

## **INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES**

**Organisation:** Ku-ring-gai Council

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3 July 2015

The Director  
General Purpose Standing Committee No.6  
Parliament House  
Macquarie St  
SYDNEY NSW 2000

Dear Director

**Submission: Inquiry into Local Government**

Ku-ring-gai Council welcomes the Legislative Council's decision to conduct an inquiry into Local Government. Ku-ring-gai Council has many concerns about the State Government's Fit for the Future agenda which are outlined below.

**Ku-ring-gai Council's performance:**

Ku-ring-gai Council is a successful, innovative and financially sound council that is already large by national and international comparisons. After extensive research and analysis, Ku-ring-gai Council has resolved not to pursue the merger option recommended by the Independent Local Government Review Panel, being to merge with Hornsby Shire Council. Ku-ring-gai Council meets all of the Fit for the Future benchmarks well within the required timeframes and can demonstrate highly effective scale and strategic capacity.

A merger with Hornsby Shire Council would be highly unfavourable for the residents and ratepayers of Ku-ring-gai. It would lead to higher rates for Ku-ring-gai residential ratepayers due to disparities in land value, decreased levels of service, reduced representation, exposure to significant risk associated with remediating the Hornsby Quarry, and diminished communities of interest and societal connectedness.

Ku-ring-gai Council meets all seven Fit for the Future benchmarks by 2016/17, which are maintained or improved thereafter. Hornsby Shire Council's Improvement Proposal, adopted by Hornsby Council on Wednesday 10 June 2015, also indicates that it will meet all of the Fit for the Future benchmarks by 2018/19. As such, both Ku-ring-gai Council and Hornsby Shire are financially sustainable as stand-alone councils.

One of the requirements of Fit for the Future is termed "Scale and Capacity". Ku-ring-gai Council can demonstrate highly effective scale and strategic capacity, with a strong record effectively representing and serving its local community on metropolitan issues and operating as a true partner of State and Federal agencies. This is demonstrated by:

- its strong record of planned development that meets both metropolitan Sydney and local community objectives;

- its strong record in both integrated planning and land use planning consistent with Sydney's status as a global city; and
- its strong record of planning for its centres consistent with the Metropolitan Strategy and sub-regional delivery plans.

Council has delivered on State Government objectives including for dwelling targets, it has successfully undertaken numerous large scale major projects, and has high calibre staff as recognised by the many awards received in recent years including the prestigious A R Bluet Award in 2014.

Council has completed an extensive range of consultation and engagement initiatives regarding Fit for the Future. The community has consistently indicated a preference for Council to remain a stand-alone council, and does not support the proposal to amalgamate with Hornsby Shire Council. Results from a demographically representative survey showed that 79% of respondents indicated a preference to stand alone, with only 21% preferring to merge with Hornsby Council. The community feedback obtained during the period of consultation supports Council's position to remain a stand-alone council.

**The specific impacts for Ku-ring-gai Council residents and ratepayers if the recommendation for a merger was followed:**

The Fit for the Future program recommendation is that Ku-ring-gai Council merge with Hornsby Shire Council. Ku-ring-gai Council has undertaken extensive research and analysis and concluded that a merger with Hornsby Shire Council would be highly unfavourable for the residents and ratepayers of Ku-ring-gai, as follows:

- A merger would increase residential rates in Ku-ring-gai by between 5% and 17% and decrease them in Hornsby Shire as land values are 50% higher in Ku-ring-gai.
- Ku-ring-gai Council spends more money per capita on its services than Hornsby. A merger would therefore result in either a reduction of services for the former Ku-ring-gai area or increased rates for Ku-ring-gai ratepayers to raise the Hornsby Shire service levels to that of Ku-ring-gai. The rates would need to increase in the former Ku-ring-gai area by between 18% and 35% to raise the same revenue per capita across the whole of the merged council area as currently enjoyed by Ku-ring-gai (inclusive of the effect of land value differences between Ku-ring-gai and Hornsby).
- A merger would expose Ku-ring-gai Council to the financial risks associated with a \$50 million project to make the Hornsby Quarry safe and useable for recreation.
- Hornsby Shire Council's overall financial position is weaker than that of Ku-ring-gai, a key consideration for a merger. T-Corp assessed Ku-ring-gai as being "Sound" with a "Neutral" outlook, while Hornsby was given the lower rating of "Moderate" with a "Neutral" outlook.
- There would be a significant reduction in the level of Councillor representation in Ku-ring-gai, with the majority of Councillors elected from the Hornsby area due to their larger population.
- A merger would result in less say for Ku-ring-gai residents and ratepayers in how money is spent and in planning for the future of the area.



- Ku-ring-gai and Hornsby Council are very different, with Hornsby Council's geographical area being five times larger and inclusive of extensive rural and remote areas compared to the entirely urban Ku-ring-gai Council area. A merger would diminish communities of interest and societal connectedness.

### **Metropolitan Strategy**

One of IPART's considerations in assessing Fit for the Future proposals from councils is whether a proposal is broadly consistent with the objectives of the Independent Local Government Review Panel (ILGRP) preferred option. IPART's Methodology for Assessment includes criterion such as "support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans".

While IPART's intention is clear, it is important to note that the final report of the ILGRP predates decisions by the NSW Government to establish a Greater Sydney Commission in collaboration with local government to address just this issue.

The NSW Government intends to establish the following structure in order to provide engagement between each of the metropolitan plan subregions and the Minister for Planning:

- a Local Government Advisory Committee within each sub-region, with one representative from each Council; and
- a Greater Sydney Commission, which will be made up of one representative from each sub-region, a number of independent members as well as representatives from key government agencies. The Greater Sydney Commission will sit within the NSW Planning and Environment cluster and the Chair of the Commission will report directly to the Minister for Planning.

The NSW Government's establishment of the Greater Sydney Commission, largely with the objective of delivering and implementing subregional plans within a coordinated metropolitan framework, should itself go a long way, if not all the way, to meeting the objectives of the ILGRP in relation to metropolitan governance. IPART's adoption of earlier ILGRP's recommendations about more effective sub-regional arrangements does not acknowledge the significant change in context which such objectives were originally formulated.

### **Financial Sustainability is primarily a problem outside of metropolitan Sydney, yet the amalgamation focus is within Sydney:**

The T-Corp report Financial Sustainability of the New South Wales Local Government Sector (April 2013) identified that councils outside metropolitan Sydney have much weaker financial sustainability ratings. While only 5 councils in metropolitan Sydney had a T-Corp financial sustainability rating of weak and none were rated very weak, outside of metropolitan Sydney there were 29 councils rated as weak and 5 as very weak. In contrast to the financial results, there is greater focus from the State Government on amalgamation for Sydney metropolitan councils. Many rural councils are not being asked to merge and have been provided with the opportunity to participate in joint organisations, an option not available to metropolitan councils.

### **Absence of analysis and explanation for recommended mergers:**

There is no explanation provided in the Fit for the Future program as to why specific mergers have been adopted other than that they were recommended by the Independent Local Government Review Panel. However, the Independent Local Government Review Panel did not provide a meaningful rationale either. In the case of Ku-ring-gai, the reason provided for the recommended merger with Hornsby Shire Council was as follows:

- *Projected 2031 population 348,800*
- *Strong socio-economic and urban links*

No information is available other than the above to explain or justify the highly significant recommendation to merge Ku-ring-gai Council with Hornsby Shire Council.

**The Fit for the Future criteria of Scale and Capacity – arbitrary population targets:**

The Fit for the Future program provides that if a council follows the recommendation for a merger from the Independent Local Government Review Panel then the criteria for scale and capacity are met. This approach has also been adopted by IPART. On the contrary, if a council decides not to follow an Independent Local Government Review Panel recommendation to merge, it appears that even if the council was able to demonstrate strong strategic capacity, the lack of population, or “scale”, may rule the council out from being declared by IPART as being “Fit”.

There is no evidence in the Fit for the Future program nor the Independent Local Government Review Panel report as to why recommended mergers with increased population (usually exceeding 250,000 for metropolitan Sydney) would provide better local government and improved services for the community. Indeed, the financial results for the year ending 30 June 2014 show that nine of the biggest councils in NSW run large operating deficits (refer table below). These councils have an average population of 207,000 and an average operating deficit of \$8.7 million. In contrast, Ku-ring-gai Council with a population of 120,000, and its recommended merger partner Hornsby Shire Council, with a population of 166,000, both run healthy operating surpluses.

Council Name	Operating Deficit (\$'000)	Population
Wollongong City Council	-19,250	205,231
Penrith City Council	-13,732	190,428
Blacktown City Council	-12,089	325,185
Liverpool City Council	-8,260	195,355
Gosford City Council	-7,303	170,752
Bankstown City Council	-6,031	196,974
Fairfield City Council	-4,977	201,427
Sutherland Shire Council	-4,208	223,192
Campbelltown City Council	-2,571	154,538

Sydney metropolitan councils are already large by Australian and international standards. In 2011 the average population for Sydney councils was 106,408, Melbourne was 131,517, Perth 56,535, Adelaide 66,882, Hobart 42,941 and Darwin is 42,500. With the exception of Brisbane (with a different centralised local government model), compared to Australian capital cities, Ku-ring-gai and Hornsby councils are already large by population, noting that Melbourne councils have already been through large scale amalgamations. When compared internationally, local councils in Sydney are amongst the largest metropolitan councils in the world in terms of population. The countries that have larger councils primarily do not have a middle level of government (i.e. there is no state government, only the equivalent of local and federal government).



**The Fit for the Future Benchmark for Infrastructure Backlog Ratio is too low and the data is unreliable:**

The Infrastructure Backlog Ratio is a measure of the estimated cost to bring assets to a satisfactory condition against the total value of a council's infrastructure.

The Fit for the Future benchmark for the Infrastructure Backlog Ratio is 2%. For Ku-ring-gai Council, this equates to a "backlog" or cost to bring to satisfactory, of approximately \$10 million. This benchmark is very conservative when considered in relation to the total value of Council's assets, with a written down value of approximately \$500 million (and a gross value of \$937 million).

In contrast to the Fit for the Future benchmarks, the Office of Local Government commissioned a *Local Government Infrastructure Audit (June 2013)*. This Audit identified a benchmark for the cost to bring to satisfactory of "10 years cumulative forecast surpluses (after capital)". For Ku-ring-gai Council, this benchmark would equate to approximately \$100 million.

The benchmark for the Infrastructure Backlog Ratio required to be considered as being Fit for the Future is very low and inconsistent with one of the benchmarks established in the *Local Government Infrastructure Audit (June 2013)*.

There is also industry wide inconsistency in the calculation of the infrastructure backlog. The guidelines provided by the Office of Local Government provide significant scope for variation between councils and the figures for the infrastructure backlog have not previously been independently audited. At this point in time, the Infrastructure Backlog Ratio is not a reliable benchmark to determine whether NSW councils are Fit for the Future.

#### **Joint Organisations, Resource and Services Sharing:**

The Independent Local Government Review Panel identified a Joint Organisation as an alternative to amalgamation for Ku-ring-gai and Hornsby councils, however this option was not adopted by the State Government. Rather, the State Government has made the option of Joint Organisations available only to councils outside of the Sydney metropolitan area.

Ku-ring-gai Council participated in discussions with the North Shore Councils Alliance in relation to developing models for a Joint Organisation. It was considered that a Joint Organisation could assist in strategic planning, advocacy and service delivery. However, in the absence of State Government support for the provision of Joint Organisations in metropolitan areas it was not practical to pursue this option in the short timeframe available to submit a Fit for the Future proposal. If a consistent approach to the framework, structure and legislative basis of Joint Organisations for metropolitan councils was able to be developed with the support of the State Government, Ku-ring-gai Council would be an active participant.

Ku-ring-gai Council is currently widely engaged in sharing resources and services. Council participates in numerous joint procurement activities through NSROC, SHOROC and LG Procurement. Ku-ring-gai Council is currently the lead council in a regional waste tender and is a member of a shared service for the provision of Internal Audit Services amongst seven north shore councils. Further expansion of shared services arrangements via Joint Organisations would have the support of Ku-ring-gai Council.

**Role of IPART in assessing Fit for the Future proposals – Terms of Reference restrict the scope for an independent assessment:**

The State Government provided narrow Terms of Reference to IPART for the assessment of Fit for the Future proposals that preclude IPART from developing its own independent assessment methodology as to whether a council is effective, efficient or otherwise “Fit for the Future”. As shown in the extract of the terms of reference below, the assessment by IPART is limited to whether a council meets the specific criteria established by the State Government.

The assessment methodology must:

- a. be consistent with the Government’s local government reform agenda, as outlined in the Fit for the Future documentation
- b. include an assessment of the scale and capacity criteria as a threshold criterion
- c. include an assessment of the performance against the fit for the future measures and benchmarks, that takes into account:
  - i. the material published in the template guidance

**Timeline to prepare Fit for the Future proposals in accordance with IPART methodology is too short:**

The appointment of IPART to assess the Fit for the Future proposals on 22 April 2015 has provided councils with an inadequate timeframe to address all of the submission requirements by the deadline of 30 June 2015. IPART released their final assessment methodology on 5 June 2015, allowing only three weeks to complete the submission and hold a formal council meeting for endorsement. It is regrettable that such an important process has been condensed into such a narrow timeframe.

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Should the Committee require any further information, please do not hesitate to contact the undersigned.

Yours sincerely

John McKee  
General Manager