



cutting through complexity

# Analysis of local government reform options in the Northern Sydney area

## SUMMARY REPORT

This summary report has been prepared for Hornsby Shire Council

22 May 2014



# Disclaimer

## ***Inherent Limitations***

*This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.*

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*KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.*

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*The findings in this report have been formed on the above basis.*

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# 1. Purpose and scope

*This section covers the purpose and scope of the analysis.*

# Overview

## *Purpose and scope*

### Purpose

This summary report provides a summary of the findings of analysis of local government reform options in the Northern Sydney area. The purpose of the analysis is to:

- **enable effective and informed participation** in, and contribution to, the local government reform agenda in New South Wales (NSW) by Hornsby Shire Council;
- identify **feasible local government reform options** with reference to a predetermined set of local government reform principles; and
- identify and consider **broader implications of local government reform** alongside detailed financial analysis, in particular around effective implementation and communication.

This summary report should be considered in conjunction with the main report, *Analysis of local government reform options in the Northern Sydney area*.

### Scope

The scope of the engagement 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 and 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; and
  - 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 this report.

## 2. The role of local government

*This section provides background information to the **role of local government** in Australia and the **public policy context** associated with local government reform in NSW.*

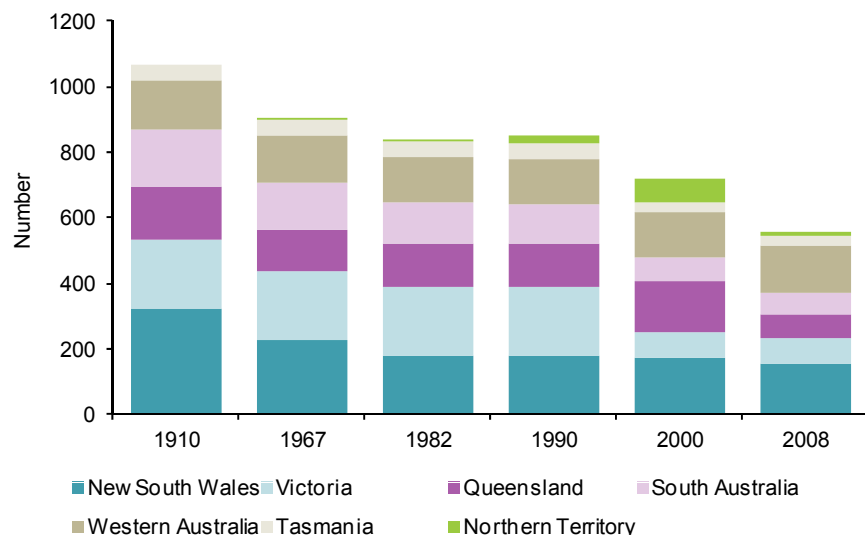
# Background

## The role of local government in Australia

### Local government in Australia

Local government forms one of Australia's three levels of government, with the others being the Federal Government and the respective State and Territory governments. In 2008, there were 559 local councils in Australia, as shown in Chart 1. The number of local councils today reflects the century-long process of change, where population growth, improvements in technology, and other factors of change have reshaped the role and scale of local government in Australia.

**Chart 1: Number of local councils in Australia, selected years, 1910 to 2008**



Source: Aulich et al. (2011).

### Public policy context for local government reform

Despite a series of structural changes in the Australian economy over time, the structure and functions of local government have largely remained static.

Today, many councils in NSW have been determined to be financially unsustainable, including through analysis by the NSW Treasury Corporation (TCorp) and the ILGRP. Further to these structural considerations at the council level, there are external challenges associated with population and economic growth that will continue to increase pressure on limited resources.

Over time, local government reform in NSW can increase the potential for local government to deliver better, more sustainable services to their local communities, including through:

- more **financially sustainable** operating structures;
- improved capacity for **representation** across levels of government; and
- **strategic** planning, information exchange, cooperative policy development and resource sharing.

### Independent Local Government Review Panel

In August 2011, representatives from each council in NSW gathered in a process known as *Destination 2036*, with a key purpose being to discuss strategies to enhance the financial viability and service delivery capability of local governments

A key outcome of *Destination 2036* was the establishment of the NSW ILGRP, which was appointed to develop options to improve the strength and effectiveness of local government in NSW. Within its terms of reference, the ILGRP was tasked with investigating and identifying options for governance models, structural arrangements, and boundary changes. To date, this work has been informed by research reports, survey data, and community consultations.

The final ILGRP report, *Revitalising Local Government*, highlights the case that there is a need for reform that is driven by:

- financial sustainability;
- infrastructure management and backlog; and
- projected increases in the population of NSW.

# Background

## *The role of local government in Australia*

### Previous analysis of local government reform options

There have been a number of previous analyses of local government reform options, including studies commissioned by Hornsby Shire Council and other councils. The approaches, analysis, and key findings of these studies were reviewed through the preparation of this report.

Prior experience suggests that the successful design and implementation of local government reform is dependent on several factors, including:

- a **broader range of reform options**, and practical considerations with pursuing these options;
- financial analysis underpinned by more **evidence-based assumptions** to deliver more **meaningful** analysis to inform decision making;
- **broader impacts of reform options** in addition to financial impacts, for example the relationship between reform options and the capacity for improvements in service delivery and local representation; and
- **strategies to support effective implementation** and communication and drive better practice, that draw on learnings from domestic and international reform experiences and consider these in the context of the reform environment in NSW.

### Summary of the need for local government reform

Historically, boundary reforms have been used to improve the efficiency and effectiveness of local government, both in Australia and internationally. Often, the success or failure of these reforms has been dependent on their design and implementation.

Prior experience suggests that the successful design and implementation of local government reform is dependent on several factors, including:

- the involved councils conducting appropriate due diligence;
- community engagement;
- close liaison with the Division of Local Government;
- detailed transition planning, including a dedicated project team with staff from all the involved councils;
- a capacity to explain the benefits and costs to stakeholders; and
- open minds, adaptability and flexibility of councillors and staff.

Given the current policy and operational context in NSW, a financial and strategic analysis of local government reform options will help to develop an evidence base to inform and support the reform journey, including through:

- demonstrating an objective, evidence-based approach to developing and assessing reform options to stakeholders;
- enabling councils to communicate the benefits and costs of reform options to stakeholders;
- as a component of the required due diligence that underpins the implementation of reform; and
- informing transition planning, community and stakeholder engagement, and governance.



## 3. Approach

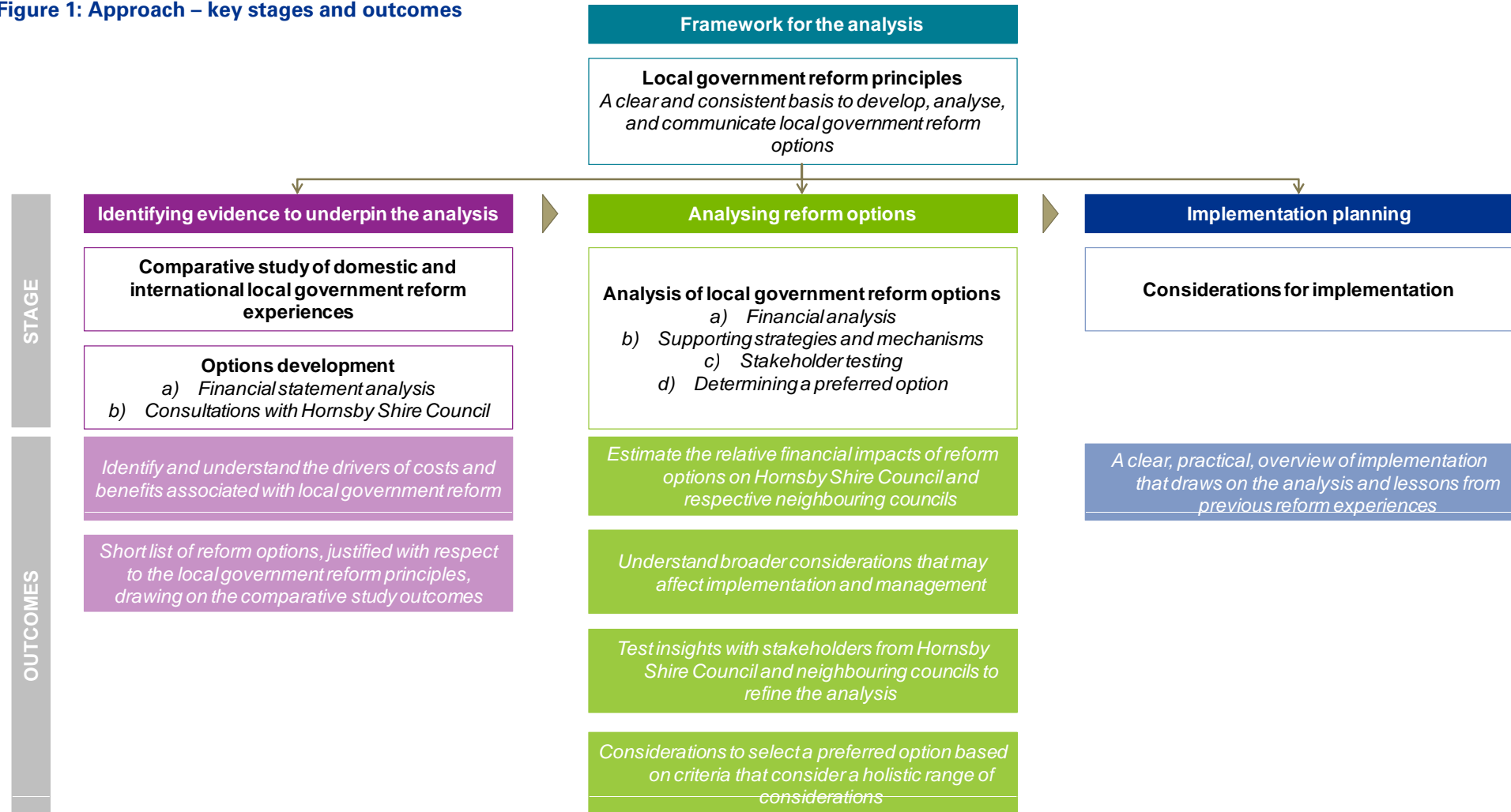
*The approach to undertaking the analysis was:*

- **evidence-based**;
- developed to **address key limitations** in previous analyses of local government reform options; and
- undertaken within a framework that is **flexible** and can be extended and refined over time.

# Approach

## Key stages and outcomes

Figure 1: Approach – key stages and outcomes



Source: KPMG.

## 4. Local government reform principles

*A review of domestic and international reform experiences identified a number of **underlying principles or themes**. These were considered and refined into a set of three principles that were used as the basis to **develop, analyse, and communicate** local government reform options.*

# Local government reform principles

## Research findings and reform principles

### Discussion of research findings

A review of domestic and international reform experiences identified a number of underlying principles or themes. These were identified through an examination of government documents related to local government reform efforts in Queensland, Tasmania, and New Zealand. Additionally, a critique of the principles underpinning the local government reform process in Queensland by Dollery, Ho and Alin was also reviewed.

The review identified three factors that were common considerations within the reform journey across the jurisdictions considered, namely:

- financial sustainability;
- service delivery; and
- quality of local representation.

Another key theme arising from the review was 'communities of interest'. 'Communities of interest' is a common concept in discussions of local government reform, and can be considered with respect to three dimensions:

- **perceptual** – a sense of belonging to an area or locality that can be clearly defined;
- **functional** – the ability to meet with reasonable economy the community's requirements for comprehensive physical and human services; and
- **political** – the ability of the elected body to represent the interest and reconcile the conflicts of all its members.

The first dimension – perceptual – is inherently hard to measure. This shortcoming is amplified by the reality that people's sense of belonging can shift over time. This quality does not lend that dimension to being used to help develop fixed council boundaries.

The second dimension – functional – is related to the common understanding of the concept of 'communities of interest'. The Victorian Commission in Local Government noted in 1986 that:

*"units of local government will be more effective if they cover the same area as that in which people live, work and play. This is because the most responsive municipality is one which is securely rooted in a well established community."*

It is noted that this dimension is not as practicable in today's metropolitan areas unless there are much larger local government areas. This dimension may be more appropriate in localities that are more geographically enclosed (e.g. rural or remote areas).

The final dimension is potentially the most applicable in the context of this analysis, and aligns with an earlier identified principle, 'quality of local representation'.

Given the above clarifications, the concept of 'communities of interest' has not been included as an explicit local government reform principle.

There were a number of other minor concepts identified within the review (e.g. the importance of 'clean' boundaries) that have been incorporated within each of the three main principles as appropriate.

# Local government reform principles

## Research findings and reform principles

**Table 1: Local government reform principles**

Principle	Indicators	Key considerations
<b>Local Government capacity</b> <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"> <li>• better manage planning and infrastructure delivery; and</li> <li>• concurrently maintain or improve the quality and efficiency of services to residents.</li> </ul>
<b>Financial sustainability</b> <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.
<b>Local representation</b> <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.

Source: KPMG

## 5. Comparative study of domestic and international reform experience

*Insights* from relevant domestic and international reform case studies were used to **inform the approach and assumptions** for the financial analysis and considerations associated with supporting strategies and mechanisms to assist implementation and management.

# Comparative study of domestic and international reform experience

## Relevance of key sources to the local government reform principles

The following table shows the relevance of a number of key domestic and international sources with respect to each component of the three reform principles.

**Table 2: Relevance of key sources to local government reform principles**

	Service delivery			Financial sustainability		Effectiveness of local representation		
	Quality of service delivery	Quality of planning and infrastructure	Capacity to attract specialist skills	Capacity to secure economies of scale and scope	Scope and scale of resource base	Quality of local representation	Communities of interest	Quality of stakeholder management
<b>Reform case studies</b>								
Auckland (2010)	✓	✓		✓	✓	✓	✓	✓
Queensland (2008)	✓	✓	✓	✓	✓	✓	✓	
Toronto (1998)	✓			✓	✓	✓	✓	✓
Victoria (1993)	✓		✓	✓	✓	✓		
<b>Key domestic sources</b>								
Aulich et. al. (2011)	✓	✓	✓	✓	✓	✓	✓	✓
Byrnes, J. & Dollery, B. (2002)				✓	✓			
Davis, B. (2013)		✓		✓	✓	✓		✓
Dollery, B., Ho, C. and Alin, J. (2008)	✓	✓	✓	✓	✓		✓	
Dollery, B. And Crase, J. (2004)	✓	✓	✓	✓	✓	✓	✓	✓
Financial Sustainability Review Board (2005)				✓	✓			
Local Government Reform Commission (2007)	✓	✓	✓	✓	✓	✓	✓	✓
Martin, J. (1999)	✓	✓	✓	✓	✓	✓	✓	
<b>Key international sources</b>								
Office of the Auditor-General (2012)	✓	✓	✓	✓	✓	✓	✓	✓
Office of the Chief Administrative Officer (1999)	✓	✓	✓	✓	✓	✓	✓	✓

Source: KPMG.

## 6. Local government reform options

*The local government reform options were developed with respect to **insights from the comparative study** of domestic and international boundary reform experience and **consultation** with Hornsby Shire Council management.*



# Options development

## Local government reform options

The comparative study showed that previous boundary reform options tended to be developed with respect to:

- **geographical similarities** across council areas under consideration;
- **socio-economic** characteristics of council areas; and
- similarities in **financial sustainability** and opportunities for **scale efficiencies**.

The following table shows how these indicators are aligned with the local government reform principles.

**Table 3: Indicators for reform option development**

	Service delivery			Financial sustainability		Effectiveness of local representation		
	Quality of service delivery	Quality of planning and infrastructure	Capacity to attract specialist skills	Capacity to secure economies of scale and scope	Scope and scale of resource base	Quality of local representation	Communities of interest	Quality of stakeholder management
<b>Geography</b>								
Proximity and similarity of urban and rural areas	✓	✓		✓	✓			
Minor boundary changes	✓	✓		✓	✓			
<b>Socio-demographic characteristics</b>								
Population growth and density	✓	✓				✓	✓	
Demographic characteristics of residents	✓	✓				✓	✓	
Property prices					✓			✓
<b>Financial scale sustainability</b>								
Comparison of annual operating expenditure and staffing establishment	✓		✓	✓	✓			✓
Financial sustainability outlook	✓	✓	✓	✓	✓			✓

Source: KPMG.

## 7. Financial analysis of local government reform options

*Financial analysis was undertaken from the perspective of Hornsby Shire Council and the new entities being formed through different options.*

*Assumptions underpinning the analysis were informed by the comparative study and agreed in consultation with Hornsby Shire Council.*

# Local government reform options

## Financial analysis

### Analysis results

The financial analysis presents results for each reform option from the perspective of:

- Hornsby Shire Council only, measured relative to Hornsby Shire Council's long term financial projections (Base case); and
- new local government entities created within each option, measured relative to the sum of respective councils' long term financial projections (Base case).

Results of the financial analysis were considered:

- **separately** for each council, and compared to the projected net operating results published in respective long term financial projections; and
- in **aggregate**, and compared to the aggregate projected aggregate net operating results of affected councils.

Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils. It is noted that estimates for other councils are illustrative only, given the nature of available data and the underlying assumptions.

Given this approach, there is scope to refine and extend the analysis over time, should further, more detailed data become available.

It is noted that all assumptions underpinning the financial analysis were determined in consultation with, and reviewed and approved by, relevant Hornsby Shire Council management personnel.

**Table 4: Summary of local government reform options**

Option	Description
<b>Option 1</b> <i>Base case</i>	Option 1 is the <b>base case</b> – or 'do nothing' option – in which the current structure of local government areas considered within the analysis were assumed to remain constant.
<b>Amalgamation options</b>	
<b>Option 2</b> <i>Hornsby and The Hills Councils</i>	Option 2 is an <b>amalgamation</b> option that would involve combining <b>Hornsby and The Hills Council</b> , with minor adjustments to each council's southern boundaries.
<b>Option 3</b> <i>Hornsby and Ku-ring-gai Councils</i>	Option 3 is an <b>amalgamation</b> option that would involve combining <b>Hornsby and Ku-ring-gai Councils</b> , with a minor adjustment to the southern boundary of Hornsby Shire Council. It is noted that the specification of Option 3 is consistent with the recommendation made in the ILGRP Final Report.
<b>Option 4</b> <i>Hornsby, The Hills, and Ku-ring-gai Councils</i>	Option 4 is an <b>amalgamation</b> option that would involve combining <b>Hornsby, The Hills, and Ku-ring-gai Councils</b> , with an adjustment to the southern boundary of Hornsby and The Hills Shire Councils.
<b>Shared services options</b>	
<b>Option 5</b> <i>Shared Infrastructure and Recreation between Hornsby and The Hills Councils</i>	Option 5 is a <b>shared services model</b> between <b>Hornsby and The Hills Councils</b> , where an Infrastructure and Recreation division would be shared across councils.
<b>Option 6</b> <i>Shared Infrastructure and Recreation between Hornsby and Ku-ring-gai Councils</i>	Option 6 is a <b>shared services model</b> between <b>Hornsby and Ku-ring-gai Councils</b> , where an Infrastructure and Recreation division would be shared across councils.
<b>Option 7</b> <i>Shared Infrastructure and Recreation between Hornsby, The Hills, and Ku-ring-gai Councils</i>	Option 7 is a <b>shared services model</b> between <b>Hornsby, The Hills, and Ku-ring-gai Councils</b> , where an Infrastructure and Recreation division would be shared across councils.

# Financial analysis: Option 2

## Hornsby and The Hills Shire

### Summary

Option 2 is an amalgamation option that would involve combining Hornsby and The Hills Councils, with minor adjustments to each council's southern boundaries.

### Key results

There is projected to be a **\$35 million (17 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 from the perspective of the **Hornsby entity**.

There is projected to be a **\$74 million (10 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 for the **aggregate entity**.

### Financial analysis

The financial analysis considers the sum of the projected bottom line positions of Hornsby and The Hills Councils, adjusted for:

- **upfront and ongoing costs** associated with implementation of the option; and
- **benefits** – in the form of **cost savings** – attributable to the option over 10 years.

### Nature of available data

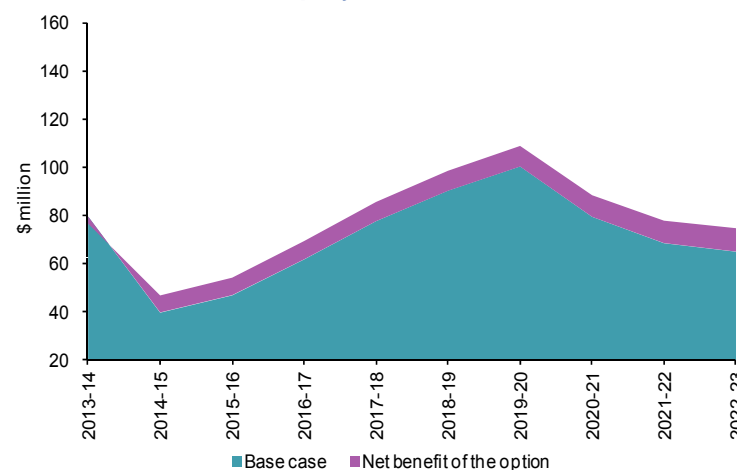
Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils.

**Table 5: Summary of net operating results and projected savings**

	2013-14	2014-15	2015-16	2016-17	2017-18	Cumulative 2013-14 to 2017-18	Cumulative 2013-14 to 2022-23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Option 1 (base case)</b> <i>consisting of</i>	79.6	39.8	46.9	61.8	77.7	<b>305.9</b>	<b>709.8</b>
<i>Hornsby</i>	16.1	13.5	12.1	19.7	23.0	84.5	209.0
<i>The Hills</i>	63.5	26.3	34.9	42.1	54.6	221.4	500.7
<b>Option 2</b>	76.8	47.0	54.5	69.7	85.9	<b>333.8</b>	<b>783.7</b>
Saving	-2.8	7.2	7.5	7.8	8.2	<b>27.9</b>	<b>74.0</b>

Note: Cumulative results are not discounted.

**Chart 2: Base case and projected net benefits, 2013-14 to 2022-23**



Source: KPMG calculations.

# Financial analysis: Option 3

Hornsby and Ku-ring-gai

## Summary

Option 3 is an amalgamation option that would involve combining Hornsby Council and Ku-ring-gai Council, with a minor adjustment to the southern boundary of Hornsby Council.

## Key results

There is projected to be a **\$27.7 million (13 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 from the perspective of the **Hornsby entity**.

There is projected to be a **\$50.4 million (9 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 for the **aggregate entity**.

## Financial analysis

The financial analysis considers the sum of the projected bottom line positions of Hornsby and Ku-ring-gai Councils, adjusted for:

- **upfront and ongoing costs** associated with implementation of the option; and
- **benefits** – in the form of **cost savings** – attributable to the option over 10 years.

## Nature of available data

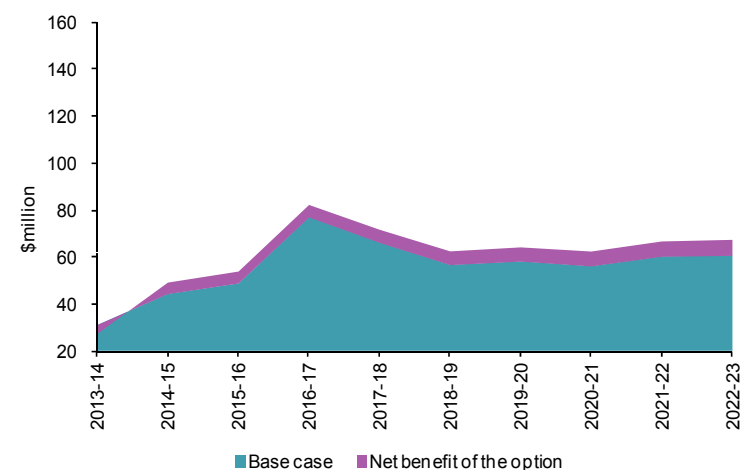
Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils.

**Table 6: Summary of net operating results and projected savings**

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

Note: Cumulative results are not discounted.

**Chart 3: Base case and projected net benefits, 2013-14 to 2022-23**



Source: KPMG calculations.

# Financial analysis: Option 4

Hornsby, The Hills, and Ku-ring-gai

## Summary

Option 4 is an amalgamation option that would involve combining Hornsby, The Hills, and Ku-ring-gai Councils, with a minor adjustment to the southern boundary of Hornsby and The Hills Council.

## Key results

There is projected to be a **\$55.7 million (27 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 from the perspective of the **Hornsby entity**.

There is projected to be a **\$163.1 million (15 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 for the **aggregate entity**.

## Financial analysis

The financial analysis considers the sum of the projected bottom line positions of Hornsby, The Hills and Ku-ring-gai Councils, adjusted for:

- **upfront and ongoing costs** associated with implementation of the option; and
- **benefits** – in the form of **cost savings** – attributable to the option over 10 years.

## Nature of available data

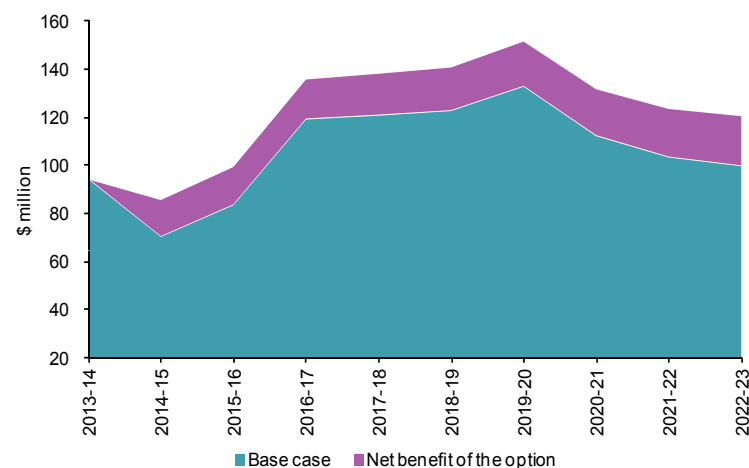
Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils.

**Table 7: Summary of net operating results and projected savings**

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

Note: Cumulative results are not discounted.

**Chart 4: Base case and projected net benefits, 2013-14 to 2022-23**



Source: KPMG calculations.

# Financial analysis: Option 5

## Shared services – Hornsby and The Hills

### Summary

Option 5 is a shared services option among Hornsby and The Hills Councils. The option assumes that each council would retain greater control over their services, and would only share services for an Infrastructure and Recreation division.

### Key results

There is projected to be a **\$7.4 million (4 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 from the perspective of the **Hornsby entity**.

There is projected to be a **\$15.3 million (2 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 for the **aggregate entity**.

### Financial analysis

The financial analysis considers the sum of the projected bottom line positions of Hornsby and The Hills Councils, adjusted for:

- **upfront and ongoing costs** associated with implementation of the option; and
- **benefits** – in the form of **cost savings** – attributable to the option over 10 years.

### Nature of available data

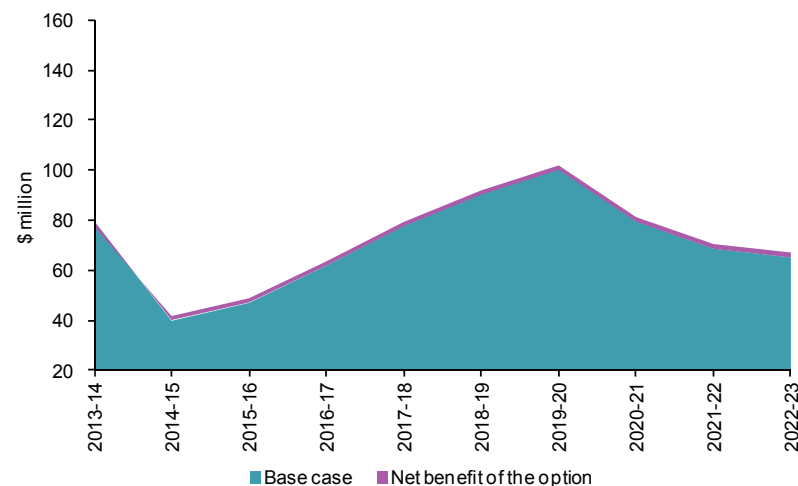
Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils.

**Table 8: Summary of net operating results and projected savings**

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

Note: Cumulative results are not discounted.

**Chart 5: Base case and projected net benefits, 2013-14 to 2022-23**



Source: KPMG calculations.

# Financial analysis: Option 6

## Shared services – Hornsby and Ku-ring-gai

### Summary

Option 6 is a shared services option among Hornsby and Ku-ring-gai Councils. The option assumes that each council would retain greater control over their services, and would only share services for an Infrastructure and Recreation division.

### Key results

There is projected to be a **\$6.5 million (3 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 from the perspective of the **Hornsby entity**.

There is projected to be a **\$10.5 million (2 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 for the **aggregate entity**.

### Financial analysis

The financial analysis considers the sum of the projected bottom line positions of Hornsby and Ku-ring-gai Councils, adjusted for:

- **upfront and ongoing costs** associated with implementation of the option; and
- **benefits** – in the form of **cost savings** – attributable to the option over 10 years.

### Nature of available data

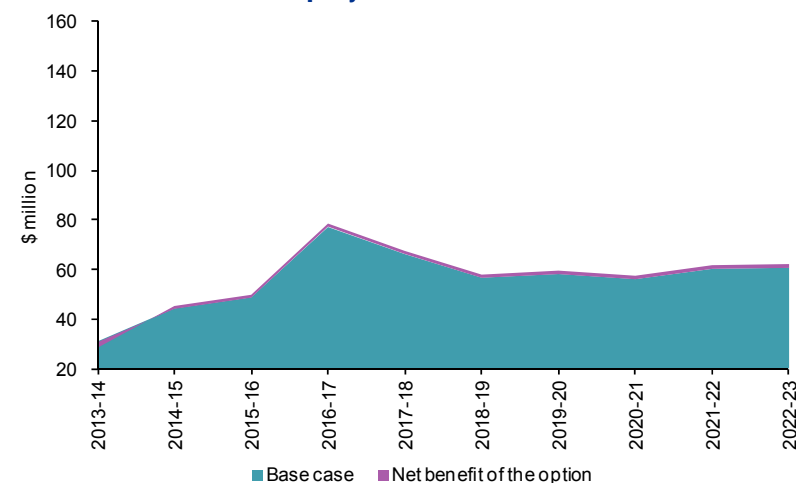
Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils.

**Table 9: Summary of net operating results and projected savings**

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

Note: Cumulative results are not discounted.

**Chart 6: Base case and projected net benefits, 2013-14 to 2022-23**



Source: KPMG calculations.



# Financial analysis: Option 7

Shared services – Hornsby, The Hills, and Ku-ring-gai

## Summary

Option 7 is a shared services option among Hornsby, The Hills, and Ku-ring-gai Councils. The option assumes that each council would retain greater control over their services, and would only share services for an Infrastructure and Recreation division.

## Key results

There is projected to be a **\$9.9 million (5 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 from the perspective of the **Hornsby entity**.

There is projected to be a **\$27.2 million (3 per cent)** improvement in the bottom line over the period from 2013-14 to 2022-23 for the **aggregate entity**.

## Financial analysis

The financial analysis considers the sum of the projected bottom line positions of Hornsby, The Hills and Ku-ring-gai Councils, adjusted for:

- **upfront and ongoing costs** associated with implementation of the option; and
- **benefits** – in the form of **cost savings** – attributable to the option over 10 years.

## Nature of available data

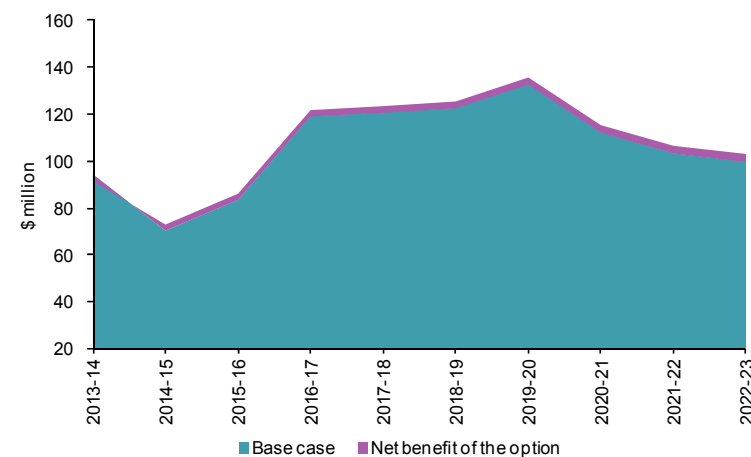
Given the nature of available data, more detailed analysis was undertaken for Hornsby Shire Council, with simplifying assumptions used to undertake higher level analysis for other councils.

Table 10: Summary of net operating results and projected savings

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

Note: Cumulative results are not discounted.

Chart 7: Base case and projected net benefits, 2013-14 to 2022-23



Source: KPMG calculations.

## 8. Supporting strategies and mechanisms

*In addition to the financial analysis, it is important to consider practical **strategies to support effective implementation**, benefits realisation, and management over time.*

# Analysis

## Supporting strategies and mechanisms

**Table 11: Summary of supporting strategies and mechanisms to underpin effective local government reform**

Support strategies and mechanisms	Considerations	Potential actions
<b>Asset utilisation, renewal and financial sustainability</b>	<ul style="list-style-type: none"> <li>Valuation and stock take of assets</li> <li>Maintenance of infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Review procedures for valuations of depreciation of assets to ensure consistent and correct procedures are followed</li> <li>Review commerciality of current asset utilisation</li> <li>Review procedures for the consistent and correct calculation of infrastructure backlogs</li> </ul>
<b>Service delivery pathways to promote quality provision of council services</b>	<ul style="list-style-type: none"> <li>Service levels between councils</li> <li>Human resource management across councils</li> <li>Corporate support functions</li> </ul>	<ul style="list-style-type: none"> <li>Review the consistency of fees and charges levied by councils for services</li> <li>Review the consistency of processes for handling issues such as development applications</li> <li>Review the organisation structure, systems and practices of the council entities to better understand potential alignment and synergies</li> </ul>
<b>Governance structures of new council entities</b>	<ul style="list-style-type: none"> <li>Amalgamation</li> <li>Shared Services</li> </ul>	<ul style="list-style-type: none"> <li>Consider location of council offices</li> <li>Consider potential new council ward boundaries</li> <li>Consider the elements required in any Memorandum of Understanding</li> </ul>
<b>Transition measures</b>	<ul style="list-style-type: none"> <li>Change management</li> </ul>	<ul style="list-style-type: none"> <li>Engage with Division of Local Government to gauge potential support from State Government</li> <li>Implement a sustained and comprehensive change management plan with a strong stakeholder engagement strategy</li> </ul>

Source: KPMG.

## 9. Recommendations

*The recommended approach for Hornsby Shire Council is to **actively engage all relevant councils** and the NSW Government concurrently to undertaking a **more comprehensive evaluation** of the costs and benefits of all options.*

# Recommendations

## Next steps

There are a number of precursors to the finalisation and implementation of a preferred option by Hornsby Shire Council, including:

- **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; and
- further, **more detailed due diligence** of reform options, particularly from the perspective of other councils in the reform process.

The recommended approach for Hornsby Shire Council is to actively engage all relevant councils and the NSW Government concurrently to undertaking a more comprehensive evaluation of the costs and benefits of all options. The approach to developing the analysis within this report has the flexibility to be extended and refined over time, should further, more detailed data become available.

**Table 12: Summary of recommended next steps and key considerations**

Steps	Considerations
<b>Conduct due diligence</b>	<ul style="list-style-type: none"> <li>• <b>Financial stability</b> of the councils, including:               <ul style="list-style-type: none"> <li>– financial viability and management;</li> <li>– policies, procedures and systems; and</li> <li>– strength of audit.</li> </ul> </li> <li>• <b>Operations</b> of the councils, including:               <ul style="list-style-type: none"> <li>– past performance;</li> <li>– staff capacity and capability; and</li> <li>– program management.</li> </ul> </li> <li>• <b>Governance</b> and internal controls.</li> </ul>
<b>Select preferred option</b>	<ul style="list-style-type: none"> <li>• <b>Financial</b> criteria.</li> <li>• <b>Non-financial</b> criteria, including, for example:               <ul style="list-style-type: none"> <li>– risks to <b>service quality</b> and effectiveness;</li> <li>– risks to the effectiveness of local <b>representation</b>; and</li> <li>– risks to effective <b>implementation</b> and management.</li> </ul> </li> </ul>
<b>Develop implementation plan</b>	<ul style="list-style-type: none"> <li>• Finalise <b>organisational design</b>.</li> <li>• Develop new business <b>rules and procedures</b>.</li> <li>• Undertake a review of <b>resourcing requirements</b>.</li> <li>• Integrate <b>systems and processes</b>.</li> <li>• Undertake a <b>post-implementation review</b> of operations.</li> </ul>

Source: KPMG.



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