

**Submission
No 16**

INQUIRY INTO INTEGRITY, EFFICACY AND VALUE FOR MONEY OF NSW GOVERNMENT GRANT PROGRAMS

Organisation: Hornsby Shire Council

Date Received: 20 August 2020



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The Chair
NSW Legislative Council's Public Accountability Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr Shoebridge

Inquiry into the integrity, efficacy and value for money of NSW Government grant programs

On behalf of Hornsby Shire Council (HSC), thank you for the opportunity to provide comment to your Committee's Inquiry into the integrity, efficacy and value for money of NSW grant programs.

This opportunity is timely, particularly having regard to recent criticism which has been levelled at HSC in respect of the grant moneys it received under the Stronger Communities Fund (SCF).

HSC has long maintained a view and worked hard to persuade the NSW Government to concede that compensation was due and payable to HSC consequent upon the Government's 2016 failed Council merger process, particularly with respect to the disastrous ongoing financial and other impacts imposed on a much smaller and less sustainable HSC in the short, medium and long term.

Although the Government did eventually concede that HSC was entitled to compensation so that the Shire's residents would not be worse off as a result of the Government's merger decisions, HSC was not party to how or from where the Government funding would emanate.

Only after a subsequent specific request from the Office of Local Government (OLG) for HSC to make application under the SCF was an application made for funding to assist with two major capital works projects at Hornsby and Westleigh. HSC's application was made on the basis that any moneys received from the SCF would only be a part payment on the total compensation to which HSC was entitled.

It is essential for your Inquiry to note that HSC was the most severely affected and financially disadvantaged of any council in NSW as a result of the Government's 2016 merger decisions and the subsequent litigation between the Government and various councils that followed.

The Government had originally proposed to merge the former HSC area north of the M2 Motorway with Kuring-gai Council (KC) to form one of a number of large metropolitan councils. However, following Court action by KC which effectively stopped the proposed merger with HSC, the Government still decided to progress with a significant reduction of HSC's size and financial capacity by transferring the former HSC area south of the M2 Motorway to the new City of Parramatta Council (CoPC).

It was clear to HSC (after an independent assessment by T-Corp) that if HSC had retained its pre-2016 boundaries rather than being reduced in size, scale and financial capacity i.e. the complete opposite of what the Government was proposing to achieve with its mergers, Council would have been financially better off to the tune of a net \$10 million per annum for every year since 2016.

Based on the above, and in line with a request from the Government, HSC commissioned BIS Oxford Economics to undertake an independent financial assessment of HSC's new situation to firstly confirm what financial losses were being incurred as a consequence of the loss of the area south of the M2 Motorway; and secondly to determine the extent of a one-off total compensation payment which the Government would need to pay to HSC immediately to cover it for those losses into the future.

Although HSC is thankful for the \$90 million it has so far received, the independent financial assessment undertaken by BIS Oxford Economics, which has been provided to and analysed by NSW Treasury, shows that a further \$168 million is required to be paid to HSC before full compensation is achieved.

The history of Council's position on this matter is contained in a report entitled "NSW Government's Local Government Reform Process and Compensation for Council", which was considered by Council in March 2019. A copy of the Report, which sets out HSC's arguments fully, is attached for your Committee's information.

The purpose of the Report was to:

- provide HSC with a complete record of the local government reform process that had been in train since 2011
- show HSC's significant contribution to the reform process throughout which it had been prepared to take an industry-wide (rather than a Hornsby-specific) view to proposals included in the NSW Government's Destination 2036 and Fit for the Future initiatives
- detail the struggles that HSC had in convincing the Government that the decision to transfer the area south of the M2 Motorway to the CoPC, whilst not progressing the merger of KC and the remainder of HSC, had an ongoing significant financial impact on HSC and its residents/ratepayers
- advise on the compensation that had so far been forthcoming to HSC from the NSW Government.

In summary, the report advised that:

- the former HSC area south of the M2 Motorway was transferred by proclamation of the NSW Government to the CoPC on 12 May 2016. The Government's expectation at that time was that a merger of KC and the remaining area of HSC would occur soon thereafter
- since the Government decided in mid-2017 that the merger of HSC and KC was not to proceed, HSC 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 (backed by an independent financial analysis) that HSC was 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 NSW Government resisted HSC's attempts to have the area south of the M2 Motorway returned to HSC, 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 HSC with a grant of \$90 million from the SCF 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 HSC (\$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.
- although the Government has publicly committed to providing HSC with further compensation to offset its ongoing net \$10 million per annum loss, no further formal advice has yet been forthcoming 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 HSC and its residents/ratepayers of the failed local government reform process (as it applies to HSC) as well as HSC's responses to the situation during and post that period.

Following its consideration of the Report, Council unanimously resolved in part that:

- Council note that to date, the NSW Government has provided \$90 million tied to specific capital projects to compensate Hornsby Shire for the loss of these lands and note that BIS Oxford Economics have identified that a further amount of \$168 million would be required to fully compensate Hornsby for the loss of the lands south of the M2 Motorway.
- On behalf of the residents and ratepayers of Hornsby, Council place on record its disappointment that during the current term of this NSW State Government they have failed to address the issue of the outstanding compensation for Hornsby Shire despite ongoing negotiations and the provision of additional financial information requested by the Government.
- As advocates for the Hornsby Shire, Council continue to press this issue with whomever forms Government in NSW after 23 March 2019.
- Deputy General Manager's Report No. CS7/19 and all other relevant documentation associated with the Fit for the Future Local Government Reform Program be placed on Council's website, so that interested residents can view the issues and Council's response.
- Council write to both the NSW Premier and the Opposition Leader seeking their commitment to fully compensating Council for losses sustained as a result of the loss of land south of the M2 Motorway should they be elected. This compensation must contain a cash component not tied to projects in order for Council to adequately invest the funds for ongoing long term revenue.

Discussions with the NSW Government continue in respect of their commitment to ensure that HSC residents are not worse off as a consequence of the 2016 merger decisions and the Government has indicated to Council that such a commitment will be honoured over time.

I trust that the provision of this submission, report and resolution will assist your Committee in a number of matters that you will be reviewing about the SCF under the Terms of Reference for your Inquiry, and in particular the specific funding provided to HSC from the SCF.

Separate to the Inquiry, HSC would be appreciative of any support the Public Accountability Committee may be able to provide to assist HSC in receiving the compensation it deserves from the Government.

If you have any questions or require further information, please do not hesitate to contact me

Yours faithfully

Steven Head

General Manager

F2014/00494

Attachment: Deputy General Manager's Report No. CS7/19 – NSW Government's Local Government Reform Process and Compensation for Council