
6 FIT FOR THE FUTURE - UPDATE SUPPLEMENTARY REPORT

Report prepared by: Group Manager - Corporate Services
File No.: CSG/14/3/22 - BP15/609

REPORT SUMMARY

This supplementary report details the actions taken following Council's resolution at its Extraordinary Council Meeting held on 17 February 2015, in determining Council's position and response to the Minister for Local Government's announcement of the 'Fit for the Future' program, that was released in October 2014.

Two options were provided to Councils, to either complete Template 1 (Council Merger proposal) or complete Template 2 (Council Improvement Proposal).

Council in its resolution on 17 February 2015, rejected the Independent Panel's recommendations to split the City of Ryde, with the western third of the Ryde LGA proposed to be merged / amalgamated with Parramatta, Holroyd and Auburn Councils and the balance of Ryde being amalgamated with Councils to the east, comprising Hunter's Hill, Lane Cove, Mosman, North Sydney and Willoughby Councils.

Council resolved to complete Template 2, (Council Improvement Proposal) for Ryde to stand alone, however, Council also resolved to investigate a modified Joint Organisation (regional body) proposal, to meet the State Government's scale and capacity criteria. This option had been included in the Independent Panel's recommendations, however, when the Minister's 'Fit for the Future' program was released, it excluded this option for metropolitan Councils.

The report details the preliminary findings of the investigations into the regional Joint Organisation (JO) option, that have been the subject of updates and progress reports to Councillors at Councillor workshops since February. The preliminary findings of Council's Template 2 – Council Improvement Proposal are also detailed in this report.

Council also resolved to undertake a business case (cost benefit analysis), of the Independent Panel's recommendation to amalgamate the Councils of Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby with the eastern two thirds of Ryde. The report details the preliminary results of this business case.

All of the above matters and options being considered that are detailed in this report, have been extensively communicated and consulted with our community as required by Council's resolution on 17 February 2015.

ITEM 6 (continued)

It should be noted, that engaging and seeking the community's feedback was a critical requirement that the Minister for Local Government. All Councils were required to explain the proposed actions under Fit for the Future and receive the community's feedback on the options being considered. The requirements to consult with the community and the manner in which each Council has consulted with its community, will be one of the factors that IPART will assess in its overall assessment of each Council's submission.

This report details Council's extensive communication and media strategy, together with the actions taken in fully providing our community with all available information and the options being considered by Council.

As a result of Council's on line survey that commenced on 10 March 2015, 81% of 1,153 respondents voted against Ryde being split and merged. Council is in the process of undertaking a further survey following the community meeting on 5 May 2015, and the results of this survey will be included in Council's report on 9 June 2015.

Key results for the Ryde community meeting, which had approximately 100 attendees, were:-

- 11% of the community support the City of Ryde being split and amalgamated;
- 84% support the City of Ryde standing alone;
- 84% support the exploration of a Joint Organisation (JO).

Overall, this report details the options available to Council. However, it also seeks Council to endorse the completion of Template 2 – Council Improvement Proposal and the alternate business case for a regional Joint Organisation. The report details for the JO to be viable, it requires the following functions as a minimum;

1. Regional land use and infrastructure planning including; single approach to Sub-Regional Plan priorities and policy; agreed centres hierarchy and role; single endorsed set of State / Major local infrastructure priorities; and a sub-regional Section 94 Plan.
2. Single point of contact for State and Federal Government on sub-regional matters.
3. Sub-regional advocacy.
4. Harmonised LEP (in the longer term).

To undertake these functions, the report details the required powers the JO would need to have in making joint decisions on strategic planning and infrastructure priorities for the area /sub-region, noting that Councils would not be able to opt out of these decisions.

ITEM 6 (continued)

The report recommends that Council endorse the actions taken by the General Manager following Council's resolution at its Extraordinary Council Meeting on 17 February 2015 and further approve the General Manager continuing to complete the business cases / submissions for both Template 2 (Council Improvement Proposal) and the alternative proposal for a JO – Regional Body.

This matter will be reported back to Council on 9 June 2015 for Council's further consideration and to endorse the submissions being lodged with IPART, prior to 30 June 2015.

RECOMMENDATION:

- (a) That Council note the update on the actions taken by the General Manager in preparing Council's response to the Fit for the Future program, as a result of Council's resolution at its meeting 17 February 2015.
- (b) That Council endorse the General Manager continuing to finalise both Council's Template 2 submission – (Council Improvement Proposal) and the Joint Regional Authority proposal, (as detailed in the body of this report), in conjunction with Lane Cove and Hunter's Hill Councils.
- (c) That Council delegate to the General Manager the authority to provide a submission to IPART regarding Fit for the Future Assessment methodology on behalf of Council.
- (d) That Council note this matter will be reported back to Council at a meeting in June 2015.

ATTACHMENTS

- 1 Fit for the Future - Councillor Workshop - 5 May 2015 - Governance Framework Joint Regional Organisation
- 2 Fit for the Future Submission Proposed Joint Regional Organisation - Councillor Briefing Paper - 1 May 2015
- 3 Brian Dollery - Compulsion versus a collaborative regional approach - Draft Executive Summary
- 4 Percy Allan - Draft Executive Summary combined presentations May 2015
- 5 SGS Draft Executive Summary May 2015

Report Prepared By:

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Group Manager - Corporate Services

Report Approved By:

Gail Connolly
General Manager

ITEM 6 (continued)**Background**

Council at its Extraordinary Council meeting on 17 February 2015, considered a report from the General Manager titled 'Fit for the Future – City of Ryde's Response.

In consideration of this matter, Council unanimously resolved;

- (a) *That the City of Ryde reaffirm its rejection to the recommendations as detailed in the Independent Panel's final report that proposes to split the City of Ryde partly between Parramatta, Holroyd and Auburn Councils with the balance being amalgamated with Councils to the east and north, comprising Hunters Hill, Lane Cove, Mosman, North Sydney and Willoughby Councils;*
- (b) *That the City of Ryde complete Template 2 – Council Improvement Proposal, to demonstrate that the City of Ryde is sustainable in its own right;*
- (c) *That in addition to completing Template 2, Council also endorse investigating a modified Joint Organisation (regional body) proposal to meet the State Government's scale and capacity criteria, on the basis that there are other Councils in northern Sydney interested in participating in this proposal with the City of Ryde;*
- (d) *That the City of Ryde endorse undertaking a shared community engagement strategy with those Councils that confirm interest in exploring a modified Joint Organisation (regional body) proposal as detailed in part (c) above;*
- (e) *That Council endorse the General Manager writing to the Mayor and General Manager of the Councils that attended the Symposium, to confirm their Council's position by Wednesday 18 March 2015, in respect of parts (c) and (d) above;*
- (f) *That the City of Ryde endorse a business case (cost benefit analysis) being undertaken of the Independent Panel's recommendation for the Councils of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and Ryde to amalgamate (costs to be on a shared funding basis); and*
- (g) *That the General Manager write to the Mayor and General Manager of Parramatta, Auburn and Holroyd Councils to formally advise that the City of Ryde rejects the Independent Panel's recommendations for the western area of the City of Ryde to merge with Parramatta, Auburn and Holroyd Councils and to advise that Council is exploring other options as detailed above.*
- (h) *That the City of Ryde, as soon as possible, commence a community information strategy to bring the specific predicament of this Council to the attention of our community.*

ITEM 6 (continued)**Discussion**

This report details the actions undertaken to date on each part of the Council's resolution dated 17 February 2015.

Council Rejects Independent Review Panel's Recommendation to Split Ryde

Resolution (a) That the City of Ryde reaffirm its rejection to the recommendations as detailed in the Independent Panel's final report that proposes to split the City of Ryde partly between Parramatta, Holroyd and Auburn Councils with the balance being amalgamated with Councils to the east and north, comprising Hunters Hill, Lane Cove, Mosman, North Sydney and Willoughby Councils;

Actions Taken

This decision by Council has been extensively explained in the information Council has provided to its community through a letter from the Mayor, advertisements and Council website and in various media releases. This decision also underpins Council's decision to complete Template 2 – Council's Improvement Proposal rather than completing Template 1 – Merger Proposal.

City of Ryde to Stand Alone

Resolution (b) That the City of Ryde complete Template 2 – Council Improvement Proposal, to demonstrate that the City of Ryde is sustainable in its own right;

Actions Taken

This decision by Council was based on the premise that Council can meet the Fit for the Future criteria of 'Scale and Capacity' and that the City of Ryde is sustainable in its own right.

Council is well advanced in completing Template 2 – (Council Improvement Proposal). The key elements of this Template that Council will demonstrate it meets are;

- Establish Existing Scale and Capacity,
- Performance against the Fit for the Future financial benchmarks,
- Develop a 1 – 4 year Improvement Plan to become / remain sustainable.

ITEM 6 (continued)

Councillors have received a number of briefings on the progress of the preparations in formulating Council's response. These briefings have been held on;

- 17 March 2015
- 14 April 2015
- 21 April 2015
- 28 April 2015
- 5 May 2015

Further briefings are scheduled throughout May and June. Council's Template 2 submission will demonstrate that the City of Ryde meets all criteria, in demonstrating scale and capacity and noting that Council requires the Special Rating Variation (SRV) approved, to meet all the financial benchmarks.

At the Councillor's Workshop on 21 April 2015, the focus was on the Fit for the Future Financial benchmarks with the following information being provided;

- 2013/14: Council meets only 3 of 7 Benchmarks
- 2016/17: Council meets 5 of the 7 Benchmarks that include;
 - internal savings (\$1.9m),
 - additional revenue (\$600K)
 - SRV (from 2015-16)
 - Cost control and efficiency strategies
- 2019/20 Council will meet all 7 Benchmarks

Council will also be required to endorse a 4 Year Improvement Plan, as part of its Template 2 submission, that will require additional resources to drive the improvements and efficiencies, with these costs being funded from Council's Fit for the Future Reserve and within existing approved project budgets.

Alternate Proposal – Investigate modified Joint Organisation (regional body)

Resolution (c) That in addition to completing Template 2, Council also endorse investigating a modified Joint Organisation (regional body) proposal to meet the State Government's scale and capacity criteria, on the basis that there are other Councils in northern Sydney interested in participating in this proposal with the City of Ryde;

Action Taken

As a result of this resolution, Council's General Manager wrote to all Mayors and General Managers of the Councils that attended the Northern Sydney 'Fit for the Future' Symposium, held at Willoughby on 5 February 2015.

ITEM 6 (continued)

While all Councils responded back to Council, only Lane Cove and Hunter's Hill Councils confirmed their agreement to join with the City of Ryde in investigating a modified Joint Organisation (regional body), to further assist in enhancing Council's ability to meet the required scale and capacity criteria, thereby achieving the Government's Fit for the Future objectives.

Following this response, the three Councils then engaged the following consultants to assist in completing the required business case;

- SGS Economics - Focused in coordinating the business case with a particular focus on modelling the benefits of a regional strategic planning approach,
- Percy Allan & Associates - Advice on shared services, legal framework of a Joint Organisation and to undertake a Peer Review of the Joint Organisation business case,
- Brian Dollery - Professor from University New England, Armidale. Providing a research paper titled, 'Compulsion Versus a Collaborative Regional Approach' – An Empirical Analysis of Forced Amalgamation versus a Regional and Shared Services Approach.

Since their engagement in March 2015, extensive work has been undertaken with the City of Ryde coordinating this project between the three Councils and the consultants. Extensive information has been provided by the Councils and Council is in receipt of draft reports from all consultants. It should be noted that whilst the reports are still undergoing reviews, a copy of the draft Executive Summaries has been attached to this report. Council staff will be placing these Executive Summaries on Council's website from 11 May 2015, to assist the community in its understanding of this matter in addition to those members of the community who will be undertaking the next community survey. **ATTACHMENT 3** (Brian Dollery), **ATTACHMENT 4** (Percy Allan & Associates) and **ATTACHMENT 5** (SGS Economics).

In brief, the findings from the consultancies indicate the following;

Both Percy Allan and Associates and Brian Dollery in their research, have indicated that a Joint Regional Organisation will be able to achieve;

1. The State Government's key objectives for regional collaboration and planning;
2. Added value to each Council's operations;
3. An environment for shared service delivery and centres of excellence; and
4. A more cost effective outcome, when compared with mergers.

ITEM 6 (continued)

SGS Economics in its analysis of the feasibility of a Joint Organisation concludes:

- A Joint Organisation is both viable and advantageous for three (3) Councils and six (6) Councils;
- The benefits considerably outweigh the costs; and
- There would be significant improvements to strategic capacity including;
 - Capacity to deal with cross boundary issues (eg transport infrastructure)
 - Allows each Council to focus on issues / services best delivered locally and to preserve local identity

In respect of key fundamental threshold questions on the viability of the JO, SGS concludes;

- The viability of the JO increases with more Councils participating;
- For the JO to be effective, participating Councils should not be able to 'opt out' of key sub regional decisions; and
- The JO will improve the performance of each Council to deal with local issues and boost their capacity to tackle sub regional priorities.

SGS' business case has been based on the following assumptions;

- That Councils will have to hand over sub regional strategic and infrastructure planning functions to avoid duplication;
- That all Councils have to support and buy-in to a balanced urban development settlement pattern; and
- That Councils have to support the adopted policies (planning proposals) of the JO through their local decisions on development applications.

In respect of the required level of decision making power (authority), functions and responsibilities and shared service delivery to make the JO viable in the context of Fit for the Future initiative, the following is proposed;

Core Functions (Non-Negotiable)

In respect of the Core Functions for the JO to be viable, it requires the following functions at a minimum;

1. Regional land use and infrastructure planning including; single approach to Sub-Regional Plan priorities and policy; agreed centres hierarchy and role; single endorsed set of State / Major local infrastructure priorities; and a sub-regional Section 94 Plan.
2. Single point of contact for State and Federal Government on sub-regional matters.
3. Sub-regional advocacy.
4. Harmonised LEP (in the longer term).

ITEM 6 (continued)

In respect of the decision making powers for the JO, it will be constituted to make joint decisions on strategic planning and infrastructure priorities for the region with no Council having the ability to opt out.

The JO will need the following powers;

- To plan for subregional land use and infrastructure;
- To develop a single subregional Section 94 plan;
- To represent all Councils in negotiations for subregional planning and infrastructure matters;
- To undertake subregional advocacy;
- To procure subregional services and enter in subregional contracts; and
- To apply for subregional grants.

It is noted that the Government proposes to address the legislation requirements for JO's, following the results of the current pilots occurring in regional New South Wales.

Shared Services

The analysis and research undertaken by Percy Allan and Associates has estimated that there are potential cost savings of between 10% - 20% and an enhanced capacity can flow from a well designed and carefully implemented shared services arrangement.

However, his advice is to undertake extensive planning in selecting the service to be shared and to undertake one service at a time before proceeding to implement another service. He has highlighted that in any determination of selecting a shared service, a full business case will be required, noting that there are significant establishment costs, especially IT costs, that will delay the break even point being realised.

Whilst any shared service savings have not been quantified at this stage, these savings will provide an additional benefit to the benefits outlined in SGS's business case assessment of a regional strategic approach.

The above high level findings were the subject of the Councillor Workshop on Tuesday, 28 April 2015.

In addition to the viability of the JO's functions and powers, Councillors received an overview of the proposed Governance Framework for the JO at the Councillor workshop on Tuesday, 5 May 2015.

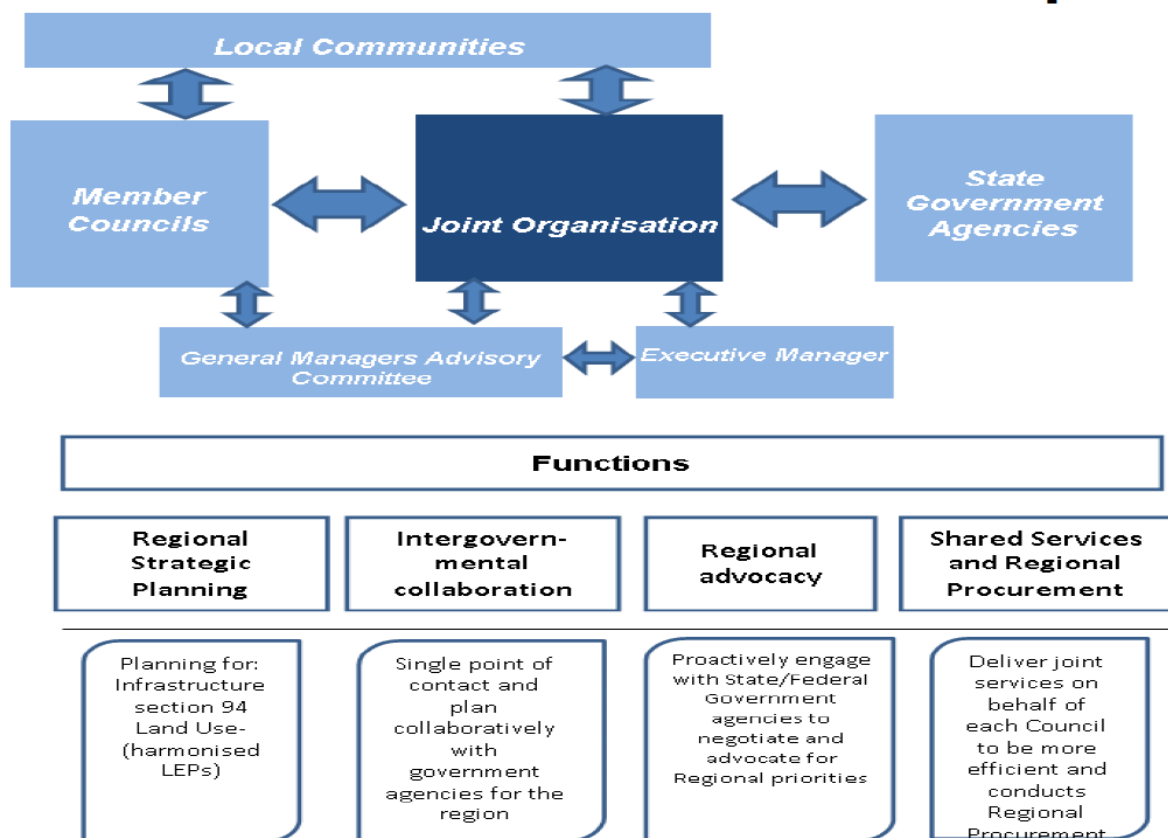
The design below, highlights how the JO would interact with each member Council, community and the State Government Agencies on subregional matters.

ITEM 6 (continued)

It is also important to stress that what will also be required to underpin this relationship diagram is an agreement on the charter of the JO and the processes to be followed in referring matters to the JO. This agreement must be obtained prior to the formal establishment of the JO to ensure that accountability to the community is maintained and to ensure effective input by each local Council continues into the future, as currently enjoyed by NSROC Councils.

Based on the State Government’s proposed Joint Organisation model currently being trialled by five (5) rural pilots, the following is proposed;

Joint Organisation Proposed Governance Framework



ITEM 6 (continued)

Proposed Joint Organisation (based on State Government's Rural JO Pilots)	
Structure	<ul style="list-style-type: none"> The entity will be legally recognised through Local Government Act. Representatives will be authorised to make decisions that are final Board consisting of 2 elected representatives from each Council – one Vote per representative General Managers Advisory Committee
Funding and Resourcing	<ul style="list-style-type: none"> Equal Membership fee Administration including an Executive Director and associated staffing (to be transferred from member Councils as required)
Accountability	<ul style="list-style-type: none"> Accountable to Member Councils Council Representatives to the Board will be nominated after each Local Government Election

A copy of the Councillor Briefing Paper that supported the Councillor Workshop on Tuesday, 5 May 2015 is **ATTACHMENT 1**.

In summary, Council officers have undertaken extensive investigations and research into Council's options and are recommending that Council continue to complete both Template 2 – Council Improvement Proposal and an alternate proposal for a Joint Regional body.

Shared Community Engagement Strategy

Resolution (d) That the City of Ryde endorse undertaking a shared community engagement strategy with those Councils that confirm interest in exploring a modified Joint Organisation (regional body) proposal as detailed in part (c) above;

Action Taken

As a result of Lane Cove and Hunter's Hill joining Ryde to investigate the JO proposal, a number of joint initiatives were taken as part of a joint community engagement strategy.

ITEM 6 (continued)

Actions taken include;

- Letters to the community by the Mayors with a supporting brochure;
- Publicity campaign on forced amalgamation;
- Community Meetings – Coordinated by the City of Ryde and facilitated by Urbis; and
- Joint Community survey that will be commenced on 18 May 2015.

In addition to the above, the Mayors of each Council were interviewed by the Northern District Times, followed by articles and press releases in the Northern District Times relating to key components of the Fit for the Future program. The Mayors of both Ryde and Hunter's Hill were also recently interviewed by 2RRR.

Following the Ryde community meeting, with an attendance of approximately 100 residents, the results from the meeting was as follows;

- | | | |
|---|---|-------|
| - How supportive are you of the City of Ryde Council being split and merged | - | 11.0% |
| - How supportive are you of the City of Ryde standing alone | - | 84.0% |
| - How supportive are you of Council exploring the possibility of a Joint Organisation | - | 83.8% |

The above results are very strongly opposed to the City of Ryde being split and merged for the City of Ryde to stand alone. While the vote was strong, the participants at the meetings were also open and very supportive of Council exploring the possibilities of a JO.

The City of Ryde's results at the community meeting also are consistent with the results that Council has received to its on-line survey which has been running since 10 March 2015. A total of 1,153 responses have been received that shows 81% do not support the State Government's Fit for the Future program that would split Ryde into two mega Councils.

The City of Ryde's results are very similar to the results at both the Hunter's Hill and Lane Cove community meetings.

	Hunter's Hill %	Lane Cove %
How supportive of being merged	17.8	7.0
How supportive of standing alone	73.4	85.5
How supportive of exploring a JO	86.0	82.2

As can be seen from the above results both Hunter's Hill and Lane Cove are equally as strong and consistent with the results achieved by the City of Ryde. All community meeting results support each Council standing alone and to explore the possibility of a JO.

ITEM 6 (continued)**Writing to all Councils that attended the Northern Sydney Symposium**

Resolution (e) That Council endorse the General Manager writing to the Mayor and General Manager of the Councils that attended the Symposium, to confirm their Council's position by Wednesday 18 March 2015, in respect of parts (c) and (d) above;

Action Taken

As detailed earlier in this report, the General Manager wrote to all Councils in the northern Sydney region that attended the Symposium, with only Lane Cove and Hunter's Hill Councils agreeing to explore the JO proposal and to undertake a shared community engagement strategy.

Undertake a Business Case of the Independent Panel's recommendation to amalgamate Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby and the eastern two thirds of the City of Ryde Council.

Resolution (f) That the City of Ryde endorse a business case (cost benefit analysis) being undertaken of the Independent Panel's recommendation for the Councils of Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby and Ryde to amalgamate (costs to be on a shared funding basis);

Action Taken

As a result of the above resolution, Lane Cove Council has coordinated the engagement of Morrison Low to undertake the Business Case of the above proposed amalgamation by the Independent Review Panel.

While the preliminary draft report from Morrison Low has only been received today and the calculations have not been checked for accuracy, the draft business case reinforces that the City of Ryde will meet all seven (7) benchmarks if Council is successful with its SRV application. In addition, the report confirms that the City of Ryde currently meets the scale and capacity criteria in its own right.

In respect of the Panel's proposed merged entity, the forecasts undertaken by Morrison Low require clarification. The reasons for this is the report forecasts a net financial benefit of \$53 million (at 7% NPV), however the projected surpluses, have not been directed back to asset renewals, which would significantly reduce this benefit. This result appears to contradict the early advice of Professor Dollery and hence the assumptions behind these calculations are being checked for consistency.

As stated by Morrison Low, if surpluses are directed to expenditure on assets in order to meet the required benchmarks, the merged Council does not meet the Asset Maintenance, Infrastructure Backlog and Asset Renewal ratios over the long term.

ITEM 6 (continued)

The report notes that in commencing the merged entity, it meets three (3) of the seven (7) benchmarks and in 2023, it meets only 4 of the 7 benchmarks.

Proposed Amalgamation with Parramatta, Auburn and Holroyd Councils

Resolution (g) That the General Manager write to the Mayor and General Manager of Parramatta, Auburn and Holroyd Councils to formally advise that the City of Ryde rejects the Independent Panel's recommendations for the western area of the City of Ryde to merge with Parramatta, Auburn and Holroyd Councils and to advise that Council is exploring other options as detailed above.

Action Taken

Council's General Manager wrote to the Mayor and General Manager of each of the above Councils and received their responses (which also opposed forced amalgamations).

The only other relevant point relating to the proposed amalgamation of the City of Ryde's western third, was that recent information circulated by Parramatta Council showed under its Option 1 – Shared Services with the whole City of Ryde LGA. There has been no correspondence or request for discussions around this proposed option by Parramatta Council to the City of Ryde. It is therefore disappointing that the City's first notification of this option was via a public brochure. This action has the potential to be viewed as hostile and misleading to Council and the community of Ryde and should therefore be rejected by Council.

Public Awareness of Fit for the Future

Resolution (h) That the City of Ryde, as soon as possible, commence a community information strategy to bring the specific predicament of this Council to the attention of our community.

Action Taken

As detailed earlier in this report, the City of Ryde, in conjunction with Hunter's Hill and Lane Cove Councils, undertook intense community engagement initiatives to advise of the proposed amalgamations and the options that the Councils were investigating. In addition to this communications/engagement strategy, the City of Ryde has also undertaken extensive initiatives in further informing its community of the proposal to split the City of Ryde. This has included;

- Direct mailing all ratepayers on 10 March 2015 with a letter from the Mayor and supporting brochure;
- Advertising in the Northern District Times on 3 March, 11 March and 18 March 2015;
- Banners on buildings and at locations throughout the City of Ryde;

ITEM 6 (continued)

- 2 week campaign at the end of April for advertising in Adshel Bus Shelters;
- Dedicated placement on Council's website on home page and landing page;
- Place the 'Ryde Says No Campaign' to all email signatures from 20 March 2015;
- Placed 'Ryde Says No' on 70 banner poles from 23 March 2015 in Ryde and Macquarie Park;
- Published articles in the e-Newsletter from March that were distributed on 25 February 2015 and 3 March 2015;
- Also forwarded e-Newsletter to extended list of people who had signed up for Fit for the Future updates on our website (14,955 people);
- Various Mayoral radio interviews on Sydney Metropolitan radio stations during March and April;
- General Manager has sent regular updates to all staff;
- This initiative has been prominent in Council's Social Media, both on Facebook and Twitter;
- Various media releases in Local and National press during the months of March and April; and
- Various speaking engagements by the Mayor and General Manager during March and April.

Summary

As detailed in this report, the City of Ryde has taken a number of significant initiatives and has demonstrated civic leadership in collaborating with neighboring Councils as well as ensuring the City of Ryde community is fully informed of the Fit for the Future program, the options being considered and the likely outcomes under each option.

From the feedback received, the community has clearly expressed their views which are;

1. The community rejects the proposed amalgamation, that would see the City of Ryde split to the east and the west,
2. There is strong support for the City of Ryde to stand alone,
3. There is strong support for Council to explore the Joint Organisation option, which is currently being investigated by Hunter's Hill, Lane Cove and Ryde Councils on regional issues.

In addition to the community feedback the preliminary research findings all indicate the following;

- The City of Ryde can demonstrate it meets all the Fit for the Future criteria which includes scale and capacity and the financial benchmarks based on being successful with its SRV application,
- There are significant advantages and benefits to be gained by exploring the JO option,

ITEM 6 (continued)

- The regional approach, together with Councils remaining in place to deliver local services with proper representation, is a much more effective approach than amalgamating, due to the significant costs that come with amalgamations.

It is therefore recommended that Council note the update provided in this report and support Council completing its submission to IPART for both Template 2 and the Joint Organisation option, as required under the Fit for the Future program.

It is proposed to submit Council's proposed submissions to Council's meeting on 9 June 2015, noting that Lane Cove, Hunter's Hill and Ryde will be making identical submissions to IPART by 30 June 2015.

IPART Methodology

NSW Government announced IPART as the Expert Panel for assessment of the Fit for the future Council submissions, on Monday 27 April.

On the same day IPART released a consultation paper on its proposed Assessment Methodology, with the closing date for the submissions being 25 May 2015. IPART has indicated it will announce the final assessment methodology on the week of 1 June 2015.

City of Ryde proposes to provide a joint submission with Hunters Hill and Lane Cove councils and has commissioned Professor Dollery to analyse the Assessment Methodology for this purpose.

It is recommended that Council delegate to the General Manager the authority to provide a submission to IPART regarding Fit for the Future Assessment methodology on behalf of Council.

Financial Implications

As endorsed by Council at its Extraordinary Council meeting on 17 February 2015, all costs associated with preparing Council's response to Fit for the Future will be funded from the Fit for the Future Reserve, which was created from operational and salary savings that included savings from the Mayor's and Councillors' budget. The estimated total costs from this work is estimated to be \$430,000 with Council's proportion being approximately \$320,000.

Options

1. Council could make no submission (and by default declared "unfit by IPART").

This option is not recommended.

ITEM 6 (continued)

2. Council could complete just Template 2 with no Joint Organisation Option. This is not considered to be Council's best option (as it would not be seen to be achieving the New South Wales Government's objectives for the reform of Local Government).

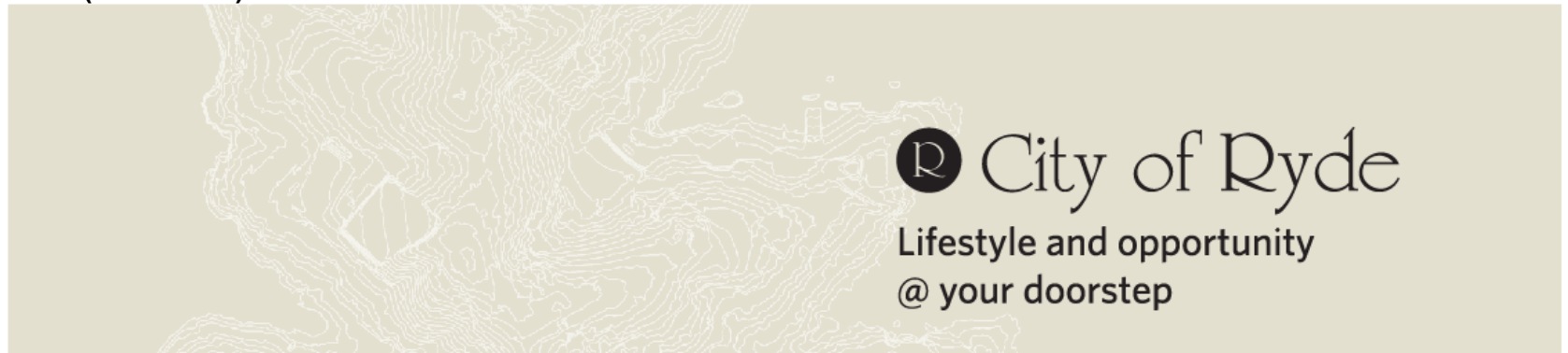
Therefore this option is not recommended.

3. Council completes Template 2 and accompany that submission with an alternate JO option to enhance scale and capacity, in conjunction with Lane Cove and Hunter's Hill Councils.

This is Council officers' preferred option and is recommended.

4. Council could complete Template 2 and suggest boundary adjustments to the west and north to adjust boundaries to enlarge the City of Ryde, thereby enhancing its scale and capacity. This option could also include pursuing shared services with Councils to the west.

As no discussions have occurred with Parramatta and Hornsby Councils, this option is not recommended.



Fit For The Future

Workshop 3 of 3- Governance Framework Joint
Regional Organisation

5 May 2015

FFTF Program recent Councillor Engagement

- 21 April 2015 - Council's performance against FFTF Financial Indicators and Improvement Plan- **Completed**
- 28 April 2015 - Scale and Capacity and Joint Regional Organisation- **Completed**
- 5 May 2015 - Governance framework for proposed regional organisation
- 5 May 2015 – Community Meeting 7-8.30pm
- 12 May 2015 - Progress Report to Council confirming project direction to date
- 27 May 2015 - Joint Councillor Briefing with HHC and LC
- By 30 June 2015 - Council Report with Final Submission

Purpose of Workshop

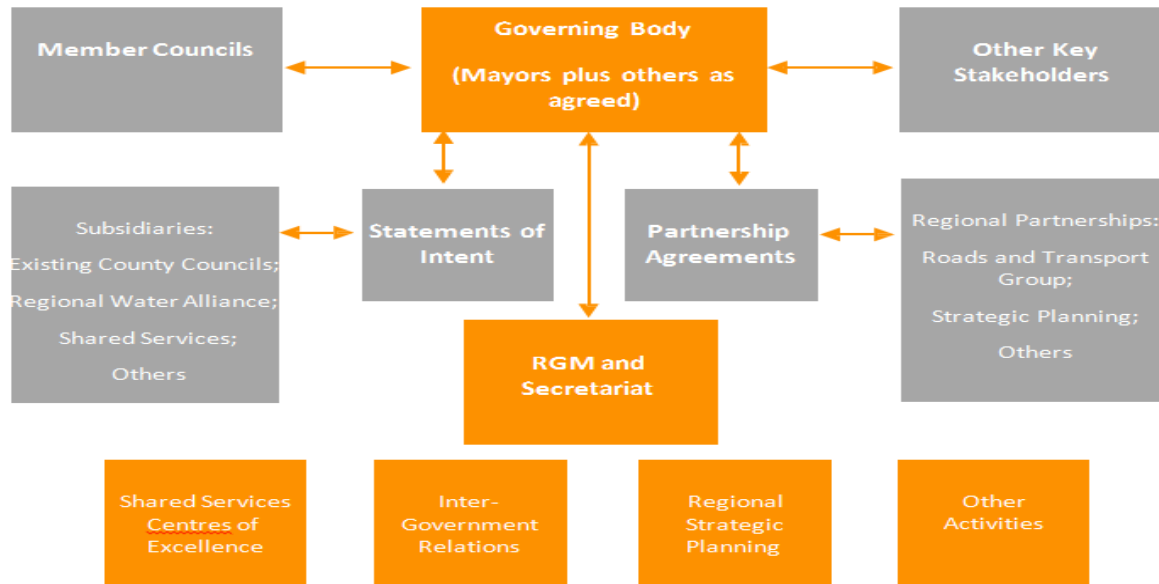
1. Outline of Joint Organisation governance models
 - The Independent Local Government Review Panel
 - The State Government's Rural JO Pilot
 - NSROC/SHOROC Collaboration Model
2. Discussion of proposed governance model of the Joint Organisation
3. Way forward.

Option Available to Council

1. Submit Template 2 (improvement proposal)
2. Submit a “superior option” and Template 2
3. Agree to split and merge or seek agreement from surrounding Councils to merge (Template 1)
4. Do not lodge a submission

JO Structure- LG Independent Review Panel

Figure 7: Model Structure for Joint Organisation



Source: ILGRP, *Revitalising Local Government - Final Report of the NSW Independent Local Government Review Panel*, October 2013, page 84

JO Structure- State Government's Rural Pilot

- The entity will be enabled through the Local Government Act.
- Minimum governance standards will be maintained, including regular meetings.
- At a minimum, one elected member will represent each council with one vote each (usually the Mayor).
- Representatives will be authorised to make binding decisions.
- Each JO will determine its membership beyond the minimum.
- Each JO will elect its own Chair.
- Each JO will determine its approach to alternates in specific circumstances.
- Each JO will appoint a suitably skilled Executive Officer.

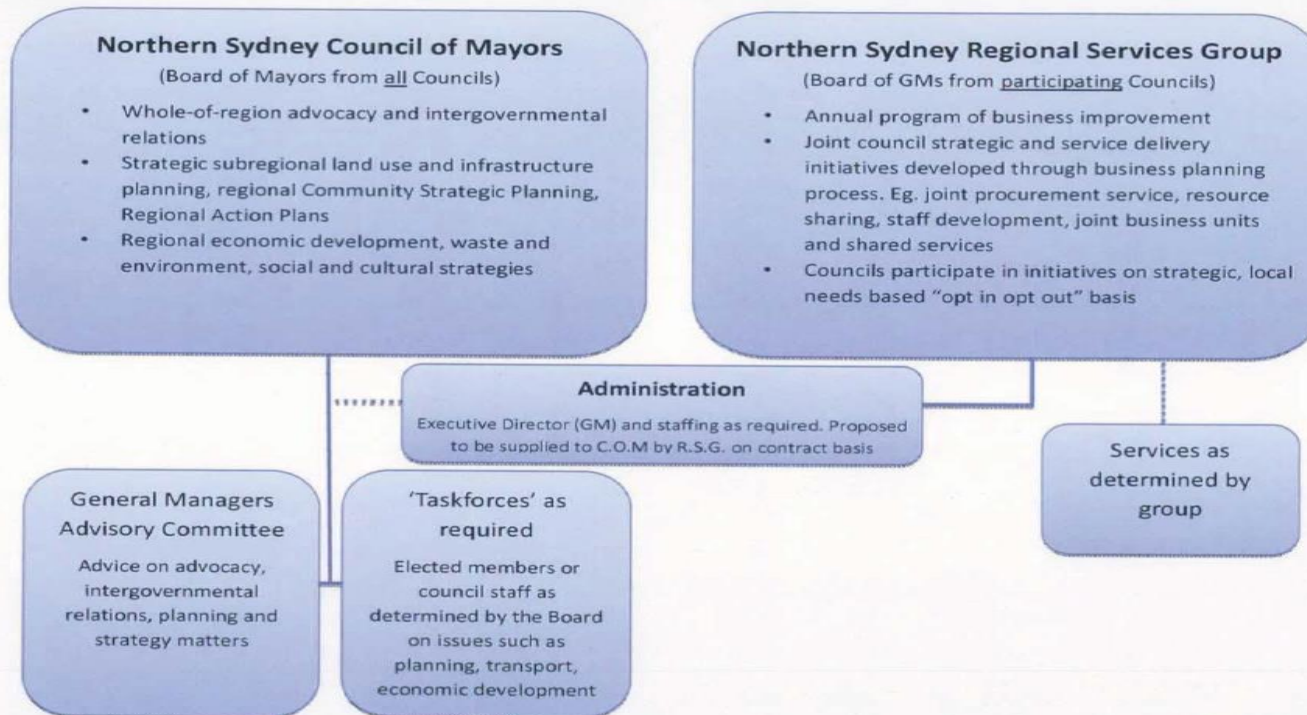
JO- Governance NSROC/SHOROC Model

(An evolution of NSROC)

Endorsed Council in March 2014

Proposed new regional collaboration model for Northern Sydney
Meeting outcome from 29/11/13 Meeting of Mayors and General Managers

Overview of proposed Northern Sydney council collaboration model



JO- Governance Council Proposal



Functions			
Regional Strategic Planning	Intergovernmental collaboration	Regional advocacy	Shared Services and Regional Procurement
Planning for: Infrastructure section 94 Land Use- (harmonised LEPs)	Single point of contact and plan collaboratively with government agencies for the region	Proactively engage with State/Federal Government agencies to negotiate and advocate for Regional priorities	Deliver joint services on behalf of each Council to be more efficient and conducts Regional Procurement

JO- Governance Council Proposal

Proposed Joint Organisation (based on State Government’s Rural JO Pilots)	
Structure	<ul style="list-style-type: none"> • The entity will be legally recognised though Local Government Act. • Representatives will be authorised to make decisions that are final • Board consisting of 2 elected representatives from each Council –one Vote per representative • General Managers Advisory Committee
Funding and Resourcing	<ul style="list-style-type: none"> • Equal Membership fee • Administration including an Executive Director and associated staffing (to be transferred from member Councils as required)
Accountability	<ul style="list-style-type: none"> • Accountable to Member Councils • Council Representatives to the Board will be nominated after each Local Government Election

JO- Decision Making (authority)

Non-Negotiable Powers

- To plan for subregional land use and infrastructure
- To develop a single subregional Section 94 plan
- To represent all councils in negotiations for subregional planning and infrastructure matters
- To undertake subregional advocacy
- To procure subregional services and enter into subregional contracts
- To apply for subregional grants

JO- Decision Making (authority)

	What Happens Now	What is Proposed			
Function and Responsibilities	Council	JO	Examples	Local	Example
Metropolitan and subregional planning	Run by DoP in consultation with councils within the sub region	JO will be the single point of contact and manage the subregional planning process	Feedback into the Metro Strategy	Council will provide its priorities and feedback to the JO	
Section 94 Planning	Council develops a plan locally, exhibits for community feedback and seeks Ministerial approval	JO will develop a plan for regional infrastructure with local Councils' input, each Council exhibits for community feedback . JO seeks Ministerial approval	Football Centre of Excellence Regional art gallery/cultural centre	Councils will continue to plan for local infrastructure, exhibit for community feedback and seek Ministerial Approval	Local parks, drainage
Regional Infrastructure Planning	Councils opportunistically discuss with neighbours and reactively provide feedback to State Government	JO develops a plan with priorities for regional infrastructure and facilities	schools, hospitals, TAFE, transport corridors	Councils will provide local input to Jo for regional priorities and continue to plan and develop priorities for local infrastructure	Local intersections, parks
Regional Advocacy and intergovernmental relationships	Councils advocate individually and on a reactive basis to State Government initiatives and pursues grant funding separately	Proactively engage with State/Federal Government agencies to negotiate and advocate for Regional priorities, submit regional grant applications	Light Rail, WestConnex, additional schools, public transport services	Councils will continue to make representations and advocate for local priorities	Community safety

JO- Decision Making (authority)

	What Happens Now	What is Proposed			
Function and Responsibilities	Council	JO	Examples	Local	Example
Determination of DAs Under \$20 million	Council staff assess applications and Council makes determination	No Change	NA	No Change	
Determination of DAs Over \$20 million	Council staff assess applications and forward to JRRP for determination	No Change	NA	No Change	NA
Determination of DAs over \$5 million when Council is the Applicant	Council staff or an independent planner engaged to assess applications and forward to JRRP for determination	No Change	NA	No Change	NA
Regional Procurement	Councils currently undertake regional procurement through NSROC; however each Council is required to enter into separate contracts with providers.	Under the Shared Service Delivery function of the JO, it will undertake regional procurement on behalf of Councils and will enter into one single regional contract.	Waste Disposal Tender, Street lighting and asphalt tender	Councils would continue to procure on their own for goods/services that are customised or are more efficiently procured locally	Procurement related to DA assessments

JO- Decision Making (authority)

	What Happens Now	What is Proposed			
Function and Responsibilities	Council	JO	Examples	Local	Example
Planning Proposals	Proposals are assessed by Council staff Council refers to the Minister for final decision.	Planning proposals that are of regional significance (cross boundary) could be the responsibility of the Joint Organisation. Proposals are assessed by Council staff and reported to the JO JO refers to the Minister for final decision.	Herring Road UAP North Ryde Station UAP Gladesville Shopping Centre	Planning proposals that were of local significance would be the responsibility of Council Proposals are assessed by Council staff Council refers to the Minister for final decision.	First Ave residential PP Cudal Reserve
Planning Instruments LEP	Developed by Council on a State Government template, exhibited for community feedback and gazetted by the Minister	Short term Harmonise the 3 Councils' LEP Long term develop single LEP for subregion Exhibit for community feedback and gazetted by the Minister	NA	NA	NA
DCP	Council	Short Term: no change Long term: Harmonise 3 Councils' DCPs	Heritage controls Common definitions and approach but each Council may nominate its own heritage items and their treatment	Councils develop location specific controls	Heritage controls Common definitions and approach but each Council may nominate its own heritage items and their treatment

Next Steps

- 5 May 2015 - Governance framework for the proposed Joint Regional Organisation
- Community Meetings:
 - 5 May – Ryde (7-8.30pm)
 - 6 May - Hunters Hill
 - 7 May - Lane Cove
- 12 May 2015 - Progress Report to Council confirming project direction to date
- 25 May 2015 - submission to IPART's Assessment Methodology consultation paper
- 27 May 2015 - Joint Councillor Briefing with HH and LC

FFTF Submission Proposed Joint Regional Organisation

Councillor Briefing Paper

1 May 2015

The purpose of this briefing paper is to provide a detailed explanation of why inclusion of a joint organisation (JO) is important to Council's overall strategy in responding to the State Government's Fit for the Future (FFTF) initiative and how the proposed JO will be structured, its governance framework and its functions.

Why inclusion of a JO in Council's submission is important:

The State Government's position of reducing number of Councils in metropolitan Sydney to improve local government's strategic capacity and fitness for future is encapsulated in IPART's Submission assessment methodology.

The FFTF guidelines and the IPART methodology make it clear that where a Council was nominated for amalgamation, simply submitting a Template 2 (Improvement Plan) will fail the test of fitness for the future. Councils are compelled to submit a business case outlining arguments for rejecting the Panel's recommendation and to prove why their option is "superior" to the Panel's recommendation.

For City of Ryde and our partners Lane Cove and Hunters Hill the proposed JO is our superior alternative to the merger recommendation. Our position is that the City of Ryde proposes to commit with its neighbouring Councils to implement a joint regional model that replaces the voluntary nature of Regional Organisation of Councils (ROCs) with a mandated collective authority to manage regional matters.

We intend to argue that:

1. Together, the three Councils have developed a low cost, scalable and collaborative model which strengthens our existing scale and strategic capacity whilst recognising and preserving each Council's community of interest, history and local identity.
2. This alternate proposal will fulfil the government's key drivers in optimising regional infrastructure and strategic planning outcomes.
3. It is a model that is based on the State Government's own approach for rural councils
4. The Review Panel nominated JOs for potential introduction in Metropolitan Sydney.
5. It is a model which provides all the benefits of regional cooperation and avoids the expensive and disruptive impacts of large scale council mergers.

The proposed JO gives our submission a point of difference from other metropolitan Template 2 Submissions and also showcases Council's strategic capacity.

Without submitting this proposal Council is vulnerable and provides unfettered opportunity to the State Government to conclude City of Ryde, not fit for the future.

Inclusion of the proposed JO in Council's submission increases the likelihood of Council obtaining its preferred outcomes of 1 and 2 and decreased the likelihood of outcomes 3 and four:

1. CoR stands alone and is not split
2. CoR remains and collaborates with others on a regional basis (regional organisation)
3. CoR is amalgamated with other Councils with similar communities of interest
4. Worst Case Scenario (to be avoided): CoR is split and amalgamated as per the Review Panel's recommendation

How will the JO work?

In developing a governance framework for the proposed JO, several models were reviewed; Sansom report's preferred model, the Government's Pilot JOs in the regional and rural areas as well as the NSROC/SHOROC Northern Sydney Councils Collaboration Model, which is based on the Hunter Councils model and was endorsed by the City of Ryde on 25 March 2014. Percy Allan and Brian Dollery's research both considered the NSROC/SHOROC model and have endorsed its principles.

The common themes in all 3 governance frameworks and structures are that the joint organisation:

- Is owned by and is accountable to its member Councils
- Sets its priorities from relationship with member Councils
- Membership is mandatory (no Opt out)
- Must be enabled to make binding decisions on behalf of the member councils
- Needs legislative support to make binding decisions
- Must have as its core functions, Regional Strategic Planning, Intergovernmental collaboration, Regional advocacy and with the exception of the Government's Pilot JOs the other two models include shared service delivery and regional procurement.

The JO governance and structure will be **an evolution of NSROC**, similar to current levels of representation, relationship to member Councils and delivery of agreed shared services.

Essentially the JO is seen as a place where member councils, through their representatives, are obligated to negotiate with each other and make binding decisions on issues of regional significance.

This power to make binding decisions on behalf of its member Councils, for regional matters is the key difference in the operation of the JO and the current way the ROCs operate.

In NSROC for example, a member Council can choose to not participate in a particular project or contract and may disagree with the majority view on a particular issue (opt out option exists).

For joint organisations to be formed, changes to the Local Government Act are required. State Government is running a pilot in rural NSW to find the best governance framework and address issues such as representation, accountability and decision making powers.

If Council's JO proposal is accepted by the State Government, the organisation will have a similar structure, accountability and powers to those developed and legislated for the Rural/Regional Joint Organisations.

Sansom Report page 83

"...Local councils would remain the core of the system: they would 'own' and resource the JOs in a similar way to ROCs. Selected regional functions would be referred to the JOs which would then work alongside their member councils in performing those tasks"

How the Independent Local Government Review Panel saw Joint Organisations working:

In its final report, the Panel said the following, about the functions of JOs (page 82);

Proposed core functions of JOs are listed in Box 31. These should be set by Ministerial Guidelines. Water supply, sewerage, roads and other infrastructure assets would remain in the ownership of individual councils, unless already owned by a County Council or transferred voluntarily.

Staffing of JOs would normally be limited to a Regional General Manager and administrative team. There would also be a small group of professional staff engaged in regional strategic planning, inter-government relations, technical support to member councils and management of regional projects. This may involve seconding a few senior management and technical staff from member councils to the JO, although in many cases they could remain based in their current workplace.

Funding arrangements

As indicated above, the Panel does not see JOs as large and costly bureaucracies. Moreover, the bulk of their activities will replace those already being undertaken by existing ROCs, County Councils and member councils.

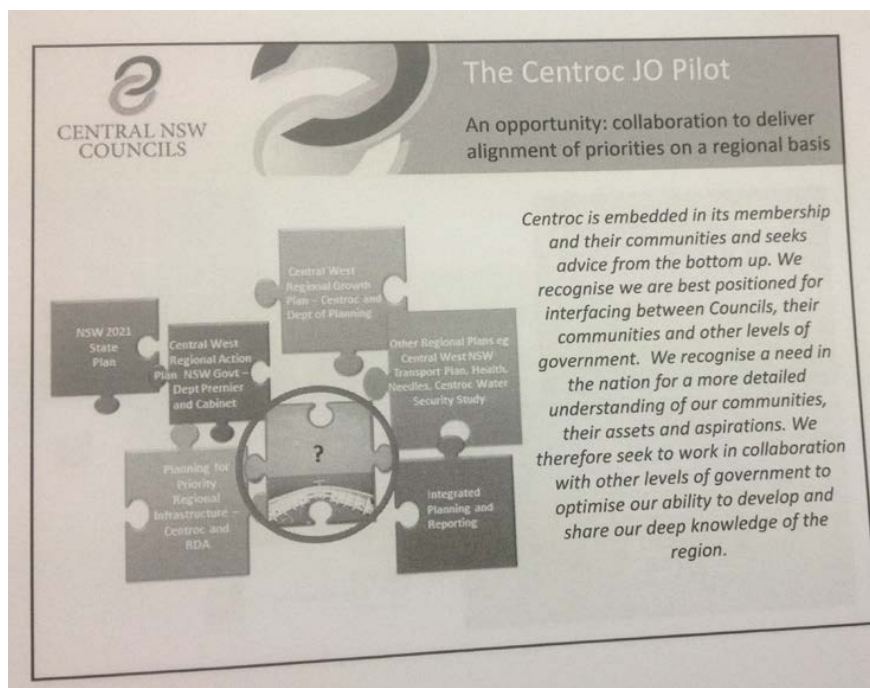
Box 31: Proposed Core Functions of Joint Organisations

- Strategic regional and sub-regional planning
- Inter-government relations and regional advocacy
- Information and technical exchanges between member councils
- Activities of existing County Councils
- Regional alliances of local government water utilities
- Road network planning and major projects (through Regional Roads Groups as discussed in section 7.4)
- Collaboration with State and federal agencies in infrastructure and service provision
- Strategic procurement (which could also include accessing state-wide contracts and arrangements)
- Other joint activities specified in the proclamation, such as major infrastructure projects, regional waste and environmental management (including weeds and floodplain management), regional economic development, regional library services and 'high level' corporate services or 'back office' functions
- Administrative and technical support for any 'Rural Councils' established within the JO's area (see section 12.1).

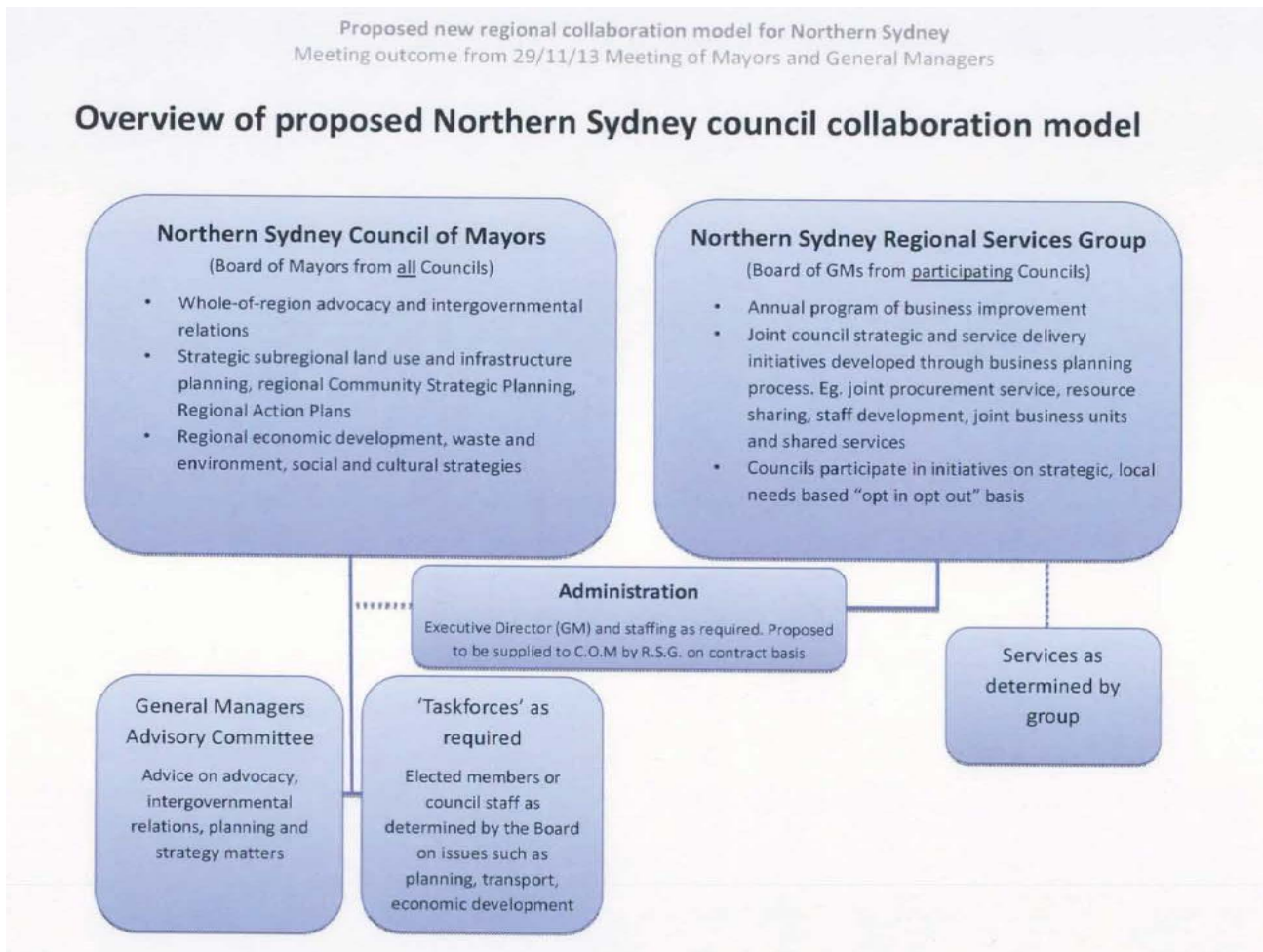
What is emerging from the State Government’s Pilot projects in regional and rural NSW?

The Government in its interim report released in December 2014 included the following as the consensus for the structure of JOs:

- The entity will be enabled through the Local Government Act.
- Minimum governance standards will be maintained, including regular meetings.
- At a minimum, one elected member will represent each council with one vote each (usually the Mayor).
- Representatives will be authorised to make binding decisions.
- Each JO will determine its membership beyond the minimum.
- Each JO will elect its own Chair.
- Each JO will determine its approach to alternates in specific circumstances.
- Each JO will appoint a suitably skilled Executive Officer.



JO Governance as outlined in the NSROC/SHOROC Collaboration Model - Endorsed by Council on 25 March 2014.



Proposed organisational overviews (updated as per 29/11/13 meeting)

Group	Council of Mayors	Regional Services Group
Objectives	<ul style="list-style-type: none"> Provide a collective voice for the councils and communities of Northern Sydney on whole-of-region issues including infrastructure, land-use planning, economic, social and environmental issues, and regulation and reform of the local government sector. Facilitate effective and efficient intergovernmental relations and partnerships between all levels of government on regional strategic planning, projects and programs for the benefit of Northern Sydney. Support enhanced financial sustainability and capacity of councils and assist councils to adapt or respond to NSW Government policy and legislative change. 	<ul style="list-style-type: none"> To support enhanced financial sustainability and capacity of councils through a program of business improvement and implementation of joint council strategic and service delivery initiatives.
Structure	<ul style="list-style-type: none"> Membership open to councils from across the Northern Sydney area Board (Council of Mayors) consisting of all member Mayors Elected Executive General Managers Advisory Committee Administration including an Executive Director and associated staffing as required (proposed to be supplied by Regional Services group on contract basis to minimise duplication) 	<ul style="list-style-type: none"> Membership of participating councils Board (Regional Services Group) consisting of all member General Managers Elected Executive Administration including staffing and business units as required Joint services as determined by the Board of the Regional Services Group
Major role	<ul style="list-style-type: none"> Leadership, advocacy and intergovernmental relations on whole-of-region issues. Coordinating strategic regional planning in partnership with the NSW and Commonwealth governments. Leading and coordinating regional and subregional strategies and programs. 	<ul style="list-style-type: none"> Develop an annual program of business improvement initiatives consistent with the strategic needs of member councils for joint activities to support enhanced council financial sustainability and capacity Deliver joint council strategic and service delivery initiatives such as joint procurement services, resource sharing, staff development, joint business units and shared services for consideration of the councils based on a strategic, local needs "opt in opt out" basis.
Funding	<ul style="list-style-type: none"> Equal 'Membership fee' for advocacy and regional planning Contributions for any specific programs or services on a case by case basis as agreed by the Board. 	<ul style="list-style-type: none"> 'Regional Services Group membership' contribution by participating councils to the development of business improvement proposals, which is equal or as otherwise agreed. Contributions for any specific programs, business activities and services on a case by case basis.

Governance Framework Proposed for JO by City of Ryde, Hunters Hill and Lane Cove Councils

The Governance model proposed by the City of Ryde is shown below:

Structure:



Functions

Regional Strategic Planning	Intergovernmental collaboration	Regional advocacy	Shared Services and Regional Procurement
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Planning for: Infrastructure section 94 Land Use- (harmonised LEPs)

Single point of contact and plan collaboratively with government agencies for the region

Proactively engage with State/Federal Government agencies to negotiate and advocate for Regional priorities

Deliver joint services on behalf of each Council to be more efficient and conducts Regional Procurement

Functions and Powers

Proposed Joint Organisation (based on State Government's Rural JO Pilots)

Structure	<ul style="list-style-type: none"> The entity will be legally recognised through Local Government Act. Representatives will be authorised to make decisions that are final Board consisting of 2 elected representatives from each Council –one Vote per representative General Managers Advisory Committee
Funding and Resourcing	<ul style="list-style-type: none"> Equal Membership fee Administration including an Executive Director and associated staffing (to be transferred from member Councils as required)
Accountability	<ul style="list-style-type: none"> Accountable to Member Councils Council Representatives to the Board will be nominated after each Local Government Election

Core and Non-Negotiable Functions and Powers of the JO

JO specifically constituted to make joint decisions on strategic planning and infrastructure priorities for the region (no-opt out).

The JO will need the following powers:

- To plan for subregional land use and infrastructure
- To develop a single subregional Section 94 plan
- To represent all councils in negotiations for subregional planning and infrastructure matters
- To undertake subregional advocacy
- To procure subregional services and enter into subregional contracts
- To apply for subregional grants

How does transferring these functions and powers impact on each Council?

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FFTF State Government, IPART and Council Deadlines

5 May 2015 - Governance framework for the proposed Joint Regional Organisation

12 May 2015 - Progress Report to Council confirming project direction to date

25 May 2015 - submission to IPART's Assessment Methodology consultation paper

28 May 2015 - Joint Councillor Briefing with HHC and LC

1 June 2015 - IPART's Assessment Methodology released

2 June 2015 - Reserved for Extraordinary Council meeting

9 June 2015 - scheduled Council meeting

16 June 2015 – Reserved for Extraordinary Council meeting

23 June 2015 – Scheduled Council meeting

30 June 2015 – FFTF Submission Deadline

COMPULSION VERSUS A COLLABORATIVE REGIONAL APPROACH

BY PROFESSOR BRIAN DOLLERY

KEY EXTRACTS FROM DRAFT REPORT – APRIL 2015

Page No.	Chapter	Quote
26	<p>Chapter 2</p> <p>Empirical Evidence on Municipal Mergers</p>	<p>The total number of local authorities in Australia has decreased from 1,067 to 556 (a fall of 48 per cent) between 1910 and 2012.</p> <p>The only exception to this trend occurred in the NT, where the number of councils substantially increased from 22 in 1990 to 63 in 1995.</p> <p>The timing of municipal merger programs has been uneven across state and territory jurisdictions. For instance, major mergers occurred in NSW in the period between 1967 and 1982 (a reduction from 224 to 175 councils).</p> <p>It should be stressed that these episodes of compulsory consolidation have occurred despite long term population growth in Australia, where average council size – defined as the number of residents per council – has increased markedly. For example, Table 2.2 shows that the average council size for each state and territory jurisdiction (excluding the ACT which has no local government system) has increased between 1910 and 2012. Perhaps one of the most striking features of Table 2.2 is that the average size of councils nationally has grown from 4,147 persons per council to 40,118 persons per council between 1910 and 2012.</p>
29		<p>How does the average size of Australian councils compare with other advanced countries? Of the 18 countries listed in Table 2.3, the Britain has the largest councils with an average of 143,000 persons per council, whereas France has the smallest councils with an average of 1,500 persons per council. Relative to other OECD nations, Australia has the fourth largest councils with an average of 40,118 persons per council. Put differently, Australian councils are already large by the standards of other advanced countries.</p>

31		<p>In general, American researchers have found that mergers have not met expectations in terms of efficiency gains and cost savings.</p> <p>These general conclusions have been echoed in the Canadian empirical literature. For instance, in her analysis of Ottawa amalgamations, Reese (2004) noted that remuneration levels increased in the post- merger period, resulting in a net rise in overall council expenditure.</p>
32		<p>Compulsory merger programs have not only failed as a 'silver bullet' for solving systemic financial and other problems in Australian local government, but have also not provided a coordinated regional dimension to local service provision.</p>
36-37		<p>The Hawker Report (2003, p. 90) put forward two main recommendations:</p> <p>The Commonwealth Grants Commission, in consultation with the LGGCs [Local Government Grants Commissions] in each State, assess the efficiencies of amalgamations or regional cooperation of local government, and use available mechanisms to adjust FAGs [Financial Assistance Grants] for the benefit of the sector at large'. To promote mergers, 'councils should not be financially penalized through a net loss of FAGs for the benefit of the sector at large'.</p> <p>Recommendation 14 held that the Commonwealth 'continue to develop partnership arrangements with local government on the delivery of Federal programs and service delivery; and as appropriate, engage established regional organizations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery'.</p>
38		<p>In sum, the FSRB (2005, p. 85) concluded that 'amalgamation brings with it considerable costs and often exaggerated benefits'. Alternative models of council cooperation should thus be pursued instead, since there are 'many intermediate forms of cooperation/integration among councils, with amalgamation being the most extreme (and confronting) form of integration'. The FSRB (2005, p. 85) then considered the most promising alternative options and found that numerous 'voluntary arrangements' in shared</p>

<p>39</p>		<p>services and joint enterprise had proved successful in the South Australia.</p> <p>Achieving increased economies of scale and greater efficiencies through forcible amalgamation seems questionable and generally not desirable from a local government or community perspective’.</p>
<p>41</p>		<p>Structural reform through amalgamations is necessary in some instances; each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils’.</p> <p>In its formal recommendations, PWC (2006, p. 149) held that ‘efficiency, effectiveness and scale’ could be enhanced by means of regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and similar initiatives, rather than through compulsory council amalgamation.</p>

Page No.	Chapter	Quote
54-55	<p>Chapter 3</p> <p>Empirical Assessment of the 2000/2004 NSW Merger Program and the 2008 Queensland and Merger Program</p>	<p>This comparison clearly demonstrates that the FSR assigned to the two cohorts by TCorp (2013) do not suggest any material difference in performance between the ten general purpose councils which experienced forced amalgamation and the rest of the NSW councils. In fact, the ten general purpose councils under consideration had a higher proportion of sub-standard performance (i.e. 'very weak')</p>
59-60		<p>Drew, Kortt and Dollery (2015) interrogated the financial data of Queensland councils pre- and post-amalgamation to determine whether the radical merger program in fact reaped the economies of scale promised by the LGRC. Table 3.5 details the measures of central tendency for the variables used in the regression analysis. They concluded that the municipal merger program actually resulted in a greater proportion of councils exhibiting diseconomies of scale arising from amalgamations (see Table 3.6 empirical results) which created entities which were simply too large to be run efficiently:</p>
69		<p>In essence, forced amalgamation has significantly diminished the performance of the most efficient councils, but has improved the performance of the worst performers. However, we need to be mindful that the typical performance - as measured by either the mean or median – of amalgamated councils is far lower than that of their Non-Amalgamated peers.</p>
71		<p>However, de-amalgamation is not inexpensive. In addition to bearing the original amalgamation costs, where the mean cost for Queensland was \$8.108 million, the break-away councils were also required to wear the cost involved in returning to their former stand-alone state (Drew and Dollery 2014). For example, in the case of Noosa Council the Queensland Treasury Corporation estimated this cost to be \$13.6 million, although it should be noted that the residual council (Sunshine Coast Regional Council) estimated the cost at just over \$23 million (Drew and Dollery 2014).</p>

72		<p>Amalgamation proposals must be based on rigorous empirical analysis rather than preconceived ideological presumptions concerning council size and council performance.</p> <p>Policymakers must appreciate that optimal economies of scale are often unattainable and may only exist for a limited range of functional expenditure outlays (which can in any event be captured more effectively through shared service arrangements).</p> <p>Ill-conceived council mergers can create councils which are too large and thus operate with diseconomies of scale, as in Queensland.</p>
73		<p>Well-developed empirical techniques exist to allow policymakers to determine whether proposed merged councils will operate efficiently.</p> <p>The financial sustainability assessments undertaken by the Queensland LGRC were seriously flawed.</p> <p>It is thus a mistake to use the same flawed LGRC financial sustainability approach to inform the New South Wales Fit for the Future Program on council viability.</p> <p>Both the Independent Panel and the New South Wales Fit for the Future Program erred in ignoring the weight scholarly evidence on the efficacy of municipal amalgamation as a reform instrument.</p> <p>As Queensland mergers have illustrated, poorly designed local government amalgamation could result in subsequent de-amalgamation.</p> <p>Local communities should be given a political voice in decisions regarding municipal boundary changes.</p> <p>Amalgamating heterogeneous communities results in a loss of economic welfare and encourages de-amalgamation campaigns.</p> <p>The real cost of misconceived public policy on local government created in haste and without regard to empirical evidence is borne by the community.</p>

Page No.	Chapter	Quote																					
104	<p>Chapter 5</p> <p>Financial Analysis of Proposed Mergers</p>	<p>Depending on the approach taken to redistribute the land based taxation burden following the proposed amalgamation, there will certainly be winners and losers. On the basis of this analysis, it would appear that the residents of Hunters Hill and Mosman will likely be in the latter category. Moreover, there will also need to be adjustments made to the fee structure for a range of services. For instance, the average domestic waste charge in North Sydney would need to be raised by over 67% to bring it in line with the charge incurred by Willoughby residents.</p>																					
106		<p>The point is that the question of how to re-distribute municipal burdens in an amalgamated local authority is far more complex than simply ensuring all residents pay the same taxation rate (per dollar value of land). One also needs to consider how other fees and charges add to the total municipal burden and the capacity of residents to pay.</p> <p>Table 5.2: Political Representation in Target Councils</p> <table border="1" data-bbox="853 810 1906 1034"> <thead> <tr> <th>Council</th> <th>No. of Councillors</th> <th>Population per Councillor</th> </tr> </thead> <tbody> <tr> <td>Hunters Hill</td> <td>7</td> <td>2020</td> </tr> <tr> <td>Lane Cove</td> <td>9</td> <td>3747</td> </tr> <tr> <td>Ryde</td> <td>12</td> <td>9233</td> </tr> <tr> <td>Willoughby</td> <td>13</td> <td>5533</td> </tr> <tr> <td>Mosman</td> <td>7</td> <td>4229</td> </tr> <tr> <td>North Sydney</td> <td>13</td> <td>5209</td> </tr> </tbody> </table> <p>Source: Office of Local Government Measuring LG Performance 2012-13</p>	Council	No. of Councillors	Population per Councillor	Hunters Hill	7	2020	Lane Cove	9	3747	Ryde	12	9233	Willoughby	13	5533	Mosman	7	4229	North Sydney	13	5209
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107		<p>Since it is highly unlikely that the NSW Government would ever allow 61councillors, it follows that if the Government presses ahead with amalgamations, then it is implicitly endorsing lower levels of democracy. This policy implication doesn't even appear to have been considered by the architects of Fit for the Future, much less clearly articulated.</p> <p>Once again it is evident that there is a good deal of variation between the six existing councils and, yet again, this means that any proposed amalgamation will necessarily</p>																					

		create winners and losers.
108		<p>For instance, the total liability per household of Willoughby residents will decrease by about \$1,500, whilst residents of Ryde will find themselves with over \$600 per household of additional liabilities following amalgamation.</p> <p>A merger would thus mean that the costs of these services have been 'exported' to people outside of the municipality which elected to consume the services.¹⁸</p>
109		<p>Finally, the fact that most residents do not have access to this information¹⁹ and will probably not be given a direct democratic voice in the decision to assume higher liabilities seems particularly wrong in a western democratic society, such as Australia.</p>
110		<p>Firstly, the proposed merger would result in winners and losers. For instance, residents of Lane Cove will find themselves firmly in the latter category should the amalgamation proceed, with an almost doubling of their household infrastructure burden. Secondly, the data clearly falsifies the OLG claim that inadequate levels of debt result in infrastructure, given that the two councils which fail the debt ratio on the basis of having no relevant debt are also the two councils with the lowest per household levels of costs to bring municipal assets to a satisfactory standard! ²²</p>
111		<p>One particularly thorny problem which both Panel and the OLG have ignored revolves around the question of how to dismember the City of Ryde should the Panel's recommendations be adopted.</p>
115		<p>Our contention is that the high information costs and rushed process means that most local residents in the six targeted North Shore group of councils will not even know the implications arising from the proposed merger until they are sent a new and significantly higher rates assessment, try to contact a local councillor, observe lower levels of road and other infrastructure maintenance diverted to areas of greater need, or discover that their personal share of municipal non-current liabilities has increased by a factor of over 50 times.</p>
117		<p>A comparison of the results indicates that the amalgamated entity will be no more financially sustainable - according to the OLG's own flawed model - than the current local councils. Indeed, in all likelihood all but one council will experience a decrease in financial</p>

		<p>sustainability. This is conclusive evidence refuting claims by both the Panel and the OLG that council mergers would improve financial sustainability.</p>
<p>118</p>		<p>In sum, even under the OLG's own criteria an amalgamation will result in a less sustainable merged municipality. Moreover, in all likelihood the actual performance of an amalgamated entity will be far worse than indicated, for the reasons set out above.</p>

Page No.	Chapter	Quote
124	<p>Chapter 6</p> <p>Economic Modelling of Proposed Mergers</p>	<p>Following Holcombe and Williams (2008) and Drew, Kortt and Dollery (2014), we thus conducted a further two regressions, stratified according to the Australian Classification of Local Government schema which is broadly consistent with the OLG classification groups. What we found was that when councils were stratified as either urban or non-urban, all evidence of scale effects (predicated on population size) disappeared. Thus the econometric evidence is at odds with the unsubstantiated assertions of the ILGRP (2013) that larger councils (predicated on population size) are ‘more robust organisations that can generate increased resources through economies of scale and scope, and then “plough back” efficiency gains into infrastructure, services and other benefits for their communities’ (ILGRP 2013, p. 32).</p>
129		<p>What we find is that five of the six existing entities currently operate with increasing returns of scale at varying levels of TE. The sixth council (North Sydney) lies on the efficient frontier and it is operating at optimal scale. An amalgamated entity (along the lines proposed by the ILGRP (2013)) would operate with decreasing returns to scale and an efficiency of just over 0.797. The proposed merger would result in a significant decrease in efficiency for the Ryde and North Sydney councils and a slight decrease in efficiency for the Lane Cove municipality. Put differently, amalgamation would result in lower levels of efficiency for three of the councils and a barely perceptual improvement for a fourth council (Hunters Hill). Given the high transformation costs, disruption to services, decrease in democracy, the redistribution of council liabilities, and the decrease in financial sustainability which will accompany the proposed amalgamation, it is more than a little disconcerting that the proposed merger will only result in a material improvement in efficiency for two of the councils involved (Mosman and Willoughby).</p>

131		In sum, there is no empirical justification for the proposed merger. Indeed, were the amalgamations to proceed as proposed by the Panel, the people of NSW can expect less efficient municipal services arising from ill-informed mergers resulting in councils which are too large to make the best use of capital and labour inputs.
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Page No.	Chapter	Quote
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135	<p>Chapter 7</p> <p>Socio-Economic Characteristics of the Hunters, Lane Cove, Mosman, North Sydney, Ryde and Willoughby Councils</p>	<p>Table 7.1: Overview of Council Characteristics</p> <table border="1"> <thead> <tr> <th>Council</th> <th>Population</th> <th>Area sq. km</th> <th>Population Density</th> </tr> </thead> <tbody> <tr> <td>Hunters Hill</td> <td>14,663</td> <td>6</td> <td>2,444</td> </tr> <tr> <td>Lane Cove</td> <td>33,976</td> <td>10</td> <td>3,398</td> </tr> <tr> <td>Mosman</td> <td>29,414</td> <td>9</td> <td>3,268</td> </tr> <tr> <td>North Sydney</td> <td>65,318</td> <td>10</td> <td>6,532</td> </tr> <tr> <td>Ryde</td> <td>107,307</td> <td>40</td> <td>2,683</td> </tr> <tr> <td>Willoughby</td> <td>70,705</td> <td>22</td> <td>3,214</td> </tr> <tr> <td>Greater Sydney</td> <td>4,003,847</td> <td>3,694</td> <td>1,084</td> </tr> </tbody> </table> <p>Source: PHIDU (2015)</p>	Council	Population	Area sq. km	Population Density	Hunters Hill	14,663	6	2,444	Lane Cove	33,976	10	3,398	Mosman	29,414	9	3,268	North Sydney	65,318	10	6,532	Ryde	107,307	40	2,683	Willoughby	70,705	22	3,214	Greater Sydney	4,003,847	3,694	1,084
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149-150		However, given the differences between Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby the proposed merger cannot be mounted on 'community of interest' arguments. For instance, it is worth noting that -when compared to the other councils - Ryde has:
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		<ul style="list-style-type: none"> • The largest population; • The largest geographic area; • The highest proportion of people in the age group 20 to 24; • The highest level of unemployment; • The highest percentage of jobless families; • The highest percentage of people of pension age receiving the Age Pension; • The highest rate of participation in vocational education and training; and • The highest rate of GP service utilisation. <p>Thus, given these differences, there is no 'community of interest' imperative to proceed with a merger, which may also inadvertently lead to a widening of these socio-economic differences if 'inner-Sydney' local government strategies are pursued at the expense of 'outer-Sydney' local government strategies.</p>
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Page No.	Chapter	Quote
162	<p>Chapter 8</p> <p>Empirical Evidence on Shared Services in Local Government</p>	<p>While the findings summarised above differ in their scope, it is still possible to draw some broad inferences:</p> <ul style="list-style-type: none"> • Shared services arrangements can enhance local service delivery; • Some services seem to be more conducive to shared services arrangements; • Successful shared services arrangements typically include IT services, human resources and waste management; • Successful shared services arrangements can vary significantly; • Barriers to shared services arrangements can be challenging to address; and • Barriers to shared services arrangements include: (i) loss of control, (ii) competing objectives, (ii) uncertain benefits, (iv) and increasingly complex management and administrative processes.
163		<p>A useful starting point is the extensive work that was conducted by Allan (2001; 2003) and the NSW Independent Inquiry into Local Government (NSW LGI, 2006) led Allan to identify the following six aspects:</p> <ul style="list-style-type: none"> (i) 'Low core capability'; (ii) 'High supplier availability' (iii) 'Low task complexity' (iv) Significant scale economies; (v) 'Specialized technology'; and (vi) 'Low asset specificity'.

Page No.	Chapter	Quote
177-178	<p>Chapter 9</p> <p>Council Collaboration Through Joint Regional Body</p>	<p>The proposed North Sydney Council of Mayors would focus on ‘whole-of-region’ advocacy and intergovernmental relations; strategic sub-regional land use and infrastructure planning; regional Community Strategic Planning; Regional Action Plans; Regional economic development, waste and environment, social and cultural strategies.</p> <p>The Northern Sydney Regional Services Group would run collaborative projects aimed at improved financial sustainability and enhanced council capacity of voluntarily participating councils.</p>
189		<p>Section 9.4 of Chapter 9 evaluated the draft Northern Sydney Council Collaboration Model which had been drawn up after discussions between the NSROC and SHOROC groups of councils. It was argued that the Northern Sydney Council Collaboration Model represented a close approximation of the Hunter Council model and thus represented a suitable regional collaborative model for the northern Sydney group of councils. However, section 9.5 argued that the optimal selection of council functions and services to be provided collaborate was not furnished by simply establishing a designated organisational model.</p>

Page No.	Chapter	Quote
195	Conclusion	<p>(a) The weight of empirical evidence on municipal mergers in the scholarly literature and the Australian national and state public inquiries into local government falls overwhelmingly against forced amalgamation. This body of evidence holds that shared services and other forms of council collaboration provide a superior method of securing the advantages of greater scale.</p> <p>(b) Comprehensive empirical analysis of the 2000/2004 NSW compulsory council consolidation program in the Report demonstrated that there is no statistical difference in the performance of merged and unmerged councils under the Fit for the Future criteria. Similarly, a detailed investigation of the outcomes of the 2008 Queensland forced amalgamation program demonstrated that a majority of amalgamated councils now operated with diseconomies of scale. These two analyses thus provide convincing empirical case against proceeding with a further round of municipal mergers in NSW in 2015.</p> <p>(c) Detailed critical assessment of the Fit for the Future process found it severely flawed in numerous respects, not least its arbitrary use of financial sustainability ratios (FSRs) and associated benchmark values, significant problems with its 'scale and capacity' approach, problems with unreliable data employed in sustainability assessments, and an incorrect measure employed to assess the operational efficiency of councils. This provides a powerful argument for the NSW Office of Local Government to halt the Fit for the Future process and deal with these problems before proceeding.</p>
196		<p>(d) A comprehensive empirically investigation the proposed Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby council mergers found numerous problems, including the challenges posed by significant current disparities in rates, fees and charges, and capacities to pay across the six councils, problems determining democratic representation post-merger, the burden of the total liabilities inherited by a newly merged council, complications derived from the dismemberment of the City of Ryde, Commonwealth financial assistance grants post-merger, a lack of full information disclosure to local residents, and the critical fact that almost all of the North Shore group of councils would be less financially sustainable under the Fit for the Future criteria than they had been pre- merger. This underlines the foolishness of proceeding</p>

		<p>with the proposed merger.</p> <p>(e) The Report conducted two modelling exercises to investigate the outcomes of the proposed mergers. The results of the multiple regression analysis showed that the Panel's (2013) claims about scale economies proved false. The DEA analysis also demonstrated that the vast majority of proposed amalgamations would yield over-scaled councils too large to efficiently provide local services. Taken together, these empirical analyses show conclusively that there is no empirical justification for the proposed merger of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils.</p> <p>(f) The Report presented a detailed analysis of the socio-economic characteristics of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils. This demonstrated stark differences between some of these local authorities thereby proving that no common 'community of interest' existed.</p>
197		<p>(g) A detailed review of the literature on shared services in local government was undertaken in the Report which found strong evidence that shared services could yield significant benefits. However, not all local services are amenable to regional provision through shared service arrangements.</p> <p>(h) The Report found that shared services represent a superior alternative to forced amalgamation to improve the performance of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils. It investigated the best methods of delivering shared services and established that the Hunter Councils model represented an optimal approach. The draft Northern Sydney Council Collaboration Model - drawn up by the NSROC and SHOROC groups of councils - was based on the Hunter Councils model and it provided a sound institutional basis for council collaboration amongst the North Shore group. The Report presented an instrument which the Board of the proposed Northern Sydney Council Collaboration Model could use to determine which local services to provide collaboratively and which to retain 'in-house'.</p>

A Regional Joint Organisation Structure For North Shore Councils



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Sydney

5th May 2015

Terms of Reference

Percy Allan & Associates was engaged to prepare a report on “*possible legal and organisational structures for a Regional Joint Organisation of Councils with the pros and cons for each option*” as part of a wider brief by consultants to investigate a Joint Regional Body for North Shore councils.

Executive Summary

This report first outlines necessary policies to keep Sydney a liveable and affordable city in the face of strong population growth.

It then outlines how a Regional Joint Organisation (RJO) providing shared advocacy, planning and other services would contribute to this end.

Such an approach is superior to merging Councils because it:

- Focuses on regional imperatives rather than everything,
- Merges only those functions that benefit from centralisation,
- Drives efficiencies by making shared services market contestable,
- Frees up councils to focus on services that are done best locally, and
- Avoids the enormous cost and disruption of mass amalgamations.

This report recommends that the existing Northern Sydney Regional Organisation of Councils (NSROC) be upgraded to form:

- A Regional Council of Mayors (RCOM), constituted as a County Council, to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions; and
- A Regional Shared Services Centre (RSSC), registered as a Company Limited by Guarantee and governed by a Board of Council GMs, to provide shared services to its member Councils and other prospective clients as well as staff an independent Regional Planning Panel (RPP), located within the County Council, to assess regional development applications.

To ensure the RSSC is customer responsive and cost efficient it should be required to:

- Negotiate Service Level Agreements (SLAs) with each client council,
- Report to a board of client council GMs,
- Distribute its profits as a price discount on client councils’ purchases, and
- Become market contestable for shared services after five years (i.e. have a sunset clause on its exclusive franchise contract with member councils).

The appendices which are included in the main report cover shared services operating procedures and the advantages and disadvantages of alternative legal structures for regional local government bodies.

Glossary of Terms

- ACELG: Australian Centre for Excellence in Local Government
- CEO: Chief Executive Officer
- GM: General Manager
- IPART: Independent Pricing and Regulatory Tribunal
- ILGRP: Independent Local Govt Review Panel
- LPP: Local Planning Panel
- RCC: Regional County Council
- RCOM: Regional Council of Mayors
- RJO: Regional Joint Organisation
- ROC: Regional Organisation of Councils
- RPP: Regional Planning Panel
- RSSC: Regional Shared Services Centre

Disclaimer

This report contains general information about possible legal forms for a Regional Joint Organisation (RJO) and Regional Shared Services Centre (RSSC). The information is not legal advice, and should not be treated as such. Local Councils should obtain professional legal advice before implementing any of these structures.

A Better Way Forward

Australian home ownership is becoming unaffordable and the predicament is most acute in Sydney.

Home prices are almost back at their all-time high as a share of household income



Source: Australian Bureau of Statistics, Real Estate Institute of Australia, RP Data-Rismark, Stapledon, Barclays Research

How many years of annual income will it cost you to buy a house?



Average house prices by state compared with average annual salary by state.

SOURCE: BARCLAYS

To make Sydney a liveable and affordable city in the face of strong population growth the State Government should forget council amalgamations and focus instead on the imperatives of boosting dwelling supply and improving public mobility by:

- Planning and funding public and private transport corridors,
- Concentrating development close to major transport hubs,
- Making developed areas mixed use to reduce car dependency, and

- Merging only council services that benefit from regionalisation.

Such a strategy requires metropolitan wide initiatives driven by the State Government in cooperation with local councils. Some are already underway while others have still to be started.

- Re-zone major Sydney transport corridors and hubs in suburbs ripe for urban renewal (see next chart) for multi-use purposes to create vibrant self-contained villages where people can live, work, shop and enjoy themselves without having to travel outside their neighbourhood,
- Require councils to introduce form-based codes to “regulate the relationship between building facades and the public realm, the form and mass of buildings in relation to one another, and the scale and types of streets and blocks” (Note: this reform has already been enacted),
- Require all council development applications to be allocated (by value) for determination by expert local and regional planning panels independent of politicians so as to separate policy application (by independent adjudicators) from policy making (by councillors) thereby removing perceived conflicts of interest.
- Require councils to use asset depreciation provisions and reserves for their intended purpose (i.e. renewing degraded infrastructure),
- Require councils to fund infrastructure rehabilitation and renewals by increasing their average net financial liabilities ratioⁱ from an average of 4% to a range of 40% to 80%,
- Replace rate pegging with a cap on local government operating expenditure so that any future real growth in revenues is devoted to correcting the displacement of capital spending over many decades and to contribute to a regional fund to assist with the cost of providing essential utility infrastructure to greenfield sites , and
- Require councils to form regional shared services cooperatives for those back and front office activities that would benefit from economies of scale and scope to free up councillors and management of existing councils to focus more on client and place needs requiring customised solutions.

The Australian Productivity Commission* gave the following Sydney LGAs a low social capital rating. This makes them early candidates for multi-use style urban renewal so as to improve their liveability:

- Burwood, Strathfield, Auburn and Holroyd (negative social capital score: average 56.8%, range of 54%-60%)
- Fairfield, Bankstown and Liverpool (negative social capital score: average 52.3%, range 49%-54%)
- Rockdale and Botany (negative social capital score: average 55%, range 53%-57%)

* Based on negative or don't know answers to public survey of affinity with local community (APC Report, Performance Benchmarking of Australian Business Regulation, April 2011, Vol 2, page 610)

These reforms will require Councils in distinct regions forming a Joint Organisation to undertake regional advocacy, planning and development and a Shared Services Centre to undertake tasks done best on a larger scale.

Such an approach is superior to merging Councils because it:

- Focuses on regional imperatives rather than everything,
- Merges only those functions that benefit from centralisation,
- Drives efficiencies by making shared services market contestable,
- Frees up councils to focus on services that are done best locally, and
- Avoids the enormous cost and disruption of mass amalgamations.

The rest of this report explores optimal organisational and legal structures for a Regional Joint Organisation and Shared Services Centre.

A Regional Joint Organisation

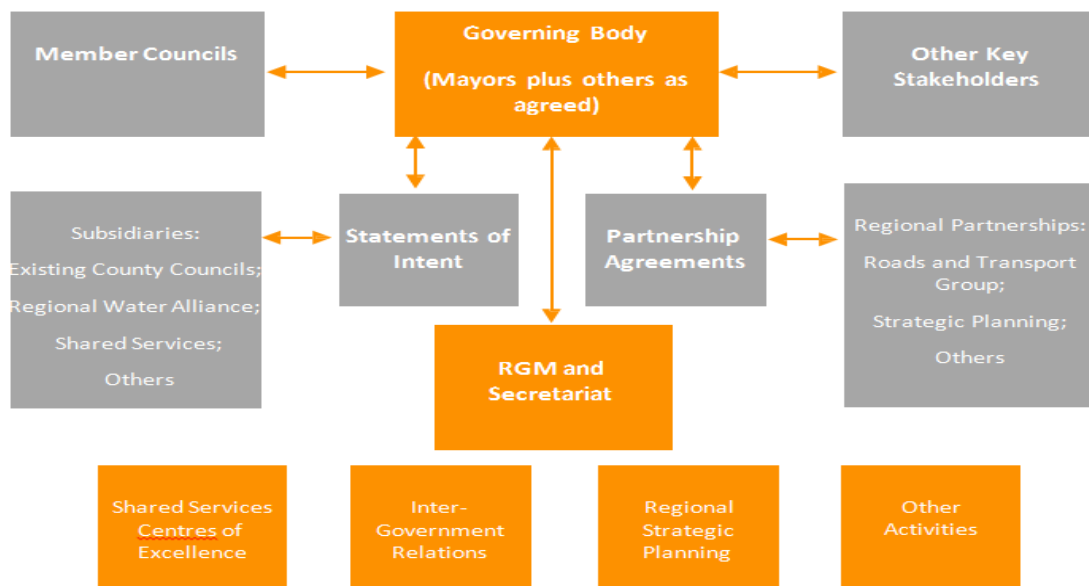
- Fit for the Future proposed regional Joint Organisations for non-metropolitan NSWⁱⁱ, but did not preclude their formation within the Sydney metropolis.
- A Regional Joint Organisation (RJO) would be compatible with the Local Government Act given that an existing ROC (Hunter) has been using a State Incorporated Association (Hunter Councils Inc) to undertake regional advocacy and a wholly owned Public Company Limited by Guarantee (Hunter Councils Ltd) to perform shared services functions.
- In NSW, like most Australian states, there are limits on local government's power to establish companies. In contrast, New Zealand councils have full authority to do so and this is proving a useful enabler of shared services activity.
- However, local councils in the Hunter Valley obtained Ministerial approval to establish Hunter Councils Ltd so the same should be possible for other councils in this state.

According to a study by the ACELGⁱⁱⁱ:

- An important issue is the extent to which provision is in place for post-establishment governance (of local government owned companies).
- England provides this through guidance issued by the Secretary of State.
- In New Zealand the Local Government Act establishes a comprehensive framework based largely on central government's state-owned enterprises regime.
- In Australia, apart from specific provisions in South Australian legislation, there is virtually no formal framework regulating post-establishment governance.

The ILGRP saw a regional Joint Organisation being broadly structured as follows:

Figure 7: Model Structure for Joint Organisation



Source: ILGRP, *Revitalising Local Government - Final Report of the NSW Independent Local Government Review Panel*, October 2013, page 84

A **Public Company** or **Cooperative** structure is best suited for operating a RSSC because it is more operationally flexible and economically competitive than a County Council structure.

A public company limited by guarantee (with councils acting as guarantors rather than contributing share capital) would be preferable to a cooperative which is based on equality of member contributions, rights and benefits. Such equality may not be practicable given differences in resource capacity and service needs of member councils.

Commercial contestability is important not only for retaining Council membership, but also expanding sales to other clients in the public and private sectors.

However, a **County Council** is better suited for regional planning functions where regulatory powers are required.

Also the County Council model by giving an existing ROC (reconstituted as a RJO) a statutory basis would give it greater authority when making submissions to state and federal government agencies.

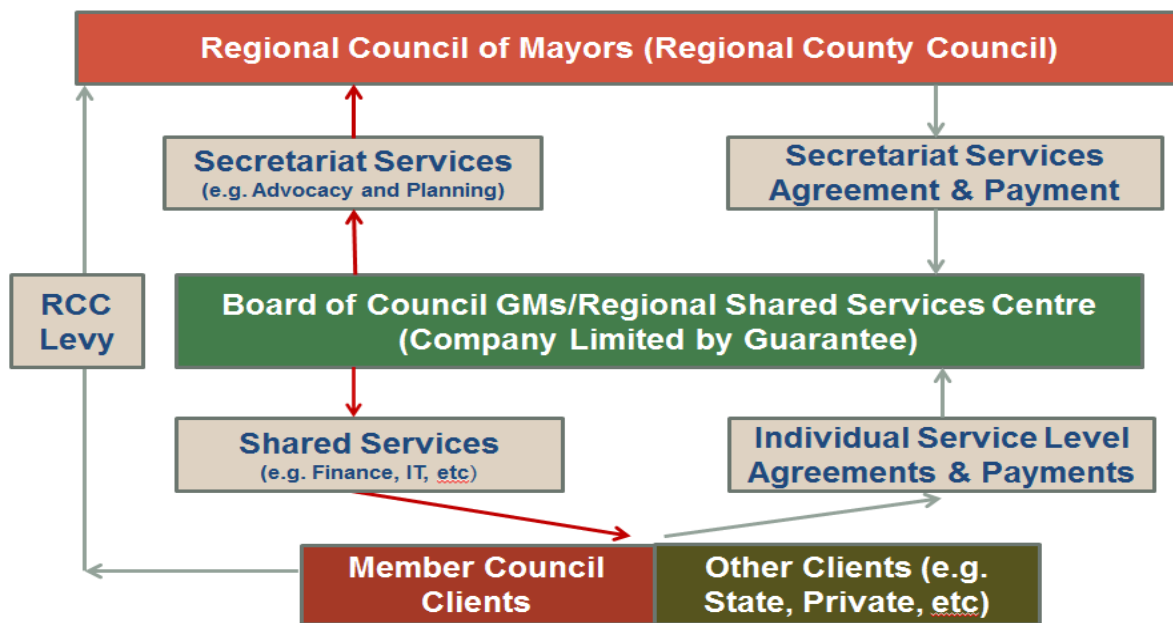
For these reasons a RJO could seek a two-part legal structure to create three bodies:

- A Regional Council of Mayors (RCOM), constituted as a County Council, to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions; and
- A Regional Shared Services Centre (RSSC), registered as a Company Limited by Guarantee and governed by a Board of Council GMs, to provide shared services to its member Councils and other prospective clients as well as staff an independent Regional Planning Panel (RPP), located within the County Council, to assess regional development applications.

Such a structure would:

- Satisfy the ILGRPs preference to establish a Regional Council of Mayors (RCOM) in place of a Regional Organisation of Councils (ROC) within a County Council framework^{iv};
- Satisfy the need for a Regional Planning Panel (RPP) to have statutory powers;
- Satisfy the economic reality that a SSC can only operate viably as a public company.

A Regional Joint Organisation



Source: Percy Allan & Associates Pty Ltd

A Shared Services Centre

The first step would be to undertake an enquiry to identify local council corporate support and front-line services that exhibit sufficient economies of scale and scope to suggest they would be more efficient and effective to produce on a collective rather than individual council basis.

The second step would be to decide which of these services should be transferred to the RSSC on a trial basis. The RSSC may operate on either a centralised or distributed production model.

A separate report (Percy Allan & Associates, *A Shared Services Centre Migration Plan For North Shore Councils*, May 2015, page 4) found that services most suited to sharing in both private and public sector organisations are those parts of finance, personnel, procurement, systems and other forms of corporate support that are routine, generic, high-volume and transaction-based.

A distributed or networked RSSC could involve each member council providing one or more shared services on behalf of the RSSC. Such an approach has both pluses and minuses.

The RSSC would have its own management structure with a CEO appointed by the RSSC cooperative board consisting of the General Managers (GMs) of member Councils of the Regional Organisation of Councils (ROC).

Each individual council through its general manager would negotiate a services contract (i.e. Services Level Agreement) with the CEO of the RSSC.

As a cooperative the RSSC would pay a “dividend” to each council member commensurate with the value of services sold to it (similar to the Co-op Bookshop which is the largest cooperative in Australia).

The Shared Service Centre would adopt many of the features of a “corporatised” state entity, though if it chooses to be a not-for-profit entity its return on capital would be distributed to member councils in the form of either service price discounts or an annual membership rebate (similar to the Co-op Bookshop, Australia’s largest cooperative).

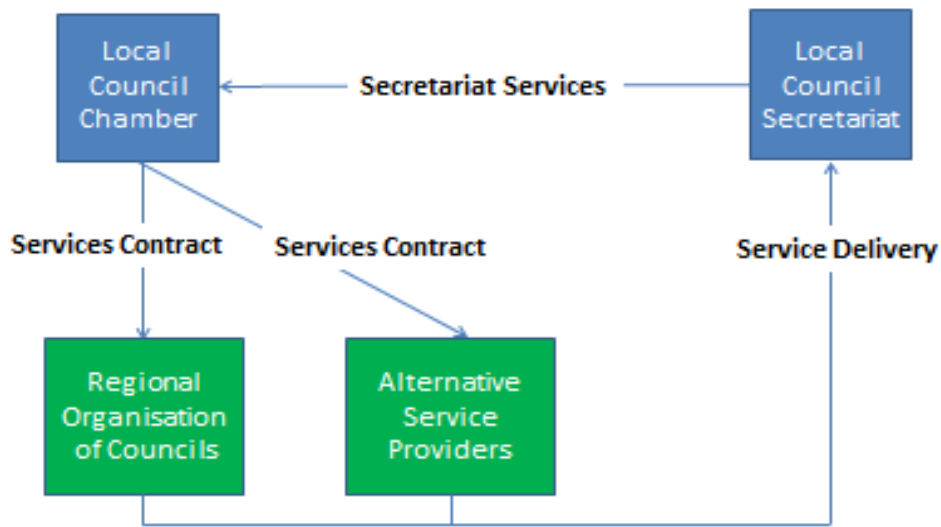
Service discounts to those who actually buy the services from the RSSC (i.e. branch or divisional procurement officers within Councils) may attract greater customer loyalty than an annual rebate or dividend to a Council as a whole (i.e. paid to its finance section).

An explanation of how a “corporatised” RSSC would operate is provided in the Appendix of the main report.

After say five years, each council would be given the discretion to buy services from any provider, public, not-for-profit or private. Shifting business to alternative providers would mean forfeiting cooperative dividends. Nevertheless such a sunset clause would put the RSSC on notice that unless it performed efficiently and effectively it could expect to lose custom once its five year exclusive contract expired.

Where a community wanted a smaller council for better place management of its services and infrastructure such a contract model would allow municipal councils to be established on neighbourhood precinct lines without sacrificing economies of scale and scope.

After Five Years Local Council free to negotiates service contracts with Alternative Service Providers



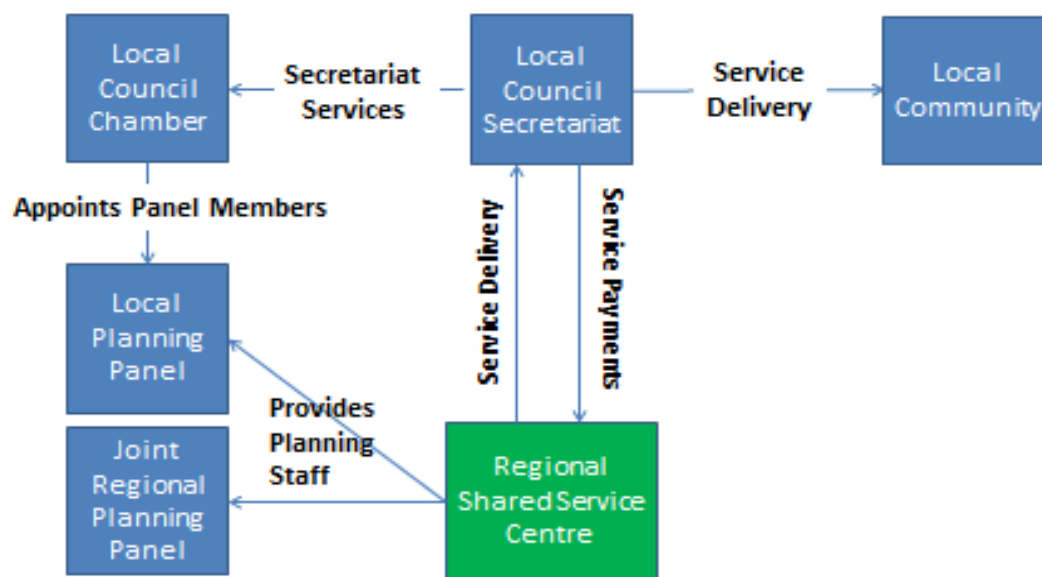
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5

Local & Regional Planning Panels

- Each council would appoint an independent Local Planning Panel (LPP) to decide all local development applications in accordance with council planning and development policies. All councils within a region would continue to have a say in appointing the Regional Planning Panel (RPP) that decides development applications of a regional nature.
- The RSSC would have an ongoing mandate to provide professional staff to assist the local and regional planning panels with fees charged for providing such planning expertise set by the NSW Independent Pricing and Regulatory Tribunal (IPART).

Local Council sets Local Planning Policies and appoints Members to Local and Regional Planning Panels



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4

Conclusion

This report recommends that the existing Northern Sydney Regional Organisation of Councils (NSROC) be upgraded to form:

- A Regional Council of Mayors (RCOM), constituted as a County Council, to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions; and
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To ensure the RSSC is customer responsive and cost efficient it should be required to:

- Negotiate Service Level Agreements (SLAs) with each client council,
- Report to a board of client council GMs,
- Distribute its profits as a price discount on client councils' purchases, and
- Become market contestable for shared services after five years (i.e. have a sunset clause on its exclusive franchise contract with member councils).

Appendices (see main report):

- **RSSC Operating Procedures**
- **County Councils**
- **Public versus Private Agencies**
- **Possible Legal Structures**
- **Pros and Cons**
- **County Council Legislation**
- **Termination Process in a County Council versus a Public Company**

ⁱ The net financial liabilities (NFL) ratio of a council means its total liabilities less (i) unrestricted cash and investments, (ii) any restricted cash and investments matching restricted liabilities, and (iii) receivables expressed as a percentage of total operating revenue. A NFL ratio up to 60% should be compatible with an investment grade (single-A) credit rating provided a council had a minimum operating surplus/total operating revenue of 2.5% and a minimum unrestricted current assets/unrestricted current liabilities ratio of 1.25.

ⁱⁱ NSW Office of Local Government, *Fit for the Future - a Blueprint for the future of Local Government*, Sept 2014, page 11.

ⁱⁱⁱ ACELG, *Consolidation in Local Government, A Fresh Look*, Vol 1: Report, May 2011, page 41

^{iv} Note that the ILGRP's preference was for regions outside the Sydney metropolitan area to form Joint Organisations using a County Council structure. However, under the Local Government Act, County Councils are also permissible for regions within the metropolitan area.

A Shared Services Centre Migration Plan For North Shore Councils



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Sydney

5th May 2015

Terms of Reference

Percy Allan & Associates Pty Ltd was commissioned to identify possible council functions with economies of scale and scope and propose a roadmap and timetable to transfer them to a jointly owned shared services centre.

Executive Summary

This report explains what shared-services are and then recounts common mistakes in introducing shared service centres (SSCs) as well as the benefits of doing so correctly.

It then explores the organisational, legal and governance structures for a SSC, outlines an Action Plan for implementing a SSC for North Shore Councils and proposes a sequence and timetable for transferring corporate functions such as planning, finance, personnel, procurement, systems and support services to such a centre.

The Action Plan involves 15 steps, which are each explained in the report:

1. Agree on Concept
2. Adopt Vision Statement
3. Endorse Business Case
4. Appoint Leadership
5. Adopt Project Plan
6. Communicate Vision
7. Design Model
8. Analyse Gaps
9. Establish SSC
10. Knowledge Transfer
11. Go Live
12. Office Stabilisation
13. Project Review
14. Celebrate Outcome
15. Regular Reviews

Finally, the report outlines critical factors for achieving a successful SSC based on lessons from both the public and private sectors and advances three steps for commencing the journey to shared services:

- Obtain the formal agreement of a core group of Local Councils and the State Government to the concept of a Regional Joint Organisation (RJO) with a Shared Services Centre (SSC) as a better alternative to Council Mergers for achieving Fit for the Future outcomes.
- Appoint a SSC Steering Group, CEO and Specialist Consultant to develop a detailed Business Case and Project Plan for implementing a RJO and SSC for formal approval by the participating Councils and the Minister for Local Government.
- Implement the Project Plan according to an agreed Budget, Timetable and key Milestones.

Glossary of Terms

- **CEO – Chief Executive Officer**
- **IT – Information Technology**
- **ITC – Information Technology and Communication**
- **KPI –Key Performance Indicator**
- **NSROC – Northern Sydney Regional Organisation of Councils**
- **OHS – Occupational Health and Safety**
- **PC – Personal Computer**
- **RJO – Regional Joint Organisation**
- **SLA – Service Level Agreement**
- **SSC – Shared Services Centre**

Shared Services

A local government Shared Services Centre (SSC) is the provision of one or more services to a group of local councils by one member of the group or by a joint organisation owned and controlled by the group.

Amalgamation is an extreme form of shared services where every activity of a group of councils is centralised in a new administrative body reporting to a single new council.

There is no compelling evidence that centralising all local council activities in a single mega-council produces cost efficiencies. That's because with scale some activities obtain economies while others develop diseconomies.

Hence the most efficient path for local government is to share those activities that benefit from size while keeping in-house those activities done best on a small scale.

Activities most suited for sharing are (a) high volume repetitive transactions with standardised inputs, outputs and work processes and (b) activities that require strategic analysis and advice at a regional rather than local level.

Private and public sector services that have been most receptive to sharing are routine generic activities in finance, personnel, procurement, systems and other forms of corporate support.

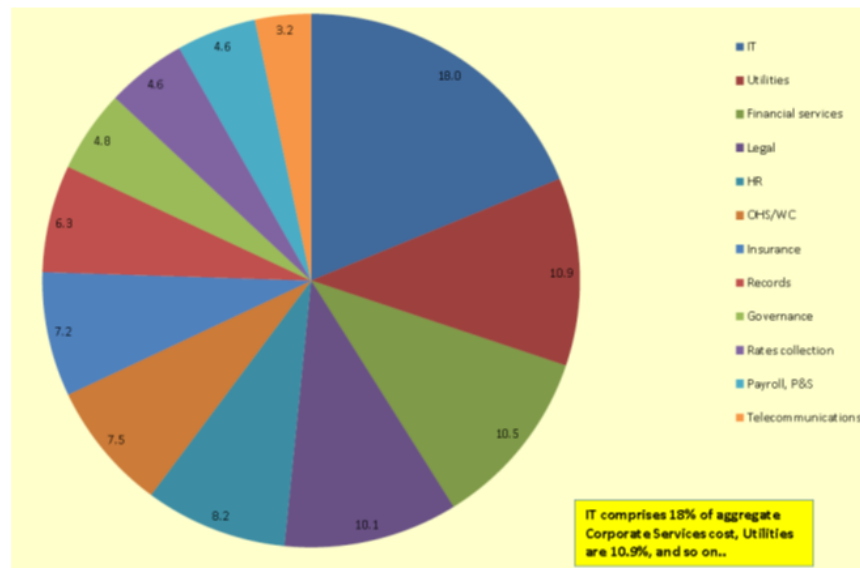
Prime examples in each category are listed below.

- **Finance:** Accounts Receivable, Accounts Payable, General Ledger, Billing and Rates Collections, Travel and Expense Reimbursement and Treasury Management
- **Personnel:** Payroll, Employee Benefits, Training and Education, Time and Leave Administration and OHS Compliance.
- **Procurement:** Requisitions Management, Receiving, Sourcing and Vendor Management, Stores, Asset Registers, Property and Fleet Management, Leasing and Insurances.
- **Systems:** Desktop Support, Telecommunications, Data Centre Operations, Hardware/Software Acquisitions and Disaster Recovery.
- **Corporate:** Legal, Security, Printing, Records and Archives, Call Centre and Library Services.
- **Planning:** Local and regional development planning and application processing when shared capture economies of scope (i.e. benefit from planners working and brainstorming collectively rather than disparately as well as considering regional impacts not just local ones).

Potential Shared Services Cost Savings

The following chart shows a percentage breakdown of corporate service costs within the six councils that comprise the Northern Sydney Regional Organisation of Councils (NSROC). As can be seen IT, utilities, financial services, legal, HR, OHS/WC and insurance make up over three quarters of corporate services expenditure. Records, governance, rates collection, payroll and telecommunications comprise the balance.

Percentage Breakdown of Corporate Service Costs within NSROC Councils



Source: Benchmarking Plus, *NSROC Corporate Services Benchmarking for FYE June 2012*, slide 12

Based on a benchmarking study of corporate services within NSROC Councils, adopting the practices of the lowest cost Council might generate savings of 7.8% within the total group and as much as 25.2% for the highest cost council. ⁱ

Research by the late Professor Simon Domberger found that outsourcing of in-house services to contestable providers typically generated savings of around 20% of their original cost. ⁱⁱ

If a SSC was organised and operated as a genuine commercial enterprise with the prospect of its services being opened to market competition within five years then total cost savings of 10% on all corporate services it undertook should be a realistic initial target. Ultimately savings of 20% might be possible.

SSC Mistakes and Successes

Many SSCs fail because they:

- Pursue cost savings at the expense of service standards,
- Underestimated the cost and effort required to succeed,
- Have poor leadership, planning and technical competency,
- Don't agree on service levels in advance of implementation,
- Share complex services not amenable to standardisation,
- Centralise activities before redesigning their processes,
- Adopt IT systems centrally that don't interface locally,
- Migrate to shared services before piloting the migration plan,
- Introduce shared services concurrently, rather than sequentially,
- Do inadequate change management planning to help staff cope (i.e. retraining, transferring, relocating, recruiting and retrenching staff),
- Are situated within a bureaucracy antithetical to running a business,
- Don't face the prospect of contestability to make them efficient, and

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- Are not accountable to a board appointed by their customers.

Yet successful SSCs deliver the following benefits:

- Efficiency – reduces unit costs of routine transactions by standardising their work processes and desktop systems, consolidating their operations in a lower rent location and aggregating their volume to exploit economies of scale.
- Quality – reduces transaction errors by standardising work practices and ITC systems, reducing decision control points, documenting office procedures and reporting regularly against agreed transaction service benchmarks.
- Service – improves service level timeliness and responsiveness by forcing client agencies to more clearly specify their exact needs, reporting regularly against SLAs and compliance and complaints handling mechanisms.
- Specialisation – enables back-office functions to have dedicated expertise and management applied to their operations and frees up client agencies to focus on their core tasks.
- Careers – improves career prospects for transaction- oriented staff by offering a bigger work environment and opportunities to learn best practice processes and cutting edge technologies with dedicated supervisors.
- Technology – allows leading edge ITC systems to be employed at lower cost, with closer maintenance and more frequent upgrades by consolidating them centrally.
- Compliance – improves compliance with audit, tax, OHS and other regulatory requirements by upgrading and standardising record-keeping and consolidating reporting.
- Performance – improves performance of client agencies by standardising management reports to enable inter-agency performance comparisons.

SSC Structures

A SSC needs organisational, legal and governance structures:

Organisational Structure: A SSC can be either (a) a single Hub consolidating and providing all services to be shared, or (b) a disbursed Network of existing Council back offices each taking a lead role in providing a particular group of services to be shared. A Hub may be either an existing council back-office or a new organisation dedicated exclusively to shared service provision.

Legal Structure: If an existing Council back office is used (either as a single Hub or a Network partner) then shared services will be provided under existing Local Government employment and operating conditions. By contrast a new self-standing Hub, with the permission of the Minister for Local Government, could be organised as a Company Limited by Guarantee (such as Hunter Councils Ltd).

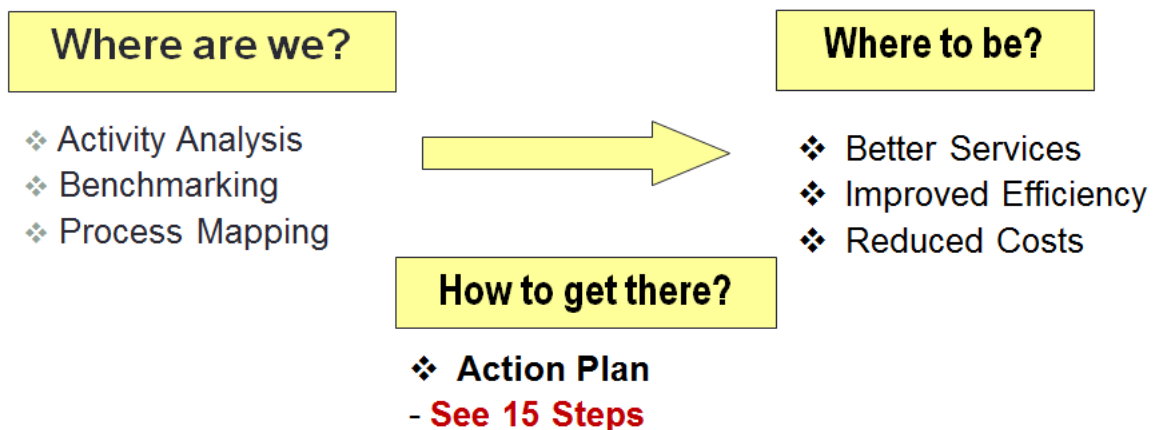
Governance Structure: If a SSC is located within an existing Local Council it will be part of a Council's administrative back-office and thereby accountable to the General Manager via a senior Council executive (e.g. Corporate Services, Finance or HR Director). If it is a self-standing business organised as a Company Limited by Guarantee its CEO would report to a Board of Directors appointed by member councils.

Recommendation: The lesson of state governments is that SSCs located within general purpose government departments have not exhibited the business culture, operational flexibility and market

contestability to deliver the ambitious cost savings and service improvements originally envisaged in their business plans.ⁱⁱⁱ For this reason it is proposed that a dedicated SSC organised as a Company Limited by Guarantee be given serious consideration (see separate report on Structuring a Regional Joint Organisation - RJO).

Action Plan

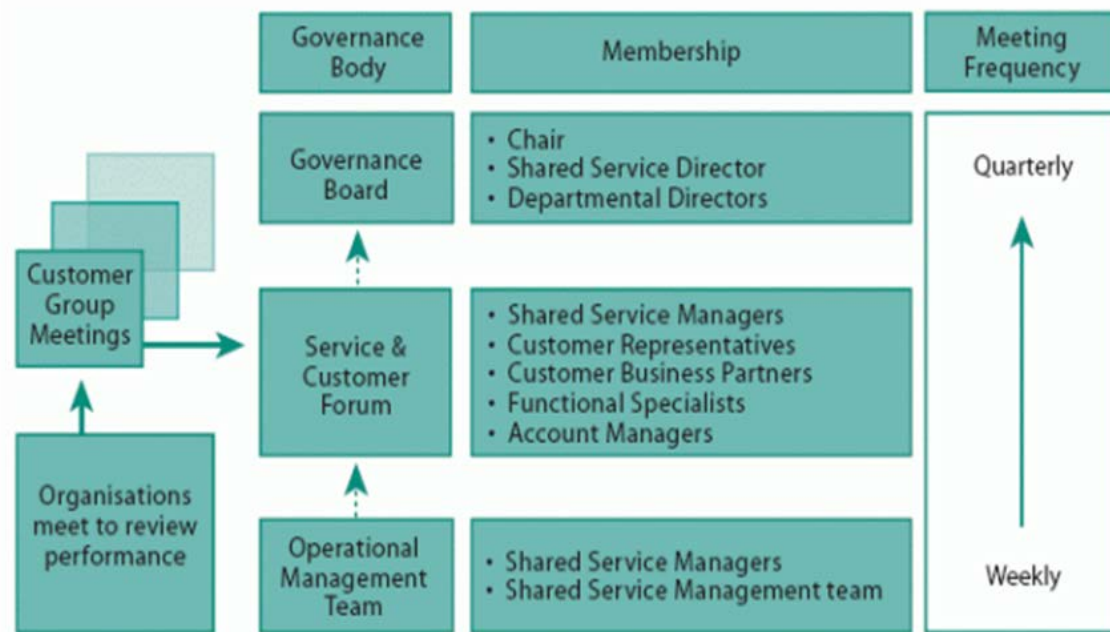
To migrate to a SSC involves three stages; establishing the existing baseline, envisaging future outcomes and an Action Plan of fifteen implementation steps.



The 15 steps to implementing a shared services centre are:

- 1. Agree on Concept**
 - a. Who are members – foundation or open membership or both?
 - b. What is objective – cost efficiency, service effectiveness or both?
 - c. What to expect – adopt SLAs or savings targets or both?
- 2. Adopt Vision Statement**
 - a. What services to share – corporate or front-line services or both?
 - b. How to share services – cooperative hub or administrative network?
 - c. Who will fund project – initial investment and ongoing costs?
- 3. Endorse Business Case**
 - a. What will it cost – initial capital versus ongoing operating costs?
 - b. What will be charged – operating or economic cost based?
 - c. What will be saved – cost or time savings or both?
- 4. Appoint Leadership** *(see next chart 1 on Proposed Structure)*
 - a. Who will be Steering Group (Board) – Council GMs or other Executives?
 - b. Who will drive project – newly appointed or seconded SSC CEO?
 - c. Who will be project team – existing or new staff and consultants?

Chart 1: Proposed Governance Structure

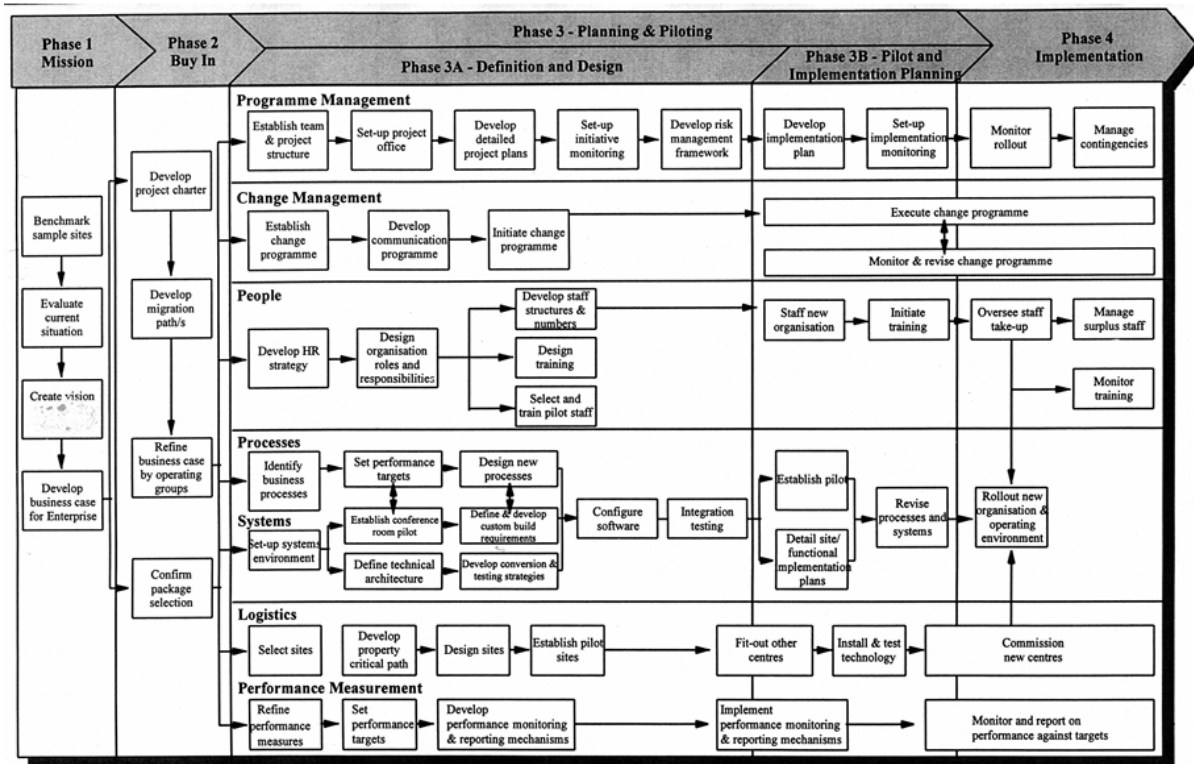


Source: <http://www.sourcingmag.com/designing-your-organization-for-bpo-and-shared-services/>

5. **Adopt Project Plan** (see next chart 2 for Proposed Plan)

- a. What stages – vision, buy-in, planning, design, building, testing, rollout?
- b. What elements – management, staffing, structure, reporting, processes, systems, telecommunications, suppliers, legal, tax, logistics and KPIs?
- c. What timeframe – project timetable, task delegations and milestones?

Chart 2: Proposed Project Plan



Source: © Percy Allan & Assoc. Pty Ltd, 2015

6. Communicate Vision

- a. What is blue print – high level strategy and timetable?
- b. What will be its impact – on staffing, up-skilling and office location?
- c. What retention incentives – migration and post-migration phases?

7. Design Model

- a. Proposed system infrastructure – what software (e.g. Oracle or SAP) and hardware (e.g. IBM, HP or Dell)?
- b. Proposed process maps – best practice or existing practice?
- c. Proposed service level agreements – quantity, quality and prices?

8. Analyse Gaps

- a. Staffing levels – Existing versus proposed systems?
- b. Unit costs – Existing versus proposed activity based costs?
- c. Timeliness – Existing versus proposed processes?

9. Establish SSC

- a. Obtain premises – Existing office network or new office centre?
- b. Install infrastructure – New systems integration with legacy systems for data centres, fibre networks and desktop PCs?
- c. Hire staff – train and transfer existing staff or hire new staff or do both?

10. Knowledge Transfer

- a. Train staff – common terminology and new procedure manuals?
- b. Migrate knowledge – from existing to new or seconded SSC staff?
- c. Migrate data – to new or existing systems?

11. Go Live

- a. Pilot project – simultaneous or staggered trials?
- b. Rollout project – simultaneous or staggered introduction?
- c. Finalise service level agreements – refine or renegotiate original drafts?

12. Office Stabilisation

- a. Surplus staff – redeploy, offer voluntary redundancy or retrench?
- b. Surplus assets – reuse, sell or scrap legacy systems/vacant offices?
- c. Client interface – formal or informal SSC/ client liaison?

13. Project Review

- a. Budget targets – were capital and operating budgets met?
- b. Savings targets – were unit cost benchmarks achieved?
- c. Service targets – were quality targets met?

14. Celebrate Outcome

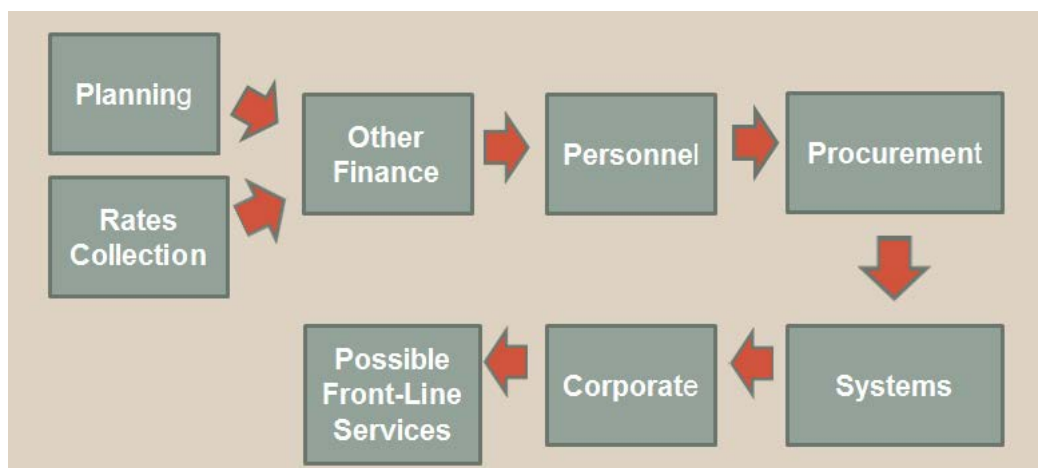
- a. Publishing case study – what was sought versus achieved?
- b. Issue media release – invite Minister to media conference
- c. Hold celebration – for all who contributed to project's success.

15. Regular Reviews

- a. Weekly reviews – are finance and KPI targets being met?
- b. Monthly reviews – any breaches of service level agreements?
- c. Annual reviews – are all statutory returns and reports in order?

Shared Service Sequencing

It is proposed that the migration to shared services be staged as follows with the Action Plan piloted using a well-recognised activity such as Rates Collection.

**Timetable**

Implementing the 15 steps and transferring planning and rates collection to the SSC could take around 12 months. Thereafter the migration of each subsequent service might take 3-6 months. All corporate services identified should be able to be migrated over a 2.5 to 3.5 year period.

This may seem a long time, but the widely publicised failure of shared services at a state level has been attributed to them being “adopted in a hurry”. Sufficient attention to detail concerning people, process and system issues is critical for getting a SSC’s architecture right.^{iv}

SSC Lessons

Based on the past experience of SSCs in both the public and private sectors, critical success factors for a local government SSC are:

- Agree on the key outcomes expected from a SSC
- Establish a convincing business case for a SSC
- Obtain stakeholder endorsement of the business case
- Appoint a SSC Steering Group and CEO to drive the project
- Make SSC a self-standing business enterprise with business KPIs
- Make SSC a company limited by guarantee like Hunter Councils Ltd
- Make SSC ultimately accountable to a Board appointed by its clients
- Guarantee SSC a captive clientele for a limited period (max 5 years)
- Pay dividends according to client capital and/or custom contributions
- Select a specialist SSC consultancy to advise on the project
- Adopt a proven migration plan to implement the SSC
- Identify major project risks and ways to mitigate them.
- Measure cost and performance of a service before sharing it
- Negotiate SLAs and chargeback formula before migrating to a SSC
- Clarify respective tasks of SSC and client agencies in advance
- Agree on how staff transfers and redundancies will be handled
- Determine how to motivate top performers to stay
- Pursue a change management/communication strategy from outset
- Agree on standardising complex processes before sharing them
- Invest sufficiently in IT platform to support agreed processes
- Focus on SSC client buy-in, not just structures, processes and IT
- Regularly review progress and learn from mistakes
- Publicise and celebrate completion of each Action Plan milestone

Conclusion:

The **first step** is to obtain the formal agreement of a core group of Local Councils and the State Government to the concept of a Regional Joint Organisation with a Shared Services Centre as a better alternative to Council Mergers for achieving Fit for the Future outcomes.

The **second step** is to appoint a SSC Steering Group, CEO and Specialist Consultant to develop a detailed Business Case and Project Plan for implementing a RJO and SSC for formal approval by the participating Councils and the Minister for Local Government.

The **third step** is to implement the Project Plan according to an agreed Budget, Timetable and key Milestones.

Appendices (see main report)

- What are Shared Services?
- Local Government Functions
- Corporate Support Services
- Why Share Services?
- What Services to Share?
- Typical Shared Services
- SSC Organisational Structure
- SSC Risks

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- SSC Critical Success Factors
- SSC Lessons
- SSC Migration Planning
- Questions asked of SCCs
- Best Practice SSC Processes
- Service Level Agreement
- SSC KPI Monitoring
- SSC Case Studies
- Key Concepts
- Activity Analysis
- Process Re-engineering
- NSW Government SSC Model
- NSW Premier's Dept Corporate Overheads
- Review Today Corporate Overhead Analysis
- Savings from Outsourcing
- Selected References

ⁱ See Benchmarking Plus, *NSROC Corporate Services Benchmarking for FYE June 2012*, slide 10

ⁱⁱ See section on *Savings from Outsourcing* in main volume of report.

ⁱⁱⁱ For overviews of the performance of Australian state government shared services centres see:

- Dollery, Brian and Grant, Bligh, *Tortoises and Hares: The Race to Shared Services Across Australian State and Territory Jurisdictions*, International Journal of Public Administration, 2010, 33: 1, 43-54
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- ACELG, *Legal and Governance Models for Shared Services in Local Government*, Interim Report, May 2012 http://www.acelg.org.au/system/files/publication-documents/1337646438_Legal_and_Governance_Models_for_Shared_Services_3.pdf
- Dollery, Brian, Grant, Bligh and Kortt, Michael, *Councils in Cooperation – Shared Services and Australian Local Government*, The Federation Press, Sydney, 2012

^{iv} Brian Dollery and Bligh Grant, *Tortoises and Hares: The Race to Shared Services Across Australian State and Territory Jurisdictions*, International Journal of Public Administration, 33:43–54, 2010, page 52.

Northern Sydney Joint Organisation: Business Case



Draft final report

Ryde Council, May 2015

Independent insight.



This report has been prepared for Ryde Council, May 2015. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

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EXECUTIVE SUMMARY

Background

The State Government has proposed to create a new amalgamated Northern Sydney Council through the amalgamation of six Councils: 1) Ryde, 2) Hunters Hill, 3) Lane Cove, 4) Mosman, 5) North Sydney, and 6) Willoughby.

The nominated Councils do not support this proposed amalgamation. As an alternative, Ryde, Hunters Hill, and Lane Cove Councils have proposed to establish a Joint Organisation (JO) to undertake the following subregional functions:

1. Subregional land use and infrastructure planning
2. Subregional community and cultural planning
3. Subregional economic development and tourism
4. Joint subregional advocacy
5. Joint strategic procurement initiatives, and
6. Joint subregional service delivery.

Scope and objectives

SGS Economics & Planning (SGS) was commissioned to articulate how these functions would operate under the JO transfer proposal and to describe the **strategic capacity enhancements** that would be generated; the ultimate goal of State Government.

SGS was also tasked with performing a **cost benefit analysis** of moving from the current situation to the proposed JO. That is, SGS's analysis takes a broad community perspective, and therefore considers the gamut of economic, social and environmental costs and benefits generated by moving the subregional functions to the JO.

It is noted that SGS's analysis does not cover the transfer of the 5) Joint strategic procurement initiatives and 6) Joint subregional service delivery functions to the JO, acknowledging that these are highly complex arrangements that need to be informed by further detailed investigations.

Options assessed

The cost benefit analysis has identified, quantified and contrasted over time the costs and benefits of moving from the existing situation (base case) to two alternative JO options as follows:

- **Base case:** each Council continues to undertake subregional functions separately;
- **Option 1:** 3 Councils (Ryde, Hunters Hill, Lane Cove) transfer subregional functions to a JO; and
- **Option 2:** 6 Councils (Ryde, Hunters Hill, Lane Cove, Mosman, North Sydney, Willoughby) transfer subregional functions to a JO.

Outcomes expected

If the subregional planning functions are transferred to a JO, there are likely to be improvements in targeting and achieving the shared spatial planning outcomes sought by the Councils collectively. This includes:

- The development of better plans for land use and infrastructure development;
- More efficient decision making in relation to planning and development proposals; and

- A more rapid advancement towards targeted subregional land use, infrastructure, social and economic development outcomes.

Ultimately this will mean that the urban development that occurs across the subregion will be managed in a better manner, ensuring that the functionality, productivity and liveability of the subregion is maintained over time. Importantly, no assumption has been made about changing the overall rate of urban development, but improvements can be expected in terms of the spatial location of development and its infrastructure servicing.

Achieving Strategic Capacity

The transfer of subregional functions to a JO would lift the capacity of the participating Councils to achieve a subregional strategic agenda – while boosting each individual council’s ability to achieve the local outcomes of their Community Plan. The JO is a customised approach to achieving Strategic Capacity, and the associated benefits, without the disruption and costs of amalgamation (as outlined in the reports by Brian Dollery and Percy Allen and Associates). The JO would achieve each of the elements of Strategic Capacity as summarised below.

More robust revenue base and increased discretionary spending Resources to cope with complex and unexpected change

The Joint Organisation would represent 216,000 – 427,000 people by 2031 (3 or 6 councils respectively). The effect of the JO would be to reduce demand on the capital of participating councils, enable them to depreciate assets more efficiently and offer greater surpluses to invest in infrastructure and enhanced services. This would also improve the participating council’s capacity to make provision for and fund complex and unexpected change.

The JO would achieve public resource savings and more effectively deploy funds by: streamlining forward planning and development sequencing (including using pooled funds under a single s94 plan), improving utilisation of facilities across council boundaries and delaying new capital expenditure as a result.

Scope to undertake new functions and major projects

The strategic planning capacity to deliver and assess projects comparable in scale to Rydes’ urban renewal precincts would be available across all councils participating in the JO. Potential new projects and functions would include economic development of specialised hubs, transport precincts and town centre redevelopment across local government boundaries.

Knowledge, Creativity and innovation Advanced skills in strategic planning and policy development

The combined strategic planning staff resources of the JO would deliver economies of scope - as teams are able to avoid duplication, share knowledge, research resources and develop team size which enables specialisation. Enhanced in-house skills in transport and economic development planning will be valuable in delivering transit oriented urban renewal projects to achieve the subregional planning agenda, and realise the economic benefits of an efficient city structure.

Effective regional collaboration

A JO would build on economies of scale and institutionalise collaboration amongst participating councils for procurement, accessing grants, service delivery including the joint use of facilities.

The JO would provide a framework to enter into a single contract for services rather than multiple contracts across the participating councils. As a single entity it would be more competitive in accessing grant funding. It would collect larger bundled grant funds and have the flexibility to deploy matching council expenditure in the right place and right time to more rapidly achieve community plan outcomes.

Credibility for more effective advocacy

By 2031, the JO could represent up to 15% of Sydney's population and an even higher proportion of its jobs. The JO would adopt single clear positions across its councils for rating, funding infrastructure priorities, economic hubs and social planning agenda. This represents a less parochial and more powerful bloc of interest to argue for subregional priorities (e.g. light rail, economic development prospectus).

Capable partner for State and Federal agencies

The JO would serve as a single point of contact for State and Federal Government to identify shared positions on regional planning, economic development and social policy issues. This would replace the need for individual negotiations with up to six separate councils. This is critical for the smooth delivery of subregional strategy and social policy targets in partnership with NSW Government.

In addition shared subregional positions supported by an evidence base would provide a stronger justification for flow on planning and investment decisions for State infrastructure

High quality political and managerial leadership

The JO would be constituted by a board/council of Mayors from the constituent councils. They would be serviced by a secretariat and have access to pooled strategic planning resources and a shared services entity responsible for those services for which there are clear economies of scale. Accountabilities for the JO and its shared service facility would be established under the Local Government Act. The JO would be equipped to focus on subregional imperatives and would leave individual councils better placed to lead their local constituents.

Costs and benefits

The transfer of subregional functions to a JO would give rise to ***once off establishment costs*** for the JO (year 1), as well its ***ongoing operating costs***.

It has been assumed that the current operating costs associated with delivering the subregional functions across each of the participating Councils simply transfers to the JO upon its establishment. Some overlap has been assumed in years 1 and 2 (25% of existing operating costs), i.e. to overcome teething problems, but no operating cost efficiencies have been factored in after this period. This is an inherently conservative assumption, as efficiencies could well be generated through the JO's relative economies of scale and scope.

Two key benefits have been identified:

- The ***acceleration of more efficient urban development and infrastructure provisioning***, as the JO plays a significant role in enabling this transition. There is significant evidence that the spatial form of development impacts economic, social and environmental outcomes in the Australian context.¹ Our analysis simply assumes that the preferred form of future development for Sydney over the long term (to 2031) applies at the subregional level, i.e. future housing and employment are increasingly accommodated into town centres, and that the array of benefits that result from this are accelerated by the JO (i.e. by 5 years).

This array of benefits includes the net benefits generated by savings in costs associated with infrastructure provisioning, transport congestion, environmental pollution, along with unlocking the benefits of improved workforce productivity (agglomeration economies) and land use efficiencies.

Another way of articulating this benefit is to say that the risks of the subregion not developing in the most efficient locations are ameliorated by the operations of the JO.

¹ SGS Economics & Planning (2005) and (2011); Centre for International Economics (2010) and (2012), amongst numerous others.

- **Private sector appeals savings (from more effective planning decisions):** It is anticipated that significant planning and development decisions will be made at the subregional level, ensuring that these decisions are consistent with adopted subregional policy. In turn, the cost of decisions related to planning proposals and the private costs of appeals, which act to ultimately overturn inconsistent decisions, are avoided.

Historic rates of Planning Proposals and Class A appeals, and the rate at which appeals are upheld, have been used, as has the assessed avoided private sector cost of each appeal (~\$22,500).

Results generated

A discounted cashflow analysis, comparing the costs and benefits over a 15 year period (2016 to 2031), has been used to evaluate the merit of moving from the Base Case to Option 1 and Option 2.

	OPTION 1	OPTION 2
NET PRESENT VALUE (NPV) (Note: if NPV is positive, the option is worth pursuing)	\$523,044	\$3,401,971
BENEFIT COST RATIO (BCR) (Note: if BCR >1, the option is worth pursuing)	1.5	2.4
INTERNAL RATE OF RETURN (IRR) (Note: if IRR > discount rate, the option is worth pursuing)	17%	31%

Note: a real discount rate of 7% has been utilised.

Sensitivity analysis

The results of the sensitivity analysis highlight that in terms of downside risk, the largest threats to the viability of the JO rests with:

- Operating cost penalties, i.e. if significant duplication exists amongst the JO and participating Councils;
- The failure of the JO to accelerate the movement towards more efficient urban development and infrastructure provisioning patterns; and
- The failure of the JO to remedy inconsistent decisions with respect to Planning Proposals and Development Applications.

Having said that, most of the assumptions invoked are inherently conservative, and there appears to be more upside potential (i.e. for additional benefits) than there is downside risk.

Distributional assessment

The distributional assessment indicates that ratepayers will bear any incremental establishment and operating costs, while the benefits will be more widely spread, with benefits accruing to local residents, commuters, workers, businesses and developers, as well as local and State infrastructure provisioning agencies.

Based on this it does not appear that moving to the JO will impose any disproportionate inequities amongst stakeholders.

Conclusions

Based on the above analysis, SGS concludes that:

- The move to the JO is both viable and advantageous. That is, the benefits outweigh the costs considerably, and the improvements to strategic capacity are significant; and
- The net benefits associated with Option 2 outweigh that of Option 1. That is, the JO will be much more worthwhile if the six Councils transfer their subregional functions to it.

For the JO to be most effective, participating Councils should not be able to 'opt out' of key decisions. That is, they all must sign up to the subregional transfer of functions, and in turn, the plans and policies that the JO develops and the decisions it makes in governing in line with these plans and policies.

The analysis demonstrates that the JO represents a customised approach to achieving scale and capacity and, given the disruption and costs associated with amalgamations, offers net benefits that amalgamations are unlikely to be able to match.

1 INTRODUCTION

1.1 Project background

Fit for the Future

On 10 September 2014 the NSW Government released its response to the final recommendations of the Independent Local Government Review Panel (Revitalising Local Government April 2014) and the Local Government Acts Taskforce.

The NSW Government packaged its response under the banner of 'Fit for the Future' (FFF). For details see <http://www.fitforthefuture.nsw.gov.au/>

All NSW councils (except those in the Far West) have been requested to undertake a self-assessment, then prepare a road map to become 'Fit for the Future' and submit it to the State Government by 30 June 2015.

The criteria to be considered and applied to the assessments are:

1. Financial sustainability
2. Effectively managing infrastructure and delivering services for communities
3. Efficiency – value for money, and
4. Scale & capacity – to engage effectively across community, industry and government.

NSW councils must initially demonstrate how they meet the scale and capacity criteria before moving onto the other criteria. IPART have now been appointed by the State Government to evaluate council proposals against these criteria.

Northern Sydney recommendations

The State Government's current proposal, emanating from the aforementioned process, is to create a new amalgamated Northern Sydney Council through the merger of Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby Councils. That is, the Government has supported the Independent Local Government Review Panel's recommendation that in Northern Sydney scale and capacity can only be achieved by merging the 6 councils (or some similar merger).

The City of Ryde resolved to:

- Reject the Independent Panel's recommended amalgamation of Ryde with the other five councils;
- Complete Template 2 – Council Improvement demonstrating how Council intends to address the Fit for the Future criteria on a standalone basis; and
- Investigate a modified Joint Organisation (regional body) proposal to enhance its position in meeting the State Government's scale and capacity criteria.

This third position was adopted on the basis of other councils in Northern Sydney being interested in investigating such a proposal. At this stage the City of Ryde has received responses from Hunters Hill and Lane Cove Councils to participate in this investigation, noting that it is possible other Northern Sydney Councils may join this investigation.

1.2 Project objectives

The City of Ryde, on behalf of participating Northern Sydney Councils, has commissioned SGS Economics & Planning (SGS) to prepare a business case that can be provided to the Office of Local Government (OLG) as part of Council's Fit for the Future Submission.

The project's objective was to investigate and prepare a business case on the costs and benefits that would be generated by the formation of a joint regional body for Northern Sydney which would enhance the subregion's scale and capacity in undertaking the following functions:

1. Sub-regional land use and infrastructure planning
2. Sub-regional community and cultural planning
3. Sub-regional economic development and tourism
4. Joint strategic procurement initiatives
5. Joint subregional advocacy, and
6. Joint subregional service delivery.

SGS has been asked to prepare the material for points 1 to 3 and 5 above. Others are expected to prepare the material relating to points 4 and 6 (Percy Allen and Associates). SGS has been asked to compile an overall business case.

The OLG, in its information provided on Fit for the Future, has stated that the business case must:

- Provide a high level strategic and economic appraisal of the feasibility of the proposed JO; and
- Consider the factors set out in Section 263 of the Local Government Act 1993, including undertaking due diligence to assess any high level risks of the proposed Joint Organisation to enable the participating Councils to make a decision to proceed to a Joint Organisation.²

1.3 Project approach

SGS has developed this business case for the proposed Northern Sydney Joint Organisation (JO) by performing a high level strategic and economic appraisal. This has included working with the Councils to:

- Describe how specified regional functions are likely to be performed under the base case (current) scenario and under the JO scenario;
- Assess how the key elements of 'strategic capacity' are supported by moving from the base case to the JO scenario;
- Identify and describe the economic costs and benefits of moving from the base case to the JO scenario;
- Quantify how the identified costs and benefits evolve over time (i.e. over a 10-20 year period);
- Assess how these quantified costs and benefits compare in present day terms using discounted cashflow analysis and, in doing so, generating a variety of performance measures; and
- Document the processes, results and implications of the aforementioned tasks into a concise, professional report.

² Effectively this means examining how a proposal affects the areas concerned in terms of: 1) financial impacts on residents and ratepayers, 2) community of interests and geographic cohesion, 3) historical and traditional values, 4) attitudes of the residents and ratepayers, 5) elected representation patterns, 6) council's ability to provide adequate, equitable and appropriate services and facilities, 7) council employment levels, 8) the impact on rural communities, and other factors of relevance.

2 SCENARIO SPECIFICATION

This section highlights how the regional functions are likely to be undertaken across the Councils of Northern Sydney under the base case (current) scenario and under a Joint organisation (JO) scenario, i.e. with either three (Ryde, Hunters Hill, Lane Cove) or the entire six (adding Mosman, North Sydney, Willoughby) Northern Sydney Councils potentially participating. It also highlights how the establishment of the JO will deliver costs and benefits, as envisaged by the Councils.

Local planning and development decisions remain with the individual councils under all scenarios.

2.1 Base case scenario

As per the project objectives, the subregional functions that are proposed to be performed by the JO with the aim of enhancing the subregion's scale and capacity include:

- Subregional land use and infrastructure planning
- Subregional community and cultural planning
- Subregional economic development and tourism
- Joint strategic procurement initiatives
- Joint subregional advocacy, and
- Joint subregional service delivery.

Consequently, under the base case scenario, each of these functions will continue to be undertaken separately by each council with limited subregional cooperation, as follows:

Strategic Planning/ Infrastructure

- Subregional Plans - strategic subregional land use planning
- Local and State Infrastructure Planning
- Local Environment Plans (LEPs), Plan making, Development Contribution Plans (DCPs)
- Separate council s94 Plans
- Place making – including cross border issues
- Strategic planning research
- No obligation to seek views of other councils

Statutory Planning

- Development Approvals (DAs) (meetings, mediation and approvals) remain with councils
- Separate council Independent Hearing & Assessment Panels (IHAPs) remain
- Joint Regional Planning Panels (JRPP) remains for major DAs

Community Planning

- No collaboration on corporate / community plan preparation
- Social and transport strategies (e.g. Bike Plans) do not integrate across borders

- Different fees / costs for facilities among different councils

Subregional Economic Development

- No coordinating role of Northern Sydney Regional Organisation of Councils (NSROC)
- No specialisation among councils for different skill sets

No Joint Subregional Advocacy, Representations & Campaigns

- Individual council approach re: funding/ rating policy, governance
- No shared State liaison, other referrals or consultation

Governance and Organisation Structure

- Separate councils and staffs - staff numbers and roles unchanged on same awards
- NSROC remains as currently staffed and funded
- Joint procurement for a range of services currently occurs across NSROC (e.g. Asphalt, Waste).

2.2 Joint Organisation scenario

Under the JO scenario there would be much more commonality in approach, coordination and centralisation of the subregional functions below.

The JO scenario assumes the involvement of at least the three councils of: Ryde, Hunters Hill and Lane Cove (Option 1). The JO scenario could be extended to include up to six council members of NSROC (Option 2: also potentially North Sydney, Willoughby and Mosman).

Strategic Planning/ Infrastructure

Common strategic planning on subregional planning / infrastructure matters:

- Single endorsed approach to subregional plan priorities and content
- Agreed centres hierarchy /collaboration promoting subregional hubs (e.g. bulky goods, education precincts)
- Single endorsed set of priorities on State infrastructure (e.g. preferred location and scale of education, health, sport, transport and social infrastructure)
- Shared approach to local infrastructure planning - recognising spare capacity within and across borders
- Single subregional LEP and DCP harmonisation (i.e. common design standards)
- Single subregional s94 Plan (i.e. larger total fund / more flexibility / better liquidity)
- Shared strategic planning research resources
- Obligated to seek views of other councils on matters with the potential to be of subregional interest
- For 3 councils - the scope for subregional scale strategic planning is somewhat limited to border planning issues and stronger infrastructure capacity utilisation among the 3 councils involved
- For 6 councils - the scale is equivalent to the majority of Sydney's North subregion and benefits would be realised across a wide range of strategic and infrastructure planning parameters.

Statutory Planning

Over time, subject to agreement by member councils, it is anticipated that statutory planning and approval powers would transition to more centralised JO authority on major DAs – potentially replacing role of JRPP. Other elements of the approvals regime could be as follows:

- Small DAs (<\$5M) remain with councils under existing arrangements
- Medium DAs (\$5M-\$20M) assessed / determined by shared single IHAP under delegated authority
- Large DAs (>\$20M) assessed / determined by JO
- For 3 councils – a shared single IHAP would be considered
- For 6 councils – there is the potential for NSROC (as a JO) to structure itself to take on the role of the JRPP for large DAs

Corporate and Social Planning

- Collaboration on corporate and community plan preparation
- Integrated Community Plans
- Joint approach to local implementation of State social policy targets and agendas (e.g. youth policy)
- Pooled grant funding for subregional facilities (e.g. SSHAP, Metro Greenspace)
- Common fees for facilities
- The nature and benefits of joint community planning are scalable upwards from 3 to 6 councils

Subregional Economic Development

- Coordinating role of NSROC:
 - Common subregional economic development plan
 - Shared prospectus for investment / development
 - Council specialisation - identification and promotion of a council for best practice
 - Shared support for identified clusters/hubs for a skill or industry
- Although scalable upwards from 3 to 6 councils – the full advantages of joint regional economic development effort would be achieved as the scale of cooperation approached 6 councils and addressed issues and initiatives spanning most of Northern Sydney

Joint Subregional Advocacy, Representations and Campaigns

- Representations and campaigns on key policy, funding and governance issues
- Single point of approach to State / Federal Government on subregional matters (e.g. Light rail routes)
- Shared promotion of a common set of grant funding opportunities
- No change to approach to rating
- The impact of joint subregional advocacy would be scalable upwards from 3 to 6 councils

Governance and Organisation Structure

- Separate councils and staffs remain in place – with the assumption that strategic planning staff are engaged via the JO
- For 3 councils – NSROC remains to service non-participating councils (scalable model required)
- For 6 councils – NSROC fully subsumed into JO - funding and resourcing as per NSROC (included CEO/ 2.6 EFT seconded staff – and including Executive Director)
- JO structured as a board or council of Mayors - with the authority of a County Council responsible for subregional planning matters and issues crossing boundaries.
- The service delivery functions of the JO would be executed via a Regional Services Group (RSG a corporate entity / company limited by guarantee)(refer Percy Allen and Associates)

2.3 Summary of enhanced performance of JO scenarios relative to base case

The JO scenarios can achieve efficiency advantages by getting the most return (relative to cost) out of the resources used by the JO in strategic planning, decision making and through operation of the organisation.

The JO can also be more effective in targeting and achieving the shared spatial planning outcomes sought by the councils acting together. The economic advantages of a JO can be characterised under the efficiency and effectiveness categories below.

Plan Making Efficiency

A JO is expected to prepare enhanced strategic plans for land use and infrastructure with the same or fewer staff, administrative and capital resources - where there is:

- Integration and prioritisation of shared planning and infrastructure priorities – leading to more streamlined forward planning and development sequencing
- Savings from infrastructure investment prioritisation – avoiding duplication of infrastructure planning processes in the subregion
- Savings from shared research – avoiding duplicated effort and enabling economies of scope as expertise develops
- Savings from joint planning for social outcomes, economic development and tourism – avoiding duplication and inconsistency
- Savings and flexibility in infrastructure contributions planning via a common s94 plan and fund pool

Decision Making Efficiency

Savings are expected to arise from economies of scale in the joint use of development decision making resources such as a shared IHAP. Economies of scope are also expected as council staff and resources are able to specialise and up-skill in major development assessment. Potential decision making efficiencies include:

- Cost savings from reduced appeals / mediations resulting from more consistent and expert DA assessment
- Savings from avoided duplication of assessment mechanisms including a shared Independent Hearing and Assessment Panel (IHAP)
- Potential for JRPP costs to be reduced by transfer of certain assessments to JO
- Single point of approach on major decisions involving State and Federal Government (e.g. rating, grants)

Operating Cost Efficiency

A JO would achieve economies of scale and scope from the operation of a shared services facility (managing rates, shared procurement, major facilities charging and management – especially where the involvement of all 6 councils could lead to the absorption of NSROC functions within the JO). However there would be:

- Once off establishments costs for new JRA and Shared Services arrangement (much less cost if converted NSROC)
- Additional meeting costs for JO (Board/Council of Mayors - County Council)

More Effective Plan Outcomes

There is potential for a JO to more rapidly and accurately achieve targeted subregional land use, infrastructure, social and economic development outcomes associated with:

- Delayed or avoided new capital expenditure for planned state infrastructure (e.g. schools, hospitals)
- Improved utilisation of existing local facilities (including sharing capacity across subregion)
- More efficient urban development patterns as better plans are made and investment decisions are more consistent with these plans (and antagonistic development is avoided)
- Increased agglomeration economies with improved place management - a more rapid adjustment towards identified objectives (e.g. knowledge clusters at Macquarie Park, TODs at Epping, mixed use outcomes at St Leonards etc.) or alleviating social exclusion.
- Travel time, vehicle operating cost and emission savings – associated with clearer subregional centres hierarchy and more effective transport systems
- More effective achievement of social plan outcomes - clearer prioritisation of social policy implementation from integrated community plans and joint approach to State social policy targets (e.g. youth policy)
- Amplified benefits from pooled grant funding for subregional facilities (e.g. SSHAP, Metro Greenspace)
- Enhanced policy and grant funding success – leading to more rapid achievement of funding priorities – e.g. single point of approach to State / Federal Government on regional matters (e.g. Light rail funding)

3 ACHIEVING STRATEGIC CAPACITY

The section provides a high level assessment of how the proposed JO improves the Northern Sydney region's strategic capacity by examining the elements of strategic capacity as identified by the ILGRP.

3.1 Elements of Strategic Capacity

According to the ILGRP the concept of 'strategic capacity' highlights the need for councils: to

- Shift their focus towards a more strategic view of their operations
- Have the ability to respond to the diverse and changing needs of different communities, and
- Take on new functions or deliver improved services in order to meet those needs.

This implies a move to larger, more robust organisations that can generate increased resources through economies of scale and scope, and then 'plough back' efficiency gains into infrastructure, services and other benefits for their communities.

The ILGRP defines the key elements of 'strategic capacity' as follows:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

Scale to undertake strategic programs / projects

Scope to engage expert staff and advance skills

Influence for effective regional collab. / advocacy

The JO offers the prospect of achieving these elements, and the associated benefits, without the disruption and costs of amalgamation (as outlined in the reports by Brian Dollery and Percy Allen and Associates). In fact a JO represents a customised approach to addressing these strategic capacity elements, as outlined below.

3.2 Assessment of JO proposal against elements

More robust revenue base and increased discretionary spending Resources to cope with complex and unexpected change

Population and housing growth is not directly proportional to a council's revenue base, however the projections shown in Table 1 give an indication of the scale of growth in the subregion to 2031. An extra 47,000 dwellings and 104,000 people are expected over a 20 year period.

TABLE 1: LGA POPULATION AND DWELLING PROJECTIONS 2011-31

LGA	2011		2031	
	Population	Dwellings	Population	Dwellings
Ryde	108,700	44,050	153,000	62,950
Hunters Hill	13,900	5,400	17,500	7,200
Lane Cove	33,250	13,900	45,250	18,850
North Sydney	66,750	37,000	85,750	47,850
Mosman	29,350	13,750	35,350	16,900
Willoughby	71,150	29,050	90,300	37,700
Total	323,100	143,150	427,150	191,450

Source: Department of Planning and Environment (2014) LGA Population, Housing and Dwelling Projections (final)

The financial sustainability of the councils participating in a Joint Organisation is discussed separately.

The Joint Organisation would offer public resource savings and the ability to more effectively deploy s94 funds for local infrastructure via:

- Streamlined forward planning and development sequencing (new provision of better sequenced and coordinated infrastructure)
- Delayed or avoided new capital expenditure for planned state infrastructure (e.g. schools, hospitals)
- Improved utilisation of existing local facilities (including sharing capacity across the subregion – e.g. sports fields, community centres, health centres, regional libraries)
- Agreed infrastructure investment prioritisation - avoiding duplication within the subregion
- Savings from shared research – avoided duplication and economies of scope/ specialisation
- More effective collection and deployment of s94 funds under single s94 Plan (i.e. larger total fund/ more flexibility / better liquidity)

The effect of the JO would be to reduce demand on the capital of participating councils, enable them to depreciate assets more efficiently and offer greater surpluses to invest in enhanced services. This would also improve the participating council's capacity to make provision for and fund complex and unexpected change.

The benefits for state infrastructure planning will also be substantial as a shared understanding of regional capacity and potential is reflected in better subregional planning. For example, shared subregional positions on where future development should occur or which centres are prioritised for an employment focus, will be highly beneficial for the State Government in planning for infrastructure.

Scope to undertake new functions and major projects

Ryde already has a demonstrated track record in delivering major mixed use redevelopment projects linked with transport infrastructure (e.g. Top Ryde City and North Ryde Station Urban Activation Precinct). The strategic planning capacity to deliver and assess comparable projects would be available across all councils participating in the JO. Potential new or enhanced projects and functions could include:

- More complex and larger mixed use urban renewal projects (e.g. Urban Activation Precincts)
- Town centre redevelopment across local government boundaries
- Land use and supporting infrastructure planning for major transport infrastructure (e.g. light rail, busways and new heavy rail station precincts)
- Economic development of specialised employment / health / education hubs (e.g. North Ryde / Macquarie Park)
- Assessment by the JO of major DAs currently assessed via JRPP

Knowledge, creativity and innovation

Advanced skills in strategic planning and policy development

The combined strategic planning staff resources of a JO (involving 3 councils) would exceed 13 FTEs. At this scale a range of economies of scope become possible as teams are able to avoid duplication, share knowledge and research resources and develop critical mass for specialisation.

Enhanced in-house skills in key disciplines such as transport and economic development planning will be valuable in delivering transit oriented urban renewal projects needed to achieve the Metropolitan Strategy agenda. The resulting advantages of a JO stemming from the adoption of consistent subregional planning priorities would include:

- More efficient urban development patterns (or the acceleration thereof), as more progressive and regionally focussed plans are made, decisions are more likely to be consistent with these plans, and as private sector investment is better harnessed to these ends.
- Travel time, vehicle operating cost and emission savings – associated with clearer subregional centres hierarchy and more effective transport systems
- Avoided negative externalities of major development – by consultation and shared priorities avoiding antagonistic development
- Increased agglomeration economies with improved place management - a more rapid adjustment towards identified objectives (e.g. knowledge clusters at Macquarie Park, TODs at Epping, mixed use outcomes at St Leonards etc.) or alleviating social exclusion.

Effective regional collaboration

A JO would build on economies of scale and institutionalise collaboration amongst participating councils for procurement, accessing grants, service delivery including the joint use of facilities.

There are already shared procurement strategies for materials such as asphalt and resource recovery. The JO would provide a framework through a board/council of Mayors and statutory / corporate entity (i.e. shared services group) to enter into a single contract for services rather than multiple contracts across the participating councils.

A JO would be able to receive grant funding and deploy funds according to shared strategic priorities. As a single entity it would use evidence from all member councils to offer more integrated grant applications in support of project funding from the Sharing Sydney Harbour Foreshore Access Program and Metropolitan Greenspace Programs. The JO would collect larger bundled grant funds and have the financial flexibility to deploy matching council expenditure in the right place and right time to more rapidly achieve community plan outcomes.

A case study of an effective regional collaboration is summarised in the box overleaf.



Track record of the WBC Alliance

Four regional councils from Central West NSW have operated in a strategic alliance for 12 years. They claim savings and efficiencies of over \$5.7M arising from joint tenders and funding, shared teams and the completion of over 55 collaborative projects¹ including:

- Common engineering guidelines
- IT projects (\$400K savings)
- asset plan framework and templates (\$90K savings)
- plant and fleet management
- joint training and sharing of specialised staff
- joint road contracts

A strategic alliance operates as a co-operative relationship among councils pursuing a set of common goals while remaining independent of each of other. They are not required to 'opt in' on every key decision but frequently cooperate. The WBC Alliance submission to the ILGRP indicates that the councils may take the relationship further and are considering the potential of a County Council structure.

Credibility for more effective advocacy

A JO across the six LGAs could advocate for the shared interests of up to 427,000 people by 2031. This would represent around 15% of Sydney's population and an even higher proportion of its jobs. The JO would adopt single clear positions across its councils for rating, funding infrastructure priorities, economic hubs and social planning agenda. This represents a less parochial and more powerful bloc of interest to argue for common priorities in the subregion such as:

- Preferred route for light rail / BRT proposals
- Station sites / public domain improvements for precincts affected by a second harbour rail crossing
- Shared economic development prospectus – including support for specialised economic hubs in the subregion (eg Macquarie Park)
- Social policy priorities - including affordable housing provision in urban renewal areas

Capable partner for State and federal agencies

The JO would serve as a single point of contact for State and Federal Government to identify shared positions on regional planning, economic development and social policy issues. This would replace the need for individual negotiations with up to six separate councils.

The State Government has indicated that the preparation and delivery of subregional strategies in partnership with local government will be critical to achieve the Metropolitan Strategy growth planning agenda. The subregional strategies will need to allocate housing and job growth targets between subregions and among LGAs within them. The determination by a JO of shared positions supported by an evidence base would be very productive and highly appreciated by State Government. It would provide stronger justification for flow on investment decisions for State infrastructure.

Subject to agreement and decisions by the member councils the JO provides the opportunity for a shared Independent Hearing and Assessment Panel to decide medium size local development applications in accordance with jointly adopted council planning and development policies. All councils within a region would continue to have a say in appointing the Joint Regional Planning Panel (JRPP) that decides major development applications of a regional nature. The outcome would be development decisions that work to deliver a broader subregional planning agenda.

The NSW Government relies on councils to deliver on key state social policy targets, including elements of youth policy, community health and affordable housing delivery. A JO represents a more effective and consistent partner in the achievement of social policy outcomes.

High quality political and managerial leadership

The JO would be constituted by a board/council of Mayors from the constituent councils. They would be serviced by a secretariat and have access to pooled strategic planning resources and a shared services entity responsible for those services for which there are clear economies of scale.

Percy Allen and Associates recommend that the JO could be constituted to include:

- A Regional Council of Mayors (constituted as a County Council) to conduct regional advocacy and lobbying and to engage with the State Government in regional growth planning and related decisions.
- A Regional Shared Services Centre (potentially registered as a Company Limited by Guarantee and governed by a Board of Council GMs) to provide shared services to its member Councils and other prospective clients as well as staff and an independent Regional Planning Panel (potentially located within the County Council) to assess regional development applications.

Percy Allen and Associates note that such an approach is superior to merging Councils because it:

- Focuses on regional imperatives rather than everything
- Merges only those functions that benefit from centralisation
- Drives efficiencies by making shared services market contestable
- Frees up councils to focus on services that are done best locally, and
- Avoids the enormous cost and disruption of mass amalgamations.

According to Percy Allen and Associates a well designed and carefully implemented Shared Services arrangement offers enhanced capacity potential and recurrent cost savings of approximately 10-20% pa, (after major establishment costs including IT have been absorbed), These savings have not been quantified in detail as yet and would be an additional benefit to those identified in the cost benefit analysis in the section that follows.

Accountabilities for the JO and its shared service facility would be established under the Local Government Act. There is precedent in the Hunter where an existing ROC (Hunter) has been using a State Incorporated Association (Hunter Councils Inc) to undertake regional advocacy and a wholly owned Public Company Limited by Guarantee (Hunter Councils Ltd) to perform shared services functions.

4 COST BENEFIT ANALYSIS

This section applies a strict cost benefit analysis (economic appraisal) framework to the stakeholder reported cost and benefits, before moving onto concisely identifying, describing, quantifying and contrasting relevant (community) welfare costs and benefits. Discounted cashflow analysis is used to generate performance measures, which are subsequently assessed for sensitivity.

4.1 Overall approach

The ultimate objective of the cost benefit analysis (CBA) is to provide an assessment of the broad welfare impacts that result from moving from the base case scenario to each of the JO scenarios, when taking an integrated perspective across economic, social and environmental considerations.

The CBA eliminates any duplication that is present in the stakeholder identified costs and benefits presented in Section 2, and also removes any 'transfer effects' (between societal groups); focussing the analysis on how 'aggregate' welfare is enhanced. It then attempts to quantify and monetise (i.e. express in dollar values) as many of the identified costs and benefits as possible.

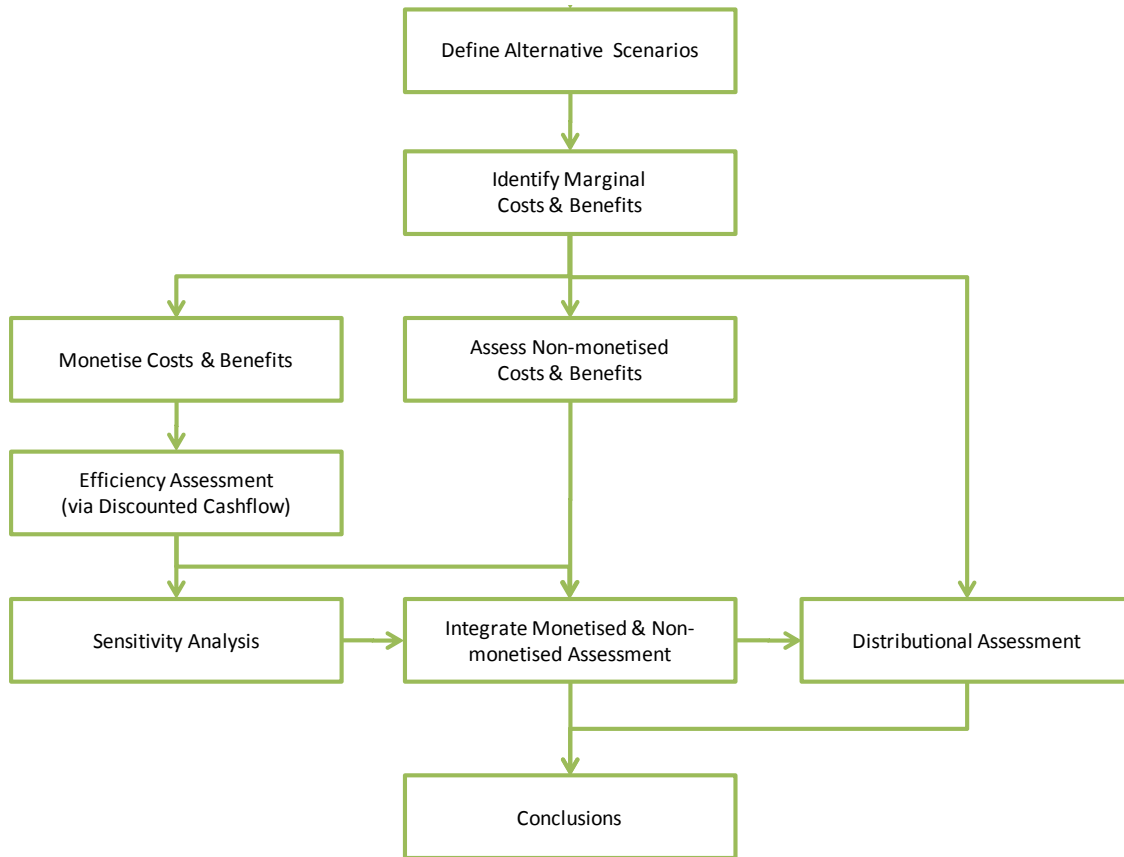
If the assessed benefits of moving from the base case to the JO scenario outweighs the costs, this will indicate that its establishment is worth pursuing. Similarly, if the six Council JO scenario generates a higher rate of net benefits (i.e. benefits minus costs) than the three Council JO scenario, then it will be rightly regarded as a superior regionalisation option from a community welfare perspective.

In performing the CBA, it is noted that:

- Not all costs and benefits can be adequately quantified and monetised. This can reflect their inherent intangibility. It also means that those impacts that cannot be adequately monetised must be integrated into an overall assessment where they can be compared with monetised costs and benefits.
- The distribution of costs and benefits may not be evenly experienced throughout the community, leading to socially inequitable outcomes. A potentially 'efficient' assessment, where benefits outweigh costs, may be rendered unworkable if social 'equity' is significantly compromised (or if those adversely affected cannot be appropriately compensated for their losses).

The approach adopted by the CBA takes both of these issues into consideration (refer figure overleaf).

FIGURE 1 APPROACH TO COST BENEFIT ANALYSIS



4.2 Distilled list of costs & benefits

After reviewing the list of stakeholder identified cost and benefits, SGS has distilled the following list of incremental costs linked with moving from the base case scenario to each of the JO establishment scenarios:

Incremental costs

Once off JO establishment costs

The once off costs of establishing the JO.

These costs are likely to include establishing the preferred legal framework for the JO, as well as its governance, performance, management, administrative support, reporting and funding arrangements.

The participating Councils have advised that these arrangements are well developed throughout the subregion through the existing functioning of the IHAP, JRPP and NSROC (all of which will effectively be replaced by the functioning of the JO).

It has been assumed that the once off establishment costs of the JO are as follows:

TABLE 2: JO ESTABLISHMENT COSTS

	3 Council JO (Option 1)	6 Council JO (Option 2)
Establishment costs	\$200,000	\$300,000
Timing of costs	Year 1	Year 1

Source: Consultation with Ryde, Hunters Hill and Lane Cove Councils.

Recurrent JO operating costs

These costs include the ongoing operating costs of the JO less the cost savings generated for participating Councils in terms of the subregional planning functions taken off their hands.

In this analysis SGS has assumed, in consultation with the 3 participating Councils, that there will be no operating costs impacts, as functions will directly transfer to the JO in year 1. However, for the sake of conservatism, even though the aim will be to minimise all forms of duplication, SGS has assumed that there will be a 25% operating cost penalty in years 1 and 2, i.e. to account for any teething problems that might eventuate.

The calculation of this penalty is based on the current full time equivalent staff numbers invested in the subregional planning functions at each participating Council. The table below profiles these existing costs for the 3 participating Councils, with an average salary level of \$100,000 p.a. applied to each FTE along with a loading of 30% for on costs.

TABLE 3: RECURRENT COSTS FOR EXISTING SUBREGIONAL FUNCTIONS

Recurrent costs	Staff full time equivalents (FTE)	Recurrent costs
Ryde	8.5	\$1,105,000
Hunters Hill	2	\$260,000
Lane Cove	3	\$390,000

Source: Consultation with Ryde, Hunters Hill and Lane Cove Councils.

These costs have been increased by a factor of 2.5 for Option 2, i.e. the six participating Councils, reflecting the scale of the overall operating costs for Mosman, North Sydney and Willoughby, as published in their annual financial returns to the OLG.

Incremental benefits

More efficient urban development/ infrastructure provisioning

This relates to the Northern Sydney constituent Councils effectively 'buying into' the key elements of the Northern Sydney urban/ infrastructure development strategy.

This would lead to local plans better aligning with regional priorities, local development approval decisions better reflecting these regional priorities, and the improved ability to place management key locations within the urban fabric towards their ultimate development aspirations.

Ultimately this would lead to a more efficient pattern of urban development that would generate savings in terms of:

- Infrastructure provisioning savings

- Transport congestion savings
- Reduced environmental costs
- Land use change efficiencies, and potentially
- Industry agglomeration/ clustering benefits.

Effectively this benefit can be seen as the benefits of bringing forward this efficient urban development pattern or the ameliorated risk of it not eventuating because of inconsistent policy, planning and investment decisions.

To broadly quantify these benefits SGS has scaled the outputs of the work undertaken by CIE for the Department of Planning and Infrastructure (August 2012)³.

This work assessed the costs and benefits of alternative ways of accommodating growth in Sydney's established areas (between 2016 and 2031) under a variety of scenarios, including:

- Base case (baseline) where growth follows the current trends established in the projections from the Bureau of Transport Statistics for employment, population and dwelling growth. Under this base case, 56% of new dwellings and 69% of new jobs were projected to be located in-centres, with the remaining shares being accommodated outside of centres.
- Balanced centres – where this growth in dwellings and employment is focused on local centres and strategic centres, with little growth across dispersed infill areas. Under this scenario, 80% of new dwellings and 100% of new jobs were projected to be located in-centres, with the remaining shares being accommodated outside of centres.

SGS believes that these scenarios accord well with what is likely to occur in Northern Sydney under the base case and JO scenarios respectively.

The CIE assessed that for each new dwelling accommodated in the established areas of Sydney, moving from a baseline spatial distribution to the balanced centres distribution would generate a net benefit of ~\$1,800 per dwelling (in Net Present Value terms).

These benefits were comprised by the net effect under the headings of:

- Infrastructure provisioning costs, which covered the comparative costs of water and sewerage, primary and secondary education, health and municipal infrastructure
- Transport infrastructure and congestion costs (travel time costs)
- Environmental costs covering the GHG emissions, air and noise pollution that is generated by dwelling mix and transport patterns that result under each scenario
- Social impacts covering the promotion of more active travel patterns (health savings) and reduced social exclusion (by improving accessibility)
- Productivity spill-overs (or the economic productivity effects) that are driven by transport accessibility changes, and
- Land use change impacts which relate to the value that is unlocked by changes in land use zonings under each scenario.

SGS has applied these benefits to the forecast growth in dwellings in Northern Sydney under each JO scenario. That is, given that the NPV\$1,800 assessed applied across all of Sydney (2016-31), this value has

³ CIE (2012) Costs and benefits of alternative growth paths for Sydney focussing on existing urban areas (for DP&I)

been scaled back to the proportion of future growth that will be accommodated in Option 1 (~4%) and Option 2 (~8%).

Moreover, SGS has assumed that without the JO, the preferred form of development in Northern Sydney is likely to be delayed, i.e. by (say) 5 years. This delay reflects the capacity of a JO to better integrate subregional land use and infrastructure planning to achieve earlier major infrastructure investment and more rapidly establish a planning and development decision regime in line with the best performing growth scenario in the CIE (2012) study. The table below summarises the assumptions:

TABLE 4: KEY ASSUMPTIONS: JO ACCELERATED URBAN DEVELOPMENT/ INFRASTRUCTURE PROVISIONING EFFICIENCIES

	3 Council JO (Option 1)	6 Council JO (Option 2)
Net benefit per additional dwelling (2016-2031)	NPV\$73.20	NPV \$146.40
Acceleration of benefits due to operations of JO	5 years	5 years

Note: The CIE (2012) assessment follows a recognised methodology that has been in other jurisdictions. For example, other studies have examined the costs and benefits of shifting development patterns across urban areas in metropolitan Melbourne (SGS 2005), the Lower Hunter (SGS 2014), Sydney (CIE 2010) and south east Queensland. These studies have unanimously found that a more consolidated, strategic development pattern generates benefits that significantly outweigh the costs.

Across these studies changes to development patterns have been found to generate benefits from improved public transport utilisation, congestion cost savings, infrastructure cost savings, reduced environmental emissions and pollution, workforce productivity enhancements, improved housing and social choice and unlocked land value.

In 2001, SGS prepared a business case calculating the benefits to the planning process associated with the PlanFirst reforms. This project asserted that the planning system provides the basis for the aforementioned benefits to occur. The PlanFirst business case found that a more efficient and effective planning process would see an acceleration of these benefits of some 10 years.

More efficient development approvals

This benefit relates to the savings generated to the community by ensuring that planning and development approval decisions are in accordance with regional priorities/ policies. In essence that means avoiding the transaction costs that are unnecessarily incurred in the statutory planning process for development projects which accord well with regional priorities.

The cost savings that arise for local and state government that might be generated under the JO scenarios have already been captured in the recurrent cost estimates above. What still needs to be captured is the savings generated for development proponents who effectively avoid unnecessary appeals because of poor decisions made in the course of the Planning Proposal and DA process.

The table below shows the number of Planning Proposals and Class 1 appeals that have occurred and been upheld across the relevant councils over the past 3 years.

TABLE 5: PLANNING PROPOSALS & CLASS 1 APPEAL RATES (& APPEAL UPHELD RATES)

	Number of pre-gateway reviews			Number of pre-gateway reviews upheld			Percentage of pre-gateway reviews upheld		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Ryde	0	0	4	0	0	2	n.a.	n.a.	50%
Hunters Hill	0	0	0	0	0	0	n.a.	n.a.	n.a.
Lane Cove	0	0	0	0	0	0	n.a.	n.a.	n.a.
Willoughby	0	2	0	0	1	0	n.a.	50%	n.a.
North Sydney	0	1	0	0	1	0	n.a.	100%	n.a.
Mosman	0	0	0	0	0	0	n.a.	n.a.	n.a.

Source: Department of Planning and Environment, 2015

	Number of Class 1 appeals determined			Number of Class 1 appeals upheld			Percentage of Class 1 appeals upheld		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Ryde	0	1	1	0	1	0	n.a.	100%	0%
Hunters Hill	5	0	0	0	0	0	0%	n.a.	n.a.
Lane Cove	7	2	5	6	1	2	86%	50%	40%
Willoughby	4	11	7	1	6	5	25%	55%	71%
North Sydney	5	15	12	4	10	2	80%	67%	17%
Mosman	3	8	7	0	4	5	0%	50%	71%

Source: Department of Planning and Environment, 2015

Based on the tables above, it appears that:

- Across the 3 participating Councils, approximately 8 appeals are made each year, with ~50% of these appeals being upheld, and
- Across the 6 Northern Sydney Councils, approximately 32 appeals are made each year, with ~50% of these appeals being upheld.

The appeal savings have been monetised assuming that these quantities and rates continue into the future (i.e. annually until 2031), and applying the VPELA advised cost saving of \$20,000 to \$25,000 per 2 day appeal hearing.

4.3 Discounted cashflow analysis

Discounted cashflow analysis contrasted the aforementioned costs and benefits over the 2016 to 2031 period. A discount rate of 7% real was adopted.

The table below presents the performance measures that were generated for each option.

TABLE 6: KEY PERFORMANCE MEASURES

	3 Council JO (Option 1)	6 Council JO (Option 2)
NET PRESENT VALUE (NPV) (Note: if NPV is positive, the option is worth pursuing)	\$523,044	\$3,401,971
BENEFIT COST RATIO (BCR) (Note: if BCR >1, the option is worth pursuing)	1.5	2.4
INTERNAL RATE OF RETURN (IRR) (Note: if IRR > discount rate, the option is worth pursuing)	17%	31%

The results indicate that moving to Option 1 is worthwhile but moving to Options 2 generates significantly superior returns. This is not surprising given that Option 2 covers the vast bulk of the entire Northern Sydney subregion, whereas Option 1 covers only a comparatively small subset of the subregion.

4.4 Sensitivity assessment

The table below highlights how the BCR changes for Options 1 and 2 given varying changes in the underlying assumptions.

TABLE 7: BCR RESULTS: VARYING ASSUMPTIONS

	3 Council JO (BCR)	6 Council JO (BCR)
Original analysis	1.5	2.4
Discount rate reduced to 4% real	1.7	2.8
Discount rate increased to 10% real	1.3	2.1
Establishment costs reduce by 50%	1.7	2.5
Establishment costs increase by 50%	1.4	2.2
Recurrent cost penalty (years 1 and 2) changes to 0%	7.9	19.6
Recurrent cost penalty (years 1 and 2) changes to 50%	0.8	1.3
JO accelerates more efficient urban development/ infrastructure provisioning by 10 years	2.1	3.2
JO accelerates more efficient urban development/ infrastructure provisioning by 0 years	0.7	1.2
More efficient development approvals benefit increases by 50%	1.8	2.9
More efficient development approvals benefit decreases by 50%	0.7	1.1

The results of the sensitivity analysis highlight that in terms of downside risk, the largest threats to the viability of the JO rests with:

- Operating cost penalties, i.e. if significant duplication exists amongst the JO and participating Councils
- The failure of the JO to accelerate the movement towards more efficient urban development and infrastructure provisioning patterns, and
- The failure of the JO to remedy inconsistent decisions with respect to Planning Proposals and Development Applications.

Having said that, most of the assumptions invoked are inherently conservative, and there appears to be more upside potential (i.e. for additional benefits) than there is downside risk.

4.5 Distributional assessment

The table below illustrates who bears the costs and who experiences the benefits of moving towards the JO.

It suggests that the local ratepayers will bear any incremental establishment and operating costs, i.e. through municipal rates or through sacrificed municipal services elsewhere. The benefits are more widely spread, with benefits accruing to local residents, commuters, workers, businesses and developers, as well as local and State infrastructure provisioning agencies.

TABLE 8: DISTRIBUTIONAL ASSESSMENT

Cost bearer	
Establishment costs	Local/ subregional ratepayers
Operating cost penalties	Local/ subregional ratepayers

Beneficiaries	
More effective urban development/ infrastructure provisioning	Local/ subregional residents, commuters, workers, and businesses, as well as local & State infrastructure provisioning agencies
More efficient development approvals	Local residents, local developers

Based on this it does not appear that moving to the JO will impose any disproportionate inequities amongst stakeholders.

5 CONCLUSIONS

Based on the assumptions and the analysis presented in previous sections, SGS concludes that:

- The move to the JO is both viable and advantageous. That is, the benefits are likely to outweigh the costs considerably, and the improvements to strategic capacity are significant.
- The net benefits associated with Option 2 outweigh that of Option 1. That is, the JO will be much more worthwhile if the six Councils transfer their subregional functions to it.

For the JO to be most effective, participating Councils should not be able to opt out. That is, they all must sign up to the subregional transfer of functions, and in turn, the plans and policies that the JO develops and the decisions it makes in governing in line with these plans and policies.

The analysis demonstrates that the JO represents a customised approach to achieving scale and capacity and, given the disruption and costs associated with amalgamations, offers net benefits that amalgamations are unlikely to be able to match.

APPENDIX A: STAKEHOLDER IDENTIFIED COSTS & BENEFITS

Representatives of each of the Northern Sydney Councils, after articulating how the regional functions of the JO would enable better regional cooperation by function, identified the following potential costs and benefits of establishing the JO.

Strategic Planning / Infrastructure

Public resource savings (effective and efficient infrastructure planning)

- Streamlined forward planning and development sequencing (new provision better sequenced / coordinated infrastructure)
- Delayed or avoided new capital expenditure for planned state infrastructure (e.g. schools, hospitals)
- Improved utilisation of existing local facilities (including sharing capacity across subregion)
- Agreed infrastructure investment prioritisation - avoiding duplication within subregion
- Savings from shared research – avoided duplication and economies of scope/ specialisation

More effective use of s94 funds

- More effective collection and deployment of s94 funds under single s94 Plan (i.e. larger total fund/ more flexibility / better liquidity)

Efficient subregional settlement patterns and targeted place management

- More efficient urban development patterns (or the acceleration thereof), as better plans are made, decisions are more likely to be consistent with these plans, and as private sector investment is better harnessed to these ends.
- Travel time, vehicle operating cost and emission savings – associated with clearer subregional centres hierarchy and more effective transport systems
- Avoided negative externalities – by consultation and shared priorities avoiding antagonistic development
- Increased agglomeration economies with improved place management - a more rapid adjustment towards identified objectives (e.g. knowledge clusters at Macquarie Park, TODs at Epping, mixed use outcomes at St Leonards etc.) or alleviating social exclusion.

Statutory Planning

Public and private resource savings as planning certainty is improved

- Costs of mediation / appeals reduced – more efficient development approvals. A % enhancement in efficiency on the current level of building activity
- Resourcing cost savings from a single IHAP
- JRPP costs transferred to JO – no net saving

Community and Cultural Planning

Better value for State Government in social plan delivery

- More effective achievement of social plan outcomes - clearer prioritisation of social policy implementation activity across subregion – from integrated community plans and joint approach to local implementation of State social policy targets and agendas (e.g. youth policy)
- Amplified benefits from pooled grant funding for subregional facilities (e.g. SSHAP, Metro Greenspace)

More efficient utilisation of community / cultural / sport facilities

- Common fees for facilities

Economic development and tourism

Increased economic activity in NSW economy from reduced delay and more development consistent with an efficient urban structure.

- Additional and more effective investment in economic development - common priorities via single subregional economic development plan

Economies of scope from economic development specialisation

- From council specialisation in aspects of economic development (e.g. IT/ Bulky goods/ education hubs)

Joint regional advocacy

Enhanced policy and grant funding success – leading to more rapid achievement of valued outcomes

- Shared promotion of a common set of funding priorities - improved success via single point of approach to State / Federal Government on regional matters (e.g. Light rail)

Governance and Structure

JO establishment and operating costs

- Once off establishments costs for new JO and Shared Services arrangement (much less cost if converted NSROC)
- Additional meeting costs for JO (Board of Mayors / County Council)
- Three councils in JO - additional operating costs (as NSROC costs for non JO councils remain) – all six councils no net change because JO replaces NSROC.

SGS has reflected on this list of costs and benefits this to distil relevant items for inclusion in the economic appraisal (cost benefit analysis) presented in Section 4.

APPENDIX B: DISCOUNTED CASHFLOWS

Option 1 – Discounted cashflow

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
INCREMENTAL COSTS																
Establishment costs	\$200,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Recurrent cost penalties (duplication)	\$438,750	\$438,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$638,750	\$438,750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INCREMENTAL BENEFITS																
More efficient urban development/ infrastructure provision	\$0	\$0	\$215,545	\$215,545	\$215,545	\$215,545	\$230,975	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
More efficient development approvals	\$0	\$0	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000
Total	\$0	\$0	\$305,545	\$305,545	\$305,545	\$305,545	\$320,975	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000
NET BENEFITS	-\$638,750	-\$438,750	\$305,545	\$305,545	\$305,545	\$305,545	\$320,975	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000
NET PRESENT VALUE	\$523,044															
BENEFIT COST RATIO	1.5															
INTERNAL RATE OF RETURN	17%															

Option 2 – Discounted cashflow

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
INCREMENTAL COSTS																
Establishment costs	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Recurrent cost penalties (duplication)	\$1,128,862	\$1,128,862	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$1,428,862	\$1,128,862	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INCREMENTAL BENEFITS																
More efficient urban development/ infrastructure provision	\$0	\$0	\$767,107	\$767,107	\$767,107	\$767,107	\$772,992	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
More efficient development approvals	\$0	\$0	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
Total	\$0	\$0	\$1,127,107	\$1,127,107	\$1,127,107	\$1,127,107	\$1,132,992	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
NET BENEFITS	-\$1,428,862	-\$1,128,862	\$1,127,107	\$1,127,107	\$1,127,107	\$1,127,107	\$1,132,992	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000	\$360,000
NET PRESENT VALUE	\$3,401,971															
BENEFIT COST RATIO	2.4															
INTERNAL RATE OF RETURN	31%															

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