
FIT FOR THE FUTURE - JOINT RESPONSE FROM THE COUNCILS OF HUNTER'S HILL, LANE COVE AND CITY OF RYDE

Report prepared by: Group Manager - Corporate Services
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REPORT SUMMARY

This report is an identical report that is being provided to the Councils of the City of Ryde, Hunter's Hill and Lane Cove, in recognition of the three Councils' resolutions to work together to investigate the option of a regional Joint Organisation in responding to the Minister for Local Government's Fit for the Future reform program.

This report details Council's response to the Fit for the Future (FFTF) program following the announcement by the Minister for Local Government, the Hon Paul Toole in October 2014. This report rejects the recommendations of the Independent Local Government Review Panel (ILGRP) in proposing to merge the Councils of Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby and the eastern two thirds of the City of Ryde, based on the evidence and research undertaken that proves that a merger is not the superior option. Also, in the City of Ryde's case, this includes the rejection of the western third of its local government area being merged with Parramatta, Auburn and Holroyd Councils as recommended by the ILGRP.

The report details that the superior option for the Councils of the City of Ryde, Hunter's Hill and Lane Cove is for them to stand alone and to also jointly form a Joint Regional Authority (JRA) that would further address the State Government's scale and capacity criteria in addition to providing the one point of contact for the State Government in addressing strategic subregional planning matters for the northern Sydney region.

The process undertaken by the three Councils has been extensive, with discussions with other northern Sydney Councils, including members of NSROC and SHOROC since October 2014. As a result of these discussions, a Northern Sydney 'Fit for the Future' Symposium was held at Willoughby Council on 5 February 2015.

From this meeting, each Council then considered their response to the Fit for the Future program and as a result, the City of Ryde resolved that all northern Sydney Councils be invited to join the City to investigate the option of a regional Joint Organisation (JO).

From this invitation, both Hunter's Hill and Lane Cove Councils agreed to join the City

ITEM (continued)

of Ryde, in exploring the option of a JO.

The report details that following extensive evidence, advice and research from the Councils' expert advisors (Professor Brian Dollery - University of New England, Percy Allan and Associates, SGS Economics and Morrison Low), the findings demonstrate that the superior option for the three Councils is to stand alone and form the JRA. This would allow each Council to maintain its local identity, local representation and continue delivering those services best delivered at a local level whilst delegating all subregional planning functions to the JRA to address strategic subregional planning matters in the region.

Whilst the JRA can take on many functions, the core functions that it must be provided to make this option viable include the following;

- Subregional land use and infrastructure planning that includes;
 - Single approach to subregional plan priorities and policy;
 - Agreed centres hierarchy;
 - Single endorsed set of State/Major local infrastructure priorities;
 - Subregional Section 94 Plan.
- Single point of contact for State and Federal Government on subregional matters;
- Subregional advocacy;
- Subregional procurement;
- Introduce a shared services centre to deliver services that demonstrate benefits through economies of scale.

In support of these functions, the JRA would require the powers to support the above functions which are understood to be part of the proposed changes to the Local Government Act in 2015/2016.

The reasons why this option is superior to the merger option are;

1. It addresses the critical functions associated with the strategic subregional planning for the region, where there are clear advantages in planning and delivering on a subregional basis in partnership with the State Government;

ITEM (continued)

2. Provides one point of contact for the State and Federal Government on subregional matters;
3. The JRA is a customised option that enhances scale and capacity for each of the three Councils and addresses the critical subregional planning objectives of the State Government;
4. It avoids the high cost and disruptions of amalgamations that the empirical evidence has demonstrated;
5. It retains each Council's local identity, proper representation and continues to deliver those services best delivered at a local level.

The findings from the Councils' expert advisors are supported by the results of the joint community consultation and surveys undertaken, that clearly demonstrate across all three communities, that the community strongly supports each Council either to stand alone or explore the option of the JRA. Details of the survey results are provided in the report, however the community in every survey has clearly demonstrated their strong opposition to being merged as recommended by the ILGRP. In the City of Ryde's case, the community has strongly rejected being proposed to be split into two mega Councils, centred around Parramatta in the west and a new merged entity to the east. In 2013, 56% of those surveyed in the City of Ryde were not supportive of the amalgamations proposed and for Ryde to be split. As detailed in the report, there is strong support from the communities of the City of Ryde, Hunter's Hill and Lane Cove, for each Council to stand alone and form a JRA, with over 80% support at the time of writing this report. The Joint Council submission is **ATTACHMENT 1 - CIRCULATED UNDER SEPARTE COVER.**

It is therefore recommended that Council endorse the recommendations as detailed in this report that cover the following areas;

1. Note the extensive analysis, research, evidence and community consultation that has been undertaken in exploring all options;
2. Again reject the proposed merger as recommended by the ILGRP;
3. Endorse the joint submission for the City of Ryde, Hunter's Hill and Lane Cove Councils to be lodged in response to the Fit for the Future program, that in essence proposes for each Council to stand alone and form a JRA;

Endorse the option for a pilot of the JRA for a period of twelve months, with the Office of Local Government (OLG) to be invited as an observer on the Board;

ITEM (continued)

4. Endorse entering into an Memorandum of Understanding (MOU) with Hunter's Hill and Lane Cove Councils to demonstrate its commitment to becoming a member of the JRA;
5. Endorse undertaking a future advocacy campaign if necessary, on an equal and shared basis up to a capped amount of \$30,000;
6. Delegate to the Mayor and General Manager the authority to make a submission and appear and present at the Parliamentary Inquiry into the State Government's Fit for the Future reform agenda;
7. Council note that as a result of the requirements of the Minister for Local Government's FFTF, to undertake extensive community engagement and extensive research, its total estimated cost of shared research and communication and community engagement program with Lane Cove and Hunter's Hill Councils, totals \$360,000 with the City of Ryde's proportion being \$205,000. Council has also expended a further \$170,000 on additional community surveys, communication and awareness campaign and external audit of Council's FFTF financial benchmark calculations;
8. That Council endorse copies of its submission being publicly available in all Council libraries, customer service centre and on Council's website in addition to forwarding copies to Minister for Local Government, the Chief Executive Officer of the Office of Local Government (OLG), all Local State and Federal members, Unions and any other key stakeholders.

RECOMMENDATION:

- (a) That Council note the extensive analysis, research, evidence and community consultation that has been undertaken as required by the Minister for Local Government's Fit for the Future program, in exploring all options and in preparing Council's response to the Fit for the Future program;
- (b) That following Council's extensive research and analysis, Council rejects the proposed merger of Hunter's Hill, Lane Cove, Willoughby, Mosman, North Sydney and the eastern two thirds of the City of Ryde Councils, as recommended by the Independent Review Panel, as it is not the superior option for the reasons as detailed in this report;
- (c) That City of Ryde endorse lodging the Joint Submission, **ATTACHMENT 1 CIRCULATED UNDER SEPARATE COVER**, in response to the Fit for the Future

ITEM (continued)

program, with both Lane Cove and Hunter's Hill Councils, that details Council's Template 2 submission (Council Improvement Proposal) and the unique Joint Regional Authority proposal (Council's preferred option) and delegate to the General Manager, the authority to complete and lodge Council's submission, making any necessary adjustments in finalising Council's submission in response to the final IPART methodology and community surveys;

- (d) That Council endorse including in the Joint Submission, as an incentive for the proposed Joint Regional Authority (JRA), the option to pilot the JRA for a period of 12 months, with the Office of Local Government to be invited to provide a representative as an observer on the JRA board;
- (e) That Council in demonstrating its commitment to be a member of the Joint Regional Authority (JRA), and as a further incentive for Government, delegate to the Mayor and the General Manager the authority to sign the Joint Regional Authority - Memorandum of Understanding (MOU) on Council's behalf;
- (f) That Council endorse undertaking a future advocacy campaign with both Lane Cove and Hunter's Hill Councils, between July and November 2015, on an equal basis in sharing costs to a maximum of \$30,000 as detailed in the report and delegates to the Mayor and the General Manager the authority to undertake this action post 30 June 2015;
- (g) That Council note the Terms of Reference for the Parliamentary Inquiry into the State Government's Fit for the Future reform agenda, (announced on 27 May 2015), and delegate to the Mayor and General Manager the authority to lodge a submission and appear, if necessary, at the Parliamentary Inquiry;
- (h) That Council note that the estimated total cost of the shared research into exploring all options and undertaking an extensive communication and community engagement program, as required by the Minister for Local Government's Fit for the Future program, is estimated to be \$360,000, with City of Ryde's contribution being \$205,000, with an additional \$170,000 being expended in further communications, surveys and the external audit of Council's calculations of its Fit for the Future financial benchmarks;
- (i) That Council endorse copies of Council's submission being available in all Council Libraries, Customer Service Centres and on Council's website in addition to being forwarded to the Minister for Local Government, the Chief Executive Officer of the Office of Local Government all relevant State and Federal Members of Parliament, all Unions and other key stakeholders as determined by the Mayor

ITEM (continued)
and General Manager.**ATTACHMENTS**

- 1 Fit for the Future Joint Submission - DRAFT
- 2 SGS Economics Northern Sydney JO business case, 11 May 2015
- 3 Percy Allan - A Shared Service Centre Migration Plan for North Shore Councils 12 May 2015
- 4 Percy Allan: A Regional Joint Organisation Structure for North Shore Councils, 7 May 2015
- 5 Brian Dollery Compulsion vs a Collaborative Approach Report, 22 May 2015
- 6 Morrison Low Fit for the Future Business Case Modelling Report, 12 May 2015
- 7 Governance Framework Comparisons
- 8 FFTF DRAFT MOU Joint Regional Organisation with Hunters Hill and Lane Cove Councils
- 9 Letter to IPART - Joint Council Submission on Proposed Methodology for Assessment FFTF, 26 May 2015
- 10 Legislative Council - Inquiry into Local Government in NSW, Terms of Reference, 27 May 2015
- 11 City of Ryde FFTF Community Engagement Results
- 12 Joint Council FFTF Community Engagement results

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General Manager

ITEM (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*

ITEM (continued)

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.*

This matter was further reported to Council at its meeting on 12 May 2015, where Council resolved as follows:-

- (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.*

As a result of Council's resolutions, the General Manager in conjunction with the other General Managers from Lane Cove and Hunter's Hill Councils, have advanced and completed the preparation of the Councils' Draft Joint Submission. Since 12 May 2015, Councillors have received further updates on 19 May 2015 and on 26 May 2015, discussing the Governance Framework for the JRA.

On 28 May 2015, a joint briefing of Councillors from Hunter's Hill, Lane Cove and City of Ryde Councils was held at Hunter's Hill Council, with Councillors receiving an update and a general overview of the Joint Submission, which also included the outcomes from the recent discussions with IPART.

ITEM (continued)**INTRODUCTION**Independent Local Government Review Panel (ILGRP) and Fit for the Future Announcement

In April 2012, the Independent Panel was appointed to improve the effectiveness of Local Government and help drive the strategic directions set out in 'Destination 2036 Action Plan'. The Panel published its final report 'Revitalising Local Government' in October 2013, which included details of how local government should be reshaped with a number of recommended amalgamations.

Each Council considered the Panel's report and lodged their own submissions. The City of Ryde, at its meeting of 25 June 2013 endorsed a submission to the ILGRP rejecting the proposed splitting and subsequent amalgamation of the City of Ryde with adjoining Councils.

In preparing that submission, Council undertook a survey of residents seeking their feedback on amalgamations generally and also on specific amalgamation options including the ILGRP's proposal. Consultation consisted of a telephone survey (600 respondents), an online survey (256 respondents), and a community workshop (140 attendees). Only 3% of telephone respondents, 4% of online respondents, and 1% of workshop attendees supported the ILGRP's recommendation of a merger with Parramatta, Auburn, and Holroyd. By contrast, 42% of telephone respondents, 47% of online respondents, and 47% of workshop attendees supported a merge with Willoughby, Lane Cove, and Hunters Hill. 38% of telephone respondents, 36% of online respondents, and 27% of workshop attendees opposed amalgamations outright, with the remaining respondents supporting other options or undecided.

In October 2013 the ILGRP released its final report proposing a number of Council amalgamations. It proposed that the City of Ryde would be split up and amalgamated with Parramatta, Auburn, and Holroyd to the west and amalgamated or combined into a strong Joint Organisation with Hunters Hill, Lane Cove, Mosman, North Sydney, and Willoughby in the east.

Despite Council's submission, the ILGRP retained its recommendation to split and amalgamate the City of Ryde. At its meeting of 25 February 2014, Council endorsed a further submission categorically rejecting any proposal that would fundamentally split the current local government area. It was supported by an independent report commissioned by Council and undertaken by SGS Economics and Planning, in October, 2013 which showed stronger travel linkages and communities of interest between the Ryde LGA and the North Shore as compared to the areas to the west.

ITEM (continued)

Acting on the recommendations of the ILGRP's report, on 10 September 2014 the Office of Local Government announced the Fit for the Future program. Under this program Councils were required to submit an assessment of their status in response to the ILGRP's proposal by 30 June 2015. Submissions were required to address a range of set criteria and within the templates provided. This documentation was issued to Councils on 31 October 2014.

It should be noted that the templates did not allow the Independent Panel's Joint Organisation model to be applicable to metropolitan councils. The templates only gave metropolitan councils two options, either justify why Council met the State Government's scale and capacity and sustainability criteria, or propose to merge or amalgamate with other Councils.

City of Ryde's Invitation to Northern Sydney Councils to investigate a Regional Joint Organisation (JO)

In accordance with the City of Ryde's Extraordinary Council meeting resolution on 17 February 2015, 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, inviting them to join the City of Ryde to investigate the option of a regional JO.

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), allowing each Council to enhance its ability in meeting the required scale and capacity criteria.

REPORTCity of Ryde to Stand Alone – Template 2

As per Council's resolution the City of Ryde has completed Template 2 (Council Improvement Proposal) to be lodged with IPART in a joint Submission with Hunter's Hill and Lane Cove Councils.

In the Joint Submission **ATTACHMENT 1 CIRCULATED UNDER SEPARATE COVER**, the City of Ryde proves it has sufficient scale and capacity to deliver our community's vision and demonstrate that the Council is able to balance competing local and State interests, grow sustainably, engage effectively with its neighbouring Councils and partner with State Government to significantly contribute to the NSW Government's vision for Sydney.

ITEM (continued)

In respect of Council's performance against FFTF Benchmarks, the City of Ryde's results are as follows;

- 2013/14: Council meets only 3 of 7 Benchmarks.
- 2016/17: Council meets 6 of the 7 Benchmarks that include.
- 2019/20 Council will meet all 7 Benchmarks.

Council's 4 Year Improvement Plan (2016/17 to 2019/20)

As a result of the work Council undertook over the past 2 years, this will now ensure that the City of Ryde will meet the FFTF benchmarks as a result of achieving the following key outcomes;

- operational efficiencies;
- reducing staff numbers and salary savings;
- gaining approval for a permanent, cumulative 7% SRV over four years, commencing 1 July 2015.

Council's strategies in the FFTF Improvement Plan are to maintain its current course, implement the SRV priorities and to undertake strategies that will safeguard its long term future.

Therefore, Council's Improvement Plan across all 3 sets of benchmarks focuses on stringent cost control, monitoring and controlling service levels, identifying non-rate sources of revenue, adopting a long term infrastructure funding strategy (including use of borrowing, user pays strategy and monetising assets), refining its modelling for depreciation/maintenance/renewal, setting service level standards with the community for non-civil assets and continuing a program of continuous improvement.

At the conclusion of the Improvement Plan implementation, Council will be in a sustainable position and will meet the FFTF benchmarks over the next 10 years. In particular Council will build the organisation's capacity to manage, maintain and renew its assets over their life.

Investigation of a regional Joint Organisation by Hunter's Hill, Lane Cove and City of Ryde Councils

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

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| SGS Economics | - Coordinating the business case with a particular focus on modelling the benefits of a regional strategic planning approach; ATTACHMENT 2 - CIRCULATED UNDER SEPARATE COVER |
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Council, dated 5 June 2015, submitted on 9 June 2015.

ITEM (continued)

- Percy Allan and Associates - Advice on shared services and legal framework of a Joint Organisation;
ATTACHMENT 3 - (Shared Services Centre Migration) CIRCULATED UNDER SEPARATE COVER and ATTACHMENT 4 (Northern Regional Joint Organisation) - CIRCULATED UNDER SEPARATE COVER
- Professor 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;
ATTACHMENT 5 - CIRCULATED UNDER SEPARATE COVER
- Morrison Low - Review the ILGRP's recommendation for the proposed merger of Hunter's Hill, Lane Cove, Mosman, North Sydney, Willoughby and eastern two thirds City of Ryde;
ATTACHMENT 6 - CIRCULATED UNDER SEPARATE COVER

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 expert advisors. Substantial information has been provided and Council is in receipt of draft reports from all consultants. These reports, as noted above have been circulated under separate cover.

Key Findings from Research: Professor Brian Dollery, Percy Allan and Associates, SGS Economics and Planning and Morrison Low

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 (continued)

In his research paper titled 'Compulsion vs Collaborative Regional Approach', Brian Dollery provided the following evidence and findings;

- The total number of local authorities in Australia has decreased from 1067 to 556 (a 48% reduction) between 1910 and 2012 (Page 28);
- Relative to other OECD nations, Australia has the fourth largest Councils with an average of 40,118 persons per Council (Page 31);
- 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 provisions (Page 34);
- Structural reform through amalgamations is necessary in some instances with each potential amalgamation needing to be assessed carefully to avoid the risk of simply creating large inefficient Councils (Page 43);
- In its formal recommendations, PWC (2006 P149) 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 amalgamations (Page 43);

Professor Dollery makes the following conclusions, on Pages 267-270 in his paper;

- (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.*
- (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 a convincing empirical case against proceeding with a further round of municipal mergers in NSW in 2015.*
- (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*

ITEM (continued)

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.

- (d) IPART's (2015) Methodology for Assessment of Council Fit for the Future Proposals – only released on 27 April 2015 – add a further twist to a convoluted reform process. IPART will replace the Panel of Experts promised in Fit for the Future as the assessor of council submissions and its new assessment methodology introduces significant changes to the process. In particular, 'non-rural', 'rural' and 'merged' councils in IPART (2015) replace the 'one size fits all' approach in Fit for the Future. Performance benchmarks also now diverge widely between IPART (2015) and Fit for the Future. However, the Report demonstrates that the IPART approach is badly flawed and does not correct the problems identified in Fit for the Future.*
- (e) By 'changing the rules of the game' IPART has rendered much hard work already done by local councils obsolete. Thus Hunters Hill, Lane Cove and Ryde, which have cooperated fully with the Fit for the Future process, undergone self-assessment using the requisite OLG (2014) templates, and engaged in extensive and bona fide community consultation, now find that much of this effort was in vain.*
- (f) A comprehensive empirical investigation on 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 with the proposed merger.*
- (g) 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*

ITEM (continued)

empirical justification for the proposed merger of the Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde and Willoughby councils.

- (h) 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.*
- (i) 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.*
- (j) 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'.*
- (k) The Report thoroughly examined the community engagement programs conducted by Hunters Hill, Lane Cove and Ryde and found that they easily met the community engagement assessment criteria stipulated by IPART (2015) in its Methodology for Assessment of Council Fit for the Future Proposals.*

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

- A Joint Organisation is both viable and advantageous for three (3) Councils and six (6) Councils;
- The benefits considerably outweigh the costs noting the JO is stronger if it consists of the six (6) Councils;
- There would be significant improvements to strategic capacity including the capacity to deal with cross boundary issues (eg transport infrastructure); and

ITEM (continued)

- 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 subregional priorities.

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

- That Councils will have to delegate subregional 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.

Morrison Low in its draft report of May 2015, (which is still currently under review), in undertaking its review of the ILGRP's recommendations for the proposed merger of the six Councils found in respect of the new merged Council the following;

Negative operating results: running a deficit for four years as high as -8.8%, showing an improvement in 2021 and 2022 reaching 2.6% before starting to decline;

Insufficient funds to address infrastructure backlog: backlog increases from 3% towards 5.3% over the 10 year period;

A funding gap in its infrastructure maintenance: maintenance funding staying around 80 - 85% of required level, over the 10 year period;

Little or no financial benefit: whilst the merged entity could realise an estimated \$50 million benefit in savings over the 10 year period (based on reduced number of staff, reduced number of councillors and a NSW government grant), when the projected surpluses were allocated to asset renewal and maintenance, the modelling concluded the merged entity did not meet the Asset Maintenance Infrastructure Backlog or Asset Renewal Ratios. In essence, the new entity was no more sustainable than the current Councils.

ITEM (continued)

In summary, Morrison Low's assessment found that after allocating the projected surpluses to asset expenditure, the merged entity still fails to meet all seven financial benchmarks over the 10 years.

Following the incorporation of the recently approved Special Rate Variations (SRV) for the City of Ryde, Mosman and Willoughby Councils, Morrison Low has provided an updated report dated 3 June 2015. The modelling in this draft report, projects a financial benefit by 2023 of \$59 million, noting that the merged entity still does not meet the Asset Maintenance Ratio benchmark. However, when the surpluses are applied to funding asset renewals, the forecast shows all seven indicators being met, noting that the Operating Performance Ratio is not met between the years 2016 – 2019.

Proposed Joint Regional Authority (JRA) - Proposed Core Functions and Powers

In respect of the core functions for the JRA to be viable, it requires the following functions at a minimum, from the commencement of operations;

1. Regional land use and infrastructure planning including; single approach to subregional plan priorities and policy; agreed centres hierarchy; single endorsed set of State/Major local infrastructure priorities; and a subregional Section 94 Plan.
2. Single point of contact for State and Federal Government on subregional matters.
3. Subregional advocacy.

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 (this reflects the current draft JO legislation).

The JRA 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 legislative requirements for JOs, following the results of the current pilots occurring in regional New South Wales.

ITEM (continued)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.

On page 2 of the Executive Summary, Percy Allan states;

“A successful Shared Services Centre (SSC) for North Shore Councils should improve the quality, timeliness and responsiveness of most back-office services and achieve unit cost savings of 10% initially rising to possibly 20% after transitioning from an exclusive franchise to open market contestability.

Initial cost savings (rising to \$2m per annum by year 4) would be used to defray capital and operating establishment costs (including staff redundancies and new hires). Once these sunk costs were met, potential ongoing savings of \$2m to \$4m a year could be returned to member councils as price rebates on services purchased from the SSC. Cost savings are expressed in 2014/15 prices.”

His report outlines the critical factors and the critical steps to be taken in achieving a successful SSC based on lessons from the public and private sectors learned over the past 10-20 years.

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.

On page 4 of his Executive Summary, he states:

“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.

ITEM (continued)

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, Workers Compensation Insurance, Training and Education, Time and Leave Administration and OHS Compliance.
- **Procurement:** Requisitions Management, Receiving, Sourcing and Vendor Management, Stationery and Stores, Asset Registers, Property and Fleet Management, Leasing, Property Insurances, Cleaning, Utilities and Telecommunications.
- **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 urban planning and development application processing when shared, capture economies of scope (i.e. benefit from planners working and brainstorming collectively rather than disparately and considering regional and local impacts together)."

Whilst any shared service undertaken by the JRA in the future, still needs to be assessed and determined, it is clear from this advice that any future shared services will provide additional benefits to the benefits identified by SGS in its business case assessment of a regional strategic approach.

Overview of the State Government's Pilot Projects

The State Government is currently undertaking five JO pilots in the following areas;

- Illawarra (4 Councils)
- Hunter (10 Councils)
- Namoi (7 Councils)
- Central West (13 Councils)
- Riverina (14 Councils)

ITEM (continued)

The pilots are due to be evaluated by December 2015, with the confirmed JO model to be completed in early 2016. The JOs will then be due to be implemented by September 2016.

JO Pilots - Common Features

An overview of common features of the Pilots are provided below;

- Core Functions:
 - Regional strategic planning;
 - Intergovernmental collaboration;
 - Regional leadership and advocacy.

- Optional functions
 - Create regional strategic capacity;
 - Regional services.

- Tasks during pilot
 - Action plan: define how JO will address its core functions and eventual governance;
 - Regional Statement of Priority: define a priority list in consultation with relevant Government agencies and based on Council strategic plans and relevant government plans.

- Membership
 - Membership based on boundaries of member Councils;
 - Membership/boundary cannot change without strong justification;
 - JO can have associate members;
 - JO meetings to be attended by relevant NSW Government agency staff.

- Governing Body
 - 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).

- Decision Making
 - Authority to make binding decisions.

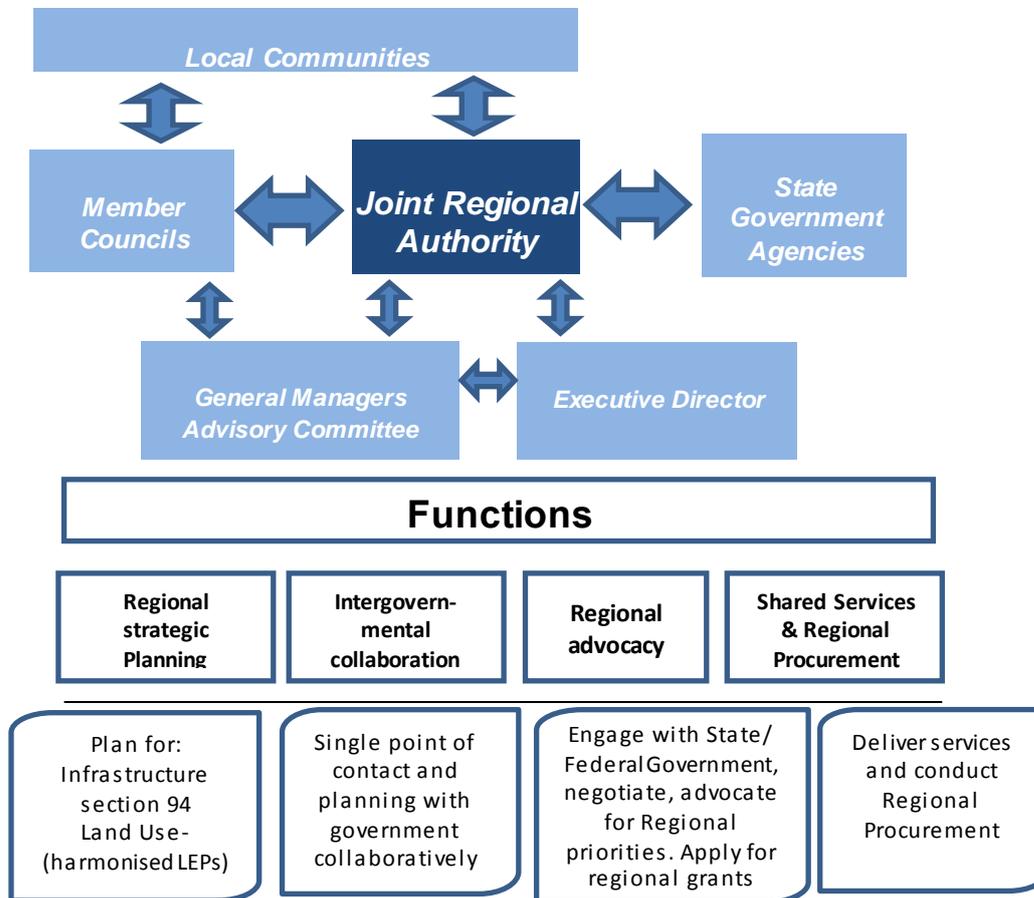
- Next Steps
 - The Pilot JOs will continue to review and refine the JO Model and aim to complete their evaluation of the Pilots in December 2015;
 - By December 2015, it is planned to finalise the JO Model to enable the JOs to be activated and commence operating from September 2016.

ITEM (continued)

Joint Regional Authority - Proposed Governance Framework

In formulating the proposed governance framework for the JRA, an analysis has been undertaken of how the current JO Pilots are operating. In addition, this information has been compared to NSROC’s current governance framework and the framework that was endorsed by NSROC member Councils in adopting the MOU for the proposed NSROC/SHOROC merger. This comparison has been summarised in **ATTACHMENT 7 - CIRCULATED UNDER SEPARATE COVER.**

Based on the research undertaken, the following governance framework is proposed for the Hunter’s Hill, Lane Cove and City of Ryde JRA.



ITEM (continued)
Proposed Joint Regional Authority (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 • Elected representatives are bound by their respective Council's decisions • JRA Board decisions will be made by unanimous voting agreement of its members • 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

Joint Regional Authority (JRA) - Pilot Proposal

In proposing a JRA, as Councils' superior option, it is recommended that each member Council endorse the JRA being proposed as a metropolitan Pilot.

This proposal would be very similar to the arrangements that have occurred in regional NSW and would allow the State Government to observe the JRA's performance and ability to achieve outcomes and specific KPIs. The Pilot option will allow member Councils to demonstrate the benefits of this proposal on the basis of working closely with the OLG. The Pilot is proposed to operate on the following basis;

ITEM (continued)

- 12 Month pilot term. This is seen to be a timeframe that would be acceptable to the State Government and allow the JRA to achieve some key outcomes;
- OLG oversight, that would allow the OLG to monitor progress in addition to receiving reports against KPIs;
- It is proposed for the OLG to fulfil either a Board position or an observer role. This report recommends the OLG be offered an observer role throughout the period of the Pilot;
- The option of a Pilot may provide access to State Government funding in the establishment of the JRA.

Joint Regional Authority (JRA) - Memorandum of Understanding (MOU)

As detailed in the briefing to Councillors at the joint Councillor briefing at Hunter's Hill Council on Thursday 28 May 2015, member Councils signing an MOU, as part of any resolution supporting the submission would clearly demonstrate;

- That each member Council has serious intent and is committed to collaborate in forming a JRA;
- A commitment by each Council to address scale, combined size, geography and capacity; and
- Committed to the JRA with a 'no opt-out' provision.

If supported, the signed MOU would be attached to the Joint Submission and the draft MOU is **ATTACHMENT 8 – CIRCULATED UNDER SEPARATE COVER.**

Proposed Joint Advocacy Campaign

At the joint meeting of Councillors at Hunter's Hill on the 28 May 2015, the issue of Councils sharing the cost of a proactive advocacy campaign was raised. While there was no detailed discussion on this matter, this is raised in this report for the consideration of Councils.

It is anticipated that this would be a positive campaign, where we would be promoting a 'Yes to Regional Collaboration' campaign for our community and seeking local Members of Parliament and other key stakeholders to support our proposed JRA. This would also include active engagement with both the local and metropolitan press in promoting and stating our case.

ITEM (continued)

It is anticipated that the campaign would commence in July and cease no later than November 2015 at an estimated capped contribution of \$30,000 from each Council.

IPART- Appointment as Expert Panel

As Council would be aware, IPART was appointed by the Minister for Local Government as the Expert Panel on 27 April 2015, to assess Fit for the Future Proposals.

On the same day, IPART issued its Proposed Assessment Methodology for public comment, with submissions closing on 25 May 2015. In accordance with our joint approach, the three Councils lodged a joint submission on 25 May 2015.

ATTACHMENT 9 - CIRCULATED UNDR SEPARATE COVER.

Council is awaiting the outcome of IPART's consultation and confirmation if there will be any changes to the methodology to assess FFTF Proposals.

Parliamentary Inquiry on Fit for the Future Reform Agenda

On 27 May 2015, the Legislative Council announced an Inquiry into Local Government in NSW, in particular, the Fit for the Future reform agenda.

The Terms of Reference for the Inquiry are **ATTACHMENT 10 – CIRCULATED UNDER SEPARATE COVER**, to this report, noting that the call for submissions closes on 5 July 2015. This means that the Inquiry will be occurring concurrently with IPART's assessments of the Fit for the Future Proposals. The final report from the Inquiry is due on 17 August 2015.

The General Managers raised this matter at the Hunter's Hill joint meeting and raised the possibility of a joint appearance and presentation at the Inquiry. This matter has been addressed in the recommendations in this report in providing the delegated authority to each Mayor and General Manager to make a submission and to appear at the Inquiry, if necessary.

Joint Meeting of Councillors - Hunter's Hill Council 28 May 2015

A joint meeting of Councillors was held at Hunter's Hill Council on Thursday, 28 May 2015.

The three General Managers provided an update and review of the proposed submission, an update on the recent meeting with IPART and the recent results from the community engagements and surveys.

ITEM (continued)

Included in this discussion was the option of making the JRA a 12 month pilot, the signing of an MOU to reinforce each member Council's commitment to the JRA and the option of a further joint advocacy campaign. All of these matters have been addressed separately in this report and are included in the report's recommendations.

Shared Community Engagement

The City of Ryde in formulating its response to the ILGRP's preferred option for Ryde placed a high value on the community's views. Since early 2013, when the Panel first released its draft report the Council has comprehensively informed and consulted the community.

The City's comprehensive awareness and engagement program over a 24 month period (2013 - 2015), resulted in feedback from over 3,000 residents on the proposed split and merger of Ryde into two mega Councils. Consequently, the City of Ryde has a very clear understanding of the community's position on this issue.

Consultation with residents throughout the last 2 years has identified a strong opposition to any form of forced amalgamation, with the proposed split of Ryde clearly opposed by residents of Ryde. The engagement program found that overall the community demonstrated a high level of pride and attachment to their community, placed a high level of importance on local representation, decision makers' knowledge of local needs and issues, and Council being accessible and accountable.

Overall community sentiment expressed through the engagement program was generally supportive of improving the governance and financial sustainability of local governments, though many felt that these outcomes could be achieved without amalgamation.

This sentiment was particularly clear in the 2015 engagement results; whilst our residents continued to be against forced amalgamations, they expressed openness to regional collaboration and to exploring a Joint Regional Authority with Hunter's Hill and Lane Cove Councils. In fact, over 80 percent of residents indicated that they were supportive of this alternative option.

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.

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

ITEM (continued)

- Urbis; and
- Joint community survey that commenced on 18 May 2015;
- On-line survey (closes 23 June 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 interviewed by 2RRR.

A summary of the community engagement results are detailed below:

In March 2013 an independent telephone survey for the City of Ryde, resulted in 77% of those surveyed supporting their preference for Council to stand alone and explore the regional efficiencies with other Councils. Council's on-line poll, from 10 March 2015 to 14 May 2015, received 1177 responses and resulted in only 18.8% of respondents supporting the Government's proposed mergers.

Live polling that occurred recently in each of the Councils' community meetings held between 5 -7 May 2015, resulted in between 82%-86% of attendees being supportive of each Council standing alone and exploring the option of JRA.

In the follow up independent survey, undertaken later in May, the results have been very consistent with between 81% - 82% across the three Council areas being supportive of exploring a JRA.

Each Council is also undertaking an on-line survey which again shows strong support for Councils standing alone and exploring a JRA, with the results being between 66%-77%.

Details of Council's community engagement and survey results are in **ATTACHMENT 11 – CIRCULATED UNDER SEPARATE COVER**, with the combined community engagement results with Hunter's Hill and Lane Cove Councils being **ATTACHMENT 12 – CIRCULATED UNDER SEPARATE COVER**.

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.

It should be noted that all Local Government authorities were required to undertake extensive consultation with their adjoining Councils and their communities in exploring all options in preparing their FFTF response to IPART and the State Government. The Minister for Local Government's FFTF templates

ITEM (continued)

place a strong emphasis on community consultation and this has been reinforced in the recent publication of IPART's proposed methodology.

The projected cost for the City of Ryde for this initiative is currently estimated to be \$375,000, represented as follows:-

City of Ryde's proportion of shared research and community engagement cost with Hunter's Hill and Lane Cove Councils	\$205,000
City of Ryde's separate communication/community engagement campaign; This comprises:	\$170,000
- Community Awareness Campaign	\$106,000
- Initial community survey	\$35,000
- PWC – Audit of Benchmark calculations	\$29,000
Post 30 June Advocacy Campaign (\$0 – to be determined)	
Parliamentary Inquiry submission (\$0 – to be determined)	

It should be noted that no provision has been allowed for in the projected expenditure detailed above for the additional funds required for the proposed Joint Advocacy Campaign and any costs associated with making a submission and presenting at the Parliamentary Inquiry.

Options

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

This option is not recommended.

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 a proposal to form a JRA with Lane Cove and Hunter's Hill Councils, that will enhance the City of Ryde's scale and capacity.

This is Council officers' preferred option and was also generally supported at the briefing of all Councillors from the three Councils at Hunter's Hill on 28 May 2015. This is the recommended option.

ITEM (continued)

4. That in the event that there is a need for the three Councils to meet as a result of the further changes in the proposed Methodology for Assessing FFTF Proposals or for any other reasons, Councils may need to convene a combined meeting of all three Councils prior to 30 June 2015 deadline. This is to ensure that all three Councils can lodge their submission on time.

While this option is not recommended, it is listed for consideration, especially if IPART makes significant changes to the methodology for assessment of FFTF proposals, or for any other reason such as a dramatic change in community sentiment towards a JRA.