
Option 1 (base case) <i>consisting of</i>	94.4	70.5	83.6	119.2	120.8	488.5	1,059.4
<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 4	94.3	85.9	99.6	135.8	138.2	553.8	1,222.6
Saving	-0.1	15.4	16.0	16.6	17.5	65.3	163.1

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
Option 1 (base case) <i>consisting of</i>	94.4	70.5	83.6	119.2	120.8	488.5	1,059.4
<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	498.0	1,086.6
Saving	-2.6	2.9	3.0	3.1	3.2	9.5	27.2

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

<ul style="list-style-type: none"> ○ maintenance of infrastructure • Service delivery pathways to promote quality provision of council services, including consideration of: <ul style="list-style-type: none"> ○ 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 <p>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:</p> <ul style="list-style-type: none"> • 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 <p>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.</p> <p>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.</p>
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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	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
Operating Performance Ratio – (greater than or equal to break even average over 3 years)	0.043	0.052	0.063	0.057	Yes
Own Source Revenue Ratio - (greater than 60% average over 3 years)	74.7%	87.7%	87.9%	88.0%	Yes
Building and Infrastructure Asset Renewal Ratio - (greater than 100% average over 3 years)	109.0%	109.1%	109.6%	103.6%	Yes
Infrastructure Backlog Ratio - (less than 2%)	0.56%	0.56%	0.56%	0.56%	Yes
Asset Maintenance Ratio - (greater than 100% average over 3 years)	95%	98%	100%	100%	Yes
Debt Service Ratio - (greater than 0% and less than or equal to 20% average over 3 years)	1.45%	1.32%	0.70%	0.48%	Yes
Real Operating Expenditure per capita – (a decrease in Real Operating Expenditure per capita over time)	\$767	\$774	\$790	\$812	Yes
<p><i>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.</i></p> <p>Not applicable</p>					

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.

CONSULTATION

In the preparation of this Report there has been consultation with neighbouring councils and Morrison Low consultants. Council has also been represented at discussions and presentations about the NSW Government's Fit for the Future program.

BUDGET

At this stage of the process there are no further budgetary implications. Depending on how the local government reform process progresses, Council may be eligible for funding from the Government e.g.

- Access to an OLG Relationship Manager to assist in exploring options and additional support which may be available.
- Access to fully funded skilled facilitators, to assist Hornsby and neighbouring council/s to meet and to identify risks, benefits and options for potential mergers.
- Access to a panel of technical experts to assist in gathering all the information required to make a decision about mergers.
- If there was agreement to the merger, access to a structural change expert panel who could provide affordable access (50% of cost covered by the Government) to technical advice to undertake due diligence and community consultation to support merger proposals.
- If a merger was approved to take place, the new local government area would be eligible for at least \$10.5 million (and possibly up to \$13.5 million if the total population estimate reached 300,000) from the Government to implement the merger. It would also be eligible for other components of the Government's Fit for the Future package.

Details will be provided in future reports as necessary and included in quarterly budget reviews as appropriate.

POLICY

As a responsible local government authority, Council has and continues to be committed to participating in an ongoing discussion with the NSW Government and its neighbouring councils about reform of local government.

CONCLUSION

This Report shows that 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 objectively consider amalgamation options and issues for Hornsby and those councils.

As no neighbouring council has indicated a willingness to even partner with Hornsby to have a merger business case prepared, Council now has no choice but to complete a "Council Improvement Proposal" and submit the Proposal to IPART by 30 June 2015 for formal assessment. Although Hornsby will be found by IPART to be "not fit" under the scale and capacity requirements of FFTF (as

it is not merging in line with the recommendations of the Panel), the Proposal shows that Council has been a role model through the reform process and is well placed in meeting all the financial sustainability, infrastructure and services and efficiency requirements of FFTF.

Apart from submitting the "Council Improvement Proposal" contained in this Report to IPART, it is also proposed that Council encourage the State Government to remain committed to working with the industry to achieve local government reform in line with the FFTF package.

RESPONSIBLE OFFICER

The officer responsible for the preparation of this Report is the Deputy General Manager, Corporate Support Division – Gary Bensley, who can be contacted on [REDACTED]

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Attachments:

There are no attachments for this report.

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