6 LOCAL GOVERNMENT REFORM - NSW GOVERNMENT'S "FIT FOR THE FUTURE" ANNOUNCEMENTS

EXECUTIVE SUMMARY

- In March 2014, Council made submissions to the NSW Government in respect of the local government reform recommendations of the Independent Local Government Review Panel (ILGRP) and the Local Government Acts Taskforce (LGAT). In September 2014, the Government released its responses to the ILGRP and LGAT recommendations under the banner Fit for the Future. The responses were mostly consistent with Council’s submissions.

- The Government has indicated that a Fit for the Future council in NSW will be sustainable; efficient; effectively manage infrastructure and deliver services for communities; and have the scale and capacity to engage effectively across community, industry and government. By being Fit for the Future, councils will have access to a streamlined IPART process for rate increases; access to a TCorp borrowing facility; priority access to other State funding and grants; and be eligible for additional devolved planning powers.

- Stage 1 of the Fit for the Future process will see councils use a self-assessment tool to review their current performance against defined criteria. Based on these results, councils will progress to Stage 2 to prepare a roadmap demonstrating how they will become Fit for the Future. In Stage 3 an expert panel will review each council’s roadmap. If approved, councils will move to Stage 4 and implement their roadmaps and take advantage of available benefits.

- The Government’s recommendation for Hornsby is that it voluntarily merge with Ku-ring-gai Council to form a new local government area with a population of approximately 280,000. The Councils would be eligible for funded support from the Government to investigate reform opportunities and, if a merger was approved to take place, the new local government area would be eligible for at least $10.5 million from the Government to implement the merger.

- It is important for Council to fully engage in the next stage of the process with the Government and with its neighbouring councils before developing a joint or single Fit for the Future roadmap submission. In this regard, Council should undertake the self-assessment exercise as well as continuing discussions with Ku-ring-gai Council (and other neighbouring councils as appropriate) to explore Fit for the Future reform opportunities.

RECOMMENDATION

THAT prior to developing its Fit for the Future roadmap submission, Council undertake the self-assessment exercise required by the NSW Government and continue to engage with Ku-ring-gai Council (and other neighbouring councils as appropriate) to explore relevant opportunities for local government reform as outlined in the NSW Government’s Fit for the Future program.
PURPOSE

The purpose of this Report is to advise Council of the NSW Government’s recent announcements about local government reform initiatives under the Fit for the Future banner and to table a response received from Ku-ring-gai Council about its reaction to the KPMG report which was commissioned by Hornsby Council earlier this year to advise Council about local government reform options in northern Sydney.

BACKGROUND


THAT responses to the Independent Local Government Review Panel’s recommendations, as detailed in Deputy General Manager’s Report No. CS5/14, form the basis of a submission to the NSW Government.


THAT responses to the Local Government Acts Taskforce recommendations, as detailed in Deputy General Manager’s Report No. CS6/14, form the basis of a submission to the NSW Government.

Following the 12 March 2014 General Meeting, the General Manager forwarded Council’s submissions about the Panel’s and Taskforce’s recommendations to the Office of Local Government and copies of the submissions were placed on Council’s website under the Local Government Reform tab.

At the 11 June 2014 General Meeting, Council considered Deputy General Manager’s Report No. CS13/14 – Analysis of Local Government Reform Options in the Northern Sydney Area – Report Prepared by KPMG – and 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.
DISCUSSION

NSW Government’s Response to Independent Local Government Review Panel (ILGRP) and Local Governments Acts Taskforce (LGAT) Recommendations

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 has 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 has 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.

Fit for the Future Councils

The Government has 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.

**Benefits of Being a Fit for the Future Council**

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.

**Metropolitan Sydney**

In respect of metropolitan Sydney, which has the most relevance to Hornsby, the Government has 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 has been 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.

**Determining Which Council Areas are Fit for the Future**
In its document “Fit for the Future – A Blueprint for the Future of Local Government”, the Government has 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 has been requested to look at its current situation and consider the future needs of its community and the recommendations of the ILGRP. The Government has recently provided a self-assessment tool to help guide the discussion. The assessment will help councils to get a clear picture of how they are performing in financial management, service delivery and scale of operations. It will also help them to identify what they may need to do to ensure they are Fit for the Future. Councils will be encouraged to discuss ideas and options with their community and neighbouring local government areas. The Office of Local Government (OLG) will help 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 will be asked to submit a proposal by 30 June 2015 about how they intend to be/become Fit for the Future. The Government has assisted by providing guidelines and templates. Councils will be able to get support from their OLG relationship manager and will also have access to expert assistance if they want to look at voluntary merger options. In this regard, the ILGRP’s recommendations are 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 has committed to providing generous support if councils want 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.

**Fit for the Future Process and Timeline**

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

**Stage 1**

Councils were recently 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 will progress to Stage 2 to prepare a roadmap demonstrating how they will move towards becoming Fit for the Future.

**Stage 2**

Councils will 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 will be the starting point and will be 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.

**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 has 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.

**Government’s Recommendation for Hornsby and Assistance Potentially Available**

The Government’s recommendation for Hornsby Shire Council is 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 is supportive of such a recommendation, it appears that Council would be 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.

**Moving Forward**

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, it is apparent that Council needs 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.

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**Neighbouring Council Responses to KPMG Report - “Analysis of local government reform options in the Northern Sydney area”**

At the time of preparing this Report, a response has only been received from the General Manager of Ku-ring-gai Council about the KPMG report. A copy of the response is attached. It indicates that 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:

  1. Is based on simplistic assumptions derived from case studies of Council amalgamations of much larger scale and range of services offered
  2. Is likely to be optimistic and does not include an adequate allowance for transition costs
  3. Does not provide an adequate return for the substantial risks and disruption involved in an amalgamation
  4. Does not take into account the impact on Ku-ring-gai ratepayers in sharing in substantial costs to rehabilitate and stabilise the Hornsby Quarry
  5. 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
  6. 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.

CONSULTATION

In the preparation of this Report, there was consultation with The Hills and Ku-ring-gai Councils in respect of the KPMG report. Council has also been represented at discussions and presentations about the Fit for the Future program recently announced by the State Government.

BUDGET

At this stage of the process there are no budgetary implications. Depending on how the local government reform process progresses, Council may incur costs and may be eligible for funding from the Government. These will be detailed in a future report when further details are known and included in a quarterly budget review as appropriate.

POLICY

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

CONCLUSION

Now that the NSW Government has formalised its approach to the reform of local government, it is important for Council to fully engage in the next stage of the process with the Government and with its neighbouring councils. Council is already in an excellent position to contribute to discussions and research, having received reports from KPMG (about local government reform options in northern Sydney; from Crosby Textor (about the community’s view of local government reform in general and in particular amalgamations and shared services); and from PricewaterhouseCoopers (about the issues, benefits and disadvantages associated with Council amalgamating with its neighbouring councils).
It is proposed that Council undertake the self-assessment questionnaire distributed by the OLG and continue discussions with Ku-ring-gai Council (and potentially other neighbouring councils) to explore potential merger opportunities. Depending on the responses it receives, Council should then commence the preparation of a joint or single submission to the NSW Government showing how it is Fit for the Future.

**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 9847 6605.

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**Attachments:**


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