

### **3 NSW GOVERNMENT'S LOCAL GOVERNMENT REFORM PROCESS AND COMPENSATION FOR COUNCIL**

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#### **EXECUTIVE SUMMARY**

- The former Hornsby Shire Council area south of the M2 Motorway was transferred by proclamation of the State Government to the City of Parramatta Council on 12 May 2016. The Government's expectation at that time was that a merger of Ku-ring-gai Council and the remaining area of Hornsby Shire Council would occur soon thereafter.
- Since the Government decided in mid-2017 that the merger of Hornsby and Ku-ring-gai Councils was not to proceed, Hornsby Shire Council has been seeking to have the area south of the M2 Motorway returned. This was done by submitting an Alteration of Boundaries Proposal to the Minister for Local Government and also by producing evidence that Hornsby Shire Council would be a net \$10 million per annum worse off as a result of the Government's decision to excise the area south of the M2 Motorway.
- Although the State Government has resisted Council's attempts to have the area south of the M2 Motorway returned to Hornsby Shire, it has publicly promised that the residents of Hornsby will not be worse off as a result of the Government's actions.
- The Government's first steps in meeting this promise was to provide Council with a grant of \$90 million to assist in the rehabilitation of Hornsby Quarry (\$50 million) and the development of parkland on the former Westleigh Water Board site now owned by Council (\$40 million). The rehabilitation of the Quarry will take a spoiled piece of land and turn it into 50 hectares of parkland a short walk from Hornsby's CBD, while the Westleigh project will provide much needed sporting fields and recreational spaces.
- The Government has publicly committed to providing Council with further compensation to offset its net \$10 million per annum loss, however, despite various assurances that the compensation would be forthcoming prior to the March 2019 State election, Council has not yet received any formal advice from the Government.
- It is important for this Report to be placed on the public record so that the Hornsby Shire community are fully aware of the consequences to Council and its residents/ratepayers of the failed local government reform process (as it applies to Hornsby Shire Council) as well as Council's responses to the situation during and post that period.

#### **RECOMMENDATION**

THAT the contents of Deputy General Manager's Report No. CS7/19 be received and noted.

## **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 show Council's significant contribution to the reform process throughout which it has been prepared to take an industry-wide (rather than a Hornsby-specific) view to proposals included in the State Government's Destination 2036 and Fit for the Future initiatives; to detail the struggles that Council has had in convincing the Government that the decisions to transfer the area south of the M2 Motorway to the City of Parramatta Council, whilst not progressing the merger of Ku-ring-gai Council and the remainder of Hornsby Shire Council, has had an ongoing significant financial impact on Hornsby Shire Council and its residents/ratepayers; and to advise on the compensation that has so far been forthcoming from the State Government.

## **BACKGROUND**

Council has been a major supporter of the local government reform process commenced by the NSW Government in August 2011 and has considered a significant number of reports as it responded to requests from the Government and the views of its neighbouring councils about reform and how it affected Hornsby. Now that negotiations with the State Government to compensate Council for the unfair treatment it received through the process appear to have stalled, it is appropriate that a summary report be considered which reflects on Council's journey through a particularly difficult time in its history and the current status of the situation.

An appropriate way to reflect on Council's journey is to provide details of the relevant reports that Council has considered in the period since 2011 and the decisions that it made as a consequence of its consideration of those reports. The information is provided by referencing the report, providing a summary of its contents and detailing Council's decision in respect of each of the reports. Further detail can be obtained by viewing each individual report in the Business Paper section of Council's website.

### **Deputy General Manager's Report No. CS7/12 – Destination 2036 Action Plan - 18 July 2012 General Meeting**

- Following on from the Destination 2036 Workshop held in August 2011 when local government leaders from all 152 councils across the State met to discuss and plan for the future of local government in NSW, the Division of Local Government (DLG) released the Destination 2036 Outcomes Report. Council considered the Report in October 2011 and offered its support to the initiatives and actions included.
- In December 2011, the Destination 2036 Implementation Steering Committee (ISC) released a draft Destination 2036 Action Plan for comment and over 100 responses were received. The ISC made changes to the Plan which has subsequently been adopted by the Minister for Local Government. The changes generally related to the setting of more specific and realistic timescales and to streamline actions to simplify the Plan. There was also recognition in the Plan of the establishment by the Minister for Local Government of an Independent Local Government Review Panel who will work with the ISC as a key partner.
- The Action Plan indicates that a wide range of consultative arrangements will be established to ensure that all interested stakeholders are involved. These will include community and ratepayer forums, reference groups, focus groups and working parties and they will draw on the knowledge, skills and experience of those willing and able to contribute.
- The ISC will report quarterly on progress against actions for which it is responsible. Coordinating Agencies will be required to submit to the ISC a schedule listing the actions for which they are responsible, together with their project plans, or a status report on their project

plans if they have not been completed. The ISC will provide a report on the outcomes achieved against each action by June 2013, to inform both the Independent Local Government Review Panel and the Minister for Local Government in making and considering recommendations and next steps in arrangements for delivering the vision for local government

- Now that the Destination 2036 Action Plan has been approved by the Minister for Local Government and actions are either progressing or will progress in the near future, opportunities to participate in reference groups, focus groups, working parties, etc. of relevant actions will be monitored by ExCo to ensure that Councillors, managers and other staff are kept informed of those opportunities.

### **Resolution**

*THAT Council note the release of the Destination 2036 Action Plan and monitor opportunities to participate in reference groups, focus groups, working parties, etc. as relevant actions are progressed.*

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### **Deputy General Manager's Report No. CS22/13 – Independent Local Government Review Panel – Consultation Paper – Future Directions for NSW Local Government – Twenty Essential Steps – 19 June 2013 General Meeting**

- The Independent Local Government Review Panel has released a third consultation paper titled "Future Directions for NSW Local Government – Twenty Essential Steps". The paper sets out the Panel's latest thinking as it enters the final three to four months of its work program. It builds on the "Case for Sustainable Change" document that the Panel released in November 2012. The Panel has indicated that its ideas are crystallising but are not set in concrete. A number of research projects are still under way and the Panel wants to discuss the options included in the paper with councils and communities before the release of its final report in September 2013.
- This Report provides background detail in respect of the local government reform process, known as Destination 2036, which has been progressing since 2011. It also summarises the Panel's latest consultation paper, particularly as it impacts on Council. In this regard, the main recommendation affecting Council is that Hornsby amalgamates with Ku-ring-gai Council. If this proposal is not acceptable to the State Government because of its current policy position of no forced amalgamations, the Panel recommends 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.
- Although Council does not as yet have a formal position in respect of the Panel's proposals and recommendations, it did consider a Notice of Motion at the 5 May 2013 General Meeting and resolved that the General Manager write to adjoining councils in the metropolitan region and invite those councils to participate in preliminary discussions on opportunities to reform local councils consistent with the Panel's recommendations. It also resolved to commission independent research into the Hornsby Shire community's attitude and the attitude of communities in adjoining local government areas towards local government reform consistent with the Panel's recommendations. An update in respect of the actions taken on the Notice of Motion resolution is included in this Report.
- In terms of Council responding to the Panel's consultation paper, a table is provided in the Report which details a summary of the Panel's Key Proposals and Options together with a draft response to each which is based on feedback that has been received from the

Councillors at informal briefings on the matter and comments from relevant managers/staff from across the organisation.

### **Resolution**

*THAT the responses to the Independent Local Government Review Panel's Key Proposals and Options, as detailed in Deputy General Manager's Report No. CS22/13, form the basis of a Council submission to the Panel.*

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### **Deputy General Manager's Report No. CS37/13 – Local Government Reform – Research Undertaken on Behalf of Council – 21 August 2013 General Meeting**

- This Report provides Council with the details of two pieces of research which have been undertaken by Crosby Textor and PricewaterhouseCoopers (PWC) to assist Council in determining its position on local government reform. The research complements the papers on reform that have been issued by the Independent Local Government Review Panel.
- Crosby Textor's research provides insights into the community's view about reforms proposed by the Independent Panel and in particular council amalgamations and/or shared services; whilst the PWC research details the potential issues, benefits and disadvantages associated with Hornsby amalgamating with its neighbouring councils. As the Crosby Textor Research is understood to be the only comprehensive independent community research of this nature to be undertaken at local or State Government level, Council has offered both the Panel and the Minister for Local Government briefings on the findings to assist them in their continuing deliberations on local government reform.
- With the final report of the Independent Panel expected to be released in October 2013, and a response to the report expected from the State Government soon thereafter, Council should decide whether it simply awaits the final report before formalising its view on reform or whether it requires further information to assist. If Council wishes to continue to take a lead position on local government reform in the metropolitan region, it may be that a project of the type recently commissioned by Randwick and Warringah Councils (for a high level strategic and financial assessment of opportunities for council amalgamation in the eastern suburbs and northern beaches areas respectively) is appropriate.

### **Resolution**

*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.*

**Deputy General Manager's Report No. CS5/14 – Independent Local Government Review Panel – Final Report – “Revitalising Local Government” – 12 March 2014 General Meeting**

- Following its consideration of the Independent Local Government Review Panel's April 2013 paper titled “Future Directions for NSW Local Government – Twenty Essential Steps”, Council made a submission to the Panel in June 2013. It was one of many submissions that the Panel considered in developing its final report. That report was submitted to the Minister for Local Government on 16 October 2013 and subsequently released by the Minister in January 2014 for public comment, with comments due to the NSW Government by 4 April 2014.
- The Panel has made 65 recommendations which respond to 12 key themes and are grouped under the headings of Fiscal Responsibility; Strengthening the Revenue Base; Meeting Infrastructure Needs; Improvement, Productivity and Accountability; Political Leadership and Good Governance; Advancing Structural Reform; Regional Joint Organisations; Rural Councils and Community Boards; Metropolitan Sydney, Hunter and Central Coast; Non-Metropolitan Regions; Far West; and State-Local Government Relations. The main recommendation for Hornsby is to amalgamate with Ku-ring-gai Council; or that Hornsby and Ku-ring-gai combine as a strong Joint Organisation. The Panel has also recommended that Hornsby's current boundary with Parramatta and/or Ryde Councils be shifted north to the M2.
- As a means of developing a Council submission on the Panel's final report, a table is provided in this Report which summarises the Panel's 65 recommendations along with a response to each. The responses are based on feedback received from Councillors at informal briefings and/or comments from relevant managers/staff from across the organisation.
- An update is also provided about the research Council has commissioned in respect of local government reform i.e. PricewaterhouseCoopers investigation of potential mergers of Hornsby/The Hills with each other and/or with neighbouring councils; and the Crosby Textor research regarding community opinion about the local government reform process. It is noted that a further report from KPMG, which provides a high level strategic and financial assessment of potential options for structural reform of local government in the northern Sydney area, is expected to be considered by Council at its 9 April 2014 General Meeting.

**Resolution**

*THAT the 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 subject to the following additional comments being included in respect of Recommendation 41: "Upon consideration of the evidence-based KPMG report and subject to favourable community support, Council will again write to the Minister for Local Government seeking his urgent favourable consideration of several changes to the existing boundaries of Hornsby Shire and the local government areas of The Hills, Ku-ring-gai, Ryde and Parramatta."*

**Deputy General Manager's Report No. CS42/14 – Analysis of Local Government Reform Options in the Northern Sydney Area – Report Prepared by KPMG – 11 June 2014 General Meeting**

- As part of the local government reform process, Council commissioned research from PricewaterhouseCoopers (PWC) and Crosby Textor as well as responding to the final reports of the Independent Local Government Review Panel (ILGRP) and the Local Government Acts Taskforce (LGAT). KPMG has subsequently completed further work commissioned by Council about local government reform options in the northern Sydney area.

- Now that Council has the benefit of considerable research and has supported the majority of recommendations from the ILGRP and the LGAT, it is apparent that reform of the local government industry is required in one form or another. As such, it is proposed that a copy of the KPMG research be provided to the Minister for Local Government so the Government can take the research into account when developing a response to the final reports of the ILGRP and LGAT. It is also proposed that a copy of the research be forwarded to The Hills and Ku-ring-gai Councils seeking their comments on the reform options discussed in the KPMG reports.
- Once the Government responds to the recommendations of the ILGRP and the LGAT, a further report will be prepared for Council detailing the Government's approach to local government reform and comments from The Hills and Ku-ring-gai about the KPMG research.

### **Resolution**

#### *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, PricewaterhouseCoopers (PWC) and Crosby Textor; and the recommendations made by the Independent Local Government Review Panel (ILGRP) and the Local Government Acts Taskforce (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.*

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### **Deputy General Manager's Report No. CS42/14 – Local Government Reform – NSW Government's "Fit for the Future" Announcements – 12 November 2014 General Meeting**

- 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 merges 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.

## Resolution

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.*

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**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 – 10 June 2015 General Meeting**

- 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.

**Resolution**

*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 with 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.*

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#### **General Manager's Report No. GM3/15 – Local Government Reform – Fit for the Future Update – 11 November 2015 General Meeting**

- In June 2015, Council made a submission to the Independent Pricing and Regulatory Tribunal (IPART) under the NSW Government's Fit for the Future (FFTF) requirements. As expected, Hornsby was found by IPART to be "not fit" under the scale and capacity requirements of FFTF although it was recognised that Council was well placed in meeting all the financial sustainability, infrastructure and services and efficiency requirements of FFTF.
- As a council assessed as "not fit", Hornsby now has the opportunity to comment on the IPART assessment as well as indicating to the Government by 18 November 2015 our preference/s for merger partner/s. From briefings provided by the Government since the release of the IPART report it is understood that whole council mergers are favoured at this stage, although preferences involving boundary adjustments will also be given consideration.
- In line with Council's position on FFTF emanating from the June 2015 General Meeting, it is proposed that two merger option preferences be submitted to the Government for consideration. The first is for a merger of the whole of the existing Hornsby and Ku-ring-gai Councils together with changes to Hornsby's existing boundaries at Carlingford, Eastwood, Epping, Marsfield and Macquarie Park; and the second is a merger of the whole of Hornsby and Ku-ring-gai Councils with no other boundary adjustments.

#### **Resolution**

*THAT in the apparent absence of any interest from our neighbouring councils to investigate a voluntary merger with Hornsby, and in line with its adopted position from the 10 June 2015 General Meeting, Council provide the following responses (shown in italics) to the Department of Premier and Cabinet in respect of the NSW Government's release of the Independent Pricing and Regulatory Tribunal's (IPART) report titled Assessment of Council Fit for the Future Proposals:*

- *In respect of IPART's assessment of Council's submission*
  - *IPART's assessment of Council's submission was in line with Council's expectations and understanding of the process.*
- *In respect of preference/s for merger partner/s*
  - *Preference 1 – A merger of the whole of Hornsby and Ku-ring-gai Councils together with changes to Hornsby's existing boundaries at Carlingford, Eastwood, Epping, Marsfield and Macquarie Park as proposed in Council's letter to the Minister for Local Government dated 30 June 2015.*
  - *Preference 2 – A merger of the whole of Hornsby and Ku-ring-gai Councils.*

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**General Manager's Report No. GM2/16 – Local Government Reform – Fit for the Future Update – 10 February 2016 General Meeting**

- In November 2015, Council resolved that its first preference for a merger with its neighbouring councils was the whole of Hornsby and Ku-ring-gai Councils together with changes to Hornsby's boundaries at Carlingford, Eastwood, Epping, Marsfield and Macquarie Park; and its second preference was for a merger of the whole of Hornsby and Ku-ring-gai Councils.
- In December 2015, the Government announced 35 merger proposals across the State including that the Hornsby Shire Council area, north of where the M2 Motorway crosses the Shire, be merged with Ku-ring-gai Council (the Hornsby/Ku-ring-gai proposal) and the area south of the M2 Motorway become part of Parramatta Council (the expanded Parramatta proposal).
- The proposals are now subject to review by delegates who are required to hold public inquiries (in the first week of February 2016) and consider written submissions (due by 28 February 2016) before providing a report to the Minister for Local Government. The Minister will consider the delegate report, and any comments on such from the Boundaries Commission, before deciding on whether to progress the proposals.
- This Report provides a staff assessment of the proposals affecting Hornsby and in particular, the impact on a merged Hornsby/Ku-ring-gai council of the excision of the area south of the M2 Motorway. The preliminary assessment indicates that the excision of the subject area would see the merged Hornsby/Ku-ring-gai council \$6.4 million per annum worse off (in years 1-3) or \$5.0 million per annum worse off (from year 4 onwards) than if the two whole councils were merged. Such an impact would negate the projected savings in the Government's Hornsby/Ku-ring-gai merger proposal as well as the funding that has been promised by the Government to assist with the merger costs of the councils.
- It is recommended that Council's submission on the Government's proposals be based on the information contained in this Report and state Council's continued support for mergers as part of the Government's local government reform process. The submission should argue for a merger of Hornsby and Ku-ring-gai Councils to proceed, but without the excision to Parramatta Council of the area south of the M2 Motorway.

**Resolution**

*THAT:*

1. *The Acting General Manager be authorised to finalise a submission to the delegates appointed to consider the Hornsby/Ku-ring-gai and expanded Parramatta merger proposals in line with the information contained in General Manager's Report No. GM2/16.*
2. *Council's submission to the delegate for the Hornsby/Ku-ring-gai merger proposal also address some of the misconceptions promoted by speakers at the Public Inquiry held on 3 February 2016 by clarifying that:*
  - a) *There would be no financial disadvantage to Ku-ring-gai Council's ratepayers in a Hornsby/Ku-ring-gai merger because Hornsby Council's current financial position is at least comparable to that of Ku-ring-gai Council*
  - b) *Hornsby Council has appropriate plans in place and sufficient funding identified to deal with the management of the Hornsby Quarry into the future*
  - c) *A merger of Hornsby and Ku-ring-gai Councils would not cause an increased intensity and level of housing development in the current Ku-ring-gai Council area*
  - d) *Sufficient expertise would be available in a merged Hornsby/Ku-ring-gai Council to deal with developments which are proposed in areas of heritage and environmental significance in the current Ku-ring-gai Council area.*

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**Deputy General Manager's Report No. CS24/16 – InterCouncil Transitional Services Agreement – Hornsby Shire Council and City of Parramatta Council – 10 August 2016 General Meeting**

- The boundary adjustment announced by the Minister for Local Government on 12 May 2016 resulted in parts of the Hornsby Shire south of the M2 Motorway being transferred to the newly proclaimed City of Parramatta Council.
- Properties affected by this change in most instances will continue to have services provided by Hornsby Shire Council on behalf of the City of Parramatta Council. This arrangement will continue until services are able to be fully transferred to the City of Parramatta Council.
- This transitional period where Hornsby Shire Council continues to provide services on behalf of the City of Parramatta Council has been determined based on discussions between managers at each council and the establishment of key documents that will formalise service expectations during the transitional phase.
- The City of Parramatta Council has already adopted a resolution that enables their Interim General Manager and Administrator to finalise the InterCouncil Transitional Services Agreement (ITSA) with Hornsby Shire Council in line with the existing draft document (but incorporating further amendments as negotiated).
- To progress and finalise the ITSA, it is recommended that a similar delegation be provided to Hornsby Shire Council's Mayor and General Manager.

**Resolution**

*THAT:*

1. *The contents of Deputy General Manager's Report No. CS24/16 dealing with the finalisation of an InterCouncil Transitional Services Agreement (ITSA) between Hornsby Shire Council and the City of Parramatta Council be noted.*

2. *The Mayor and Acting General Manager be delegated authority to execute the ITSA as soon as current negotiations on the document are finalised.*

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### **Mayoral Minute No. MM2/17 – Local Government Reform – Fit for the Future Process – 8 February 2017 General Meeting**

- In recent times there has been conjecture as to whether the NSW State Government will abandon the amalgamation of local governments.
- It is appropriate at this point to reaffirm Hornsby Shire Council's overwhelming support of the reform process, having commissioned a number of independent studies that outline the significant benefits of the proposed merger with Ku-ring-gai Council. It has always been my conviction to seek the best outcome for ratepayers and I am convinced that significant savings can be made for the betterment of both communities in an amalgamation. The duplication of services is wasting a vast amount of money – money that could be put to far better use serving our communities.
- I would also like to remind all parties that Hornsby Shire Council was always opposed to the loss of Epping to Parramatta. We argued against the loss of suburbs south of the M2, which had always been part of our Shire, and we were very disappointed by the NSW Government's decision. However, we accepted that decision because the bigger picture led to larger councils and significant savings for ratepayers that would significantly more than offset the financial loss associated with the excision of the area south of the M2.
- I am hopeful that the merger with Ku-ring-gai will go ahead, but if this were not to occur the suburbs south of the M2 should be returned to Hornsby Shire where they belonged prior to the NSW Government's boundary adjustment with the City of Parramatta Council.
- If we were to stand alone without the return of the area south of the M2 then it would be difficult for Hornsby Council to be financially sustainable over the longer term and would be an unfair impost on the Hornsby community. There would be a significant decline in Hornsby Council's financial situation that was rated in 2014 by NSW Treasury Corporation as being financially sound and the ability of the Council to retain one of the lowest infrastructure backlogs in the State.
- Prior to the boundary adjustment, Council's 10 year long term financial plan required no external loan borrowing and/or special rate variations to meet major capital projects, maintain ageing infrastructure and continue providing services at current levels. This position would require urgent review if an amalgamation does not proceed and the area south of the M2 is not returned to Hornsby Shire Council.

### **Resolution**

#### *THAT:*

1. *Council reaffirm its support for the amalgamation process and the merger of Ku-ring-gai and Hornsby Shire Councils.*
2. *Council write to the NSW Premier, The Hon Gladys Berejiklian MP; the Minister for Local Government, The Hon Gabrielle Upton MP; and Local Members of Parliament reaffirming Council's strong support for the merger process.*

3. *In the event the merger process is abandoned Council seek the support of the NSW Premier, the Minister for Local Government and Local Members of Parliament for the reinstatement of the area south of the M2 into Hornsby Shire.*

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### **Mayoral Minute No. MM6/17 – Local Government Reform – 10 May 2017 General Meeting**

- On 27 March 2017, the NSW Supreme Court of Appeal upheld Ku-ring-gai Council's appeal against the proposed amalgamation with Hornsby Shire Council on the grounds that the former Minister for Local Government's decision to proceed with the amalgamation was fundamentally flawed. Part of that decision rested on the finding that the delegate responsible for reporting on the proposed amalgamation did not assess the merits or otherwise of the boundary change which shifted the part of the Hornsby Shire south of the M2 Motorway to the new City of Parramatta Council.
- Although the NSW Government has chosen not to appeal the decision, it has indicated that it is still committed to a merger of Hornsby and Ku-ring-gai Councils. It is understood that this would require the development of a new proposal by the Government which would then need to be assessed according to the requirements of the Local Government Act. At this stage, no new proposal has been made by the Government.
- In the absence of any new proposal for amalgamation, and in the knowledge of how long it has taken for previous proposals to be made, assessed and potentially challenged through the Courts, Council needs to seriously consider the consequences of it having to stand alone without the area south of the M2 Motorway. Although Council believes it is appropriate to make a case for regaining the area south of the M2 Motorway from the City of Parramatta, it cannot be assumed that this would occur. As such, it is prudent for Council to review its services and finances to ensure Hornsby Council is in a position to address the needs of its residents in a financially sustainable manner.
- To commence this process, I believe it is appropriate for Council to request that an update of its Long Term Financial Plan be presented for consideration at the 8 June 2017 General Meeting. Such update should assume no amalgamation with Ku-ring-gai Council and also assume that Hornsby Council's current area will remain in place (i.e. without the area south of the M2 Motorway).

### **Resolution**

#### *THAT:*

1. *The Chief Financial Officer provides an update on Council's Long Term Financial Plan at the 8 June 2017 General Meeting. Such update should assume that Council's current area (i.e. without the area south of the M2 Motorway) will be maintained in the immediate future.*
2. *Council write to the NSW Premier and Minister for Local Government requesting that if an amalgamation with Ku-ring-gai Council is not to be progressed, that the NSW Government:*
  - a) *Reinstate the area south of the M2 Motorway to Hornsby Shire Council, or alternatively*
  - b) *Provide compensation to the residents of Hornsby while this Council adjusts to the scale of a smaller council.*

**Deputy General Manager's Report No. CS18/17 – Update of Council's Long Term Financial Plan – 14 June 2017 General Meeting**

- At the 10 May 2017 General Meeting, Council requested the Chief Financial Officer to provide it with an update of Council's Long Term Financial Plan (LTFP) which reflects the loss of the area south of the M2 Motorway to the City of Parramatta Council.
- As part of the process, a range of primary financial statements have been prepared along with key financial performance indicators (KPI's) covering the next 10 years. The primary financial statements and KPI's indicate that Council will achieve acceptable levels against industry benchmarks during the LTFP period.
- The LTFP update shows that there has been a significant decline in Council's Income Statement Result (before Capital Items and Profit from Asset Sales) which is a key measure of financial liquidity.
- Historically, Council's surplus Income Statement Results have been \$14.638 million (in 2015/16), \$14.770 million (in 2014/15) and \$6.668 million (in 2013/14). The updated LTFP shows that for the next 10 years, the Result will decline to an average of around \$1.441 million per annum.
- Based on the update, Council will need to critically review the scope of many major projects that have previously been identified including at the Hornsby Quarry and the former Westleigh Water Board site.
- It will be important for future budgets to restrict current service levels and recognise that there may be the need to 'dip' into restricted funds if there are cost over-runs or infrastructure failures.

**Resolution***THAT:*

1. *The Update of Council's Long Term Financial Plan for the period 2017/18 to 2026/27 as attached to Deputy General Manager's Report No. CS18/17 be received and noted.*
2. *The Restricted Asset Account – Parks Development Policy; the Restricted Asset Account – Land Acquisition Policy; and the Land Property Sales – Use of Funds Policy be deleted as those Policies are now redundant as they are taken account of through the Long Term Financial Plan process.*
3. *Council seek advice from the Minister for Local Government about whether Hornsby and Kuring-gai Councils are still considered to be in a proposal period in terms of Section 354 of the Local Government Act.*
4. *The Acting General Manager be authorised to seek legal advice about the possibility of legal proceedings to return the land area south of the M2 Motorway (which was transferred from Hornsby Shire Council to the City of Parramatta Council on 12 May 2016) to Hornsby Shire Council; and/or secure compensation to Hornsby Shire Council for the adverse financial impacts that have resulted from the 12 May 2016 loss of the area south of the M2 Motorway to the City of Parramatta Council.*
5. *The Acting General Manager be authorised to commence the preparation of a proposal under Section 218E of the Local Government Act which proposes that the land area south of the M2 Motorway (which was transferred from Hornsby Shire Council to the City of Parramatta Council on 12 May 2016) be returned to Hornsby Shire Council.*

6. *In the event the area south of the M2 Motorway is not returned to Hornsby Shire Council:*
  - a) *The Chief Financial Officer prepares a report for Council's consideration at the 8 November 2017 General Meeting which investigates opportunities for cost savings to improve Council's financial bottom line.*
  - b) *The Acting General Manager prepare a report for Council's consideration at the 8 November 2017 General Meeting which identifies a high level approach (including consultation with Council staff) to improve the efficiency and productivity of services provided by Council as well as opportunities, other than raising rates or fees and charges, for increasing Council's income.*
7. *The Long Term Financial Plan include a range of initiatives to fund street plantings on public lands in response to the loss of the tree canopy due to changes in lot size and demography in response to successive State Government policy positions.*

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**Deputy General Manager's Report No. CS23/17 – Hornsby Shire Council and City of Parramatta Council (Part) – Response to 14 June 2017 Council Resolution – 12 July 2017 General Meeting**

- In line with Council's 10 May 2017 resolution, the Mayor wrote to the Premier and Minister for Local Government requesting the Government to reinstate the area south of the M2 Motorway to Hornsby Shire Council, or alternatively, to provide compensation to Council while it adjusts to a smaller scale operation. No response has yet been received from the Premier or Minister.
- Following consideration at the 14 June 2017 General Meeting of a report about an update to its Long Term Financial Plan, Council authorised the Acting General Manager to commence the preparation of a proposal for submission to the Minister under Section 218E of the Local Government Act to return the land area south of the M2 Motorway to Hornsby Shire Council.
- The information contained in this Report takes account of the statutory requirements relating to proposals; Council's support for the NSW Government's Fit for the Future process; the success of Ku-ring-gai Council in the NSW Supreme Court of Appeal challenging the Hornsby/Ku-ring-gai Council merger; the state of uncertainty that Council has been placed in while the Government considers its next moves on local government reform; the severe recurrent financial impact that the loss of the area south of the M2 Motorway has had on Council; and questions why the Government acted on the transfer of the area south of the M2 Motorway prior to a final decision being made on the proposed Hornsby/Ku-ring-gai merger.
- In drafting Council's new proposal, it has become clear that no independent assessment of a standalone proposal recommending the transfer of the former Hornsby Shire Council area south of the M2 Motorway to the City Of Parramatta Council would have been supported. Yet that is what has practically occurred to Hornsby Shire Council. In the absence of the NSW Government progressing its local government reform program, it is considered appropriate for the area south of the M2 Motorway to be returned to Hornsby Shire Council. This would not only improve Council's long term financial sustainability but would also allow Council to finance the numerous public improvements that it had planned for the Epping area.
- The information recommended for inclusion in Council's proposal is detailed under appropriate headings in the Discussion section of this Report. The intent is that this information be used to finalise the proposal for submission to the Minister.

**Resolution**

**THAT:**

1. *The Acting General Manager be delegated authority to finalise a proposal under Section 218E of the Local Government Act in line with the information contained in Deputy General Manager's Report No. CS23/17 and to submit such a proposal to the Minister for Local Government.*
2. *The Acting General Manager be delegated authority to prepare and submit an additional proposal under Section 218E of the Local Government Act for the transfer of the current City of Parramatta Council area bounded by the M2 Motorway, Midson Road, Terry Road, Epping Avenue, Wingate Avenue, Ball Avenue, Blaxland Road and Terrys Creek to Hornsby Shire Council.*
3. *Council write to the Minister for Local Government and the State Members for Hornsby and Epping seeking a meeting to discuss the financial impact of the stalled amalgamation process on Hornsby Shire to date.*

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**Deputy General Manager's Report No. CS38/17 – Alteration of Boundaries Proposals - Hornsby Shire Council and City of Parramatta Council – 11 October 2017 General Meeting**

- At the 12 July 2017 General Meeting, Council authorised the Acting General Manager to submit two Alteration of Boundaries' Proposals to the Minister for Local Government.
- The first Proposal sought to have the previous Hornsby Shire Council area south of the M2 Motorway, which was transferred to the City of Parramatta Council by a proclamation of the NSW Governor on 12 May 2016, returned to Hornsby Shire Council.
- The second Proposal sought to transfer the current City of Parramatta Council area bounded by the M2 Motorway, Midson Road, Terry Road, Epping Avenue, Wingate Avenue, Ball Avenue, Blaxland Road and Terrys Creek to Hornsby Shire Council.
- On 22 September 2017, the Acting General Manager was advised by the Acting Chief Executive of the Office of Local Government (OLG) that the Proposals submitted by Council may not be valid.
- The Acting General Manager and the Deputy General Manager, Corporate Support has held discussions with staff of the OLG in an attempt to determine what the OLG believed was necessary to validate Council's Proposals.
- Based on those discussions, it appears that the simplest and most timely method is for Council to pass a resolution to resubmit one or both of the attached Proposal/s to the Minister.
- That course of action is recommended.

**Resolution****THAT:**

1. *Council, under section 218E of the Local Government Act, submit to the Minister for Local Government the Alteration of Boundaries Proposal (dated 14 July 2017) included as Attachment 2 to Deputy General Manager's Report No. CS38/17.*
2. *The Acting General Manager be authorised to seek legal advice in respect of:*
  - a) *Defending any action that the City of Parramatta Council may bring against Hornsby Shire Council in respect of the transfer of rates and other income, information and*

- records associated with Hornsby Shire Council's loss of the land south of the M2 Motorway to the City of Parramatta Council in May 2016.*
- b) *Options for joining the NSW Government to any action brought by the City of Parramatta Council against Hornsby Shire Council, particularly in light of public statements made by representatives of the NSW State Government that Hornsby Shire Council and its residents will not be worse off financially as a consequence of the loss of the area south of the M2 Motorway to the City of Parramatta Council.*
3. *An informal briefing of Councillors be organised to discuss means to inform Hornsby Shire Council residents of the implications of the loss of the area south of the M2 Motorway to the City of Parramatta Council in terms of provision of services across Hornsby Shire.*

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### **Mayoral Minute No. MM17/17 – Alteration of Boundaries Proposal Update – 8 November 2017 General Meeting**

- At its 11 October 2017 General Meeting Council resolved to submit an alteration of boundaries proposal to the Minister for Local Government seeking to have the previous Hornsby Shire Council area south of the M2 Motorway returned.
- Council resolved such as it considered that an alteration of boundaries proposal was the best way to give effect to the NSW Government's commitment that Hornsby Shire Council and its ratepayers would not be financially worse off as a result of the Government's decision to abandon its amalgamation program.
- The alteration of boundaries proposal was subsequently submitted to the Minister for Local Government on 13 October 2017. To date Council has not received any response or acknowledgement of its proposal from the Minister or the Office of Local Government.
- Councillors will be aware that the boundaries proposal is of vital importance to the future of the Hornsby Shire and I believe that our community needs to have an understanding of the timeframe and process for the Minister to consider and determine our proposal.

### **Resolution**

#### *THAT:*

1. *Council seek an urgent meeting with the Minister for Local Government to discuss the timeframe and process for the Minister to consider and determine Council's Alteration of Boundaries Proposal.*
2. *Council seek an urgent meeting with the State Member for Hornsby, the State Member for Epping, the Federal Member for Berowra as well as the Federal Member for Bennelong to develop a proposal for the provision of capital works projects and a strategy for the redevelopment of the Epping Town Centre which would remove expressed obstacles and allow the NSW Government to return the area south of the M2 Motorway back to Hornsby Shire Council.*
3. *The proposal in point 2. is to seek agreement from the various parties to:*
  - a) *A list of public benefit projects in the former Hornsby Local Government Area south of the M2 Motorway to support an agreed population increase.*
  - b) *An expenditure and financing strategy for the delivery of the projects identified in point 3 a)*
  - c) *An appropriate service level provision for the projects listed in point 3 a)*

- d) *A desirable outcome and zoning strategy for the redevelopment of the Epping Town Centre, including the quantum and location of commercial activities to support the redevelopment of the Parramatta Central Business District and/or the development of the Epping Town Centre as a Strategic Centre.*
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**Confidential General Manager's Report No. GM3/17 – Legal Proceedings Update – 22 November 2017 Extraordinary Meeting**

- In November 2017, the City of Parramatta Council filed a summons in the Supreme Court seeking orders that rates, annual fees, development contribution and other charges collected by Hornsby Shire Council from within its former area south of the M2 Motorway be paid to the City of Parramatta Council; and that Hornsby Shire Council deliver to the City of Parramatta Council records and information relating to the rates, annual fees, development contributions and other charges in respect of its former area.
- This Confidential Report provided legal advice in respect of the Court case.

**Resolution**

*THAT:*

1. *The contents of Confidential General Manager's Report No. GM3/17 and Confidential Late Items Memo No. LM9/17 be received and noted.*
  2. *Council note that the City of Parramatta Council has commenced legal action against Hornsby Shire Council in respect of monies and information associated with the former Hornsby Shire Council area south of the M2 Motorway.*
  3. *The Acting General Manager be authorised to defend the legal action brought against Hornsby Shire Council by the City of Parramatta Council.*
  4. *It be noted that Council has attempted to, and remains open to, negotiate with the City of Parramatta Council in respect of monies and information associated with the former Hornsby Shire Council area south of the M2 Motorway.*
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**Confidential General Manager's Report No. GM4/17 – Legal Proceedings Update – 29 November 2017 Extraordinary Meeting**

- This Confidential Report provided an update and legal advice in respect of the Supreme Court case.

**Resolution**

*THAT:*

1. *The contents of Confidential General Manager's Report No. GM4/17 and Confidential Late Item Memo LM11/17 be received and noted.*
  2. *The Acting General Manager be authorised to progress actions generally in line with the contents of Confidential General Manager's Report No. GM4/17 and advice provided by Council's legal team.*
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**Confidential Mayoral Minute No. MM10/18 – Compensation for Loss of the Area South of the M2 Motorway to Parramatta Council – 13 June 2018 General Meeting**

- This Confidential Mayoral Minute provided an update to Council in respect of the Mayor's discussions regarding compensation in respect of the loss of the area south of the M2 Motorway.

**Resolution**

*THAT Council continue discussions with the NSW State Government as outlined in points 1 - 4 contained in Confidential Mayoral Minute MM10/18.*

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**Confidential Deputy General Manager's Report No. CS53/18 – Legal Proceedings Update – 14 November 2018 General Meeting**

- This Confidential Report provided Council with the opportunity to settle the Supreme Court case with the City of Parramatta under a number of negotiated terms.
- The terms of settlement, including the amount to be paid by Hornsby Shire Council to the City of Parramatta Council, would be the subject of a confidential deed.

**Resolution**

*THAT the General Manager be delegated authority to settle the legal proceedings in accordance with the terms outlined in Confidential Deputy General Manager's Report No. CS53/18.*

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N.B. Following the above resolution, Hornsby Shire and the City of Parramatta Councils issued the following joint media statement:

- *City of Parramatta and Hornsby Shire Council have settled an ongoing legal matter regarding remaining rates and levies from Epping residents and businesses and outstanding Section 94 contributions, which arose after new Local Government boundaries, were put into place in May 2016.*
- *In addition to finalising financial arrangements, the Councils have agreed to maintain the current boundaries as established by the NSW State Government in May 2016.*
- *Both councils are now looking forward to collaborating and working constructively with each other to achieve positive outcomes for all residents in the region.*

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**DISCUSSION**

The NSW Government's decision on 12 May 2016 to expand the area of the City of Parramatta Council (CoPC) by reducing the area of the Hornsby Shire Council (HSC), prior to any final decision being made on the merger of HSC and Ku-ring-gai Councils, has had a deleterious ongoing impact on HSC's future financial situation in the order of a net \$10 million per annum.

This impact has been the subject of many Council discussions with the State Government since 2016 and has involved the Premier, Minister for Local Government, Treasurer and local Members of Parliament. As a consequence of the discussions, the Government publicly committed to HSC not being worse off as a result of the Government's 2016 decision to transfer the former HSC area south

of the M2 Motorway to the CoPC; and the Government's 2017 decision not to progress the amalgamation of Ku-ring-gai Council with the remainder of HSC.

HSC has argued consistently that the only way to properly ensure that it is not financially worse off as a result of the Government's decisions is to return the area south of the M2 Motorway to HSC. That possibility was, however, ruled out by the Government some time ago on the basis that the Government would work with HSC to determine an amount of compensation that would be payable to ensure HSC and its residents/ratepayers were not worse off.

In 2017, TCorp reviewed HSC's Long Term Financial Plan, which had been prepared after HSC lost the area south of the M2 Motorway to the CoPC. TCorp's assessment confirmed HSC's view that the net financial loss to HSC over the 10 year period from 2016 to 2026 was \$160 million. HSC provided the Government with a copy of TCorp's analysis, noting that it did not include further HSC losses of Section 94 contributions and property assets. If these items were included in the analysis, the figure would inflate to over \$200 million for the 10 year period.

In June 2018, the Government paid HSC \$90 million as an initial down payment of compensation towards its ongoing financial losses, to be used for the Hornsby Quarry and Westleigh Park projects. In order to determine a further figure that would reasonably compensate HSC for its annual net losses into the future, NSW Treasury asked HSC to arrange for an independent financial analysis of its situation to be prepared by a reputable organisation.

HSC engaged BIS Oxford Economics to undertake the analysis. BIS used HSC's actual financial data prior to and after the loss of the area south of the M2 Motorway, as well as TCorp's analysis referred to above, to calculate a figure using a NSW Treasury Economic Appraisal Approach which Treasury promotes for such exercises. This included a 30 year timeframe from 2016 and a discount rate of 7% to achieve a Net Present Value figure.

The analysis showed that a total payment of \$258 million was required to be paid to HSC to compensate it for the financial losses it will incur over the next 30 years. That figure comprises \$163 million for the difference in operating income before and after the loss of the area south of the M2 Motorway; a \$70 million negative impact on interest that would have been achieved on higher operating surpluses; and \$25 million of foregone Section 94 development contributions. As HSC has already received \$90 million from the Government in June 2018, a further payment of \$168 million to HSC would be required to ensure full compensation for the loss of the area south of the M2 Motorway.

A number of questions raised by NSW Treasury on 14 August 2018 about BIS's analysis were answered by HSC on 4 September 2018. After a meeting on 16 September 2018 involving Treasury officials and HSC, NSW Treasury raised some further questions about the BIS analysis which were answered by HSC on 25 September 2018. In the absence of any further comments or questions having been raised by NSW Treasury since 25 September 2018, HSC assumed that NSW Treasury had all the information it required to finalise its review of the BIS analysis.

In calculating the remaining compensation payable to HSC, NSW Treasury was asked by HSC to give consideration to the impact of diseconomies of scale i.e. where HSC's fixed costs are now spread over a lower revenue base, even though increasing opportunities for realising economies of scale was a key objective for amalgamating councils under the 'Fit for the Future' program. In this context, the NSW Government's whole premise on local government reform was to create larger, more efficient councils. As a consequence of the Government's decision to transfer the former HSC area south of the M2 Motorway, but not proceed with the amalgamation of HSC and Ku-ring-gai Councils, the opposite has been imposed on a smaller HSC.

HSC has pointed out that NSW Treasury's initial assessment of BIS's analysis has focused on an equivalence argument i.e. the loss of net recurrent revenue will be offset by expenditure reductions and the loss of future investment income associated with lands south of the M2 Motorway is a straight transfer of the benefits that would have flowed to the residents of this area from HSC ownership to the CoPC ownership. The equivalence argument ignores the fact that areas south of the M2 Motorway (e.g. Epping) are mature suburbs that have had extensive capital investment from HSC to develop a range of facilities over many years and a large amount of the funding investment has been drawn from funds derived from residents north of the M2 Motorway.

Council also pointed out that NSW Treasury needed to consider that in the years preceding the boundary adjustment, HSC had embarked on a range of financial reforms. This transformed HSC's operating performance before capital items (audited) into one of the strongest across all NSW councils. This was achieved through efficiencies that no longer exist under a post boundary adjustment situation.

Although the Government has publicly committed to providing HSC with further compensation to offset its \$10 million per annum loss, and despite various promises that the compensation would be forthcoming prior to the March 2019 State election, nothing has since been formally committed to by the Government.

As this is the last Council meeting prior to the NSW State election, it was important for this Report to be placed on the public record so that the Hornsby community are fully aware of the consequences to Council and its residents/ratepayers of the failed local government reform process (as it applies to Hornsby Shire Council) as well as Council's responses to the situation during and post that reform period.

## **CONSULTATION**

In the period since 2011, Council has consulted extensively with its neighbouring councils and with various members of the State Government and its bureaucrats. This has included specific meetings between the previous and current Mayors with the Premier, Treasurer and local MP's to discuss Council's plight.

## **BUDGET**

The financial impact on Council as a result of the failed amalgamation process over the past few years is covered in the Discussion Section of this Report. BIS Oxford Economics have confirmed that for Council to be fully compensated for the loss of the area south of the M2 Motorway, a further \$168 million should be paid by the State Government to Council. Whilst Council remains financially viable in the short term, the loss of a net \$10 million per annum will continue to result in a loss of service and facility opportunities that would otherwise have been able to be achieved for the Hornsby community.

## **POLICY**

Council has been a supporter of the local government reform process since 2011 and has sought to seek the best outcome for all of its residents and ratepayers. Council has, however, always been opposed to the loss of the area south of the M2 Motorway to the City of Parramatta Council and argued this consistently with the State Government.

## **CONCLUSION**

Through its consideration of reports in June and July of 2017, and following the NSW Government's abandonment of its proposal to merge Hornsby Shire and Ku-ring-gai Councils, Council has been steadfast in its position that the Government needs to ensure that the residents and ratepayers of Hornsby Shire Council should not be worse off as a result of the Government's decision to move on

the expansion of the City of Parramatta (and the contraction of Hornsby Shire) prior to finalising a decision on the merger of Hornsby and Ku-ring-gai Councils.

Although the Government is on the record as having publicly committed to providing Council with further compensation above and beyond the \$90 million so far provided to assist with funding the Hornsby Quarry and Westleigh Park, and despite various promises that compensation for Council's net \$10 million per annum loss would be forthcoming, nothing formal has since been provided or committed to by the Government.

#### **RESPONSIBLE OFFICER**

The officers responsible for the preparation of this Report are the Acting Deputy General Manager, Corporate Support – Mr Glen Magus and the General Manager – Mr Steven Head - who can be contacted on 9847-6635 and 9847-6604 respectively.

GLEN MAGUS  
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#### **Attachments:**

There are no attachments for this report.

File Reference: F2014/00494  
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