



Hawkesbury City Council

extraordinary  
meeting  
business  
paper

date of meeting: 16 February 2016  
location: council chambers  
time: 6:30 p.m.



# mission statement

***“To create opportunities  
for a variety of work  
and lifestyle choices  
in a healthy, natural  
environment”***

## **How Council Operates**

Hawkesbury City Council supports and encourages the involvement and participation of local residents in issues that affect the City.

The 12 Councillors who represent Hawkesbury City Council are elected at Local Government elections, held every four years. Voting at these elections is compulsory for residents who are aged 18 years and over and who reside permanently in the City.

Ordinary Meetings of Council are generally held on the second Tuesday of each month (except January), and the last Tuesday of each month (except December), meeting dates are listed on Council's website. The meetings start at 6:30pm and are scheduled to conclude by 11pm. These meetings are open to the public.

When an Extraordinary Meeting of Council is held, it will usually also be held on a Tuesday and start at 6:30pm. These meetings are also open to the public.

### **Meeting Procedure**

The Mayor is Chairperson of the meeting.

The business paper contains the agenda and information on the items to be dealt with at the meeting. Matters before the Council will be dealt with by an exception process. This involves Councillors advising the General Manager by 3pm on the day of the meeting, of those items they wish to discuss. A list of items for discussion will be displayed at the meeting for the public to view.

At the appropriate stage of the meeting, the Chairperson will move for all those items which have not been listed for discussion (or have registered speakers from the public) to be adopted on block. The meeting then will proceed to deal with each item listed for discussion and decision.

### **Public Participation**

Members of the public can register to speak on any items in the business paper other than the Confirmation of Minutes; Mayoral Minutes; Responses to Questions from Previous Meeting; Notices of Motion (including Rescission Motions); Mayoral Elections; Deputy Mayoral Elections; Committee Elections and Annual Committee Reports. To register, you must lodge an application form with Council prior to 3pm on the day of the meeting. The application form is available on Council's website, from the Customer Service Unit or by contacting the Manager - Corporate Services and Governance on (02) 4560 4444 or by email at [council@hawkesbury.nsw.gov.au](mailto:council@hawkesbury.nsw.gov.au).

The Mayor will invite registered persons to address the Council when the relevant item is being considered. Speakers have a maximum of three minutes to present their views. The Code of Meeting Practice allows for three speakers 'For' a recommendation (i.e. in support), and three speakers 'Against' a recommendation (i.e. in opposition).

Speakers representing an organisation or group must provide written consent from the identified organisation or group (to speak on its behalf) when registering to speak, specifically by way of letter to the General Manager within the registration timeframe.

All speakers must state their name, organisation if applicable (after producing written authorisation from that organisation) and their interest in the matter before speaking.

## **Voting**

The motion for each item listed for discussion will be displayed for Councillors and public viewing, if it is different to the recommendation in the Business Paper. The Chair will then ask the Councillors to vote, generally by a show of hands or voices. Depending on the vote, a motion will be Carried (passed) or Lost.

## **Planning Decision**

Under Section 375A of the Local Government Act 1993, voting for all Planning decisions must be recorded individually. Hence, the Chairperson will ask Councillors to vote with their electronic controls on planning items and the result will be displayed on a board located above the Minute Clerk. This will enable the names of those Councillors voting For or Against the motion to be recorded in the minutes of the meeting and subsequently included in the required register. This electronic voting system was an innovation in Australian Local Government pioneered by Hawkesbury City Council.

## **Business Papers**

Business papers can be viewed online from noon on the Friday before the meeting on Council's website: <http://www.hawkesbury.nsw.gov.au>.

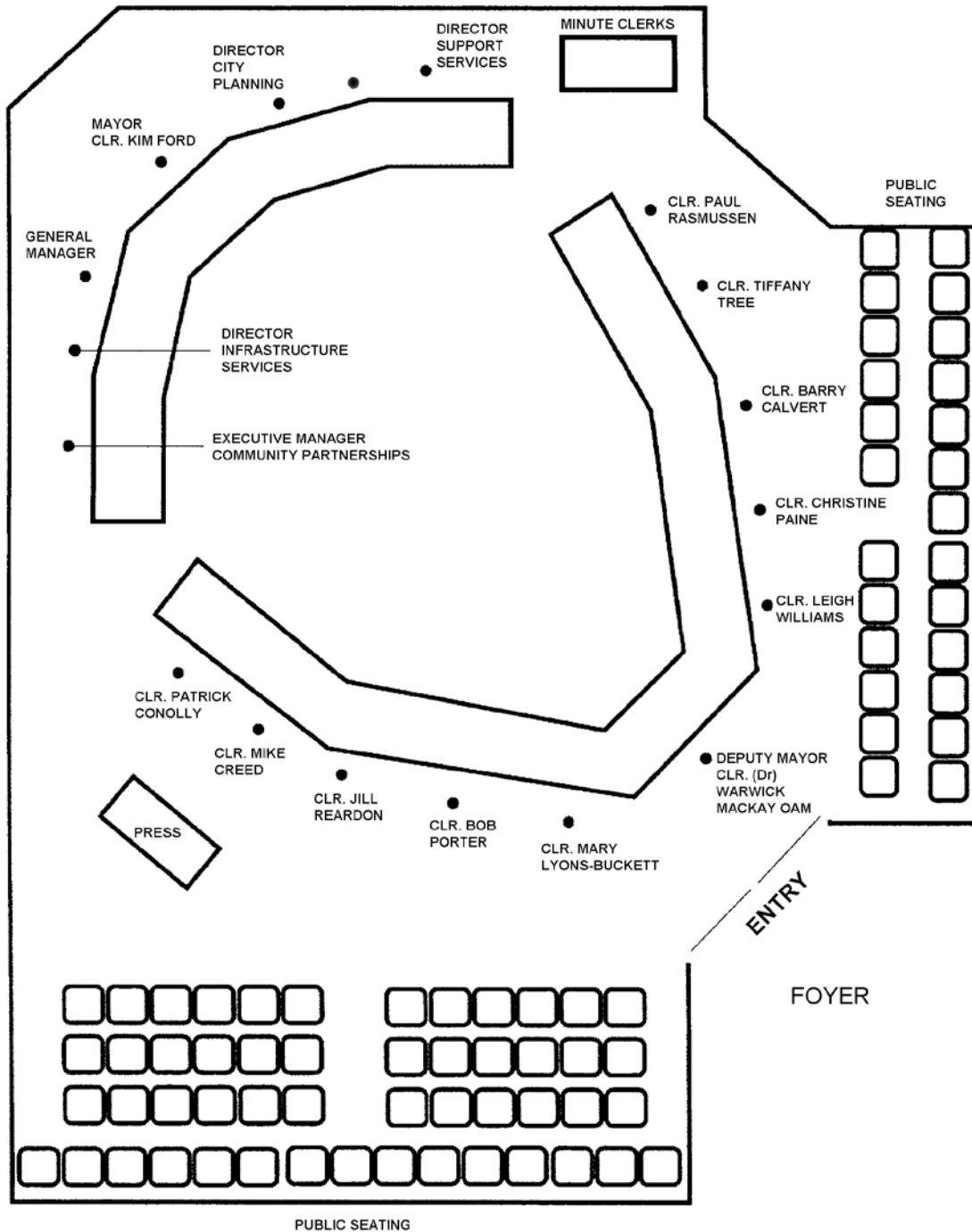
Hard copies of the business paper can be viewed at Council's Administration Building and Libraries after 12 noon on the Friday before the meeting, and electronic copies are available on CD to the public after 12 noon from Council's Customer Service Unit. The business paper can also be viewed on the public computers in the foyer of Council's Administration Building.

## **Further Information**

A guide to Council Meetings is available on the Council's website. If you require further information about meetings of Council, please contact the Manager, Corporate Services and Governance on, telephone (02) 4560 4444.



# Hawkesbury City Council





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  - Acknowledgement of Indigenous Heritage**
- **APOLOGIES AND LEAVE OF ABSENCE**
- **DECLARATION OF INTERESTS**
- **REPORTS FOR DETERMINATION**
  - General Manager**

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## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

### Reports for Determination

#### GENERAL MANAGER

**Item: 17**                      **GM - Submission - Merger Proposal - Hawkesbury City Council and Part of The Hills Shire Council - (79351)**

**Previous Item:**            1, Extraordinary (28 January 2016)  
226, Extraordinary (15 December 2015)  
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MM, Ordinary (24 November 2015)  
MM, Ordinary (27 October 2015)  
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#### **REPORT:**

##### **Executive Summary**

Council at its Extraordinary Meeting on 28 January 2016 resolved that an Extraordinary Meeting of Council be held on Tuesday, 16 February 2016 to consider Council's formal submission to the merger proposed between Hawkesbury City Council and part of The Hills Shire Council.

A formal Council submission to the merger proposal between Hawkesbury City Council and part of The Hills Shire Council has been prepared and is attached to this report.

The report recommends that the formal Council submission in regard to this matter be endorsed.

##### **Consultation**

Opportunities have been and are available for the community to express their opinion regarding the merger proposal, including public enquiries, and by providing a submission to the proposal. These have been advertised by Council and by the NSW State Government.

##### **Background**

On 18 December 2015, the NSW State Government announced merger proposals for NSW councils, including a proposal that Hawkesbury City Council be merged with part of The Hills Shire Council.

On 6 January 2016, the Minister for Local Government, the Hon. Paul Toole MP (the Minister), advised that he had referred a council merger proposal regarding Hawkesbury City Council and part of The Hills Shire Council to the Chief Executive of the Office of Local Government (OLG) for examination and report under the Local Government Act, 1993 (the Act). A copy of the *Merger Proposal: Hawkesbury City Council The Hills Shire Council (part) - January 2016* is attached as Attachment 1 to this report.

The Chief Executive of the OLG has delegated the function of examining and reporting on the merger proposal to a Delegate, which in the case of the subject merger, is Mr Garry West.

In reviewing and reporting on the merger proposal, Mr West will conduct a public enquiry, call for written submissions and prepare a report against the criteria outlined in the Act. Mr West's report will be forwarded to the Minister and the Boundaries Commission for comment. The Boundaries Commission will provide the Minister with its comments and the Minister will then make a decision on whether to proceed with the merger proposal and, if so, what the form and nature of any new council including its boundaries would be.

## EXTRAORDINARY MEETING

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Three public inquiries have already been held on Thursday, 4 February 2016 and Friday, 5 February 2016 with a further public inquiry relating to this merger proposal being held on Monday, 22 February 2016 from 7pm to 10pm at the Hawkesbury Race Club.

The period for submissions regarding the merger proposal has commenced and will close at 5pm on Sunday, 28 February 2016.

The criteria in the Act referred to above is contained in Section 263 (3) of the Act and is as follows:

- "(3) When considering any matter referred to it that relates to the boundaries of areas or the areas of operations of county councils, the Boundaries Commission is required to have regard to the following factors:*
- (a) the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned,*
  - (b) the community of interest and geographic cohesion in the existing areas and in any proposed new area,*
  - (c) the existing historical and traditional values in the existing areas and the impact of change on them,*
  - (d) the attitude of the residents and ratepayers of the areas concerned,*
  - (e) the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area,*
  - (e1) the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities,*
  - (e2) the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned,*
  - (e3) the impact of any relevant proposal on rural communities in the areas concerned,*
  - (e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards,*
  - (e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented,*
  - (f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas."*

Council at its Extraordinary Meeting on 28 January 2016 gave consideration to a report regarding Council's submission to the merger proposed between Hawkesbury City Council and part of The Hills Shire Council, and resolved, in part, as follows:

*"That:*

- 2. An Extraordinary Meeting of Council be held on Tuesday, 16 February 2016 at 6:30pm in the Council Chambers to consider Council's formal submission to the merger proposal between Hawkesbury City Council and part of The Hills Shire Council."*

In regard to the abovementioned resolution, a draft formal submission to the merger proposal was prepared and was considered at the Councillor Briefing Session on Tuesday, 9 February 2016.

A detailed Council submission, in response to the merger proposal prepared by the NSW Government concerning the proposed merger of Hawkesbury City Council and part of The Hills Shire Council, is attached as Attachment 2 to this report. The detailed submission also includes a number of attachments which provide the verifications for Council's analysis of the financial impacts of the proposed merger as outlined in the body of the submission. The attachments have been reduced in size for the business paper, however when the submission is lodged the attachments will be able to be viewed and/or printed in a larger font.

## **EXTRAORDINARY MEETING**

**Meeting Date:** 16 February 2016

The attached Council submission addresses the legislative criteria set out in Section 263(3) of the Act, and also includes a brief preamble which comments on a number of matters raised within the merger proposal document, which, while not directly canvassed by the legislative criteria, would be relevant to the evaluation of the merger proposal.

It is considered the attached submission should be endorsed by Council and forwarded to the Delegate, Mr Garry West.

### **Conformance to the Hawkesbury Community Strategic Plan**

The proposal is consistent with the Shaping Our Future Together Directors Statement:

- Maintain its independent identity and voice through strong local government and community institutions.

### **Financial Implications**

There are no financial implications directly applicable to this report.

### **RECOMMENDATION:**

That Council endorse the submission in response to the merger proposal of Hawkesbury City Council and part of The Hills Shire Council, attached as Attachment 2 to the report.

### **ATTACHMENTS:**

- AT - 1** Merger Proposal: Hawkesbury City Council and The Hills Shire Council (part) - January 2016.
- AT - 2** Council Submission in response to the merger proposed of Hawkesbury City Council and part of The Hills Shire Council.

AT - 1 Merger Proposal: Hawkesbury City Council and  
The Hills Shire Council (part) - January 2016.

Merger Proposal:

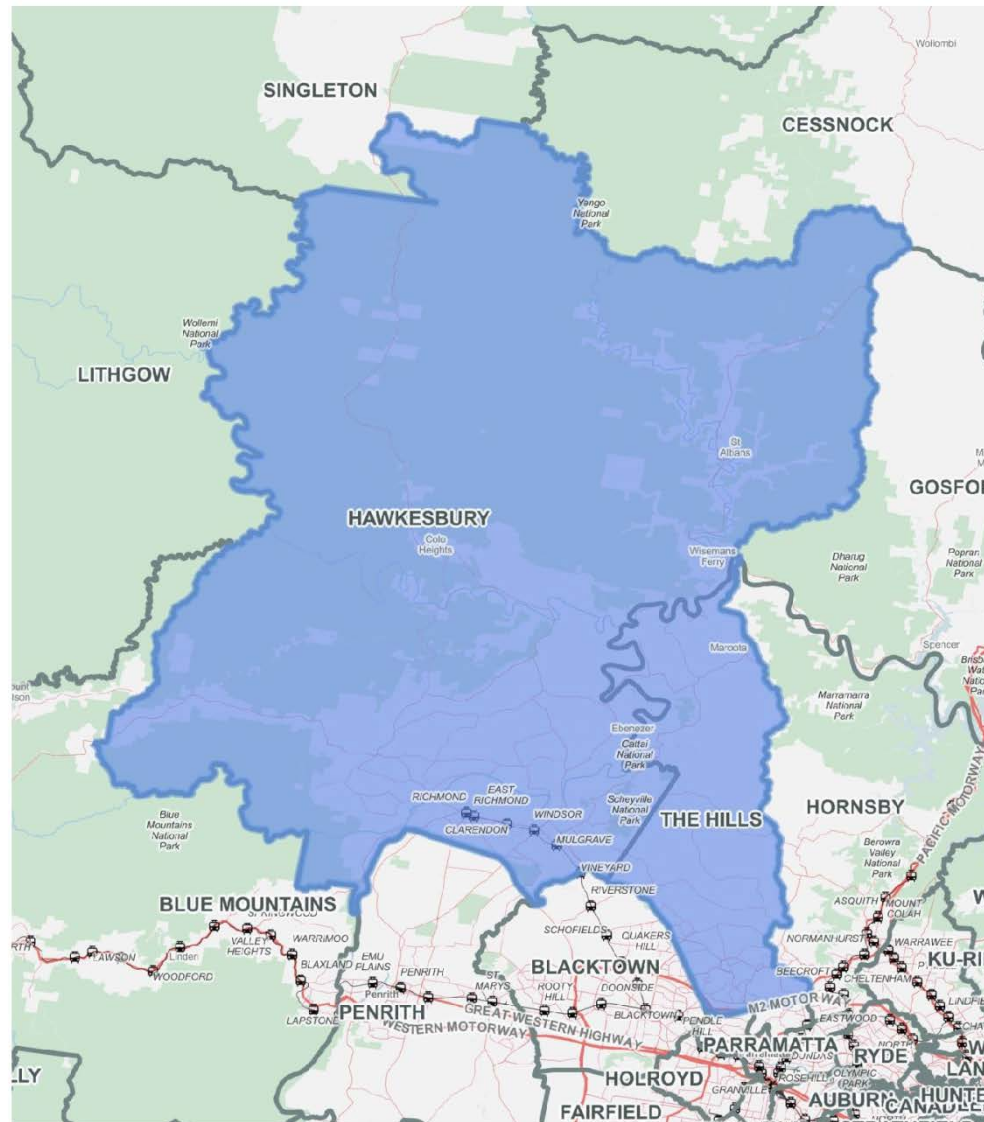
# Hawkesbury City Council The Hills Shire Council (part)

JANUARY 2016





Figure 1: Proposed new local government area



## Proposed merger: Hawkesbury and The Hills

Data sources: Land and Property Information  
Datum and Projection: GDA94



- Proposal Area
- Current LGA Boundaries
- Suburbs
- Waterbodies
- Open space
- Roads
- Rivers
- Rail

## MINISTER'S FOREWORD

Four years of extensive consultation, research and analysis have demonstrated that change is needed in local government to strengthen local communities.

Independent experts have concluded that NSW cannot sustain 152 councils – twice as many as Queensland and Victoria.

After considering the clear need for change, the Independent Local Government Review Panel (ILGRP) research and recommendations, the assessment of councils by the Independent Pricing and Regulatory Tribunal (IPART), council merger preferences, community views and the unique needs and characteristics of each area, I am pleased to present the proposal to merge the local government areas of Hawkesbury City and The Hills.

The proposed merger will create a council better able to meet the needs of the community into the future and will provide significant benefits for the community.

This document details the benefits the merger will provide to communities, including:

- a total financial benefit of \$74 million over a 20 year period that can be reinvested in better services and more infrastructure;
- a projected \$9.9 million increase in annual operating results achieved within 10 years;
- potentially reducing the reliance on rate increases through Special Rate Variations (SRVs) to fund local infrastructure;
- greater capacity to effectively manage and reduce the infrastructure backlog, in particular in the Hawkesbury Council area;
- improved strategic planning and economic development to better respond to the changing needs of the community;
- effective representation by a council with the required scale and capacity to meet the future needs of the community; and
- providing a more effective voice for the area's interests and better able to deliver on priorities in partnership with the NSW and Australian governments.

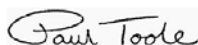
With the merger savings, NSW Government funding of \$20 million – and a stronger voice – the new council will be better able to provide the services and infrastructure that matter to the community, projects like:

- revitalising and enhancing town centres and existing community facilities;
- upgrading local road networks and improving road maintenance, in particular rural roads;
- investing in wastewater infrastructure to ensure clean waterways and safe food, for oyster farmers and others that rely on the natural environment; and
- encouraging the promotion of economic growth and employment through the development of local industries.

The savings, combined with the NSW Government's policy to freeze existing rate paths for four years, will ensure that ratepayers get a better deal.

A suitably qualified delegate of the Chief Executive of the Office of Local Government will consider this proposal against criteria set out in the *Local Government Act (1993)*, and undertake public consultation to seek community views.

I look forward to receiving the report on the proposal and the comments from the independent Local Government Boundaries Commission.



Minister Paul Toole

January 2016

## EXECUTIVE SUMMARY

The North Western Sydney communities of Hawkesbury City and The Hills Shire share many common characteristics and connections and will benefit by \$74 million from a merged council with a stronger financial capability to deliver on community priorities and meet the future needs of its residents.



### Introduction

This is a proposal by the Minister for Local Government under section 218E(1) of the *Local Government Act (1993)* for the merger of Hawkesbury City and the Hills Shire local government areas north of the M2<sup>1</sup>. This merger proposal sets out the impacts, benefits and opportunities of creating a new council.

The creation of this new council will bring together communities with similar expectations in terms of demands for services, infrastructure and facilities. This approach utilises the M2 Motorway as a natural boundary for the new council.

The proposal has been informed by four years of extensive council and community consultation and is supported by independent analysis and modelling by KPMG.

The proposal is broadly consistent with the 2013 findings of the Independent Local Government Review Panel (ILGRP) as well as the Independent Pricing and Regulatory Tribunal's (IPART) 2015 assessment that the Hawkesbury City Council is 'not fit'.

IPART determined that, while both Hawkesbury City and The Hills Shire councils satisfy scale and capacity criteria, Hawkesbury City Council does not satisfy the criterion for financial sustainability. IPART noted that a merger between both councils has the potential to generate net financial benefits for their local communities and could lead to an improved financial position overall.

The new council for the new local government area will not only oversee an economy that shares many similar residential, workforce and industry characteristics, but will have enhanced scale and capacity to help it deliver on local infrastructure priorities such as the North West Priority Land Release Area.

### Impacts, Benefits and Opportunities

A range of benefits and opportunities has been identified from the proposed merger, including a stronger balance sheet to meet local community needs and priorities.

Analysis by KPMG shows the new council has the potential to generate net savings to council operations. The merger is expected to lead to more than \$54 million in net financial savings over 20 years.

Council performance will also be improved with a projected \$9.9 million increase in annual operating results achieved within 10 years.<sup>2</sup> This means that there will be a payback period of three years after which the merger benefits will exceed the expected costs.

The analysis also shows the proposed merger is expected to generate, on average, around \$5 million in savings every year from 2020 onwards. Savings will primarily be from the removal of duplicate back office and administrative functions; streamlining of senior management roles; efficiencies from increased

<sup>1</sup> The end result if the proposal is implemented is that a new local government area will be created. For simplicity throughout this document, we have referred to a new council rather than a new local government area.

<sup>2</sup> Operating results refer to the net financial position after subtracting total expenditure from total revenue in a given financial year.

purchasing power of materials and contracts; and reduced expenditure on councillor fees.<sup>3</sup>

The NSW Government has announced a funding package to support merging councils which would result in \$20 million being made available should the proposed merger proceed.

Hawkesbury City Council intends to request a cumulative Special Rate Variation (SRV) of 16 per cent over a five year period from 2017-18.

The proposed merger is also expected to result in simplified council regulations for residents and businesses in the Hawkesbury City and The Hills Shire areas given each council is currently responsible for separate and potentially inconsistent regulatory environments. Regulatory benefits include consistency in approaches to development approvals, health and safety, building maintenance, traffic management and waste management.

The proposed merger will provide significant opportunities to strengthen the role and strategic capacity of the new council to partner with the NSW and Australian governments on major infrastructure projects, addressing regional socio-economic challenges, delivery of services and focus on regional priorities.

This could assist in:

- reducing the existing \$92 million infrastructure backlog across the Hawkesbury City and The Hills Shire area;

improving liveability and boosting housing supply to meet population growth;

- delivering regional priorities of improving transport connections, addressing flood and emergency management issues, and effective management of the area's waterways; and
- supporting economic growth and urban development in a sustainable manner, while enhancing the standard of living and lifestyle that local residents value.

While a merged council will increase the current ratio of residents to elected councillors, the new ratio is likely to be comparable with levels currently experienced by other communities across Sydney.

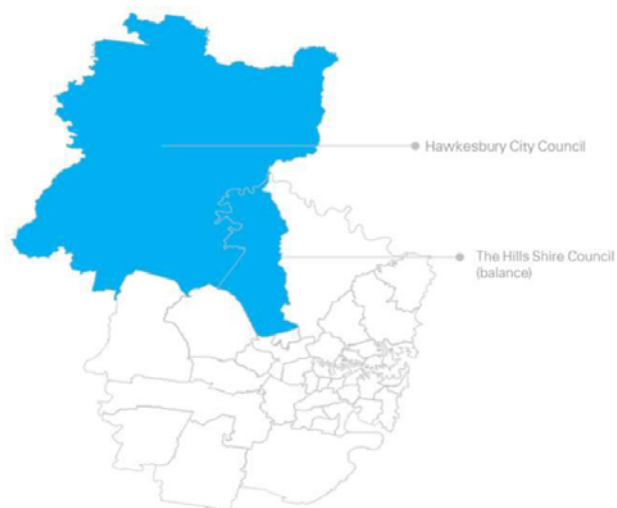
### Next Steps

This merger proposal will be referred for examination and report under the *Local Government Act (1993)*.

Local communities have an important role to play in helping ensure the new council meets their current and future needs for services and infrastructure and will have an opportunity to provide input on how the new council should be structured. Local communities will have an opportunity to attend the public inquiry that will be held for this merger proposal and an opportunity to provide written submissions. For more details please visit

[www.councilboundaryreview.nsw.gov.au](http://www.councilboundaryreview.nsw.gov.au)

Figure 2: The new local government area within Greater Sydney



<sup>3</sup> NSW Government (2015), Local Government Reform: Merger Impacts and Analysis, December.



## INTRODUCTION

This merger proposal has been informed by an extensive four-year consultation and review process.

The NSW Government has been working with local councils and communities since 2011 to strengthen council performance and ensure local government is well placed to meet future community needs.

A first key step in that process was the Independent Local Government Review Panel's (ILGRP) comprehensive review of local government and subsequent recommendations for wide-ranging structural reform and improvements to the system. In response, the NSW Government initiated the *Fit for the Future* reforms that required each local council to self-assess against key performance indicators and submit proposals demonstrating how they would meet future community needs.

The NSW Government appointed IPART in 2015 to assess each council's submission. IPART has now completed its assessment of 139 proposals (received from 144 councils) and concluded 60 per cent of councils are 'not fit' for the future. Many of these councils did not meet the elements of the 'scale and capacity' criterion (refer Box 1 below).

Hawkesbury City and The Hills Shire councils each submitted *Fit for the Future* proposals to remain as stand alone councils. In assessing each council's submission, IPART determined that while both councils satisfy the criteria for scale and capacity, Hawkesbury City Council was 'not fit' as it did not meet key financial benchmarks. IPART noted that a merger between Hawkesbury City and The Hills Shire councils could produce net financial benefits of \$74 million over 20 years for local communities, which could be a better alternative than each council's proposal to stand alone.

In the consultation period that followed the release of the IPART report, the Hills Shire Council nominated Hawkesbury City Council as a potential merger partner.

*Box 1 Overview of scale and capacity*

### Key elements of 'scale and capacity'

Scale and capacity is a minimum requirement as it is the best indicator of a council's ability to govern effectively and provide a strong voice for its community. At a practical level, this includes being able to:

- undertake regional planning and strategic delivery of projects;
- address challenges and opportunities, particularly infrastructure backlogs and improving financial sustainability;
- be an effective partner for the NSW and Australian Governments on delivering infrastructure projects and other cross-government initiatives; and
- function as a modern organisation with:
  - staffing capacity and expertise at a level that is currently not practical or economically possible for small councils;
  - innovative and creative approaches to service delivery; and
  - the resources to deliver better training and attract professionals into leadership and specialist roles.

## A NEW COUNCIL FOR THE HAWKESBURY CITY AND THE HILLS SHIRE

The proposed new council will be responsible for infrastructure and service delivery to around 224,000 residents across the Hawkesbury City and The Hills Shire area of Sydney.

The creation of a new council provides the opportunity to bring together the communities from across the local government areas of Hawkesbury City and The Hills Shire. A large portion of each council is in outlying metropolitan areas, although The Hills Shire Council incorporates a number of metropolitan centres, including Carlingford, Castle Hill and Baulkham Hills. The two councils also share similar priorities, such as a desire to create vibrant communities by supporting and developing local jobs and businesses, while also protecting their natural environment and heritage.

The new council will be responsible for infrastructure and service delivery to more than 318,000 residents by 2031. This reflects the expected population growth across the region of two per cent per annum.<sup>4</sup>

The Hawkesbury and The Hills areas share a need to manage expected population growth and the changing service and infrastructure needs of these communities. The NSW Government has identified a number of priorities that are directly relevant to the proposed new council. For example:

- delivering the Sydney Metro Northwest and planning for urban renewal in communities along the rail line;
- planning for continued delivery of housing and jobs in the North West Priority Land Release Area, focused on on-time infrastructure delivery, housing choice, affordability and sustainability;
- strengthening the strategic centres of Castle Hill, Norwest and Rouse Hill as a priority location for employment and removing barriers to investment;
- working with councils to protect the health of waterways and aquatic habitats, including the Hawkesbury-Nepean catchment;
- working with councils to address flood and emergency management issues when planning for growth in the Hawkesbury-Nepean Valley; and
- improving transport connections to provide better access between centres, particularly in the North West Priority Land Release Area, and improving transport connections to eastern Sydney to capitalise on the area's increasing role in manufacturing, construction and wholesale/logistics industries.

A new council with appropriate scale and capacity will be better able to partner with the NSW Government on the implementation of these regional priorities, particularly on the management of flood hazards in the Hawkesbury-Nepean Valley and on the delivery of housing and jobs in along the Sydney Metro Northwest line and in the North West Priority Land Release Area.

The establishment of a new council will also provide an opportunity to generate savings and efficiencies and reduce the current duplication of back-office functions, senior executive positions and potentially the many layers of current regulations. Any savings generated by a merger of these two councils could be redirected to improving local community infrastructure, lowering residential rates and/or enhancing service delivery. An overview of the current performance of the two existing councils and the projected performance of the new proposed entity is outlined in Figure 3.




In addition, a merged council offers the prospect of a stronger balance sheet to better meet the service and infrastructure needs of its local communities. This is especially important for Hawkesbury City Council, which did not satisfy IPART's financial sustainability criterion. A merged council will also provide enhanced scale and capacity to better plan and coordinate investment in critical infrastructure and services. This should put the new council in a better position to advocate to the NSW and Australian governments for the regional investments that will be needed for the future.

<sup>4</sup> NSW Department of Planning & Environment (2014), NSW Projections (Population, Household and Dwellings).

# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Figure 3: Council profiles

	Hawkesbury City Council	The Hills Shire Council (balance)	New Council
			
<b>Population</b> (2014)	65,527	158,842	224,369
<b>Area</b>	2,775 sq km	387 sq km	3,161 sq km
<b>IPART Rating</b>	NOT FIT	FIT	The new council will likely have enhanced scale and capacity to better meet the future service and infrastructure needs of the community.
<b>Operating Revenue</b> (2013-14)	\$77.2m	\$217.9m	\$232.4m (projected 2019-2020)
<b>Operating Result</b> (2013-14)	\$14.8m	\$107.8m	+\$7.2m projected improvement to 2019-20 operating results
<b>Asset Base</b>	\$537.4m	\$860.5m	\$1.4bn
<b>Infrastructure Backlog</b>	13 per cent	3 per cent	7 per cent

Source: Australian Bureau of Statistics, Department of Planning and Environment, Office of Local Government, Council Long Term Financial Plans, Fit for the Future submissions to IPART and IPART Assessment of Council Fit for the Future Proposals

Note: Totals may not sum due to rounding. Estimates of the new council's operating performance and financial position is based on an aggregation of each existing council's projected position as stated in respective Long Term Financial Plans (2013-14). In addition, it is assumed efficiency savings are generated from a merger, and this is reflected in the projected 2019-20 operating result for the new council. Further details are available in NSW Government (2015), Local Government Reform: Merger Impacts and Analysis, December.

## BENEFITS, OPPORTUNITIES AND IMPACTS

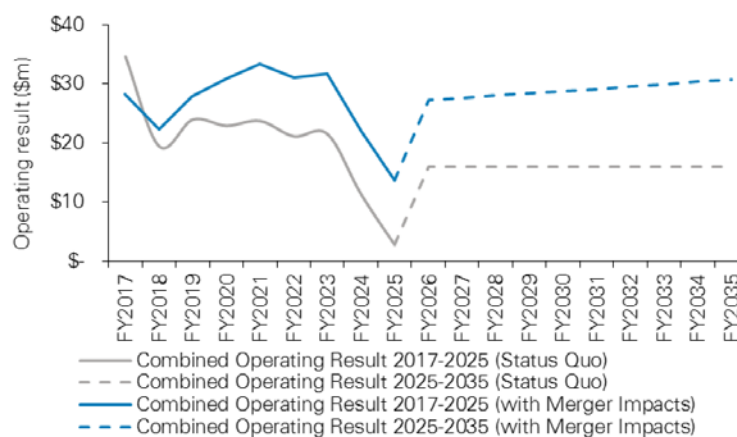
The proposed merger has the potential to provide a \$74 million benefit to communities over 20 years which could support investment in critical local infrastructure and services and/or be utilised to address rate pressures.

### Financial Benefits of the Proposed Merger

Analysis by KPMG in 2015 shows the proposed merger has the potential to generate net financial savings of \$54 million to the new council over 20 years. Council performance will also be improved with a projected \$9.9 million increase in annual operating results achieved within 10 years. The proposed merger is also expected to generate, on average, approximately \$4.6 million in savings every year from 2020 onwards.<sup>5</sup> Consequently, the merged council will have a balance sheet that is stronger and in a better position to meet local community needs and priorities.

Figure 4 illustrates how the proposed merger will lead to growing improvements in the operating performance of the new council compared to the current projected operating performance of each of the two councils.

Figure 4: Projected operating results of the Hawkesbury City and The Hills Shire councils, with and without a merger



Note: Due to data limitations, operating results post 2025 adopt the five year average for the projected operating result. This is for illustration purposes only and has no impact on the estimated savings generated by the proposed merger.

Source: Council Long Term Financial Projections (2013-14).

Gross savings over 20 years are modelled to be due to:

- removal of duplicate back office and administrative functions (\$42 million);
- streamlining of senior management roles (\$10 million);
- efficiencies generated through increased purchasing power of materials and contracts (\$10 million); and
- a reduction in the overall number of elected officials, reducing expenditure on councillor fees (estimated at \$2 million).<sup>6</sup>

In addition, the NSW Government has announced a funding package to support merging councils which would result in \$20 million being made available should the proposed merger proceed.

<sup>5</sup> NSW Government (2015), Local Government Reform: Merger Impacts and Analysis, December.

<sup>6</sup> NSW Government (2015), Local Government Reform: Merger Impacts and Analysis, December.



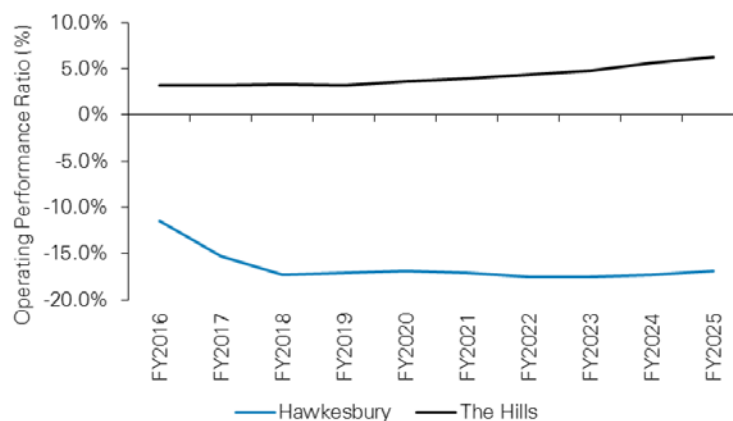
The implementation costs associated with the proposed merger (for example, information and communication technology, office relocation, workforce training, signage, and other transition costs) are expected to be surpassed by the accumulated net savings generated by the merger within a three-year payback period.

Merger benefits could be reinvested to:

- improve infrastructure – annual savings could be redirected towards infrastructure renewal or capital works, including the upgrade of the Baulkham Hills Town Centre. Redeployment of savings could lead to cumulative additional infrastructure expenditure of \$54 million by 2025;
- enhance service delivery – removal of duplicate back office and administration functions could provide the basis for employing an additional 70 staff for frontline services. This could include services such as community centres and libraries; and/or
- reduce rate pressures – annual savings could be used to reduce future reliance on SRVs to fund community infrastructure and/or avoid future rate increases.

The expected operating performance ratio of each council over the next 10 years is illustrated in Figure 5.<sup>7</sup>

Figure 5: Projected operating performance ratio by council (2016-2025)



Note: Operating performance ratio measures a council's ability to contain operating expenditure within operating income.

Source: Council Long Term Financial Plans (2013-14)

This merger proposal will provide the new council with the opportunity to strengthen its balance sheet and provide a more consistent level of financial performance. Overall, the proposed merger is expected to enhance the financial sustainability of the new council through:

- net financial savings of \$54 million to the new council over 20 years;
- a forecast \$9.9 million increase in the operating result of the merged entity in 2025;
- achieving efficiencies across council operations through, for example, the removal of duplicated back office roles and functions, and streamlining senior management;
- establishing a larger entity with a broad, regional-based operating revenue that is expected to exceed \$249 million per year by 2025;
- an asset base of approximately \$1.4 billion to be managed by the merged council; and

<sup>7</sup> This ratio measures a Council's achievement of containing operating expenditure within operating revenue. It is important to distinguish that this ratio is focussing on operating performance and hence capital grants and contributions, fair value adjustments and reversal of revaluation decrements are excluded.

- greater capacity to effectively manage and reduce the \$92 million infrastructure backlog across the area by maintaining and upgrading community assets.

The Local Government Act contains protections for three years for all council employees below senior staff level.

### **Opportunities for Improved Services and Infrastructure**

The efficiencies and savings generated by the merger will allow the new council to invest in improved service levels and/or a greater range of services and address the current \$92 million infrastructure backlog across the two councils. Examples of local infrastructure and service priorities that could be supported by merger-generated savings include projects like:

- revitalising and enhancing town centres, for example by supporting the multi-phase Baulkham Hills Town Centre upgrade. The first phase of the upgrade currently under construction includes a streetscape upgrade of the Baulkham Hills Town Centre to provide greater accessibility and amenity;
- upgrading the road network across the Hawkesbury and the Hills area;
- upgrading existing, and providing new, sporting fields and leisure facilities to meet growing demand and promote the area as a tourism destination;
- upgrading existing community centres and libraries across the area; and
- actively supporting the retention of the Royal Australian Airforce Base (RAAF) at Richmond and encouraging the promotion of economic growth and employment through the development of local aviation-related industries.

### **Regulatory Benefits**

There are currently 152 separate regulatory and compliance regimes applied across local council boundaries in NSW. These many layers of regulations are making it hard for people to do business, build homes and access services they need. NSW businesses rated local councils as second to only the Australian Tax Office as the most frequently used regulatory body, and highest for complexity in dealings.<sup>8</sup>

It can be expected that the proposed merger will result in simplified council regulations for many Hawkesbury City and The Hills Shire residents and businesses. Hawkesbury City Council and The Hills Shire Council are each responsible for separate and potentially inconsistent regulatory environments. A merged council provides an opportunity to reduce and harmonise regulations.

Adopting best practice regulatory activities will generate efficiencies for a merged council and benefit local residents and businesses. For example:

- a tradesperson who operates small businesses across the Hawkesbury City and The Hills Shire area will have a single local council regulatory framework to understand and comply with;
- the compliance burden will be reduced and simplified for a café owner with multiple outlets across neighbouring suburbs (currently in different council areas); and
- residents can have greater confidence that development applications will be subject to a more uniform process than the existing variations in regulations that can add to the cost and complexity of home renovations and building approvals.

### **Impact on Rates**

IPART noted that Hawkesbury City Council's operating performance ratio forecast relies on the successful application for and adoption of a cumulative SRV of 16.0 per cent over a five year period from 2017-18. The savings generated by a merger may enable the new council to reduce its reliance on rate increases to fund community infrastructure and improve financial performance.

In addition, the proposed merger will bring together a range of residential, farmland and business premises across the area, providing the new council with a larger rate base on which to set ratings policies and

<sup>8</sup> NSW Business Chamber (2012), Red Tape Survey.

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improve the sustainability of council revenue. Table 1 outlines the mix of business, residential and farmland rating assessments that underpin current rate revenue across the area.

Table 1: Comparison of rateable businesses, residential properties and farmland (total and percentage share)

Council	Business rating assessments		Residential rating assessments		Farmland rating assessments	
Hawkesbury City Council	1,515	6%	22,877	91%	622	2%
The Hills Shire Council	3,782	6%	54,188	93%	404	1%

Source: NSW Office of Local Government, Council Annual Data Returns (2013-14).

### Local Representation

The ratio of residents to elected councillors in each of the two councils is markedly different. This reflects that both councils have the same number of councillors, but they represent populations of very different sizes. While the proposed merger will increase the ratio of residents to elected councillors, the ratio, based on councillor numbers in the existing councils, is likely to be similar to those currently experienced in other Sydney councils, including the more populous Blacktown City Council (Table 2). For the purpose of analysis of merger benefits, this proposal has assumed that the new Council will have the same number of councillors as the councils covered by this proposal. The Government welcomes feedback through the consultation process on the appropriate number of councillors for the new council.

Some councils in NSW have wards where each ward electorate elects an equal number of councillors to make up the whole council. Community views on the desirability of wards for a new council will be sought through the consultation process.

Table 2: Changes to local representation in Hawkesbury City and The Hills Shire

Council	Number of councillors	Number of residents (2014)	Residents per councillor
Hawkesbury City Council	12	65,527	5,461
The Hills Shire Council	12	187,703	15,642
Merged council	12*	224,369	18,697
Blacktown City Council	15	325,139	21,676

\* Hawkesbury City and The Hills Shire communities will have an opportunity to shape how a new merged council will be structured, including the appropriate number of elected councillors. Fifteen elected councillors is the maximum number currently permitted under the NSW Local Government Act (1993).

Source: Australian Bureau of Statistics, Estimated Resident Population 2014; and NSW Office of Local Government, Council Annual Data Returns (2013-14).

The new council will be in a position to use its larger scale and capacity to more effectively represent local Hawkesbury City and The Hills Shire communities. As the new council will represent a significant share of Sydney's population, and have a substantial economic base, it will be able to advocate more effectively on behalf of its residents. It will also be able to develop improved strategic capacity to partner with the NSW and Australian Governments, including on major infrastructure initiatives, community services and urban planning and development.

The many ways communities currently engage with these councils will continue, including through public forums, committees, surveys and strategic planning. Councillors will continue to represent local community interests and will have the opportunity to take a more regional approach to economic development and strategic planning.

## THE LOCAL COMMUNITY

The communities across the Hawkesbury City and The Hills Shire area share common characteristics and connections. The proposed new council will have enhanced scale and capacity and be better placed to shape and deliver the economic development, community services, and infrastructure that underpin the lifestyle of these communities.

### Geography and Environment

The area is to the north west of the Greater Sydney metropolitan region, about 30-50 kilometres from the Sydney Central Business District (CBD). There are a number of natural features and river systems that are used to define the new local government area. Both the Colo and Grose rivers will form part of the western boundary of the new council. For those areas closer to the CBD, major roads will typically define the council boundaries – such as the Old Northern Road and Castle Hill Road which will form the eastern boundary and Old Windsor Road to the south west. The area south of the M2 in the The Hills Shire Council is proposed to be merged with Parramatta City Council.

The area includes a number of national parks and conservation areas including the Blue Mountains National Park, Parr Conservation Park, Yengo National Park and Wollemi National Park. The natural environment is an important draw for residents and visitors, but also poses some conservation and maintenance challenges. The area is subject to high bushfire risk, and its urban areas are prone to flood events.

Overall, the area is increasingly residential, and is continuing to experience rapid urban development. There is extensive planning underway for the North West Growth Centre (around the Rouse Hill) to cater for the expected population growth in the area. Into the future, some of the more established communities in the area will be renewed in parallel with the delivery of new transport infrastructure, particularly the Sydney Metro Northwest project.

A significant part of the area is parkland or used for farming and other semi-rural industries. The proposed merger will create a stronger council which will be better placed to manage the interface between urban and rural communities, to manage the threat of natural hazards and to deliver the local infrastructure and services needed for growing communities.

### Local Economy

The local government areas of Hawkesbury City and The Hills Shire contribute \$12.3 billion to the NSW economy, equivalent to two per cent of the Gross State Product.<sup>9</sup> Characteristics of the local economy include:

- an average household income of \$113,103 in The Hills Shire local government area, which is significantly above the metropolitan average of \$89,210 and the Hawkesbury City Council average of \$83,891;
- low rates of unemployment in The Hills Shire (3.7 per cent), compared to the metropolitan average of 5.4 per cent. In contrast, unemployment in Hawkesbury City Council is 6.8 per cent;
- employment growth below the metropolitan average of 1.6 per cent in both The Hills Shire (1.0 per cent) and Hawkesbury City (zero employment growth is forecast);
- The Hills Shire's educational attainment rate (the proportion of residents holding a post-school qualification) is 63 per cent. This is above the metropolitan average of 59 per cent, while Hawkesbury City Council sits at 55 per cent; and
- differing industry compositions, with The Hills Shire's two largest sectors being retail trade and health care and social assistance, while the two largest sectors in Hawkesbury City are construction and manufacturing.

<sup>9</sup> Regional Development Australia (2015), Sydney Metropolitan Region Economic Baseline Assessment – Update, August; and Australian Bureau of Statistics (2014), Australian National Accounts: State Accounts 2013-14, Canberra.



The proposed council has three strategic centres at Castle Hill, Norwest and Rouse Hill which are important locations for business activity and employment. Retail trade is the largest industry across the whole area and construction is the second largest industry. A merged council will be better placed to deliver services and infrastructure for these industry sectors in a coordinated manner and to support growth and investment in the strategic centres of Castle Hill, Norwest and Rouse Hill. The NSW Government's Household Travel Survey highlighted that the average length of a work trip taken by residents of The Hills Shire is 40 minutes, indicating that the majority of residents work outside the local government area.<sup>10</sup> On the other hand, Hawkesbury City has a local economy in which 63 per cent of residents work in the area in which they reside.

The area however, is relatively self-contained and well-connected in relation to:

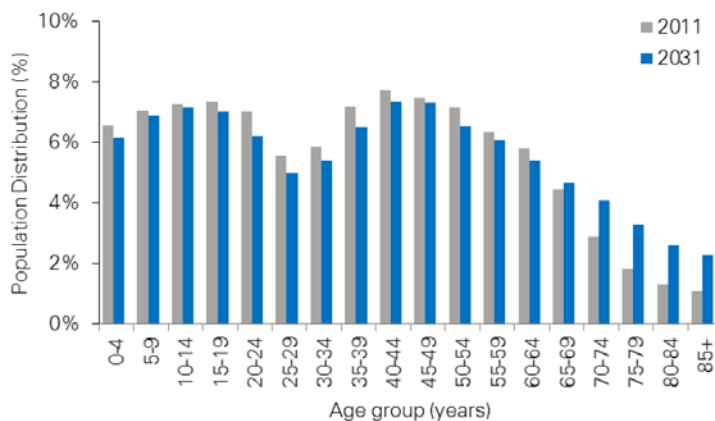
- shopping: including Stockland in Baulkham Hills, Castle Towers Shopping Centre and Winston Hills Mall;
- health centres and hospitals: including The Hills Private Hospital and Hawkesbury District Health Service; and
- sporting facilities: including, Bernie Mullane Sports Complex and Hawkesbury Oasis swimming pool.

The business profile across the area, and the corresponding workforce, will require relatively similar services and infrastructure. A merged council will be better placed to deliver these services and infrastructure in a coordinated manner.

### Population and Housing

The new council will be responsible for infrastructure and service delivery to more than 361,000 residents by 2031. Like most areas across NSW, the Hawkesbury City and The Hills Shire area will experience the impacts of an ageing population over the next 20 years (Figure 6).

Figure 6: Change in population distribution, by age cohort (2011 v 2031)



Source: NSW Department of Planning & Environment, 2014 NSW Projections (Population, Household and Dwellings).

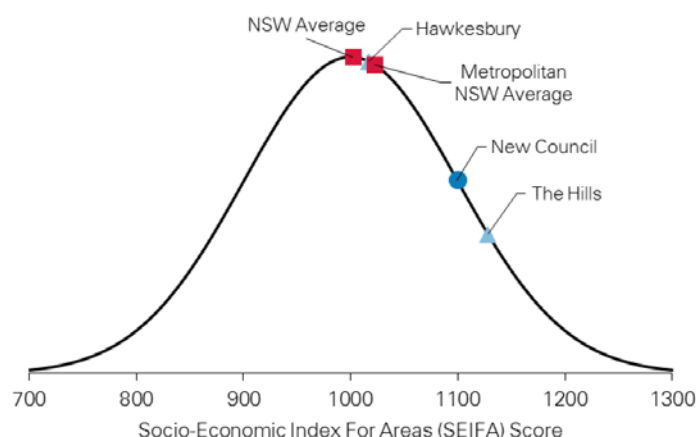
A strong council with the appropriate scale and capacity is needed to respond and adapt to the changing service needs of the community. An ageing population is likely to increase demand for community health services, the creation and maintenance of accessible parks and leisure areas, and community outreach services.

From a socio-economic standpoint and in comparison with the rest of Sydney, The Hills Shire communities are relatively advantaged. Hawkesbury City communities are comparable with the NSW metropolitan average in regards to socio-economic advantage. The Socio-Economic Index for Areas (SEIFA), illustrated in

<sup>10</sup> Transport for NSW (2014), Bureau of Transport Statistics, Household Travel Survey Data 2012-13.

Figure 7 measures a range of factors to rate an individual council's relative socio-economic advantage, including, for example, household income, education, employment and occupation.

Figure 7: Comparison of councils' socio-economic profile



Source: Australian Bureau of Statistics, SEIFA 2011 by Local Government Area

Table 4 outlines the current mix of housing types across the area. A merged council provides an opportunity to apply a more regional and strategic focus to planning for the additional 34,700 households and associated amenities that are predicted to be required by 2031. This approach can also help ensure any pressures and challenges associated with population growth and housing development are not unreasonably concentrated in particular neighbourhoods.

Table 3: Dwelling types in the Hawkesbury City and The Hills Shire area (total number and per cent)

Dwelling type	Hawkesbury City Council		The Hills Shire Council	
Separate house	19,953	85%	47,726	83%
Medium density	2,929	13%	7,150	13%
High density	135	1%	2,138	4%
Other	340	1%	150	<1%
<b>Total private dwellings</b>	<b>23,357</b>		<b>57,164</b>	

Source: Australian Bureau of Statistics, Census (2011), Dwelling Structure by local government area.

The current mix of housing types across the Hills and Hawkesbury area is predominantly separate houses, with a smaller proportion coming medium density dwellings, and smaller again from high density dwellings. A merged council provides an opportunity to apply a more regional and strategic focus to planning for additional households and associated amenities that are predicted to be required across the current council areas by 2031. This approach can also help to ensure any pressures and challenges associated with population growth and housing development are not unreasonably concentrated in particular neighbourhoods.

### Shared Community Values and Interests

These communities are bound by their sense of place as an outer suburban area with close proximity to rural areas and national parks. Box 2 provides examples of community organisations, services and facilities that have a presence across the area, which indicate the strong connections between communities in existing council areas.

Box 2: Examples of common community services and facilities

**Shared regional services and initiatives**

Examples of community services which operate across the area include:

- the Hawkesbury River County Council, which is responsible for administering *the Noxious Weeds Act (1993)* across Blacktown, Hawkesbury, Penrith and The Hills councils. The council focuses on early detection of new incursions and containment of high risk weed species that impact on biodiversity, agriculture and property;
- TAFE Western Sydney, which offers vocational education and training courses across the Western Sydney region and operates campuses at Richmond and Baulkham Hills ;
- Hills to Hawkesbury Living Magazine, which is a fortnightly publication covering local and community news across the areas;
- Hills, Hawkesbury & Riverlands Tourism (HHART), which is a partnership organisation that covers the area. HHART invites membership from people in the tourism industry to boost tourism, organises regional conferences and produces events guides; and
- the Western Sydney Residential Asbestos Scheme, which is a partnership between Western Sydney councils and the NSW Environment Protection Agency to have asbestos materials removed from residents' properties free of charge.

The councils have collaborated on a range of initiatives. Hawkesbury City Council belongs to The Western Sydney Regional Organisation of Councils (WSROC) which represents 10 local councils in Western Sydney. The Hills Shire Council is not a member council, but is involved in some of the projects that WSROC undertakes. For example:

- Hawkesbury City and The Hills Shire councils are part of a planned, collaborative regional approach to waste management that is cost effective, supports local communities and economies, and improves resource recovery in line with State Government targets;
- both councils are key partners in Hawkesbury Harvest, a not-for-profit community incorporated association, which provides alternative distribution channels for farmers; and
- both councils participate in Western Sydney – Light Years Ahead, a project to replace high emission street lights with low emission lights throughout Western Sydney.

The connections between the councils and communities are evident in these existing partnerships and collaborations. A new council will be better placed to deliver these services and projects into the future, without relying on voluntary collaboration.

## CONCLUSION

This proposal to create a merged council has the potential to provide a range of benefits to local communities, including:

- a \$74 million net financial benefit over a 20 year period that may be used to deliver better community services, enhanced infrastructure and/or lower rates;
- NSW Government funding of \$20 million to meet merger costs and provide a head start on investing in services and infrastructure that the savings from mergers will ultimately support;
- greater efficiencies through the removal of duplicate back office and administrative functions, increased purchasing power of materials and contracts, and reduced expenditure on councillor fees all of which are expected, on average, to generate savings of around \$5 million every year from 2020 onward;
- greater capacity to effectively manage and reduce the \$92 million infrastructure backlog across the two councils by maintaining and upgrading community assets, particularly in the Hawkesbury City Council area;
- creating a council that can be financially sustainable, with a stronger operating performance to maintain ongoing operations;
- reducing the reliance on rate increases through SRVs to fund local community infrastructure projects and services;
- better integrating strategic planning and economic development to more efficiently respond to the changing needs of the community;
- creating a council that represents a more diverse business profile and workforce;
- providing effective representation through a council with enhanced scale and capacity to meet the future needs of the community; and
- being a more effective advocate for the area's interests and better able to deliver on priorities in partnership with the NSW and Australian governments.



## NEXT STEPS

Every community will have an opportunity to help shape a new council for their area.

### Community Engagement

This merger proposal will be referred to the Chief Executive of the Office of Local Government for examination and report under the *Local Government Act (1993)*. The Chief Executive proposes to delegate this function to a suitably qualified person. The delegate will consider this proposal as required under the Act, including against statutory criteria and hold a public inquiry. The delegate will also undertake public consultation to seek community views. The delegate is also required by the Act to provide the delegate's report to an independent Boundaries Commission for review and comment. The Minister for Local Government under the legislation may decide whether or not to recommend to the Governor that the merger proposal be implemented. For the factors a delegate must consider when examining a merger proposal (under section 263 of the *Local Government Act (1993)*), please refer to the Appendix to this document.

Through the merger assessment process, there will be opportunities for communities and stakeholders to consider merger proposals and have their say. Each merger proposal will be the subject of a public inquiry where the community can hear about and discuss the proposal. Through the consultation process, the delegate will ensure that the opinions of each of the diverse communities of the resulting area or areas will be effectively represented.

Further information about the process is available on the Local Government Reform website at [www.councilboundaryreview.nsw.gov.au](http://www.councilboundaryreview.nsw.gov.au), including:

- details about the proposed mergers;
- information about the delegate for your area;
- dates for public meetings; and
- a portal to provide a written submission.

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### Appendix

The following table outlines the factors that a delegate must consider under section 263 of the *Local Government Act (1993)* when examining a proposal. The section references outline where the criteria have been addressed in this merger proposal.

<i>Legislative criteria</i>	<i>Section reference</i>
(a) the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned	Benefits, Opportunities and Impacts
(b) the community of interest and geographic cohesion in the existing areas and in any proposed new area	The Local Community
(c) the existing historical and traditional values in the existing areas and the impact of change on them	The Local Community
(d) the attitude of the residents and ratepayers of the areas concerned	There is a public consultation process which includes a public inquiry allowing for the views of residents and ratepayers to be considered.
(e) the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area	Local Representation
(e1) the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities	Benefits, Opportunities and Impacts
(e2) the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned	Financial Benefits of the Proposed Merger
(e3) the impact of any relevant proposal on rural communities in the areas concerned	The Local Community
(e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards	Local Representation
(e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented	Next Steps
(f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas	Benefits, Opportunities and Impacts

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For more information visit:  
[www.councilboundaryreview.nsw.gov.au](http://www.councilboundaryreview.nsw.gov.au)

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**EXTRAORDINARY MEETING**

**Meeting Date: 16 February 2016**

**AT - 2 Council Submission in response to the merger proposed of Hawkesbury City Council and part of The Hills Shire Council.**

Your Ref:  
Our Ref:

**DRAFT**

[Insert Date]

Mr. Garry West  
Delegate  
Council Boundary Review Submissions  
GPO Box 5341  
SYDNEY NSW 2001  
[www.councilboundaryreview.nsw.gov.au](http://www.councilboundaryreview.nsw.gov.au)

Dear Mr. West,

**Re: Merger Proposal - Hawkesbury City Council and The Hills Shire Council (part)**

Please find attached a submission from Hawkesbury City Council in response to the merger proposal prepared by the NSW Government concerning the proposed merger of Hawkesbury City Council and part of The Hills Shire Council. **This submission was endorsed by Council at its Extraordinary Meeting of 16 February 2016.**

The submission addresses the legislative criteria set out in section 263 (3) of the NSW Local Government Act 1993. The submission also includes a brief preamble which comments on a number of matters raised within the merger proposal document, which, while not directly canvassed by the legislative criteria, would nevertheless be germane to the evaluation of the merger proposal.

Council has welcomed the opportunity to respond to the merger proposal document prepared by the NSW Government. In forming its response Council has carefully evaluated the expected benefits and impacts of the proposed merger and has taken into consideration the expressed views of the residents of the Hawkesbury. Council has actively encouraged residents to lodge submissions to yourself, either for or against the merger proposal.

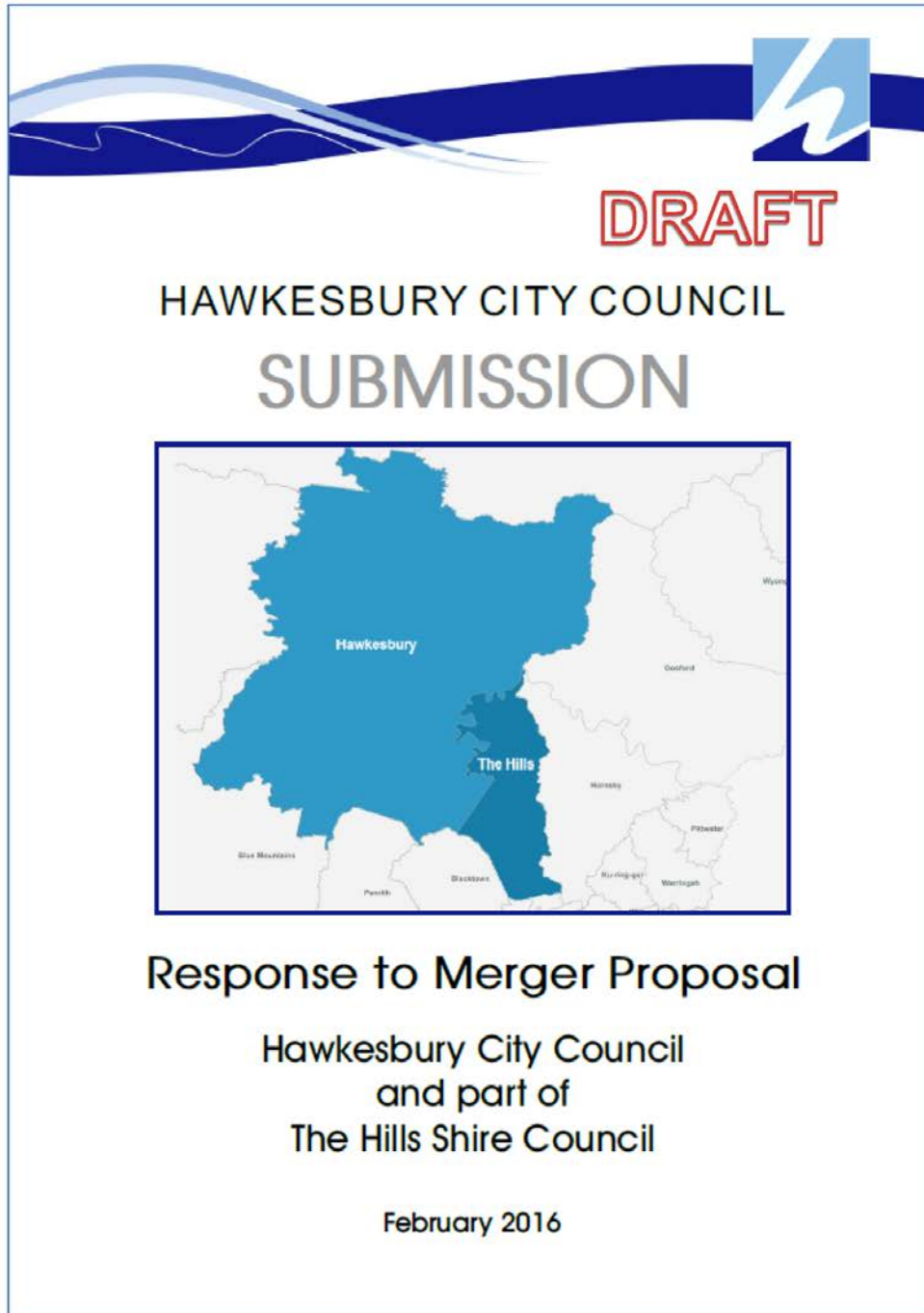
It is Council's assessment that the merger proposal provides little evidence to justify its conclusion that the proposed merger would provide significant benefits for the residents of the Hawkesbury. The merger fails to adequately take into account the location and particular characteristics of the Hawkesbury Local Government Area as a peri-urban community on the metropolitan fringe of Sydney. It has therefore misjudged the impact of the proposed merger on the communities that make up the distinctive blend of rural localities, villages and townships within the Hawkesbury.

For Council, the proposed merger of the Hawkesbury and The Hills makes little sense from a financial, community, planning or geographic perspective. This conclusion is supported by the evidence outlined in Council's submission.

Should you require further clarification in relation to the information within Council's submission, please feel free to contact me directly or alternatively you can contact Mr. Joseph Litwin (Executive Manager Community Partnerships) on 024560 4428.

Yours faithfully

Peter Jackson  
General Manager



## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

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Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

## Part 1: Preamble – Background to the Merger Proposal

Council would like to take the opportunity afforded by the public inquiry process to provide additional information to correct and update a number of the statements made in the merger proposal. Council is concerned that these statements may inadvertently misrepresent to the community Council's position in relation to the NSW Government's Fit for the Future (FFTF) reform process and the outcome of the FFTF processes to date.

<i>What the Merger Proposal Says</i>	<i>Council's Response to Merger Proposal</i>
<p><i>The merger proposal has been informed by an extensive four-year consultation and review process.</i></p> <p><i>It is 'broadly consistent with the findings of the Independent Local Government Review Panel (ILGRP) and responds to the assessment by the Independent Pricing and Regulatory Tribunal (IPART).</i></p>	<p>The merger proposal implies that the merger has been subject to extensive consultation. While this may have been the case for other proposals, the proposal for a full merger of Hawkesbury and The Hills was first conveyed to Council in November 2015 and confirmed in December 2015. Prior to these dates, the documentation issued in conjunction with the FFTF reform process identified Council as 'stand alone' due to its particular characteristics and location as a peri-urban council on the metropolitan fringe of Sydney. A merger between the Hawkesbury and Hills was only identified as a <i>possible long-term option</i>. The full-merger option has been brought forward without prior communication or consultation with the residents of the Hawkesbury.</p> <p>The current merger proposal does not canvass the <i>full</i> merger of The Hills and Hawkesbury (which would be consistent with the long term option suggested by the ILGRP and modelled by IPART). The NSW Government's <i>revised</i> merger proposal excises a portion of The Hills Shire with significant implication for its financial and operational performance. The revised merger proposal has not been previously modelled, consulted on, or discussed through the ILGRP or IPART processes. The public inquiry represents the first opportunity afforded to the two councils and their residents to express their views on the merger presented in the merger proposal.</p>
<p><i>The merger proposal indicates that while IPART found that Council satisfied the FFTF scale and capacity criteria, it was assessed as 'not fit' as it did not meet key financial benchmarks.</i></p>	<p>While Council was assessed as <i>not fit</i> by IPART, this assessment was based on a minor deviation from one of seven FFTF financial benchmarks - in Council's case, achieving a break-even Operating Performance Ratio (OPR) 18 months later than required 2019/20 timeframe. As this OPR 'shortfall' was equivalent to less than a 1% revenue increase/expenditure reduction, Council advised the NSW Government (October 2015) that it was able to make a minor adjustment to its FFTF Proposal to meet the 2019/20 time frame<sup>1</sup>.</p> <p>In submitting its FFTF proposal, Council was aware of the OPR shortfall. It had previously argued, in a submission to IPART, that as a peri-urban council it exhibited the rural council characteristics identified by IPART as requiring a longer time frame to achieve the FFTF benchmarks than those applying to metropolitan councils. In its FFTF proposal, Council put the view that as its OPR position was wholly related to funding the imputed cost of the depreciation of its assets – a noncash accounting entry – it had met the benchmarks for funding of the future cash cost of asset maintenance and renewal. Accordingly, IPART should give consideration to the overall trajectory of Council's performance against the aggregated asset-related FFTF benchmarks which clearly indicated that it was financially sustainable.</p> <p>Disappointingly, IPART did not accept this view. This apparent disregard for Council's peri-urban status has been carried forward into the merger proposal. Council would suggest that the proposed forced amalgamation with The Hills is a disproportionate and unnecessary response to a temporary and marginal financial performance 'deficiency' based on the imputed cost of depreciation.</p>

<sup>1</sup> Council's External Auditors, in their 2014/15 Audit Report, stated that Council's finances were such that it was clearly in a position to remain as a stand-alone entity.

# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<p><i>The merger proposal suggests that Council is intending to request a cumulative Special Rate Variation of 16 per cent over a five year period from 2017-18.</i></p>	<p>Council's FFTF Proposal did include provision for a <i>proposed</i> Special Rate Variation (SRV) of 15.3% above the rate peg over five years commencing in 2017-18<sup>2</sup>. However this was a <i>working proposal</i> and was to be subject to the outcome of a 12 month community engagement process aimed at reviewing service levels to determine affordable and agreed levels of services, and canvassing options on the most appropriate mix of revenue increases and expenditure reductions to increase investment in infrastructure renewal. It was proposed that three options – including a no SRV option - would be presented to the community with each option achieving the same FFTF outcome as would be delivered by the proposed SRV rating increase.</p> <p>Council's FFTF Proposal was intended to provide a road-map for further consultation post 30 June 2015. It included a broad mix of FFTF strategies to best enable Council to work with the community to identify and model the most appropriate strategies for consolidating financial sustainability.</p> <p>Council has noted that the merger proposal seems to imply that relying on an SRV to fund community infrastructure is inappropriate. Since 2007/08 almost 70% of NSW councils have successfully submitted applications for SRVs which would suggest that SRV's are routine rather than remarkable. Indeed a number of councils who could be considered as peer councils of the Hawkesbury, given their peri-urban and metropolitan fringe locations, were assessed by IPART as 'fit' largely on the basis of recently approved or proposed SRV's including Wollondilly (38.8% above the rate peg), Wingecarribee (30.8%), Blue Mountains (28.5%) and Penrith (17.2%).</p>
<p><i>Hawkesbury City Council had submitted a FFTF Proposal to remain as a stand-alone Council.</i></p>	<p>The merger proposal implies that Council's position of remaining stand-alone is somehow contrary to the thrust of the FFTF reform process. This apparent inference is incorrect. Under the FFTF process, Council has consistently been identified as a no change council with the scale and capacity to stand alone - a position which is in-keeping with the recommendations of the ILGRP (October 2013), the NSW Government's response to these recommendations (September 2014), and the more recent advice from the government which stated that councils who have been assessed by IPART as having <i>scale and capacity</i> were not required to submit a merger proposal (October 2015).</p> <p>Council had recognised however, that despite its no change status, it could not remain complacent and needed to consolidate its strategic capacity if it was to remain fit for the future and continue to efficiently deliver services and infrastructure to the community. In April 2015, Council resolved to enter into a <i>Regional Strategic Alliance Cooperation and Management Agreement</i> (RSA) with Blue Mountains and Penrith City Councils. The RSA Agreement provides for the three councils to act in concert to establish a regional entity and governance framework to initiate joint projects and programs. In this way, Council is actively engaged in a reform process and is already working with the Blue Mountains and Penrith City Councils to deliver the productivity and efficiency outcomes expected under the FFTF reform framework.</p>
<p><i>The merger proposal is consistent with the position of The Hills Shire Council which nominated the Hawkesbury as a potential merger partner.</i></p>	<p>At its meeting of 10 November 2015, The Hills Shire Council resolved to advise the Minister for Local Government that it was prepared to bring forward the ILGRP recommendation to merge with Hawkesbury City Council on the condition that it was '<i>a full merger incorporating existing council boundaries</i>'. As noted above, the NSW Government's <i>revised</i> merger proposal is not in-keeping with this resolution as it excises a portion of The Hills Shire. At its extraordinary meeting held on 3 February 2016, The Hills Shire resolved not to support the merger proposal option put forward by the NSW Government on the basis that this option would have a significant impact on the viability of the proposed merger and was not in keeping with the views of residents.</p>

<sup>2</sup> The SRV working proposal was based on a projected annual rating increase above the rate peg over five years as follows 2017/18: 4.5%; 2018/19: 3.5%; 2019/20: 2.5%; 2020/21: 2%; 2021/22: 2%.



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## Part 2: Legislative Criteria (Sec. 263 of the NSW Local Government Act 1993)

- (a) the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned

The financial benefits projected by the merger proposal are based on analysis undertaken by KPMG. The NSW Department of Premier and Cabinet have released a technical paper outlining the assumptions underlying the KPMG analysis<sup>3</sup>. The technical paper indicates that a set of standard assumptions were globally applied to all merger proposals based on each council's 2013/14 financial statements and Long Term Financial Plans (LTFP). This approach carries the risk that the financial assessment of the merger proposal may not adequately take into account the specific financial and operating settings of each council and in particular the combination of metropolitan and rural characteristics which define the Hawkesbury LGA<sup>4</sup>.

Council has reviewed the KPMG assumptions and has made the required fine-tuning to these assumptions to provide for a more robust analysis which reflects the specific financial and operational circumstances of both councils. An outline of the justification for these adjustments as they apply to Hawkesbury City Council (HCC) is appended in [Attachment 1](#).

To assist in its evaluation of the projected financial benefits of the proposed merger, Council has modelled the KPMG assumptions and applied them to the updated 2014/15 financial statements and the 2015/16 LTFP of each council (with the outcome highlighted in red shading in the table below). Council has also modelled its adjustment of the KPMG assumptions outlined in [Attachment 1](#) and applied these to the updated financial information (with the outcome highlighted in blue shading in the table below). This modelling exercise has been undertaken to assess the likely range of merger savings and costs and provides the basis for Council's response to the merger proposal. The working papers verifying this modelling have been appended ([Attachment 2](#)). The differences in KPMG and Council projections is summarised below.

Financial Indicators	Merger Proposal			Council Assessment	
	KPMG assumptions (merger proposal)	KPMG assumptions (updated financials)	notional Hawkesbury 'portion'	Adjusted KPMG assumptions - (updated financials)	notional Hawkesbury 'portion'
projected savings over 20 years	\$64M	\$56.5M	\$20.2M	\$50.8M	\$18.2M
projected merger costs	\$10M (implied)	\$10.65M	\$3.9M	\$14.5M	\$5.3M
projected net savings over 20 years	\$54M	\$45.9M	\$16.3M	\$36.3M	\$12.9M
avg. annual savings (over 20 yrs)	\$3.2M	\$2.83M	\$1.01M	\$2.5M	\$910,729
annual net savings (less merger costs)	\$2.7M	\$2.3M	\$815,547	\$1.8M	\$646,510
Breakdown of \$20M funding package to support merging councils					
total funding package	\$20M	\$20M	\$5.8M	\$20M	\$5.8M
less amount to offset merger costs	\$10M	\$10.65M	\$3.9M	\$14.5M	\$5.3M
balance for new infrastructure	\$10M	\$9.35M	\$2.7M	\$5.5M	\$0.5M

Table 1 – summary of assessment of projected financial benefits: Proposed merger of Hawkesbury and Hills Shire (part)

<sup>3</sup> Outline of Financial Modelling Assumptions for Local Government Merger Proposals, NSW Department of Premier and Cabinet, January 2016.

<sup>4</sup> Uniquely among councils proposed for merger, HCC is classified as a *metropolitan rural area* under the NSW Government's 'A Plan for Growing Sydney'. Geographically it is the largest LGA within Sydney.

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The merger proposal limits its analysis of the financial benefits of the proposed merger to the direct financial impact of the merger to each council's balance sheet and financial performance. It does not attempt to measure the flow-on financial impacts to the local economy of the staffing and service rationalisations which underpin the merger proposal. To rectify this omission, Council has undertaken financial modelling of the flow-on impact of the merger proposal based on different scenarios ranging from a minimum reduction in staffing levels to the possible downgrade or closure of Council's administration building and depot. The modelling has been compiled using REMPLAN economic modelling software and is appended in [Attachment 3](#).

In its assessment of the projected benefits outlined in the merger proposal, Council would also make the general observation that the previous IPART analysis of the proposed merger, undertaken by Ernst and Young (EY)<sup>5</sup> calculated that the merger of Hawkesbury and The Hills would deliver the smallest financial benefit of any of the proposed metropolitan mergers. The EY analysis also highlighted that the Australian and international empirical evidence on council amalgamations does not provide strong support for projected net savings being realised<sup>6</sup>. Council would also note that 20 year projections are inherently unstable given the rapid changes that have occurred across industry sectors including local government.

Ignoring the uncertainty as to whether the financial benefits outlined in the merger proposal will be achieved, and the difficulty of confidently projecting out to a 20 year time horizon, Council would provide the following response to the financial impact of the proposed merger on the residents and ratepayers of the Hawkesbury. The response is based on the economic modelling undertaken by Council which, as noted above, differs from that undertaken by KPMG in that it has taken into account the specific financial and operational circumstances of Council.

<b>What the Merger Proposal Says</b>	<b>Council's Response to Merger Proposal</b>
<p><i>Financial benefits (based on 2015 KPMG analysis) project net financial savings of \$54M plus \$20M funding package to deliver a net financial benefit of \$74M over 20 years.</i></p> <p><i>Gross savings are estimated at \$64M over 20 years with an implied merger implementation cost of \$10M.</i></p>	<p>Council's modelling of the merger proposal using the adjusted KPMG assumptions and the available updated financial information (<a href="#">Attachment 2</a>), indicates that the gross savings of the proposed merger across the two councils is estimated to be \$50.8M over 20 years with Hawkesbury Council's 'share' of the gross savings amounting to \$18.2M over 20 years.</p> <p>Council's modelling indicates that merger costs will exceed the implied \$10M merger implementation cost within the merger proposal. Depending on the cost of achieving the full migration and integration of IT and business systems, the estimated merger costs are likely to be between \$10.65M and \$14.5M. Hawkesbury's share of these merger costs is calculated to be between \$3.9M and \$5.3M.</p> <p>Based on the calculation of gross savings and merger costs, Hawkesbury's 'share' of the projected net financial benefit of the merger proposal would be between \$16.3M and \$12.9M over 20 years - an average annual net saving of between \$815,547 and \$646,510 (a saving of between \$12.45 and \$9.85 per resident per year)</p> <p>Based on this assessment, and in the absence of other FFTF strategies, the projected annual net savings will not be sufficient to fund the deterioration (the imputed cost of the depreciation) of its assets - the underlying reason for Council being assessed as <i>unfit</i> by IPART. More critically, it is also insufficient to address the current gap between what Council requires to fund the maintenance and renewal of its assets and what it currently spends on these assets. In the absence of other strategies, Council's conclusion is that the merger proposal carries the real risk of increasing rather than decreasing Council's existing infrastructure backlog.</p>

<sup>5</sup> Review of Business Case Estimates of Merger Net Benefits for Sydney Metropolitan Councils, IPART, October 2015, p59.

<sup>6</sup> Ibid, p

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<p><i>The proposed merger will improve operating performance of new council and strengthen balance sheet.</i></p> <p><i>KPMG analysis projects an increase in the operating result for the combined entity with the new council achieving a positive operating result from the first year of the merger and sustaining this result going forward.</i></p>	<p>To arrive at its conclusion that the proposed merger will improve the operating performance of the new council (compared with current projected operating performances of the two councils) the merger proposal simply combines the operating results of the Hawkesbury and The Hills Shire Councils. In effect, the 'solution' proposed by the merger proposal to address Hawkesbury Council's future financial sustainability is based on the expectation that the projected operating surpluses of The Hills Shire Council will simply be used to fund the depreciation costs of Hawkesbury Council's assets (the primary driver of Council's projected operating deficits).</p> <p>This solution incorrectly assumes that the projected operating surpluses of The Hills Shire Council, which are being primarily generated by property sales and developer contributions, can be redirected away from delivering the capital works required by its growing population and/or committed to funding the infrastructure within its developer contributions plans. This 'surplus' revenue at best only offsets future capital expenditure though experience suggests that in practice programmed capital works are likely to require additional financial contributions from any merged council entity.</p> <p>The fragility of the assumption underpinning the merger proposal, i.e. that the operating surplus of The Hills Shire Council can simply be redirected to support an improvement in the operating performance of the new council, is highlighted in the Council report prepared for The Hills Shire Council regarding the merger proposal. The report indicated that in bringing the full merger proposal forward, The Hills Shire Council would need 'to work with the NSW Government to secure appropriate funding and assistance to make it a success'<sup>7</sup>. This position has more recently been reiterated in a further report to The Hills Shire Council which concluded that the merger proposal would create 'an entity that would struggle to be financially viable'<sup>8</sup>.</p> <p>It is Council's view that the implied 'improvement' in the operating performance of the merged council does not appear credible.</p>
<p><i>Financial benefits of merger will be available to be reinvested in capital works, or to fund the employment of additional front line staff, or reduce rate pressures.</i></p>	<p>Council's modelling indicates that the direct financial benefits of the proposed merger are modest at best and that outcomes projected by the merger proposal are unlikely to be achieved. By itself, the merger proposal does not generate a sufficient financial return to fund Hawkesbury Council's projected operating deficits and infrastructure backlog, and is unlikely to release funds for reinvestment in new infrastructure or enhanced services.</p> <p>Council's evaluation also takes into account the benefits of the \$20M funding package being offered to support merging councils. While it is not made explicit in the merger proposal, Council has assumed that \$10M of the package is intended to cover the implied merger implementation cost of \$10M with the remaining \$10M available for new infrastructure. Council's modelling of the direct financial impact of the proposed merger, suggests that actual merger costs will exceed the implied \$10M provision within the \$20M funding package. The merger proposal does not indicate how merger implementation cost shortfalls are to be funded<sup>9</sup> but implies that costs in excess of \$10M would need to be met by the merged council.</p> <p>Based on its relative population, Hawkesbury Council's share of the \$10M new infrastructure funding will be between \$1.93M and \$0.5M – which represents a one-off increase in Council's current annual capital expenditure of between 13% and 3%. These funds are unlikely to fund the construction of the kinds of community facilities suggested in the merger proposal.</p>

<sup>7</sup> The Hills Shire Council, Item 8, Ordinary Meeting, 10 November 2015, p 124.

<sup>8</sup> The Hills Shire Council, Item 2, Extraordinary Meeting, 3 February 2016, p 11.

<sup>9</sup> The merger proposal implies that \$10M is the maximum that can offset by the \$20M funding package.



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<p><i>Savings generated by merger proposal may enable Hawkesbury Council to reduce reliance on rate increases to fund community infrastructure</i></p>	<p>Council's evaluation of the merger proposal indicates that the projected financial benefits of the merger are insufficient to fund the revenue shortfall which has contributed to Council being assessed as 'unfit' and which has been used to justify the proposed merger. This revenue shortfall is primarily being driven by depreciation costs (which account for 20% of Council's operating costs) which in turn has been driving the projected increase in Council's infrastructure backlog. In the absence of other strategies (such as those outlined in Council's FFTF Proposal) the projected financial outcomes of the merger proposal by itself will not extinguish a requirement for future rating increases or service level reductions to fund the infrastructure requirements of the community.</p>																																
<p><i>The proposed merger could be a better alternative than Hawkesbury Council's FFTF proposal to stand alone</i></p>	<p>The merger proposal suggests that the proposed merger is a better alternative than Council's FFTF Proposal to stand alone. The merger proposal implies that the financial benefits of the merger will reduce Council's reliance on a Special Rate Variation (SRV) to meet the FFTF benchmarks and fund its infrastructure backlog. On this basis it would be reasonable inference to assume that the merger proposal implies that it will deliver a superior outcome when measured against the FFTF financial benchmarks by which Council's FFTF Proposal was assessed by IPART.</p> <p>The merger proposal does not model its financial impacts against the FFTF benchmarks to 'test' this assumption. Council has modelled the impact of the projected benefits and costs of the proposed merger against the FFTF benchmarks. For the purpose of this modelling, the working proposal for SRV rate increases were deleted from Council's FFTF proposal and replaced by the projected financial impact of the proposed merger. Relative outcomes were then compared against the FFTF benchmarks (Attachment 4).</p> <p>The projected 2019/20 outcomes are summarised below<sup>10</sup>. Outcomes that achieve the FFTF benchmark are shaded light green, outcomes that do not achieve the benchmark are shaded light red. Where outcomes deteriorate relative to Councils FFTF Proposal, this is represented by <b>red text</b>.</p> <table><tr><th>FFTF Benchmark/Ratios</th><th>Council's FFTF Proposal</th><th>Updated KPMG assumptions</th><th>Adjusted KPMG assumptions</th></tr><tr><td>Operating Performance (break-even)</td><td>-0.011</td><td>-0.015</td><td>-0.026</td></tr><tr><td>Own Source Revenue (greater than 60%)</td><td>83.9%</td><td>83.0%</td><td>83.1%</td></tr><tr><td>Building &amp; Asset Renewal (100%)</td><td>137.5%</td><td>99.4%</td><td>87.9%</td></tr><tr><td>Infrastructure Backlog Ratio (less than 2% by 2024/25)</td><td>0.0%</td><td>7.2%</td><td>8.9%</td></tr><tr><td>Asset Maintenance Ratio (100%)</td><td>102.2%</td><td>96.5%</td><td>97.2%</td></tr><tr><td>Debt Service Ratio (less than 20%)</td><td>2.5%</td><td>1.1%</td><td>1.1%</td></tr><tr><td>Real Operating Expenditure (2013/14 base year = 100)</td><td>99.07</td><td>99.12</td><td>99.23</td></tr></table> <p>The results indicate that if all other factors remain the same, under both merger proposal scenarios (the KPMG updated modelling and KPMG adjusted modelling), performance against the FFTF criteria deteriorates against the Operating Performance and Asset Related FFTF benchmarks when compared with Council's FFTF Proposal. The merger proposal by itself does not address the existing infrastructure backlog or the reason for Council being assessed as 'unfit'.</p>	FFTF Benchmark/Ratios	Council's FFTF Proposal	Updated KPMG assumptions	Adjusted KPMG assumptions	Operating Performance (break-even)	-0.011	-0.015	-0.026	Own Source Revenue (greater than 60%)	83.9%	83.0%	83.1%	Building & Asset Renewal (100%)	137.5%	99.4%	87.9%	Infrastructure Backlog Ratio (less than 2% by 2024/25)	0.0%	7.2%	8.9%	Asset Maintenance Ratio (100%)	102.2%	96.5%	97.2%	Debt Service Ratio (less than 20%)	2.5%	1.1%	1.1%	Real Operating Expenditure (2013/14 base year = 100)	99.07	99.12	99.23
FFTF Benchmark/Ratios	Council's FFTF Proposal	Updated KPMG assumptions	Adjusted KPMG assumptions																														
Operating Performance (break-even)	-0.011	-0.015	-0.026																														
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<sup>10</sup> Infrastructure Backlog Ratio was required to be met by 2024/25 and is measured against that time frame.

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<p><i>The proposed merger could assist in supporting economic growth and enhancing standards of living.</i></p>	<p>The merger proposal does not offer any data to justify this conclusion.</p> <p>Business activity in the Hawkesbury is dominated by small businesses, there are only 3 businesses within the Hawkesbury that could be classified as relatively large business units employing more than 200 persons<sup>11</sup>. As one of these major employers, Council is concerned at the possible indirect flow-on economic impacts on the local economy of the staffing and service rationalisations which underpin the merger proposal. This concern is particularly acute for Windsor where Council's Administration Centre and Chambers are located. Council accounts for almost 12% of the 2,582 jobs generated within the Windsor Town Centre, as well as 16% of its total economic output<sup>12</sup>.</p> <p>Council has undertaken financial modelling of the flow-on impact of the merger proposal based on different scenarios ranging from a minimum reduction in staffing levels to the possible downgrade or closure of Council's administration building and depot. The modelling has been compiled using REMPLAN economic modelling software and is appended in <a href="#">Attachment 3</a>. The modelling indicates the indirect financial impact of the merger carries the potential to generate an economic loss to the local economy ranging from \$8.3M to \$81.3M a year (the higher figure is based on the strong possibility that the majority of Council's current operations would be relocated to Baulkham Hills). Given that Hawkesbury Council is the 'lesser' partner within the merger proposal, these losses are likely to be towards the higher end of this range.</p> <p>This modelling indicates that the projected merger savings are substantially outweighed by the flow-on multiplier impact to the local economy. In simple terms, every \$1 generated in merger savings, may cost the local economy between \$8 and \$80 in lost revenue and trade. Given this potential impact, Council would suggest that other strategies are available which would achieve the same modest projected merger savings without the adverse economic impacts of a forced amalgamation. Council's FFTF Proposal can achieve this outcome.</p>
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#### Conclusion – Financial Impacts of Merger Proposal.

Council's evaluation of the financial benefits and impacts of the merger proposal demonstrates that;

- the merger proposal has not adequately considered the location and characteristics of the Hawkesbury LGA as a peri-urban community on the metropolitan fringe of Sydney with significant implications for the integrity of financial modelling of the impact of the proposed merger;
- the net financial benefits flowing from the merger proposal are modest at best and are far outweighed by the adverse economic impact of the merger on the local economy and in particular the Windsor Town Centre;
- in the absence of other strategies, the merger proposal is unlikely to generate a sufficient financial return to achieve its implied objective of releasing funds for investment in new infrastructure and enhanced services nor extinguish the need for future rating increases;
- the merger proposal, by itself, does not improve Council's performance against the FFTF financial criteria and it is unlikely to improve overall operating performance or provide a credible pathway for tackling the existing infrastructure backlog;

Council can only conclude that the merger proposal will not deliver a better financial outcome than Council's FFTF Proposal to 'stand alone'.

<sup>11</sup> REMPLAN Hawkesbury economic profile

<sup>12</sup> REMPLAN

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- (b) the community of interest and geographic cohesion in the existing areas and in any proposed new area

The merger proposal suggests that the communities of Hawkesbury and The Hills Shire share many 'common characteristics and connections'. It is Council's assessment that the merger proposal provides little evidence to justify this conclusion and the limited evidence it does provide appears to be contradictory.

The primary 'communities of interest' justification for the merger proposal appears to rest on the comparison of the Socio-Economic Index for Areas (SEIFA), although somewhat inconsistently, the merger proposal documents that while Hawkesbury's SEIFA index is close to the NSW average, the SEIFA index of The Hills varies substantially from this average. Similarly, the merger proposal's comparison of local economies shows markedly differing workforce and industry characteristics.

The apparent difficulty the merger proposal encounters in sustaining its proposition that the two council areas share the same characteristics can be attributed to Hawkesbury's peri-urban location on the metropolitan fringe of Sydney. While the merger proposal correctly suggests that the Hawkesbury and The Hills are both situated to the 'north-west of the Greater Sydney Metropolitan region' the proposal seemingly overlooks the inherent differences between a predominantly urbanised Hills LGA and the distinctive blend of rural localities, villages and townships that make up the Hawkesbury LGA.

The merger proposal assumes that the future of the Hawkesbury will be best served within a larger, mainly metropolitan council whose primary focus will be on meeting the demands of urban intensification and renewal associated with the North West Growth Sector and Sydney Metro Northwest. While this may make sense for The Hills Shire, whose projected population growth will be wholly driven by urban expansion and intensification associated with the North West Growth Sector and Sydney Metro Northwest, it is less applicable to the Hawkesbury where the majority of projected population growth will occur outside of the North West Growth Sector<sup>13</sup>.

Currently well over half of the 5,389 new dwellings, either planned or underway in the Hawkesbury are located on the periphery of the existing town centres and villages of North Richmond, Glossodia, Kurrajong, Kurmond and Pitt Town with four out of every ten dwellings to be located west of the Hawkesbury River. Given the focus of the merger proposal on meeting the demands of the North West Growth Sector, it is largely silent about those areas that lie west of Rouse Hill and particularly west of the Hawkesbury River. It therefore misjudges the characteristics, connections and impacts of the proposed merger on the communities within the Hawkesbury, particularly those communities west of the Hawkesbury River.

The table on the following page charts the socio-economic similarities of Hawkesbury LGA, and its neighbouring LGAs. It is based on data contained in supporting documentation prepared by the National Institute of Economic and Industry Research (NIEIR)<sup>14</sup> and appended to the Final Report of the NSW Independent Local Government Review Panel<sup>15</sup>. The NIEIR analysis groups LGAs with similar socio-economic attributes, [Table 2](#) (on the following page) documents the identified 'cluster group' of the Hawkesbury LGA for these attributes and compares this with neighbouring LGAs to determine if these LGAs 'share' the same cluster grouping. The table also includes a comparison of the four different SEIFA indexes ranked by deciles to provide for a more accurate measure of shared socio-economic attributes<sup>16</sup>.

<sup>13</sup> The North West Growth Sector includes the Vineyard Precinct located on the eastern boundary of the Hawkesbury LGA adjacent to the Box Hill (The Hills LGA) and Riverstone (Blacktown LGA) Precincts.

<sup>14</sup> New South Wales Local Government Areas: Similarities and Differences, National Institute of Economic and Industry Research, March 2013.

<sup>15</sup> Revitalising Local Government. Final Report of the NSW Independent Local Government Review Panel, October 2013

<sup>16</sup> Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia. Local Government Area, Population Distributions, SEIFA 2011, ABS, April 2013

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Socio-Economic Attribute	Hawkesbury (cluster group)	The Hills	Penrith	Blue Mountains	Blacktown
Age Structure	4	✓	✓	✗	✓
Population Growth (2012 to 2025)	2	✓	✓	✗	✓
Population Growth (2025 to 2040)	2	✗	✓	✗	✓
Household Structure	5	✗	✓	✓	✓
Birthplace of residents	6	✗	✗	✓	✗
Religion	6	✗	✗	✓	✗
Language	5	✗	✗	✓	✗
Knowledge Economy	5	✓	✓	✗	✓
Education	6	✗	✗	✗	✗
Labour Market	6	✗	✗	✓	✗
Household Income	2	✗	✓	✓	✗
Dwellings	4	✓	✓	✓	✓
Household Wealth	5	✗	✓	✓	✓
Rate Base	4	✓	✓	✓	✓
Vehicle Ownership	4	✓	✓	✓	✓
Commuter Flows	OWS	✗	✓	✗	✓
Workforce Employed in Sydney	FOR	✗	✓	✓	✗
Cross-border migration	CO	✗	✗	✓	✓
SEIFA decile - Relative Advantage	8	✗	✗	✗	✗
SEIFA decile- Relative Disadvantage	8	✗	✗	✗	✗
SEIFA decile- Economic Resources	9	✗	✗	✓	✗
SEIFA decile- Education and Occupation	7	✗	✗	✗	✗
Total of shared Hawkesbury attributes	22 of 22 (100%)	6 of 22 (27%)	12 of 22 (55%)	13 of 22 (59%)	11 of 22 (50%)

Table 2 – Socio-economic similarities/differences between Hawkesbury LGA and adjoining LGAs.

Of its neighbouring LGAs, the Hawkesbury shares the highest number of socio-economic attributes with the Blue Mountains (59% of measured attributes) and Penrith (55%). By contrast, the socio-economic correlation between Hawkesbury and The Hills is substantially less (27%)<sup>17</sup>.

Table 2 provides a wide-ranging snapshot of the extent to which the communities of the Hawkesbury and The Hills Shire 'share' common characteristics and connections. It suggests that the merger proposal overstates the extent and strength of these characteristics and connections. It also clearly indicates that the Hawkesbury LGA has more in common with the Blue Mountains and Penrith than with The Hills Shire and would seem to reinforce the benefit of Council continuing to consolidate its linkages with Blue Mountains and Penrith through its existing Regional Strategic Alliance (RSA) with these councils. It is Council's assessment that the RSA provides for a superior geographic and community alignment than the merger proposal.

While the information outlined in Table 2 provides a robust and evidence based tool for comparing common community characteristics and connections, Council would provide the following additional information to reinforce its position that currently the Hawkesbury's primary connections and communities of interest; its employment and transport flows, its tourism gateways and even its geography is oriented along a north/south axis rather than east towards The Hills Shire and the City of Sydney as presented in the merger proposal.

<sup>17</sup> The Hawkesbury LGA shares 17 of 22 (77%) of its socio economic attributes with Wollondilly, another peri-urban council located on the rural fringe of the Sydney Metropolitan Area. Like Hawkesbury Council, Wollondilly faced the same peri-urban challenge of meeting the FFTF Operating Performance Ratio benchmark by 2019/20. It was assessed as 'fit' by IPART on the basis of an approved SRV of 38.8% above the rate peg amount.



# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

What the Merger Proposal Says	Council's Response to Merger Proposal
<p><i>The two councils share similar priorities – creating vibrant communities through sustainable growth which protects the natural environment and heritage.</i></p>	<p>The Community Strategic Plans (CSP) of both Councils share the same broad strategic priorities, but the same could be said of all NSW councils.</p> <p>A high-level 'scan' of the content of each council's CSP does suggest different emphases in achieving these strategic priorities. In comparison with The Hills Shire CSP, the Hawkesbury CSP provides a more detailed dissection of those matters which reflect the particular concerns of residents which are viewed as most important to the future of the Hawkesbury<sup>18</sup>.</p> <p>These matters include:</p> <ul style="list-style-type: none"> <li>• protecting and enhancing the rural and heritage values of the Hawkesbury;</li> <li>• improving the health of the Hawkesbury River;</li> <li>• providing for effective natural disaster management;</li> <li>• growing local employment and reducing commuter travel times;</li> <li>• maintaining the viability of agricultural industries;</li> <li>• supporting volunteerism and resident participation in the provision and management of Council services; and</li> <li>• maintaining the character of towns, villages and rural landscapes.</li> </ul>
<p><i>The merged entity will be better placed to manage the interface between urban and rural communities</i></p> <p><i>Both councils share the same need to manage expected population growth</i></p>	<p>The merger proposal implies that the new council will be better placed to manage conflicts associated with the expansion of residential development into rural areas, but does not provide details to support this statement.</p> <p>There are substantial differences in residential development forms between the Hawkesbury and The Hills. In The Hills Shire, 88% of residents are concentrated in the heavily urbanised suburbs lying between Rouse Hill and Carlingford. By contrast, within the Hawkesbury, only 42% of residents live within the urban precincts surrounding Richmond, Windsor and North Richmond. In relative terms the Hawkesbury supports a substantial rural and semi-rural periphery where the majority of its residents live.</p> <p>As a consequence patterns of residential development also differ markedly between the two councils. In The Hills, recent residential expansion has involved the wholesale resumption and subdivision of large tracts of rural lands to create small lot housing as well as medium and high density residential precincts. By contrast development within the Hawkesbury has been marked by the limited and smaller scale expansion of rural villages and town centres into predominantly large lot and rural residential developments.</p> <p>The expertise and capacity of Hawkesbury Council in sensitively managing the development of its rural and semi-rural periphery was recognised by the Independent Local Government Review Panel. In its Final Report, the Panel recommended that the Hawkesbury, Blue Mountains and Wollondilly should remain in their current form given the specialist role they play roles in managing the important 'green space' areas under their control<sup>19</sup>.</p> <p>The merger proposal appears to overlook this crucial consideration. Council is concerned that the merger proposal's focus on the North West Growth Sector will dilute rather than strengthen the capacity of the new council sensitively manage the future development of the 'green space' peri urban fringe of the metropolitan area. There is a real risk that the recognised expertise of Council in achieving this important outcome may well be lost within a merged council entity.</p>

<sup>18</sup> These issues have been consistently identified in Council's biennial community survey.

<sup>19</sup> Revitalising Local Government. Final Report of the NSW Independent Local Government Review Panel, October 2013, p102.



## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<p><i>The Hawkesbury and Hills have economies that share similar residential, workforce and industry characteristics</i></p>	<p>To support the data summarised in <a href="#">Table 2</a> which suggests that the merger proposal has overstated the extent of these characteristics, Council would also make the following additional observations.</p> <p><u>Transport Flows</u>. Currently, there is no direct bus or rail transport links<sup>20</sup> between the Hawkesbury and The Hills Shire. This gap will not be remedied by the Sydney Metro Northwest which when completed, will not be directly connected to the rail line that services the Hawkesbury. The major public transport connections that link the Hawkesbury to the metropolitan region are oriented to the south – to Penrith, Riverstone and Blacktown.</p> <p><u>Employment Flows</u>. ABS data<sup>21</sup> indicates that the primary employment workflows of Hawkesbury residents are also oriented to the south. Of the 16,948 residents who work outside of the Hawkesbury, 6,913 (41%) travel to Blacktown, Parramatta, Penrith and Blue Mountains to access employment, while 2,025 (12%) travel to The Hills. This trend is more pronounced for inbound workflows where almost 70% of non-Hawkesbury residents who work in the Hawkesbury travel from Blacktown, Parramatta, Penrith and the Blue Mountains, compared with 22% who travel from The Hills.</p> <p><u>Education and the Knowledge Economy</u>. The merger proposal highlights the linkages between the Richmond and Baulkham Hills campuses of TAFE Western Sydney as evidence of a strong connection between the two council areas. Clearly, this linkage is not confined to the two councils as TAFE Western Sydney has a network of campuses across Western Sydney. More critically, the merger proposal overlooks the location of the Richmond TAFE on the Western Sydney University (WSU) Hawkesbury campus.</p> <p>Council has been recently briefed by the WSU Vice Chancellor on the Western Sydney Innovation Corridor - an economic development strategy linking the WSU's Outer Western Sydney campuses through the regional centres of Campbelltown and Penrith, the proposed Western Sydney Airport and Employment Areas and the North West and South West Growth Centres. The northern terminus of the Corridor, lies within WSU Hawkesbury and is intended to drive the development of a Hawkesbury Agripark to build on the work of the existing WSU Hawkesbury Institute for the Environment. Council supports the view of the WSU that the Innovation Corridor would cement the north-south orientation and connectivity of the Outer Sydney Region and the potential role of the Hawkesbury Agripark in driving economic growth in agribusiness - a key 'next wave' industry for NSW<sup>22</sup>.</p> <p><u>Tourism</u>. The merger proposal identifies that HHART (Hills, Hawkesbury &amp; Riverlands Tourism) as indicative of a strong tourism linkage between Hawkesbury and the Hills. Council has recently commissioned a respected tourism consultancy firm to engage with tourism stakeholders and consumers in the preparation of a Tourism Strategy for the Hawkesbury. The ensuring market research clearly demonstrated that Hawkesbury's tourism future did not lie with The Hills Shire and recommended that Council should work with Penrith and Blue Mountains to develop a tourism marketing alliance<sup>23</sup>. To this end Council is currently working with Destination NSW to establish a Regional Tourism Organisation (RTO) in conjunction with Penrith and the Blue Mountains. The new RTO has received favourable consideration by the Minister for Tourism and Destination NSW and the 3 councils have been requested to provide a business case as soon as possible.</p>
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<sup>20</sup> [Western Sydney Bus Network Map](#) , [Sydney Trains Network](#)

<sup>21</sup> REMPLAN

<sup>22</sup> Western Sydney Innovation Corridor, University of Western Sydney, Briefing 2015Ibid p 6-7

<sup>23</sup> Hawkesbury Tourism Strategy, The Stafford Group, March 2015.

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<p><i>The merged entity will be better placed to manage the threat of natural hazards</i></p>	<p>The merger proposal implies that the new council will be better placed to manage the threat of natural hazards but does not provide any details or evidence to support this statement</p> <p>The Hawkesbury LGA is dominated by the Hawkesbury-Nepean River System and the escarpment of the Blue Mountains to its west. The LGA contains substantial areas of remote bushland which are prone to bushfires while at the same time the majority of its urban areas are affected by flooding or flood evacuation constraints. The combination of topography, flooding, evacuation constraints, and bushfire risk has meant that the majority of the LGA is 'highly constrained' with significant implications for urban development. It has also meant that comparatively it has a very high exposure to natural disasters, particularly to the impact of riverine flooding to its populated urban areas and the impact of remote area bushfires on the villages and localities within its rural periphery. Due to its topography these natural hazards typically follow a north/south axis with regard to riverine flooding and a west/ east axis with regard to remote area bushfires</p> <p>The impacts of flooding are felt most acutely upstream of the Sackville Gorge which takes in all of the urban precincts surrounding Richmond and Windsor and effectively isolates North Richmond. By contrast, The Hills Shire does not face the same magnitude of riverine flooding risk as the extent and depth of flooding dissipates beyond the Sackville Gorge and there are no significant concentrations of population on the east bank of the Hawkesbury River beyond this point. Similarly, major bushfires generally spread downwards from the Blue Mountains and the Wollemi escarpments to impact primarily on the rural populations west of the Hawkesbury River.</p> <p>Due to Council's heightened exposure to natural hazards, and along with the adjoining councils of Penrith and the Blue Mountains who face the same risks, Council has developed significant expertise in planning for the mitigation and response to natural hazards. Council has adopted a Natural Hazards Resilience Study and a Floodplain Risk Management Strategy and established a Floodplain Risk Management Advisory Committee to oversee the implementation of this Strategy. Council supports the operations of the Rural Fire Services to an amount equivalent to \$27.35 per resident.</p> <p>By contrast, and probably more of a reflection of their relatively lesser exposure to levels of natural hazards than any oversight, The Hills Shire do not have the same flood management, or remote area bushfire response mechanisms in place and their contribution to the RFS is equivalent to \$18.04 per resident.</p> <p>As noted previously, the merger proposal assumes that the future of the Hawkesbury lies within a larger, metropolitan Council focused on meeting the demands of urban intensification and renewal associated with the North West Growth Sector. There is a risk that this focus on the eastern precincts of the merged council area may draw attention away from the need to effectively plan for and manage the impact of riverine flooding and remote area bushfires given that these urban precincts are largely unaffected by these natural hazards. Council is concerned that a reoriented focus on the North West Growth Sector will dilute rather than strengthen the capacity of the new council to plan for and mitigate the impacts of natural hazards.</p>
<p><i>The merged entity would be better placed to support the retention of Richmond RAAF and manage the Hawkesbury Nepean Catchment.</i></p>	<p>The merger proposal does not provide any details or evidence in support of these statements. Council is disappointed that the merger proposal overlooks the considerable work and advocacy that Council has undertaken in relation to these issues. While there are clear advantages to be gained from co-ordinated advocacy, Council would point out there is currently nothing preventing The Hills Shire Council from lending its support to these efforts.</p>

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<i>Shared community values and interests.</i>  <i>Partnerships would become less reliant on voluntary collaboration.</i>	<p>The merger proposal puts forward a number of examples of community organisations, services and facilities which it suggests have a presence across the two council areas and are evidence of a common sense of place and strong connections.</p> <p>The examples provided are not indicative of any special relationship or particular connection that exists between The Hills and the Hawkesbury. The 'shared' services and initiatives documented in the proposal, are not limited to the two councils, and have a much wider Western Sydney remit. The fact that they already exist suggests that the kind of connections and collaborative relationships identified in the merger proposal are not necessarily dependent on council mergers. The merger proposal also seems to indicate that the proposed merger would lessen the requirement for 'voluntary collaboration' which perhaps misjudges the intent of collaborative partnerships.</p> <p>The merger proposal identifies <i>The Hills to Hawkesbury Living Magazine</i> as evidence of the strong connection between The Hills and The Hawkesbury. The website for this publication indicates it has a limited distribution of 10,000 copies and its primary purpose is to provide a comprehensive TV guide for its subscribers. For Hawkesbury residents, the primary written publication remains the <i>Hawkesbury Gazette</i>, distributed within Hawkesbury LGA and Riverstone, and for Hills residents the <i>Hills Shire Times</i> distributed within The Hills Shire. There are no major local publications which cover the two council areas, and it is very likely that the residents of any merged council entity would continue to source information from these two separate publications.</p>
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### Conclusion – Communities of Interest and Geographic Cohesion.

Council's interrogation of the available demographic, planning and socio-economic data and documentation indicates that;

- the merger proposal overstates the extent of the shared communities of interest, connections and geographic relationships between the Hawkesbury and The Hills LGAs;
- the merger proposal overlooks the existing north/south alignment and strength of the Hawkesbury LGAs current connections, particularly with the neighbouring local government areas of Penrith and the Blue Mountains;
- the Hawkesbury's primary connections, its transport network and future growth potential is oriented along a north/south axis rather than east towards The Hills Shire and the City of Sydney as presented in the merger proposal;
- the Hawkesbury and the Hills Shire have markedly different patterns of residential development;
- Hawkesbury's tourism future does not lie with The Hills Shire, but through a regional tourism alliance with Penrith and the Blue Mountains;
- progressing the Regional Strategic Alliance with the Blue Mountains and Penrith Councils is likely to deliver a better outcome for residents than the proposed merger with The Hills Shire Council.

Council's existing north/south connections are well-established. The NSW Government itself has recognised the strength of these connections by aligning the Hawkesbury, Penrith and Blue Mountains Councils within a District grouping within its own metropolitan strategy released in December 2014<sup>24</sup>. Council is concerned that substituting these organic and mature north/south connections and reorienting the future of the Hawkesbury towards the North West Growth Centre may carry substantial challenges for maintaining the lifestyle of residents and the rural character and village atmosphere of their communities. It would also be contrary to the District Plans that the Greater Sydney Commission has been charged with implementing.

<sup>24</sup> A Plan for Growing Sydney, NSW Government, December 2014, p120.



# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

(c) the existing historical and traditional values in the existing areas and the impact of change on them

What the Merger Proposal Says	Council's Response to Merger Proposal
<p><i>The merger proposal has little to say in relation to this factor apart from noting that in common with all NSW councils, both Hawkesbury City Council and The Hills Shire Council share a similar strategic priority in taking steps to 'protect heritage'</i></p>	<p>The City of Hawkesbury and its townships, rural villages and ancient landscapes share a rich and enduring indigenous and European cultural heritage. The Hawkesbury contains the 3<sup>rd</sup> oldest town in Australia - Windsor (originally The Green Hills) which was established in 1794, and it is one of five 'Macquarie Towns', four of which are located within the Hawkesbury. Governor Macquarie had a profound influence on the development and landscapes of the Hawkesbury, which included naming the townships of Windsor, Richmond, Wilberforce and Pitt Town and the layout of their streetscapes, cemeteries and town squares. The agricultural lands that surround these townships represent the oldest rural land holdings under continuous cultivation within Australia. The Hawkesbury also contains the oldest church, hotel and public square which have retained their original function and form. The District Council of Windsor was established in 1843 and was the second proclaimed council in NSW. The Hawkesbury is also the site of some of the earliest recorded interactions between indigenous peoples and the first explorers and settlers.</p> <p>The importance of this rich historical legacy is reflected in the 520 heritage items and four heritage conservation areas listed in the Hawkesbury LEP<sup>25</sup> together with Council's recent investment in the construction of the Hawkesbury Regional Museum and Hawkesbury Regional Gallery, and its ownership and continued financial support of the Australiana Pioneer Village. The operations of these cultural institutions is supported by an active volunteer workforce of some 160 residents, and six historical and heritage societies, with visitation levels to these facilities (together with the Hawkesbury District Library Service ) well in excess of 250,000 annually. These cultural assets, together with the environmental values and rural landscapes of the Hawkesbury, support an active and vibrant artisan community and artist trail.</p> <p>These levels of volunteerism, patronage and cultural activity point to the continuing importance that residents place in their history and heritage. These historical and cultural assets are actively being used to support cultural expression, tourism and economic activity. They remain integral to the future identity and prosperity of many residents. While the Hawkesbury is not unique in its celebration of its history, heritage and culture, the continuing dynamism and vigour of these historical roots are perhaps stronger than in adjoining LGAs. The Hawkesbury's historical and traditional values are fairly unique and could be said to form a relatively more significant component of the identity, connectedness and sense of place of residents than may be the norm in other areas of North West Sydney and the metropolitan region in general</p>

## Conclusion – Historical and Traditional Values.

It is difficult to project how the merger proposal may impact on the important historical and traditional values of the Hawkesbury LGA. Council would suggest however, that given that the merger proposal repeatedly stresses that the primary focus of the new merged entity will be to manage the urban development and intensification associated with the North West Growth Sector, then there is a risk that these historical and traditional values may be fractured to the detriment of the local community. Equally, Council's current commitment to 'protecting heritage', and more critically, supporting the use of the Hawkesbury's historical and cultural assets to drive tourism and economic activity and promoting community identity may well be lessened within a new merged entity.

<sup>25</sup> Hawkesbury Local Environment Plan, Schedule 5 – Environmental Heritage Hawkesbury City Council, September 2012

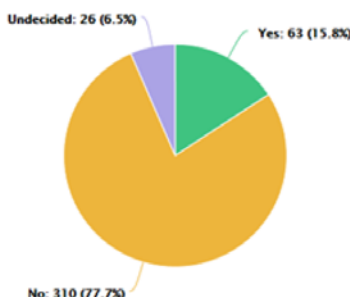
# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

(d) the attitude of the residents and ratepayers of the areas concerned

The merger proposal indicates that the views of residents will be established through the public inquiry process. Council would suggest that the views of the residents of both The Hawkesbury and The Hills Shire have been well documented and established. Both Councils have surveyed their residents on a number of occasions and the results have consistently indicated that the overwhelming majority of residents are opposed to the proposed amalgamation. A brief summary of these surveys is detailed below;

What the Merger Proposal Says	Council's Response to Merger Proposal												
<p>The merger proposal suggests that the view of residents will be established through the public inquiry process.</p>	<p>In February 2015 a quick poll was undertaken on Council's online community engagement site <i>Your Hawkesbury—Your Say</i> to establish the views of residents regarding Council's preferred position of <i>'not supporting any proposal for the adjustment of its current boundaries or the merger of the LGA with any adjoining council area'</i>. Of the 40 respondents to the quick poll, 73% agreed with Council's stated position.</p> <p>In June 2015, the outcomes of an on-line merger options survey were reported to The Hills Shire Council<sup>26</sup> indicating that 90% of the 1,208 respondents to the survey rejected full Hawkesbury/Hills merger option.</p> <p>In November 2015 Council established an online merger survey to canvas the views of residents regarding the decision of The Hills Shire Council to advise the NSW Government that it had reversed its previous opposition to the full merger option. This survey was closed on February 1 to allow for the preparation of this submission. The outcome of the survey (summarised below) indicates that close to 80% of Hawkesbury maintained their opposition to the proposed merger.</p> <div><p>Do you agree with the proposal by The Hills Shire Council to merge with Hawkesbury City Council?</p><table><thead><tr><th>Response</th><th>Count</th><th>Percentage</th></tr></thead><tbody><tr><td>No</td><td>310</td><td>77.7%</td></tr><tr><td>Yes</td><td>63</td><td>15.8%</td></tr><tr><td>Undecided</td><td>26</td><td>6.5%</td></tr></tbody></table></div> <p>The survey also sought residents views as to which LGAs were viewed as having more in common with the Hawkesbury. While 70% of respondents considered that the Hawkesbury was unique, 23% identified an affinity with Penrith and the Blue Mountains and only 7% identified the Hawkesbury and The Hills as sharing common traits. This outcome reinforces Council's analysis of the socio-economic data which indicated that the Hawkesbury LGA has more in common with the Blue Mountains and Penrith than with The Hills Shire.</p>	Response	Count	Percentage	No	310	77.7%	Yes	63	15.8%	Undecided	26	6.5%
	Response	Count	Percentage										
No	310	77.7%											
Yes	63	15.8%											
Undecided	26	6.5%											

<sup>26</sup> The Hills Shire Council, Item 5, Ordinary Meeting, 23 June 2015, pp 112-113.

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<i>The merger proposal suggests that the view of residents will be established through the public inquiry process (cont.).</i>	<p>There has been a strong interest by the community in the NSW Government's Fit for the Future Program and how it will impact on the Hawkesbury with 2,610 visits made to Council's 'Getting Council Fit for the Future' page on the <i>Your Hawkesbury—Your Say</i>.</p> <p>Council has also held Extraordinary Meetings to consider merger related issues which were heavily attended by residents. At the 15 December 2015 meeting, of the 19 people addressing Council, 16 people spoke in favour of motion that 'Council express its absolute opposition to amalgamations'. At the second meeting held on 28 January 2016 all seven people who addressed Council spoke in support of Council maintaining its opposition to the merger proposal.</p> <p>Council would also note that the public inquiry meeting into the merger proposal held at The Hawkesbury Race Club on the 5<sup>th</sup> February 2016 was attended by an estimated 200 residents. Of the 49 persons who registered to speak, 48 indicated they were not in favour of the merger proposal.</p>
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### Conclusion – The Attitude of Residents.

The outcome of Council's community engagement with residents regarding the proposed merger indicates that the overwhelming majority of participating residents are unequivocally opposed to the proposed merger.

This community view is consistent with the Independent Local Government Review Panel's Final Report released in October 2013 which recommended that Hawkesbury City Council should remain as a stand-alone Council into the foreseeable future. This recommendation, which was endorsed by the NSW Government in September 2014 and has remained unchanged.

Accordingly, up until 10 November 2015, there had been no indication within the FFTF Reform process that Hawkesbury City Council was required to consider a merger or amalgamation. Council was therefore not required to canvass the views of the community regarding the merits of a proposed merger although Council did advise residents that it would be preparing its FFTF proposal on the basis of being a stand-alone Council.

This approach was consistent with the Fit for the Future guidelines issued by the Office of Local Government (OLG) and remains consistent with the recommendations of the ILGRP and the NSW Government's response to these recommendations. This position was endorsed by Hawkesbury residents via the on-line survey referred to above, and subsequently echoed by the outcome of the more recent on-line survey. In preparing its own FFTF proposal, the Hills Shire Council also referred to the outcome of its on-line survey which indicated that its residents were not in favour of the full merger option.

Council's position in maintaining its opposition to a merger with The Hills Shire is seemingly the only position that reflects the documented views of both The Hills and Hawkesbury ratepayers.

Council would also note that in November 2015 The Hills Shire Council reversed its June 2015 position regarding its opposition to the full merger option but has since returned to its initial position in opposing the full merger option<sup>27</sup>.

Council's current position in opposing a merger with The Hills Shire is the only position that has remained consistent since October 2013 and throughout the FFTF reform process.

<sup>27</sup> The Hills Shire Council, Minutes of Extraordinary Meeting, 3 February 2016



## EXTRAORDINARY MEETING

**Meeting Date: 16 February 2016**

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

- (e) the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area

The merger proposal notes that, as both Hawkesbury and The Hills Shire have the same number of Councillors, the ratio of residents to elected councillors is markedly different. It suggests that the merger of the two councils will deliver a more equitable resident to elected councillor ratio in keeping with other Sydney councils, though it does rely on a comparison with the most populous council in NSW to make this point. For a number of reasons, Council would suggest that this assessment may be flawed as it does not take into account Council's position on the metropolitan fringe of Sydney and its large geographic area and does not address the potential impacts that the increase in the resident to/councillor ratio may have on residents, particularly those living in rural areas of the Hawkesbury.

<i><b>What the Merger Proposal Says</b></i>	<b>Council's Response to Merger Proposal</b>
<i>The proposed merger will result in a ratio of residents to elected councillors currently experienced in other Sydney councils.</i>	<p>Under the merger proposal, Hawkesbury Council residents will face a substantial reduction in local representation. Currently, there 5,461 residents per elected Councillor, which will increase exponentially by 340% to 18,697 residents to each councillor within a new merged council entity.</p> <p>As noted previously, the Final Report of the ILGRP identified the Hawkesbury, Blue Mountains and Wollondilly as 'specialist' councils responsible for managing the green spaces on the metropolitan fringe of Sydney. Under the merger proposal, Hawkesbury residents will have considerably less representation than the Blue Mountains (6,532 residents to each councillor) and Wollondilly (4,933 residents to each Councillor). As neither the Blue Mountains or Wollondilly, are subject to merger proposals, their levels of representation will remain at their current levels presumably to assist those councils to meet their responsibilities in managing the inter-face between the metropolitan region and its rural fringe.</p> <p>Under the merger proposal, the new merged council entity will have a substantially higher ratio of residents to elected councillors than both the Blue Mountains Council (280% higher) and Wollondilly Council (380% higher). There is a risk therefore that the reduction in local representation faced by Hawkesbury residents may impair the capacity of the new council entity to undertake its specialist responsibility in managing the rural/urban interface.</p>
<i>The new council will be in a position to more effectively represent its communities and advocate on behalf of residents</i>	<p>Council is currently the largest LGA within the metropolitan region with a total area of 2,775 km<sup>2</sup>. The majority of residents live in the Hawkesbury's rural and semi-rural periphery with a substantial number living in relatively isolated villages including St Albans, Colo Heights, Bilpin, Kurrajong Heights and Bowen Mountain. At present, residents in outlying areas are required to make a one to two hour return trip to travel to Windsor to attend Council Meetings, community meetings or access Council Offices to conduct their business with council. A merged council would centralise its operations and administration, and it is likely that these services may well be re-located to the existing Offices of The Hills Shire which would mean adding an additional hour to hour and a half in travel time. This can only reduce levels of community participation in community engagement forums, and resident access to councillors, and community meetings.</p>

### **Conclusion – Levels of Elected Representation.**

Under the merger proposal, residents of the Hawkesbury will experience a substantial and dramatic reduction in local representation and levels of community participation. This reduction carries the risk that the capacity of residents to have a say and be involved in the planning the future of their communities may be impaired, while the capacity of the new council entity to sensitively manage the important green spaces under its control, to meet community expectations, will be weakened.

# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

(e1) the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities

The merger proposal suggests that the creation of the proposed new council will bring together communities with similar expectations and demands for services, infrastructure, and facilities. This conclusion rests on the assumption that these communities share the same characteristics and connections. As outlined previously, with respect to the Hawkesbury and The Hills LGAs, the merger proposal appears to have overstated the extent of these shared characteristics and common connections. Accordingly, Council would suggest that the merger proposal seems to conflate the needs of communities within the Hawkesbury and The Hills, and in doing so misreads the infrastructure priorities and service requirements of Hawkesbury residents.

<i><b>What the Merger Proposal Says</b></i>	<b>Council's Response to Merger Proposal</b>
<i>The business and workforce profile of the combined area will require similar services and infrastructure.</i>	<p>The merger proposal suggests that as areas of 'rapid urban development', the communities of the Hawkesbury and The Hills Shire will require relatively similar services and infrastructure and that the merged council will be better placed to deliver these requirements in a co-ordinated way.</p> <p>However, the merger proposal seems to adopt (from a Hawkesbury perspective) an eastern-centric view of infrastructure and service requirements by focusing on the need to support growth and investment in the centres of Castle Hill, Norwest and Rouse Hill and the upgrade of the Baulkham Hills Town Centre. No mention is made within the merger proposal of the service and infrastructure needs of the town centres and areas within the Hawkesbury.</p> <p>The merger proposal seemingly overlooks the priorities identified by Hawkesbury residents for the revitalisation of the town centres of North Richmond, Richmond and Windsor, and the upgrade of Hawkesbury's network of foreshore parklands and riparian reserves.</p>
<i>The new council will be better able to partner with the NSW Government on improving transport connections.</i>	<p>The merger proposal limits its assessment of required transport infrastructure to the need to support the development of Sydney Metro Northwest and to improve transport connections between the centres within the North West Priority Land Release Area and then on to the City of Sydney.</p> <p>The completion of the Sydney Metro Northwest will undoubtedly benefit residents of The Hills. As it will not be directly connected to the existing public transport network that services the Hawkesbury, its impact on Hawkesbury residents will be marginal, particularly as only 7.7% of residents work in The Hills or in the localities serviced by the Sydney Metro Northwest.</p> <p>Council is disappointed that the merger proposal is silent about the long standing and well-publicised requirement for the replacement of the Windsor Bridge and the upgrade of the North Richmond Bridge.</p>
<i>The new council will be better able to partner with NSW Government in planning for the continued delivery of jobs in the North West Priority Land Release Area.</i>	<p>The Hawkesbury is unique among metropolitan councils in that it has a strong, relatively self-contained local economy where the majority of the people who work in the area also reside in the area. A recent economic study has highlighted the growth of home based, technology savvy businesses who have been attracted to the Hawkesbury by its rural character and village atmosphere.</p> <p>The merger proposal ignores this trend and disappointingly seems to base its case on old thinking which envisages the future of the Hawkesbury as a satellite of the North West Growth Sector.</p>

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

<p><i>The savings generated by the merger will allow the new council to upgrade the road network and improve service levels.</i></p>	<p>Council's modelling indicates that the direct financial benefits of the proposed merger are modest at best and are unlikely to generate the additional revenue required to renew and upgrade the local road network or improve service levels. On the contrary, Council's modelling indicates that the merger proposal, by itself, will exacerbate the existing infrastructure backlog and lead to a deterioration in road condition.</p> <p>There is also a risk that the focus of the merger proposal on the continued development of North West Growth Sector, may result in future priorities for service provision and infrastructure gravitating eastwards and that this may spill over into the rationalisation and centralisation of the existing services provided by Council to the detriment of Hawkesbury residents.</p>
<p><i>The merger proposal will result in simplified council regulations and make it easier for tradespeople, business and developers to conduct their activities.</i></p>	<p>Council would suggest that the current complexity of regulatory frameworks is a direct reflection of the complexity of the different acts and pieces of legislation enacted by the NSW Government which local government is required to enforce.</p> <p>The simplification and harmonisation of the existing regulatory burden would be welcomed by Council, particularly with respect to the regulations and statutory requirement which govern its own operations.</p> <p>While it may be the case that individual councils place a different emphasis on aspects of this regulatory framework, this would be a reflection of local community concerns, the strategic priorities identified within Community Strategic Plans, and the need to responsibly and equitably mediate the sometimes conflicting demands and requirements of the diverse interests that make up a strong and vibrant community</p>

### Conclusion – Impact on Service Provision and Facilities.

The merger proposal suggests that priority of the new council entity will be to deliver the services and infrastructure required to meet the demands of urban intensification and renewal associated with the North West Growth Sector and Sydney Metro Northwest. Consequently, the merger proposal treats the Hawkesbury as a satellite of the North West Growth Sector. It incorrectly assumes that in addressing the service requirements and infrastructure needs of the North West Growth Sector, it will at the same time, deliver the services and infrastructure required by Hawkesbury residents.

(e2) the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned

The impact of the merger proposal on the employment of staff is a matter that has not been directly canvassed within the merger proposal, apart from the recognition that the proposed merger will lead to staff rationalisations which the KPMG analysis has calculated will reduce staff numbers by 7.4%. This will obviously have an impact on the staff concerned, and while the provisions of the *Local Government Award* preserve the employment of non-contract staff for a period of three years after the proclamation of a new council entity, it is likely that staff numbers will be further reduced after this period either through natural attrition or voluntary redundancy.

In the short term, the most likely impact on staff will occur if staff are required to travel to a relocated workplace should the functions and operations of Hawkesbury Council be transitioned to the Baulkham Hills Administration Centre of The Hills Shire Council. If this were to take place, the average extra distance that staff would be required to travel would be a 43km round trip. For the sake of comparison, if staff of The Hills Shire Council were required to attend a relocated workplace at the same distance, in geographic terms it would be equivalent to staff having to travel to Bankstown or Cabramatta to the south; Gladesville, Neutral Bay or Lane Cove to the south-east; Terry Hills or St. Ives to the east; and Berowra, Cowan or Wisemans Ferry to the north and north east. In doing so they would cross multiple council boundaries.



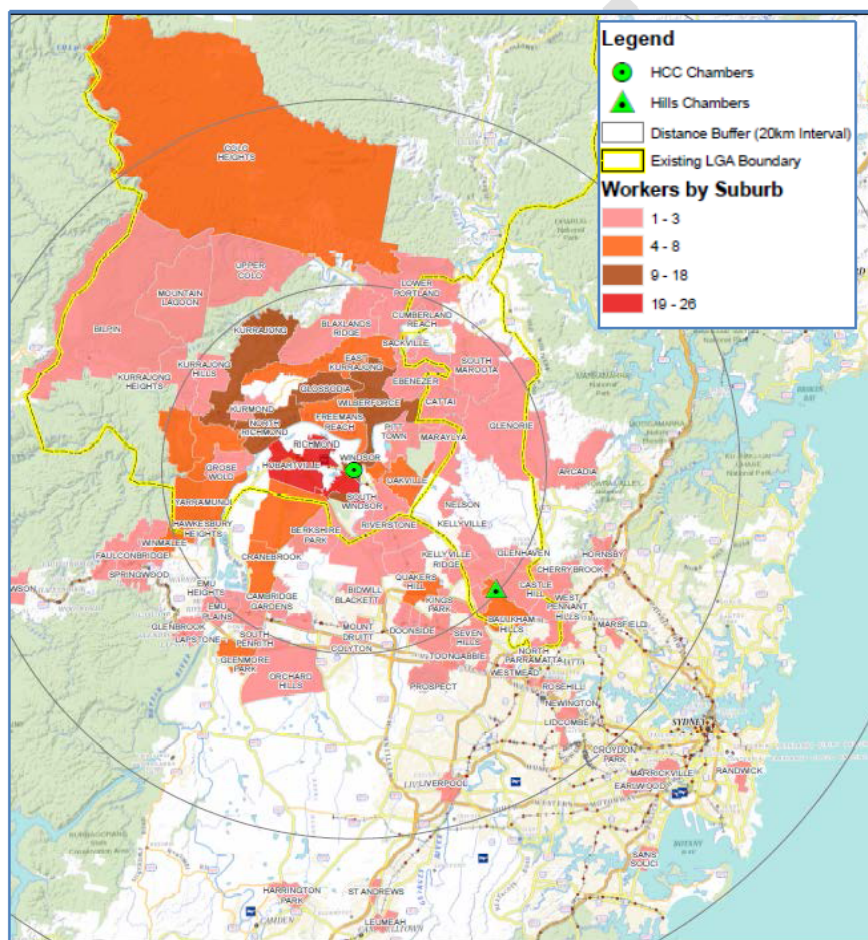
## EXTRAORDINARY MEETING

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Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

In comparison with staff impacted by the proposed merger of other metropolitan councils, Hawkesbury Council staff will be faced with substantial additional work travel times and distances which in many cases would approach the additional distances that would be travelled by staff in rural councils impacted by mergers. This reflects Councils peri-urban location on the fringe of the metropolitan region. As Hawkesbury is the only peri-urban council subject to a merger proposal, it is likely that on average, Hawkesbury Council staff will be the most affected by the proposed metropolitan mergers (assuming that their workplace is relocated to Baulkham Hills). As travel will be in peak times, traffic congestion along Windsor Rd, would extend any notional travel time.

Council employs 306 staff, 196 (64%) of whom reside in the Hawkesbury LGA. Based on the place of residence of Council staff, it is calculated that 78% of staff will be required to travel farther should their workplace be relocated to Baulkham Hills while 19.5% of staff will have a shorter distance to travel. The following map provides a snapshot of the residential location of Hawkesbury Council staff.



The requirement to travel to a relocated workplace may also incur other additional work related costs including child care and would require staff to make alterations to their current child care and before and after school arrangements and carer responsibilities. Given the lack of a direct public transport link between the Hawkesbury and The Hills, there may be a requirement for the purchase of an additional motor vehicle and access to secure car-parking.

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Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

### (e3) the impact of any relevant proposal on rural communities in the areas concerned

As noted previously, the proposed merger may impact on the rural communities in the following ways-

- based on the modelling of the impact of the merger proposal it may lead to a further deterioration in the rural road network;
- a focus on the urban intensification and expansion of the North West Growth Sector may prioritise the service and infrastructure needs of urban communities needs above those of rural communities;
- it may alter patterns of residential development leading to the increasing encroachment of residential developments on rural lands;
- it may weaken the capacity of a merged council entity to plan for and manage the impact of remote area bushfires on rural localities and villages;
- it may reduce the access of residents to their elected representatives and increase the travelling distance to council administration centre and council chambers.

The merger proposal implies that the diseconomies of scale that prevail in the outlying rural areas of the Hawkesbury LGA can be resolved through the creation of a larger council entity with a sufficient rating base to generate the economies of scale that would offset the higher unit costs of providing services and maintaining assets to these areas. In effect, the inferred cost of maintaining a basic *universal service obligation* to all residents would be distributed across a greater number of ratepayers. This may be of concern to existing residents of The Hills Shire Council.

Recent statements released by The Hills Shire Council has also highlighted their concerns as to the capacity of the proposed merged council to maintain existing levels of *universal service obligation* given the higher per unit service costs and per-capita asset maintenance costs in these outlying areas.

### (e4) in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards

Council would favour a divided area with a maximum number of wards to ensure the most effective representation for the Hawkesbury community. This would equate to five or more wards.

Preference would be for two of these wards to contain a majority of former Hawkesbury electors.

It is noted that any merger will result in a significant reduction in representation of residents of the Hawkesbury due to the difference in relative population / electors in both areas.

An undivided area would not be favoured as this may result in Councillors being primarily from the more densely populated areas of the merged entity which would not include the Hawkesbury area.

### (e5) in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented

This could be achieved through the retention of its community advisory committee structure which provides a mechanism for the views of residents to be communicated to Council.

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

- (f) such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas

### Community Participation.

Council has developed an innovative and successful model to directly support community participation in the management of its services, facilities and functions. The Hawkesbury Sports Council manages Council's playing fields and sporting fields while Peppercorn Services Inc. manages Council's suite of externally funded human services. Council also has an active cultural services volunteer program to support the operations of its Regional Gallery, Regional Museum and Library Service. This model is unique to the Hawkesbury. It builds on the high levels of volunteerism and social capital that exist within the Hawkesbury. The proposed merger may well weaken these strong community linkages and reduce the active participation of the residents in community and civic life.

### Community Service Obligation.

Hawkesbury City Council provides both direct and indirect financial support to state and commonwealth funded programs. The direct financial support is provided by way of a budget allocation to Peppercorn Services Inc. (Council's external community services arm) which is provided to offset the operating losses of a number of state/commonwealth funded services managed by PSI - primarily in child care, transport and aged services.

Council also manages a network of purpose built child care, community and disability & aged care services centres. The majority of these centres are provided rent free to incorporated associations whose primary role is to provide a range of human services funded by state and commonwealth governments. These services operate under very tight margins and it is the case that the funding received from government is insufficient to cover the real operating costs of the services.

To support the viability of these funded services, Council does not seek a rental return for these premises and also funds upgrades to these buildings to meet their operational requirements. In effect Council is subsidising the operations of these services. The size of the subsidy is in fact a product of the geography of the Hawkesbury LGA as an urban fringe council area with substantial rural hinterland Council is required to maintain a network of some 20 buildings, both large and small, to ensure a funded human service presence across the LGA. Without this subsidy, it is likely that services would be required to substantially reduce their levels of service or would simply not operate in our outlying rural areas.

Council is concerned that the proposed merger may see a reduction in the level of this community service obligation, which in 2013/14 was calculated to be in the vicinity of \$1.5M. Given that Council's approach to the management of community facilities is not mirrored by its adjoining neighbouring councils, the proposed merger will have implications for the future viability of not-for-profit community agencies operating in the Hawkesbury.

### Other Significant Issues raised by the merger proposal.

Council is of the view that the evidence and information presented in this submission provides a persuasive justification for its preferred position of remaining stand alone and continuing its Regional Strategic Alliance engagement with Penrith and Blue Mountains City Councils to deliver the productivity and efficiency outcomes expected under the NSW Government FFTF reform process.

The merger proposal raises a number of specific concerns for Council in relation to the potential impact of a proposed merger with The Hills Shire Council which would require careful consideration if a merger process was to be continued to be pursued by the NSW Government, despite the evidence which indicates that this path is not warranted.

Council believes that the merger proposal is based on the flawed assumption that the Hawkesbury LGA would face the same merger implementation issues as the other proposed mergers of metropolitan councils. Hawkesbury's distinctive peri-urban status has been highlighted by the ILGRP



Response to Merger Proposal – Hawkesbury City and The Hills Shire Councils (part)

and is reflected in both the Australian Classification of Local Government and its OLG classification, - which it shares with just two other peri-urban councils - Camden and Wollondilly. Hawkesbury Council is the only council within this specialised OLG grouping which has been proposed for a merger.

This would not be as significant an issue if its proposed merger partner shared the same characteristics and peri-urban location as the Hawkesbury LGA. Its nominated merger partner is however, The Hills Shire Council, which is a large, predominantly urban council whose priorities and future are tied to the North West Growth Sector. As outlined in this submission it has a different set of social and economic characteristics, development constraints, and geographic orientation to that of the Hawkesbury and faces a different future to that of the Hawkesbury. Council remains concerned that despite these significant and real differences, the merger proposal effectively treats the Hawkesbury LGA as a satellite of the North West Growth Sector. In view of the distinctive blend of rural localities, villages and relatively small town centres that make up the Hawkesbury, reorienting the Hawkesbury to face an increasingly urbanised east, when its current connections and orientation are aligned elsewhere, would be a mistake and would clearly be to the detriment of the residents and future of the Hawkesbury LGA.

Council has always straddled the divide between the urban metropolitan councils to its east and the rural councils to its west. It combines the characteristics of both, and what occurs in metropolitan councils does not always readily translate into its peri-urban context. Not taking this fundamental difference into account risks delivering a poor merger outcome for residents and for staff. The centralisation of administrative, governance and service functions within a merged council entity will have a substantially greater impact on residents and staff within the Hawkesbury than would occur to the residents impacted by a merger between two adjoining metropolitan councils. In comparison with metropolitan councils, a merger will substantially increase the distances that residents and staff would be required to travel to access service outlets and workplaces. Equally, the flow on economic impact of a merger will be significantly greater for the Hawkesbury, given its relatively self-contained local economy and the size of Council's economic and employment output relative to the size of the local economy. In many ways, the Hawkesbury LGA needs to be treated with the same cautious and considered approach as would be the case for a rural council. Council is concerned that the merger proposal, the FFTF reform process, and its proposed merger partner have seemingly not recognised this fundamental requirement.

As the 'lesser' partner in the proposed merger, Council is rightly concerned that the interests of its residents and staff may not be equally safeguarded within a merged entity as those of the staff and residents of The Hills Shire. Council bases this assessment on the reports, publications, staff communications and the public statements made by the senior staff and elected representatives of The Hills Shire Council which indicate that the Hills Shire Council does not consider the proposed merger to be a fusion of two equal councils, but rather the annexation of the Hawkesbury with the presumption that the practices, policies, operations, staffing and governance arrangements of The Hills Shire Council will take precedence. Council is concerned that in the absence of a competent, fair and equitable change management framework, then the interests of Hawkesbury residents, staff and elected representatives may be placed behind the interests of the residents, staff and elected representatives of The Hills Shire Council. In Council's view, this highlights the critical importance of ensuring that any merger transition process is governed by a neutral, impartial authority who can objectively mediate the best merger transition outcomes for all residents, staff and elected representatives of both councils.

#### **Conclusion.**

Council's assessment is that while there are some financial benefits which may flow from the merger proposal, these benefits will be outweighed by the adverse impacts to the local economy and the community. The relatively modest merger savings projected by the merger proposal can be achieved more effectively and efficiently through the implementation of Council existing FFTF proposal and in particular through its Regional Strategic Alliance with the Blue Mountains and Penrith Councils.

Council would argue that the merger proposal is an inferior alternative to Council remaining as is and pursuing its FFTF proposal which will deliver a more advantageous outcome for residents without the adverse impacts of a forced amalgamation.

Attachment 1 – Review of KPMG Assumptions

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**Materials and Contracts Savings**

1. Annual savings have been applied from the first year, gradually increasing in the following years. In order to determine the extent of savings and timing thereof an analysis of current contracts for both The Hills and Hawkesbury Councils should be undertaken so as to determine actual savings that would be achieved, taking into account contract breaking costs and any impacts of contractor changes. No consultation has been undertaken to obtain accurate and specific data from each respective council to support KPMG's timing and extent of estimated savings from materials and contracts.
2. Savings of two per cent or three per cent were applied depending on the council's classification. It is not clear whether KPMG treated Hawkesbury as a regional or metropolitan council, for the purpose of its modelling. Based on previous treatments of Hawkesbury, it is assumed that Hawkesbury has been classified as a metropolitan council, and a three per cent savings was applied. A two per cent savings level should be applied to reflect council's peri-urban nature, which would reduce savings by \$1.0M (in present value terms).
3. The estimated savings are based on the underlying assumption of economies of scale. This assumption is valid; however results should be adjusted to reflect the size of the new council and the dispersed nature of its population and facilities. The new entity would attract larger suppliers due to larger volumes, which local suppliers do not have the capacity to deliver. Larger suppliers would have higher overheads, especially taking into account the dispersed nature of Council's services. Hawkesbury has regularly been able to attract cheaper local supplier contracts which have lower overheads due to being local to the area. The straight application of a percentage savings without consideration of the specific circumstances of the councils being analysed is not sufficiently robust.
4. The estimated savings are based on the assumption that eighty per cent of materials and contracts are subject to scale efficiencies. It is agreed that some costs will reduce based on scale. However, it is not considered sufficient just to apply a percentage, as this assumption ignores services that are unique to a council. This includes the Hawkesbury Waste Management Facility, the Hawkesbury Companion Animal Shelter, the Hawkesbury Regional Gallery and the Hawkesbury Regional Museum. These services represent significant costs for Hawkesbury and economies of scale are not relevant, which would reduce projected savings by a further \$0.3M (present value).
5. The source of the data is quoted as the 2013/2014 Long-Term Financial Plans (LTFP) and 2013/2014 Financial Statements, for General Funds, where available. Hawkesbury's LTFP projections in 2013/2014 did not distinguish between the General Fund and the Sewer Fund. It is therefore assumed that KPMG's savings estimates include Sewer funded expenditure savings. This is incorrect as the inclusion of Sewer materials and contracts inflates the potential savings for a new council. Scale economies do not apply to Hawkesbury's Sewer business. In order to correct this anomaly, projections were modelled on the 2014/2015 Financial Statements and the 2015/2016 Long Term Financial Plans (which are General Fund based) for both councils.
6. Estimated savings are calculated separately for materials and contracts and for employee costs respectively. Councils' services are delivered through a combination of these two expenditure elements and are interdependent. The realignment of the two councils' resourcing mix to deliver its different services impacts on the estimated savings. Hawkesbury's employee cost to contract and materials ratio is 60/40 and The Hills use a 65/35 ratio to deliver services. For example, if one council delivers a service through a contract and the other through its own staff, the alignment of the two different service delivery models, whilst possible, would have a significant impact on costs of transition such as redundancy costs or contract breaking costs.

Attachment 1 – Review of KPMG Assumptions

**Salary and Wage Expenditure**

1. The KPMG document does not detail the basis of the 7.4% savings in employee costs. In the absence of further details being made available, it is not possible to comment on this assumption.
2. It is assumed that the estimated savings have been based on a metropolitan council. The savings are more likely to be somewhere between what a metropolitan council and a regional council respectively would achieve. The new council will cover a very large area with dispersed population and facilities. It will therefore be likely that some level of function (staff) duplication will need to remain to enable the effective delivery of services over such a large and dispersed area. In order to reflect this, a 5% savings was modelling (applied to Hawkesbury employee costs only), which is in line with the higher end of the assumption used for regional councils, which lowered projected savings by \$5.8M (in present value).

With such a large reduction on a relatively minor percentage adjustment and applied only to Hawkesbury, indicates that likely savings from a merger are particularly sensitive to variability. As employee costs make up two-thirds of the total net savings projected by KPMG, this places significant doubt on the magnitude of savings possible from this merger, and given the relatively minor annual savings projected, places significant risk that the net savings will not be realised. This premise is further evidenced by empirical evidence, as outlined in the main document.

3. The new council's organisational structure and therefore senior staff / management levels will need to reflect the size of the new entity. The assumption that the same number of Directors would be appropriate for any council, regardless of size and services / other businesses appears to be inadequate. It is likely that either a larger number of Directors and/or additional management layers would be required for a significantly large council. It is also not clear as to whether an allowance has been made for higher remuneration packages to reflect larger councils and the inherent greater level of accountability.
4. The new council will inherit existing employees from each respective council, which are employed on disparate salary systems. It is likely there will be a cost to align the remuneration of those staff. It is not clear whether this cost has been factored in.

**ICT Costs**

1. An overlay ICT solution is proposed to facilitate access to data by all parties involved. The estimated cost is \$4.4M. Whilst the proposed interim solution cost has been factored in, it does not appear that full migration and system and process integration cost have been allowed for. This is considered to be a significant gap in the estimation of merger costs. IT systems would require significant reconfiguration, in some cases the effort and cost will be close to implementing a new system. In addition there could be contract breaking costs implication where a system is decommissioned.

It was assumed that the projected \$4.4M would be required to be spent again over a longer time period to enable for system migration, which is vital to ensure the efficient operation of services.

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

### Attachment 1 – Review of KPMG Assumptions

#### **Redundancy Costs**

1. Estimated costs are based on average wages. Redundancy costs will be significantly impacted by the staff actually being subjected to a redundancy payment, particularly managerial staff. The calculation of estimates does not factor in any existing contractual clauses in current employment contracts. All Hawkesbury managerial staff (above average wages), with the exception of the General Manager and Directors, are not on a term contract and would therefore represent significant redundancy costs. Costs based on KPMG's financial modelling are potentially significantly underestimated.
2. Estimated costs are based on average employee entitlements and average tenure. Redundancy costs will be significantly impacted by the actual level of employee entitlements actual tenure. Applying the average actual tenure and leave entitlements applicable to Hawkesbury back-office staff alone, results in severance pay of 28 weeks, compared to the 16 weeks assumed, resulting in an increase of \$0.2M (in present value).

#### **Other Notes**

1. For split councils, revenue and expenditure has been adjusted on a per capita basis, which applies to The Hills. The assumption to split on a per capita basis is flawed. Revenue such as rates is not reflective of population, and expenditure in high density areas is also not likely to be directly related to population. Adjustments to The Hills amounts impact on financial projections for the new council.
2. For split councils, the asset base and infrastructure backlog has been based on land area. This assumption is flawed as asset distribution and assets required to be brought to satisfactory standard are not necessarily distributed evenly across a local government area. Adjustments to The Hills amounts impact on financial projections for the new council.

#### **General Comment**

Projected costs and benefits calculated by KPMG are based on 2013/2014 long-term financial plans and 2013/2014 OLG Annual Return data for the respective councils.

Utilising 2013/2014, rather than the most recent data and projections included in the councils' Fit for the Future proposals, as a basis results in the following not being reflected in the modelling undertaken:

- Changes in resourcing models
- Changes in service delivery models
- Changes in technology
- Changes in processes
- Agreements / Alliances entered into
- Asset Base changes
- Investment in Infrastructure Renewal, and therefore changes in Infrastructure Backlog

In order to overcome this issue, projected savings and costs were modelled on 2014/2015 Financial Statements and 2015/2016 LTFPs for both councils impacted.



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Attachment 2 - Merger Benefit Analysis: Working Papers

Item 1 - Summary of Analysis using KPMG Assumptions and Updated Financial Information

## PROJECTED SAVINGS

Projected Savings		56,522,653
Staff	a	41,062,871 72.6%
Senior Management	b	5,203,238 9.2%
Materials & Contracts	c	8,438,337 14.9%
Elected Officials	d	1,818,207 3.2%
<b>Total</b>		<b>56,522,653 100.0%</b>

Employee Costs  
Senior Management  
Materials & Contracts  
Elected Officials

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
84.62%					
43,940,987	22,576,892	66,417,869	66.0%	34.0%	100.0%
1,220,711	976,118	2,196,829	55.6%	44.4%	100.0%
24,658,650	15,267,000	39,925,650	61.8%	38.2%	100.0%
590,290	393,638	983,928	60.0%	40.0%	100.0%
70,310,638	39,213,638	109,524,276	64.2%	35.8%	100.0%

Hills (current)
53,216,645
1,190,958
29,140,451
575,953
84,123,927

Annualised Savings		2,826,133
Staff	a	2,053,144 72.6%
Senior Management	b	260,162 9.2%
Materials & Contracts	c	421,917 14.9%
Elected Officials	d	90,910 3.2%
<b>Total</b>		<b>2,826,133 100.0%</b>

Estimated Savings

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
1,355,235	697,908	2,053,144	66.0%	34.0%	100.0%
144,564	115,598	260,162	55.6%	44.4%	100.0%
260,582	161,335	421,917	61.8%	38.2%	100.0%
54,540	36,370	90,910	60.0%	40.0%	100.0%
1,814,921	1,011,211	2,826,133	64.2%	35.8%	100.0%
36,298,426	20,224,228	56,522,653	64.2%	35.8%	100.0%

Annualised  
Over 20 years

## PROJECTED MERGER COSTS

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
6,716,747	3,933,289	10,650,036	63.1%	36.9%	100.0%

Merger Costs

Hills (part)	Hawkesbury
29,581,678	16,290,938
1,475,084	814,547

Net Savings 20 Years  
Net Savings Annualised

First Five Years	Savings	Cost	Funding
Year 1 (16/17)	76%	80%	78%
Year 2 (17/18)	72%	5%	22%
Year 3 (18/19)	116%	15%	0%
Year 4 (19/20)	167%	0%	0%
Year 5 (20/21)	154%	0%	0%

	Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
Year 1	1,396,279	772,387	2,158,665	5,342,296	3,128,418	8,470,714	4,128,463	6,353,036	10,481,499
Year 2	1,302,552	725,757	2,028,289	560,903	211,343	772,245	1,119,252	695,929	1,815,180
Year 3	2,037,930	1,168,894	3,266,824	1,013,549	593,528	1,607,077	0	0	0
Year 4	3,034,280	1,690,596	4,724,876	0	0	0	0	0	0
Year 5	2,787,425	1,553,057	4,340,482	0	0	0	0	0	0
<b>TOTAL</b>	<b>10,608,466</b>	<b>5,910,670</b>	<b>16,519,136</b>	<b>6,716,747</b>	<b>3,933,289</b>	<b>10,650,036</b>	<b>5,247,714</b>	<b>2,920,501</b>	<b>8,168,216</b>

FUNDING PACKAGE (PV)	8,168,216
Unfunded Costs	2,481,821
HCC Share	1,012,788

Population  
Funding Apportionment

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
158,822	65,527	224,350	70.8%	29.2%	100.0%
\$5,782,687	\$2,395,529				

**EXTRAORDINARY MEETING**

**Meeting Date:** 16 February 2016

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# EXTRAORDINARY MEETING

## Meeting Date: 16 February 2016

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Attachment 2 - Merger Benefit Analysis: Working Papers  
Item 2 - 20 Year Modelling using IPMIG Assumptions and Updated Financial Information

20 Year Projections as per 2015/2016 TFP and IPMIG Assumptions																						
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	Total	Comment
Materials & Contracts	SAVINGS (000s)																					
	HCC <sup>1</sup>																					
	\$15,167	\$15,648	\$16,039	\$16,440	\$16,852	\$17,273	\$17,705	\$18,147	\$18,601	\$19,066	\$19,543	\$20,031	\$20,530	\$21,040	\$21,561	\$22,111	\$22,680	\$23,266	\$23,869	\$24,488	\$25,122	Assumed 2.5% indexation post 2024/2025
Combined	HILB <sup>2,3</sup>																					
	\$24,658	\$26,209	\$27,286	\$28,309	\$29,418	\$30,640	\$31,974	\$33,421	\$34,982	\$36,664	\$38,475	\$40,424	\$42,519	\$44,668	\$46,879	\$49,150	\$51,491	\$53,901	\$56,380	\$58,937	\$61,572	Assumed 2.5% indexation post 2024/2025
	\$39,825	\$41,857	\$43,325	\$44,749	\$46,270	\$47,913	\$49,679	\$51,510	\$53,466	\$55,477	\$57,556	\$59,685	\$61,869	\$64,107	\$66,400	\$68,749	\$71,150	\$73,601	\$76,102	\$78,653	\$81,265	
80% of contained materials & 30% of above																						
Projected Savings	\$332	\$343	\$370	\$410	\$450	\$490	\$530	\$570	\$610	\$650	\$690	\$730	\$770	\$810	\$850	\$890	\$930	\$970	\$1,010	\$1,050	\$1,090	\$1,130
HCC Share	38%	\$127	\$131	\$135	\$139	\$143	\$147	\$151	\$155	\$159	\$163	\$167	\$171	\$175	\$179	\$183	\$187	\$191	\$195	\$199	\$203	\$207
Discount Factor <sup>4</sup>	0.83405	0.76175	0.69517	0.63354	0.56609	0.50311	0.44425	0.39005	0.33935	0.29285	0.25035	0.21175	0.17705	0.14615	0.11895	0.09525	0.07495	0.05695	0.04115	0.02745	0.01585	
Present Value	\$276	\$261	\$251	\$240	\$228	\$215	\$202	\$189	\$175	\$161	\$147	\$133	\$119	\$105	\$91	\$77	\$63	\$50	\$37	\$24	\$11	
HCC Share	\$106	\$100	\$101	\$102	\$103	\$104	\$105	\$106	\$107	\$108	\$109	\$110	\$111	\$112	\$113	\$114	\$115	\$116	\$117	\$118	\$119	\$120
Contingent Allowances																						
Major HCC <sup>5</sup>	\$40	\$41	\$42	\$43	\$44	\$45	\$46	\$47	\$48	\$49	\$50	\$51	\$52	\$53	\$54	\$55	\$56	\$57	\$58	\$59	\$60	\$61
Minor HILB <sup>6</sup>	\$60	\$64	\$65	\$67	\$70	\$73	\$77	\$81	\$85	\$89	\$93	\$97	\$101	\$105	\$109	\$113	\$117	\$121	\$125	\$129	\$133	\$137
Contingent HCC <sup>7,8</sup>	\$202	\$206	\$211	\$216	\$221	\$226	\$231	\$237	\$242	\$248	\$253	\$259	\$265	\$271	\$277	\$283	\$289	\$295	\$301	\$307	\$313	\$319
Contingent HILB <sup>9</sup>	\$80	\$87	\$90	\$94	\$98	\$102	\$106	\$110	\$114	\$118	\$122	\$126	\$130	\$134	\$138	\$142	\$146	\$150	\$154	\$158	\$162	\$166
Combined	\$384	\$398	\$408	\$419	\$430	\$441	\$452	\$463	\$474	\$485	\$496	\$507	\$518	\$529	\$540	\$551	\$562	\$573	\$584	\$595	\$606	\$617
Proposed Major	\$70	\$72	\$73	\$75	\$77	\$79	\$80	\$82	\$84	\$86	\$88	\$90	\$92	\$94	\$96	\$98	\$100	\$102	\$104	\$106	\$108	\$110
Proposed Contingent <sup>10,11</sup>	\$330	\$338	\$345	\$353	\$361	\$370	\$378	\$387	\$396	\$405	\$414	\$424	\$434	\$444	\$454	\$464	\$475	\$486	\$497	\$508	\$519	\$530
Projected Savings	\$400	\$409	\$419	\$428	\$438	\$448	\$458	\$469	\$480	\$491	\$502	\$513	\$524	\$535	\$546	\$557	\$568	\$579	\$590	\$601	\$612	\$623
HCC Share	41%	\$82	\$84	\$86	\$88	\$90	\$92	\$94	\$96	\$98	\$100	\$102	\$104	\$106	\$108	\$110	\$112	\$114	\$116	\$118	\$120	\$122
Discount Factor	0.83405	0.76175	0.69517	0.63354	0.56609	0.50311	0.44425	0.39005	0.33935	0.29285	0.25035	0.21175	0.17705	0.14615	0.11895	0.09525	0.07495	0.05695	0.04115	0.02745	0.01585	
Present Value	\$165	\$154	\$144	\$134	\$123	\$113	\$103	\$93	\$83	\$73	\$63	\$53	\$43	\$33	\$23	\$13	\$3	\$2	\$1	\$1	\$1	\$1
HCC Share	\$68	\$64	\$56	\$51	\$46	\$41	\$36	\$31	\$26	\$21	\$16	\$11	\$6	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Senior Staff																						
GM HCC <sup>12</sup>	\$291	\$298	\$306	\$313	\$321	\$329	\$337	\$346	\$354	\$363	\$372	\$382	\$391	\$401	\$411	\$421	\$432	\$443	\$454	\$465	\$476	\$487
GM HILB <sup>13</sup>	\$375	\$385	\$394	\$404	\$414	\$425	\$435	\$446	\$457	\$469	\$481	\$493	\$505	\$517	\$530	\$542	\$557	\$571	\$585	\$600	\$615	\$630
Directors HCC <sup>14</sup>	\$685	\$702	\$720	\$738	\$756	\$775	\$795	\$814	\$835	\$856	\$877	\$899	\$922	\$945	\$968	\$992	\$1,017	\$1,043	\$1,069	\$1,095	\$1,121	\$1,147
Directors HILB <sup>15</sup>	\$815	\$866	\$887	\$910	\$933	\$956	\$980	\$1,004	\$1,029	\$1,055	\$1,081	\$1,108	\$1,136	\$1,164	\$1,193	\$1,223	\$1,254	\$1,285	\$1,317	\$1,350	\$1,383	\$1,416
Combined	\$2,136	\$2,251	\$2,307	\$2,365	\$2,424	\$2,485	\$2,547	\$2,611	\$2,676	\$2,743	\$2,811	\$2,882	\$2,954	\$3,027	\$3,103	\$3,181	\$3,260	\$3,342	\$3,425	\$3,511	\$3,600	\$3,690
Proposed GM <sup>16</sup>	\$423	\$434	\$445	\$456	\$467	\$479	\$491	\$503	\$516	\$529	\$542	\$555	\$569	\$583	\$598	\$613	\$628	\$644	\$660	\$676	\$692	\$708
Proposed Directors <sup>18</sup>	\$1,270	\$1,301	\$1,334	\$1,367	\$1,402	\$1,437	\$1,473	\$1,510	\$1,547	\$1,586	\$1,625	\$1,666	\$1,708	\$1,750	\$1,794	\$1,839	\$1,885	\$1,932	\$1,980	\$2,028	\$2,077	\$2,126
Projected Savings	\$1,609	\$1,735	\$1,779	\$1,823	\$1,869	\$1,915	\$1,963	\$2,012	\$2,063	\$2,114	\$2,167	\$2,221	\$2,277	\$2,334	\$2,392	\$2,452	\$2,513	\$2,576	\$2,641	\$2,707	\$2,774	\$2,842
HCC Share	44%	\$558	\$572	\$586	\$601	\$616	\$631	\$647	\$663	\$680	\$697	\$714	\$732	\$750	\$768	\$788	\$808	\$828	\$848	\$870	\$892	\$914
Discount Factor	0.83405	0.76175	0.69517	0.63354	0.56609	0.50311	0.44425	0.39005	0.33935	0.29285	0.25035	0.21175	0.17705	0.14615	0.11895	0.09525	0.07495	0.05695	0.04115	0.02745	0.01585	
Present Value	\$465	\$436	\$408	\$382	\$359	\$335	\$313	\$293	\$275	\$257	\$241	\$225	\$211	\$195	\$180	\$165	\$151	\$137	\$124	\$112	\$100	\$88
HCC Share	\$207	\$184	\$181	\$170	\$155	\$140	\$126	\$114	\$102	\$90	\$78	\$66	\$54	\$43	\$32	\$21	\$10	\$1	\$1	\$1	\$1	\$1
Employee Cost																						
HCC <sup>19</sup>	\$15,553	\$16,259	\$16,987	\$17,737	\$18,509	\$19,304	\$20,124	\$20,969	\$21,839	\$22,734	\$23,654	\$24,599	\$25,569	\$26,564	\$27,584	\$28,629	\$29,699	\$30,794	\$31,914	\$33,059	\$34,229	\$35,424
HILB <sup>20</sup>	\$45,032	\$46,216	\$47,562	\$48,969	\$50,435	\$51,964	\$53,557	\$55,214	\$56,936	\$58,724	\$60,579	\$62,499	\$64,484	\$66,534	\$68,649	\$70,830	\$73,078	\$75,394	\$77,778	\$80,229	\$82,748	\$85,326
Ans Senior Staff	\$60,585	\$62,475	\$64,549	\$66,701	\$68,944	\$71,279	\$73,704	\$76,220	\$78,828	\$81,528	\$84,320	\$87,204	\$90,181	\$93,251	\$96,414	\$99,670	\$103,018	\$106,459	\$110,000	\$113,640	\$117,379	\$121,217
Projected Savings (7.4%) <sup>21</sup>	\$1,501	\$1,549	\$1,593	\$1,633	\$1,670	\$1,705	\$1,738	\$1,769	\$1,800	\$1,829	\$1,857	\$1,884	\$1,910	\$1,936	\$1,961	\$1,986	\$2,011	\$2,036	\$2,061	\$2,086	\$2,111	\$2,136
HCC Share	34%	\$550	\$556	\$562	\$568	\$574	\$580	\$586	\$592	\$598	\$604	\$610	\$616	\$622	\$628	\$634	\$640	\$646	\$652	\$658	\$664	\$670
Discount Factor	0.83405	0.76175	0.69517	0.63354	0.56609	0.50311	0.44425	0.39005	0.33935	0.29285	0.25035	0.21175	0.17705	0.14615	0.11895	0.09525	0.07495	0.05695	0.04115	0.02745	0.01585	

EXTRAORDINARY MEETING  
Meeting Date: 16 February 2016

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Attachment 2 - Merger Benefit Analysis Working Papers  
Item 2 - 20 Year Modelling using KPMG Assumptions and Updated Financial Information

20 Year Projections as per 2015/2016 TFP and KPMG Assumptions																																			
Present Value	\$1,252	\$1,177	\$2,214	\$3,403	\$3,217	\$3,096	\$2,917	\$2,748	\$2,588	\$2,424	\$2,269	\$2,125	\$1,980	\$1,843	\$1,744	\$1,603	\$1,530	\$1,432	\$1,341	\$1,063															
HCC Share	\$426	\$400	\$753	\$1,191	\$1,094	\$1,053	\$992	\$934	\$880	\$824	\$772	\$723	\$676	\$633	\$593	\$555	\$520	\$487	\$456	\$3,961															
TOTAL SAVINGS	\$2,588	\$2,463	\$4,668	\$7,188	\$7,657	\$7,846	\$8,176	\$8,372	\$8,452	\$8,440	\$8,343	\$8,219	\$8,021	\$7,719	\$7,346	\$6,925	\$6,507	\$6,100	\$5,703	\$4,803	\$157,683														
HCC Share	37%	\$987	\$995	\$1,754	\$2,778	\$2,861	\$2,846	\$3,036	\$3,128	\$3,304	\$3,386	\$3,471	\$3,557	\$3,646	\$3,737	\$3,830	\$3,926	\$4,024	\$4,124	\$4,224	\$58,693														
Discount Factor			0.83405	0.76175	0.69577	0.6354	0.5669	0.5301	0.4842	0.44025	0.40395	0.369	0.33705	0.30795	0.28125	0.25685	0.23475	0.21445	0.19585	0.179	0.1635														
Present Value	\$2,159	\$2,028	\$3,267	\$4,725	\$4,340	\$4,180	\$3,935	\$3,703	\$3,485	\$3,283	\$3,095	\$2,921	\$2,757	\$2,607	\$2,470	\$2,346	\$2,233	\$2,130	\$2,037	\$1,760	\$56,523														
HCC Share	\$807	\$758	\$1,271	\$1,785	\$1,672	\$1,582	\$1,470	\$1,383	\$1,302	\$1,219	\$1,141	\$1,069	\$1,000	\$937	\$877	\$821	\$769	\$720	\$674	\$2,118															
MIDGER COSTS (000s)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35															
KT Costs																																			
Presented Cost <sup>11</sup>																																			
HCC Share	35%																																		
Discount Factor																																			
Present Value																																			
HCC Share																																			
One-off Transition Costs	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35															
HCC One <sup>12</sup>																																			
Hills One <sup>12, 13</sup>																																			
Asset Stripping																																			
Proposed Opex in 1st Year																																			
Projected Cost <sup>14</sup>																																			
HCC Share	35%																																		
Discount Factor																																			
Present Value																																			
HCC Share																																			
Redundancies	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35																
Non-Senior Staff																																			
HCC Average Sal																																			
Hills Average Sal <sup>15</sup>																																			
HCC Average FTE <sup>16</sup>																																			
Hills Average FTE <sup>16</sup>																																			
HCC FTE <sup>17</sup>																																			
Hills FTE <sup>17</sup>																																			
HCC FTE Reduction																																			
Hills FTE Reduction																																			
HCC Redundancy Cost																																			
Hills Redundancy Cost																																			
Senior Staff																																			
HCC QAP <sup>18</sup>																																			
Hills QAP <sup>18</sup>																																			
Average OM																																			
HCC Director x 2 <sup>19, 13</sup>																																			
Hills Director x 2 <sup>19, 14</sup>																																			
HCC Redundancy Cost																																			
Hills Redundancy Cost																																			

Based on Salaries and Wages divided by FTE as at 30 June 2015 + 2.8% (award increase)  
Based on Salaries and Wages divided by FTE as at 30 June 2015 + 2.8% (award increase)  
Based on 2016/2015 FTE Provisions derived by FTE as at 30 June 2015 + 2.8% (award increase)  
Based on 2016/2015 FTE Provisions derived by FTE as at 30 June 2015 + 2.8% (award increase)

Reduced FTE assumed at 7.47%, phased across three years<sup>16</sup>  
Reduced FTE assumed at 7.47%, phased across three years<sup>16</sup>  
Based on 16 weeks of average salary plus average FTE<sup>16</sup>  
Based on 16 weeks of average salary plus average FTE<sup>17</sup>

Based on 18 weeks of salary plus average FTE<sup>18</sup>  
Based on 18 weeks of salary plus average FTE<sup>18</sup>

Based on 18 weeks of salary plus average FTE<sup>18</sup>  
Based on 18 weeks of salary plus average FTE<sup>18</sup>

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Attachment 2 - Merger Benefit Analysis Working Papers  
Item 2 - 20 Year Modelling using KPMG Assumptions and Updated Financial Information

20 Year Projections as per 2015/2016 TFP and KPMG Assumptions																									
Projected Cost	\$2,199	\$751	\$2,310																						
HCC Share	41%	\$895	\$506	\$510	\$699	\$112	\$345																		
Discount Factor		0.83405	0.76175	0.6957																					
Present Value		\$1,834	\$572	\$1,607																					
HCC Share		\$746	\$233	\$654																					
TOTAL COSTS	\$10,156	\$751	\$2,310																						
HCC Share	\$3,653	\$506	\$540																						
Discount Factor		0.83405	0.76175	0.6957																					
Present Value		\$8,471	\$572	\$1,607																					
HCC Share		\$3,046	\$233	\$654																					
NET BENEFIT	16,137	17,118	18,915	19,920	20,211	21,022	22,223	23,242	24,275	25,276	26,777	27,728	28,729	29,710	30,713	31,732	32,733	33,734	34,735	Total					
Projected Result:	-97,568	\$1,911	\$2,186	\$7,435	\$7,657	\$7,886	\$8,126	\$8,372	\$8,627	\$8,843	\$9,083	\$9,289	\$9,521	\$9,738	\$10,002	\$10,251	\$10,507	\$10,760	\$11,008	\$13,875					
HCC Share	-32,685	\$689	\$814	\$2,778	\$2,861	\$2,946	\$3,036	\$3,128	\$3,223	\$3,304	\$3,386	\$3,471	\$3,557	\$3,646	\$3,737	\$3,830	\$3,926	\$4,024	\$4,124	\$4,224	\$4,324	\$4,424	\$4,524	\$4,624	\$4,724
Plus Funding <sup>a</sup>	\$7,617	\$2,383																							
HCC Share	25%	\$2,225	\$696																						
Discount Factor		0.83405	0.76175																						
Present Value		\$6,353	\$1,815																						
HCC Share		\$1,855	\$530																						
Projected Net Result	\$49	\$4,294	\$2,386	\$7,416	\$7,867	\$7,886	\$8,126	\$8,372	\$8,627	\$8,843	\$9,083	\$9,289	\$9,521	\$9,738	\$10,002	\$10,251	\$10,507	\$10,760	\$11,008	\$13,875					
HCC Share	-546	\$1,385	\$814	\$2,778	\$2,861	\$2,946	\$3,036	\$3,128	\$3,223	\$3,304	\$3,386	\$3,471	\$3,557	\$3,646	\$3,737	\$3,830	\$3,926	\$4,024	\$4,124	\$4,224	\$4,324	\$4,424	\$4,524	\$4,624	\$4,724
Discount Factor		0.83405	0.76175	0.6957	0.6354	0.5669	0.501	0.4812	0.46225	0.44385	0.369	0.33705	0.30795	0.28125	0.25685	0.23175	0.21445	0.19595	0.179	0.1635					
Present Value		\$41	\$3,271	\$1,660	\$4,725	\$4,340	\$4,180	\$3,935	\$3,703	\$3,485	\$3,263	\$3,035	\$2,861	\$2,678	\$2,507	\$2,348	\$2,198	\$2,059	\$1,928	\$1,805	\$1,684	\$1,564	\$1,444	\$1,324	\$1,204
HCC Share	-384	\$1,055	\$566	\$2,765	\$1,672	\$1,562	\$1,470	\$1,383	\$1,302	\$1,219	\$1,141	\$1,069	\$1,000	\$937	\$877	\$821	\$769	\$720	\$674	\$628	\$582	\$537	\$492	\$447	\$402

Assumed costs recovered quarterly in arrears

Assumed costs recovered quarterly in arrears

**EXTRAORDINARY MEETING**

**Meeting Date:** 16 February 2016

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## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

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Attachment 2 - Merger Benefit Analysis: Working Papers

Item 3 - Summary of Analysis using Updated KPMG Assumptions

## PROJECTED SAVINGS

Projected Savings		50,767,003	
Staff	a	36,559,263	72.0%
Senior Management	b	5,203,238	10.2%
Materials & Contracts	c	7,186,295	14.2%
Elected Officials	d	1,818,207	3.6%
<b>Total</b>		<b>50,767,003</b>	<b>100.0%</b>

Employee Costs  
Senior Management  
Materials & Contracts  
Elected Officials

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
84.62%					
43,840,987	22,576,882	66,417,869	66.0%	34.0%	100.0%
1,220,711	976,118	2,196,829	55.6%	44.4%	100.0%
24,658,650	15,267,000	39,925,650	61.8%	38.2%	100.0%
590,290	393,638	983,928	60.0%	40.0%	100.0%
70,310,638	39,213,638	109,524,276	64.2%	35.8%	100.0%

Hills (current)	
53,216,645	
1,190,938	
29,140,451	
573,893	
<b>84,123,927</b>	

Estimated Savings

Annualised Savings		2,538,350	
Staff	a	1,827,963	72.0%
Senior Management	b	260,162	10.2%
Materials & Contracts	c	359,315	14.2%
Elected Officials	d	90,910	3.6%
<b>Total</b>		<b>2,538,350</b>	<b>100.0%</b>

Annualised  
Over 20 years

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
1,206,599	621,365	1,827,963	66.0%	34.0%	100.0%
144,564	115,598	260,162	55.6%	44.4%	100.0%
221,918	137,397	359,315	61.8%	38.2%	100.0%
54,540	36,370	90,910	60.0%	40.0%	100.0%
1,627,621	910,729	2,538,350	64.1%	35.9%	100.0%
32,552,413	18,214,590	50,767,003	64.1%	35.9%	100.0%

Merger Costs

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
9,003,094	5,484,381	14,487,475	62.1%	37.9%	100.0%

Hills (part)	Hawkesbury
23,549,319	12,730,209
1,177,466	636,510

Net Savings 20 Years  
Net Savings Annualised

First Five Years	Savings	Cost	Funding
Year 1 (16/17)	78%	63%	83%
Year 2 (17/18)	73%	9%	17%
Year 3 (18/19)	116%	18%	0%
Year 4 (19/20)	167%	7%	0%
Year 5 (20/21)	153%	3%	

	Savings		Cost		Funding		Result	
	Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury
Year 1	1,269,475	710,330	1,979,805	5,647,455	3,440,739	9,088,194	447,406	-739,295
Year 2	1,192,784	667,418	1,860,202	852,161	519,108	1,371,270	1,297,923	543,225
Year 3	1,891,421	1,058,338	2,949,759	1,628,601	992,089	2,620,690	0	66,249
Year 4	2,712,313	1,517,665	4,229,978	613,475	373,708	987,183	0	1,143,957
Year 5	2,492,276	1,394,545	3,886,821	261,402	159,737	420,640	0	2,230,874
TOTAL	9,558,268	5,348,296	14,906,564	9,003,094	5,484,381	14,487,475	5,782,687	2,385,529

Population  
Funding Apportionment

Hills (part)	Hawkesbury	Total	Hills (part)	Hawkesbury	Total
158,842	65,527	224,369	70.8%	29.2%	100.0%
5,782,687	\$2,385,529				

FUNDING PACKAGE	
Unfunded Costs	8,168,216
HCC Share	6,319,259
	3,098,853



**EXTRAORDINARY MEETING**

**Meeting Date:** 16 February 2016

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Attachment 2 - Merger Benefit Analysis: Working Papers

Item 4 - 20 Year Modelling using Adjusted KPMG Assumptions

Additional HCC / Hills Specifics that will Impact upon Merger Assumptions

SAVINGS (000s)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	Total	NPV
Materials & Contracts																						
As HCC is part urban and cost drivers for Materials & Contracts are more aligned to rural councils, the savings should be assumed at 2%, not the 3% used.																						
Due to the nature of some HCC operations, the costs within Materials & Contracts not subject to scale efficiencies are 30%, not the 20% used.																						
<a href="#">refer to Item 5.</a>																						
HCC Materials & Contracts <sup>1</sup>	\$15,648	\$16,039	\$16,440	\$16,852	\$17,273	\$17,705	\$18,147	\$18,601	\$19,066	\$19,543	\$20,031	\$20,532	\$21,045	\$21,571	\$22,111	\$22,663	\$23,230	\$23,811	\$24,406			
80% of Materials & Contracts	\$12,518	\$12,831	\$13,152	\$13,482	\$13,818	\$14,164	\$14,518	\$14,881	\$15,253	\$15,634	\$16,025	\$16,426	\$16,836	\$17,257	\$17,689	\$18,131	\$18,584	\$19,049	\$19,525			
70% of Materials & Contracts	\$10,954	\$11,227	\$11,508	\$11,796	\$12,091	\$12,394	\$12,703	\$13,021	\$13,346	\$13,680	\$14,022	\$14,372	\$14,732	\$15,100	\$15,478	\$15,864	\$16,261	\$16,668	\$17,084			
3% of the 80%	\$376	\$385	\$395	\$404	\$415	\$425	\$436	\$446	\$458	\$469	\$481	\$493	\$505	\$518	\$531	\$544	\$558	\$571	\$586			
2% of the 70%	\$219	\$225	\$230	\$236	\$242	\$248	\$254	\$260	\$267	\$274	\$280	\$287	\$295	\$302	\$310	\$317	\$325	\$333	\$342			
KPMG Projected Savings	\$124	\$127	\$264	\$404	\$415	\$425	\$436	\$446	\$458	\$469	\$481	\$493	\$505	\$518	\$531	\$544	\$558	\$571	\$586	\$8,353		
HCC Projected Savings	\$72	\$74	\$154	\$236	\$242	\$248	\$254	\$260	\$267	\$274	\$280	\$287	\$295	\$302	\$310	\$317	\$325	\$333	\$342	\$4,873		
Resulting reduction	\$52	\$53	\$110	\$169	\$173	\$177	\$181	\$186	\$191	\$195	\$200	\$205	\$210	\$216	\$221	\$227	\$232	\$238	\$244	\$3,481		
Discount Factor <sup>2</sup>	0.83405	0.76175	0.6957	0.6354	0.5669	0.5301	0.4842	0.4423	0.404	0.369	0.3371	0.308	0.2813	0.257	0.2348	0.2145	0.196	0.179	0.1635			
Present Value	\$43	\$40	\$77	\$107	\$98	\$94	\$88	\$82	\$77	\$72	\$68	\$63	\$59	\$55	\$52	\$49	\$46	\$43	\$40	\$1,252		
Estimated savings are calculated separately for Materials & Contracts and Employee Costs, but are interdependent. The mix of which can result in altered projected savings than the assumptions used.																						
Materials & Contracts	HCC (\$)	Hills (\$)	HCC (%)	Hills (%)																		
Employee Costs	\$15,267	\$24,658	39.33%	35.38%																		
	\$23,553	\$45,032	60.67%	64.62%																		
	\$38,820	\$69,690																				

Due to lower overheads (particularly in relation to transport costs), local suppliers can perform some tasks at a lower cost than larger organisation, this may reduce the savings, either through engagement of more costly suppliers, or due to limited economies of scale.

Merger savings as projected by KPMG, do not include breaking costs in relation to the early exit that may result. To avoid these costs, economies of scale may not all occur before year 4, as projected.

[refer to Item 2](#)

Employee Cost	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	Total	NPV
As HCC is part urban and due to the large extent to which services need to cover, the projected employee savings will be less than the assumed 7.4%, therefore 5% used for comparative purposes. In relation to non senior staff																						
HCC Employee Costs <sup>31</sup>	\$23,258	\$23,961	\$24,686	\$25,432	\$26,147	\$26,882	\$27,639	\$28,416	\$29,215	\$29,945	\$30,694	\$31,461	\$32,248	\$33,054	\$33,880	\$34,727	\$35,596	\$36,485	\$37,398			
KPMG Projected Savings (7.4%)	\$512	\$527	\$1,086	\$1,989	\$2,045	\$2,103	\$2,162	\$2,221	\$2,271	\$2,328	\$2,386	\$2,446	\$2,507	\$2,570	\$2,634	\$2,700	\$2,767	\$2,834	\$2,902	\$3,067		
HCC Projected Savings (5%)	\$349	\$359	\$741	\$1,307	\$1,344	\$1,382	\$1,421	\$1,461	\$1,497	\$1,535	\$1,573	\$1,612	\$1,653	\$1,694	\$1,736	\$1,780	\$1,824	\$1,870	\$1,918	\$2,041		
Resulting Reduction	\$163	\$168	\$346	\$682	\$645	\$663	\$682	\$701	\$719	\$737	\$755	\$774	\$793	\$813	\$833	\$854	\$876	\$898	\$920	\$1,026		
Discount Factor <sup>2</sup>	0.83405	0.76175	0.6957	0.6354	0.5669	0.5301	0.4842	0.4423	0.404	0.369	0.3371	0.308	0.2813	0.257	0.2348	0.2145	0.196	0.179	0.1635			
Present Value	\$136	\$128	\$240	\$388	\$356	\$342	\$321	\$302	\$283	\$265	\$248	\$233	\$218	\$204	\$191	\$179	\$167	\$157	\$147	\$4,504		
Reduced Savings	\$214	\$221	\$456	\$779	\$800	\$822	\$845	\$868	\$892	\$914	\$937	\$960	\$984	\$1,009	\$1,034	\$1,060	\$1,087	\$1,114	\$1,142	\$1,170	\$6,939	
Discount Factor <sup>2</sup>	0.83405	0.76175	0.6957	0.6354	0.5669	0.5301	0.4842	0.4423	0.404	0.369	0.3371	0.308	0.2813	0.257	0.2348	0.2145	0.196	0.179	0.1635			
Present Value	\$179	\$168	\$317	\$495	\$454	\$436	\$409	\$384	\$360	\$337	\$316	\$296	\$277	\$259	\$243	\$227	\$213	\$199	\$187	\$5,756		

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Attachment 2 - Merger Benefit Analysis: Working Papers  
 Item 4 - 20 Year Modelling using Adjusted KPMG Assumptions

COSTS (000s)		15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	Total	NPV
ICT Costs																							
No allowance has been made for full migration, system and business process integration - which will be significant and require costs in relation to hardware, software applications, staff and IT consultants. Breeding costs may also be incurred for software licensing and hardware leasing contracts.																							
As a minimum, it could be expected that the assumed 'vanilla solution' savings would be encountered again, but over a number of years after its implementation.																							
KPMG Assumed Cost			\$4,355	0	0	0	0																
HCC Assumed Completion Costs			\$5,047	\$1,000	\$1,307	\$1,307	\$742																
Resulting Increase			\$692	\$1,000	\$1,307	\$1,307	\$742	\$5,047															
HCC Share		35%	\$240	\$347	\$453	\$453	\$257	\$1,749															
Discount Factor <sup>7</sup>			0.83405	0.76175	0.6957	0.6354	0.5669																
Present Value			\$200	\$762	\$909	\$830	\$421	\$3,121															
HCC Share			\$0	\$264	\$315	\$288	\$146	\$1,082															
Redundancies		15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	Total	NPV
Non-Senior Staff																							
Using current data for back office staff for the Hawkesbury.																							
HCC Average Salary (KPMG)			\$84	\$86	\$88																		
HCC Average Salary (Actual)			\$86	\$88	\$90																		
HCC Average ELLE (KPMG)			\$31	\$32	\$33																		
HCC Average ELLE (Actual)			\$22	\$23	\$23																		
HCC Average Redundancy (KPMG)		16 weeks																					
HCC Average Redundancy (Actual)		28 weeks																					
HCC Average Payout (KPMG)			\$243	\$249	\$766																		
HCC Average Payout (Actual)			\$291	\$298	\$916																		
Resulting Increase			\$48	\$49	\$150	\$247																	
Discount Factor <sup>7</sup>			0.83405	0.76175	0.6957																		
Present Value			\$40	\$37	\$105	\$182																	
Increased Costings			\$740	\$1,049	\$1,457	\$1,554	\$742																
HCC Share			\$288	\$395	\$603	\$700	\$257																
Discount Factor <sup>7</sup>			0.83405	0.76175	0.6957	0.6354	0.5669																
Present Value			\$617	\$799	\$1,014	\$987	\$421	\$3,837															
HCC Share			\$240	\$301	\$420	\$445	\$146	\$1,551															
NET IMPACT (000s)																							
Net Benefit Reduction			\$954	\$1,270	\$1,913	\$2,333	\$1,542																
HCC Share			\$502	\$616	\$1,059	\$1,479	\$1,057																
Discount Factor <sup>7</sup>			0.83405	0.76175	0.6957	0.6354	0.5669																
Present Value			\$796	\$967	\$1,331	\$1,482	\$874	\$5,450															
HCC Share			\$419	\$469	\$737	\$940	\$599	\$3,164															

**EXTRAORDINARY MEETING****Meeting Date: 16 February 2016**

Attachment 2 - Merger Benefit Analysis: Working Papers

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Item 5 - Materials Contracts not Subject to Scale Efficiencies

<b>Materials &amp; Contracts not subject to Scale Efficiencies</b>		
<b>Natural Account</b>	<b>Amt</b>	<b>Reason</b>
2116 Contractors	1,206,487	Sullage service & Peppercorn Place
2407 Consultancy Fees	168,699	WMF Monitoring, OEH Kerbside, Museum
2429 Contractors Charges	207,455	WMF Contracts
2433 Penrith CC Land Rates Payable	20,882	Penrith Rates
2436 Veterinary Expenses	154,400	Animal Shelter
2440 Property Leases	63,953	Crown Land & WMF Leases
2490 Activity Expenses	9,280	Museum
2491 Consumables	24,367	Animal Shelter
2540 Lower Portland Ferry	668,758	Ferry contract & overhaul
2632 Standpipes Mtce & Repair	17,500	Hills does not have
2652 Road Reseals Program	1,600,000	Now treated as capex
2662 Infringement Processing Expenses	103,160	SDRO Fees
2721 Stock Pound Expenses	25,000	Animal Shelter
2762 Art Gallery Expenses	101,460	Hills does not have
2963 Waste Depot Work Expenditure	149,449	WMF
2986 Museum Program Expenses	51,910	Hills does not have
	<b>4,572,760</b>	
Original Budget	15,276	
Percentage not applicable to scale efficiencies	<b>29.93%</b>	

**EXTRAORDINARY MEETING**

Meeting Date: 16 February 2016

**Attachment 2 - Merger Benefit Analysis: Working Papers****DRAFT****Item 6 - Discount Rates for Present Value Calculations****Discount Rates for Present Value Calculations**

	9%	9.50%	10%	
1	0.9174	0.91325	0.9091	2015/16
2	0.8417	0.83405	0.8264	2016/17
3	0.7722	0.76175	0.7513	2017/18
4	0.7084	0.6957	0.683	2018/19
5	0.6499	0.6354	0.6209	2019/20
6	0.5693	0.5669	0.5645	2020/21
7	0.547	0.5301	0.5132	2021/22
8	0.5019	0.4842	0.4665	2022/23
9	0.4604	0.44225	0.4241	2023/24
10	0.4224	0.40395	0.3855	2024/25
11	0.3875	0.369	0.3505	2025/26
12	0.3555	0.33705	0.3186	2026/27
13	0.3262	0.30795	0.2897	2027/28
14	0.2992	0.28125	0.2633	2028/29
15	0.2745	0.25695	0.2394	2029/30
16	0.2519	0.23475	0.2176	2030/31
17	0.2311	0.21445	0.1978	2031/32
18	0.212	0.19595	0.1799	2032/33
19	0.1945	0.179	0.1635	2033/34
20	0.1784	0.1635	0.1486	2034/35

Source: <http://www.retailinvestor.org/pdf/futurevaluetables.pdf>



## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

### Attachment 2 - Merger Benefit Analysis: Working Papers

#### Item 7 - Example of Contracts with Possible Breaking Costs

# DRAFT

Contracted Service	Expiry Year
Airconditioning Cyclical Maintenance	2020
Cleaning at Various Council Buildings	2020
Computer Equipment Lease	2020
Concrete Works - Restoration of Foothpaths and Kerb & Guttering	2020
Fire Services	2017
Garden Organic Collection & Processing Service	2020
Graffiti Removal	2021
Pool Services	2021
Repainting of Various Council Sites	2017
Security Services	2017
Supply Electricity	2017
Supply of Street Lighting	2017
Tag and Testing of Electrical Equipment	2017
Telecommunications	2017
The Caretaking & Operation of the Lower Portland Ferry	2017
Trade Services	2021

There are a number of contracts expiring during 2016.

The timing of expiry and the nature of the contract will determine whether breaking costs will apply.

# EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

Attachment 2 - Merger Benefit Analysis: Working Papers

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Item 8 - Back Office Positions at Hawkesbury Council

Position	FTE	Length of Service	Severance (Weeks)	Severance (\$)	Projected ELE	Total Payout
Position 1	1.00	10.36	34	55,297	32,023	87,321
Position 2	1.00	15.81	34	60,323	47,345	107,668
Position 3	1.00	6.82	22	31,135	15,062	46,198
Position 4	1.00	3.98	13	32,827	30,433	63,259
Position 5	1.00	18.9	34	95,142	112,725	207,867
Position 6	1.00	2.24	9	14,638	9,783	24,420
Position 7	1.00	15.14	34	70,358	40,978	111,335
Position 8	1.00	2.48	9	21,727	18,481	40,209
Position 9	1.00	1.32	5	2,801	528	3,329
Position 10	1.00	16.7	34	70,358	24,790	95,148
Position 11	1.00	1.47	5	8,132	3,366	11,498
Position 12	1.00	19.65	34	52,498	32,505	85,002
Position 13	1.00	3.77	13	24,298	15,250	39,547
Position 14	1.00	14.34	34	41,171	29,312	70,482
Position 15	1.00	1.08	5	5,622	849	6,471
Position 16	1.00	6.26	22	26,640	10,844	37,484
Position 17	1.00	2.42	9	10,119	2,636	12,755
Position 18	1.00	23.27	34	46,009	26,232	72,241
Position 19	1.00	1.16	5	2,407	296	2,703
Position 20	1.00	16.91	34	45,274	41,421	86,695
Position 21	1.00	11.13	34	90,289	97,027	187,315
Position 22	1.00	10.69	34	70,358	47,388	117,746
Position 23	1.00	9.12	31	52,311	30,497	82,809
Position 24	1.00	4.25	16	20,300	7,367	27,666
Position 25	0.86	12.63	34	35,289	13,547	48,836
Position 26	1.00	1.01	5	7,387	0	7,387
Position 27	1.00	9.56	31	47,865	25,691	73,556
Position 28	1.00	13.55	34	115,469	80,911	196,380
Position 29	1.00	5.57	19	50,456	71,501	121,956
Position 30	0.60	16.14	34	24,702	27,049	51,751
Position 31	1.00	20.89	34	41,171	46,164	87,335
Position 32	1.00	8.56	28	33,905	16,261	50,166
Position 33	1.00	4.81	16	29,905	49,227	79,132
Position 34	1.00	25.19	34	59,294	80,242	139,536
Position 35	1.00	21.13	34	57,374	57,028	114,402
Position 36	1.00	0	0	0	0	0
Position 37	1.00	1.2	5	2,068	318	2,387
Position 38	1.00	5.15	19	53,168	26,861	80,029
Position 39	1.00	4.29	16	24,715	10,789	35,504
Position 40	0.60	13.77	34	25,733	26,639	52,372
Position 41	0.40	13.01	34	21,920	13,006	34,926
Position 42	0.90	8.93	28	31,788	10,801	42,589
Position 43	0.50	8.93	28	18,101	5,584	23,686
Position 44	1.00	4.29	16	34,762	13,991	48,753
Position 45	1.00	0.82	0	0	0	0
Position 46	1.00	5.27	19	47,977	29,618	77,595
Position 47	1.00	15.89	34	76,345	23,959	100,305
Position 48	1.00	10.83	34	85,783	85,441	171,224
Position 49	1.00	3.33	13	19,335	15,134	34,469
Position 50	1.00	6.36	22	45,526	57,392	102,918
Position 51	1.00	20.36	34	77,366	65,921	143,287
Position 52	1.00	0	0	0	0	0
Position 53	1.00	0	0	0	0	0
Position 54	1.00	7.2	25	46,726	24,663	71,390
Position 55	1.00	12.13	34	86,522	25,487	112,009
Position 56	1.00	0	0	0	0	0
Position 57	1.00	11.96	34	57,374	51,851	109,225
Position 58	1.00	11.82	34	52,498	23,387	75,885
Position 59	1.00	2.37	9	13,318	2,960	16,277
Position 60	1.00	10.63	34	52,498	35,795	88,293
Position 61	1.00	3.67	13	16,398	11,247	27,645
Position 62	0.70	4.31	16	14,128	3,833	17,960
Position 63	1.00	14.59	34	42,888	37,315	80,203
Position 64	0.60	2.58	9	6,569	3,298	9,867
Position 65	1.00	15.01	34	43,353	25,809	69,162
Position 66	1.00	20.62	34	42,888	43,059	85,947
Position 67	0.40	13.77	34	17,155	0	17,155
Position 68	1.00	5.15	19	23,967	13,186	37,153
Position 69	0.50	2.75	9	5,676	1,798	7,475
Position 70	0.80	1.28	5	4,686	763	5,448
Position 71	0.50	2.49	9	5,676	1,209	6,885
Position 72	0.40	8.21	28	14,128	11,541	25,669
Position 73	1.00	3.41	13	16,398	11,651	28,049
Position 74	0.80	1.28	5	4,686	874	5,560
Position 75	0.80	2.75	9	9,082	1,974	11,056
Position 76	0.50	6.08	22	13,876	4,497	18,372
Position 77	0.60	0.93	0	0	0	0
Position 78	0.31	0	0	0	0	0
Position 79	1.00	4.56	16	28,387	9,525	37,913
Position 80	1.00	35.35	34	85,671	177,531	263,203
Position 81	1.00	6.13	22	31,135	8,411	39,546
Position 82	1.00	36.16	34	48,118	17,330	65,448
Position 83	1.00	1.43	5	2,407	1,069	3,476
	<b>75.77</b>			<b>2,803,645</b>	<b>2,080,274</b>	<b>4,883,919</b>
Average Salary	85,501					
Average LOS	8.79					
Assumed Severance Weeks	28					
<b>Average Severance</b>	<b>45,862</b>					
Average ELE Balance	477.45					
<b>Average ELE Payout</b>	<b>22,344</b>					
<b>Average Redundancy</b>	<b>68,206</b>					

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## Attachment 2 - Merger Benefit Analysis: Working Papers

## Item 9 - List of References

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Attachment 2 - Merger Benefit Analysis: Working Papers

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**EXTRAORDINARY MEETING**  
**Meeting Date: 16 February 2016**

Attachment 3 - Economic Impacts of Merger

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MODEL ONE - CONSERVATIVE (HCC)					
Staff Reductions					
	FTE Reduction		Residents	Non Residents	Total Effective Job Losses
Jobs Lost	14.40		8.64	1.73	10.37
Economic Impact					
Jobs	Output		Wages & Salaries	Value-added	Total Impact
	17	\$4,341,000	\$1,592,000	\$2,324,000	\$8,257,000

**Assumptions**

1. 65% of workforce reside and shop in LGA
2. 30% of non resident staff shop within LGA
3. Job Losses are 5% of FTE of 288 as per HCC Assumption for both Councils

MODEL THREE - MODERATE					
Staff Reductions					
	FTE Reduction		Residents	Non Residents	Total Effective Job Losses
Jobs Lost	28.80		17.28	3.46	20.74
Economic Impact					
Jobs	Output		Wages & Salaries	Value-added	Total Impact
	35	\$9,003,000	\$3,301,000	\$4,820,000	\$17,124,000

**Assumptions Changes from Model Two**

1. Job Losses are 10% of FTE for HCC due to socio-economic index (p.14 - Merger Proposal) showing Hills population is more highly qualified and educated

MODEL FIVE - TOTAL RELOCATION					
Staff Reductions					
	FTE Reduction		Residents	Non Residents	Total Effective Job Losses
Jobs Lost		28.80	17.28	3.46	20.74
Jobs Relocated		259.20	46.66	31.10	77.76
Economic Impact					
Jobs	Output		Wages & Salaries	Value-added	Total Impact
	167	\$42,756,000	\$15,679,000	\$22,889,000	\$81,324,000

**Assumption Changes from Model Four**

1. Total relocation of all remaining staff out of LGA (incl Depot)

Projected local economic loss due to jobs being taken out of LGA ranges from \$8.3M - \$81.3M

MODEL TWO - CONSERVATIVE (KPMG)					
Staff Reductions					
	FTE Reduction	Residents	Non Residents	Total Effective Job Losses	
Jobs Lost	21.31	12.79	2.56	15.34	
Economic Impact					
Jobs	Output	Wages & Salaries	Value-added	Total Impact	
	26	\$ 6,659,000	\$ 2,442,000	\$ 3,565,000	\$ 12,666,000

**Assumptions Changes from Model One**

3. Job Losses are 7.4% of FTE of 288 as per KPMG Assumption for both Councils

MODEL FOUR - PARTIAL RELOCATION					
Staff Reductions					
	FTE Reduction		Residents	Non Residents	Total Effective Job Losses
Jobs Lost	28.80		17.28	3.46	20.74
Jobs Relocated	109.98		19.80	13.20	32.99
Economic Impact					
Jobs	Output		Wages & Salaries	Value-added	Total Impact
	91	\$23,323,000	\$8,553,000	\$12,486,000	\$44,362,000

**Assumption Changes from Model Three**

1. Closure of Admin Building and relocation of remaining staff
2. Residents reduce local expenditure by 30% (transferred to equivalent FTE)

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Attachment 4 - Fit for the Future Benchmark Comparisons

Projected Performance Indicators LTFP - Fit for the Future Model														
Sustainability	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TARGET	
Operating Performance Ratio (Avg)	-0.125	-0.098	-0.084	-0.052	-0.032	-0.019	-0.011	-0.006	0.008	0.027	0.051	0.064	0.064	0.000
Own Source Revenue Ratio (Avg)	65.69%	73.71%	79.75%	86.05%	84.43%	84.38%	83.89%	85.64%	86.6%	88.13%	88.66%	89.05%	89.05%	60.00%
Building & Asset Renewal Ratio (Avg)	76.94%	92.36%	89.26%	88.85%	93.69%	91.65%	117.65%	133.88%	117.01%	101.18%	115.24%	126.96%	126.96%	100.00%
Effective Infrastructure & Service Management														
Infrastructure Backlog Ratio	14.05%	4.24%	4.33%	4.65%	4.57%	3.52%	2.68%	2.42%	2.47%	2.15%	1.50%	0.00%	0.00%	2.00%
Asset Maintenance Ratio (Avg)	58.37%	69.72%	79.78%	93.63%	96.16%	98.58%	102.17%	102.13%	101.87%	100.12%	100.01%	100.01%	100.00%	100.00%
Debt Service Ratio (Avg)	0.47%	0.87%	1.22%	1.19%	1.30%	1.76%	2.53%	3.36%	3.94%	4.07%	3.75%	3.32%	3.32%	>0%<20%
Efficiency - Based on OLG CPI														
Real Operating Expenditure (Trend)	-0.01	-0.08	-0.12	-0.09	-0.1	-0.06	-0.04	-0.04	-0.07	-0.1	-0.11	-0.11	-0.11	<0
Where 13/14 is Base Year at 100	-0.01	-0.08	-0.12	-0.09	-0.1	-0.06	-0.04	-0.04	-0.07	-0.1	-0.11	-0.11	-0.11	99.07
Total Rate Increase (Ind 2.5% peg)	2.50%	2.50%	2.50%	2.50%	7.00%	6.00%	5.00%	4.50%	4.50%	4.50%	4.50%	4.50%	2.50%	

Meets FFT Benchmark  
Does not meet FFT Benchmark

Cumulative incl rate peg  
Cumulative exd rate peg

\*Avg = average for the current year + 2 prior years

\*Trend = trend observed over current year + 4 prior years discounted by average CPI

FFFT Model	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	TARGET	
Asset Maintenance	12.439	12.339	12.602	12.860	13.879	14.125	14.684	13.912	13.782	13.653	13.525	13.398	13.397	
Asset Renewal	8.331	8.384	9.208	8.116	9.860	14.561	15.821	8.939	9.755	11.261	13.153	13.247	9.893,285	
Infrastructure Backlog	63.849	20.405	20.842	22.381	22.231	17.419	11.398	12.299	12.422	11.044	7.779	0	10,416	
Structural Deficit	6.952	4.699	2.602	1.809	1.353	505	351	344	-2.645	-3.855	-5.579	-6.332	0	

Projected Performance Indicators LTFP - KPMG Assumptions														
Sustainability	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TARGET	
Operating Performance Ratio (Avg)	-0.125	-0.098	-0.084	-0.053	-0.031	-0.023	-0.015	-0.013	-0.008	-0.006	0.000	0.008	0.000	0.000
Own Source Revenue Ratio (Avg)	65.69%	73.71%	79.75%	85.05%	83.00%	82.73%	82.96%	84.86%	85.75%	87.23%	87.68%	88.04%	60.00%	60.00%
Building & Asset Renewal Ratio (Avg)	76.94%	92.36%	89.26%	87.37%	86.39%	86.45%	99.37%	93.97%	84.47%	69.57%	74.76%	80.08%	100.00%	100.00%
Effective Infrastructure & Service Management														
Infrastructure Backlog Ratio	14.05%	4.24%	4.33%	4.75%	5.03%	5.09%	4.66%	5.29%	5.94%	6.50%	6.85%	7.20%	2.00%	2.00%
Asset Maintenance Ratio (Avg)	58.37%	69.72%	79.78%	93.32%	94.61%	95.38%	96.45%	97.16%	97.88%	98.95%	99.38%	100.00%	100.00%	100.00%
Debt Service Ratio (Avg)	0.47%	0.87%	1.22%	1.19%	1.14%	1.11%	1.09%	1.07%	1.04%	0.92%	0.57%	0.24%	>0%<20%	>0%<20%
Efficiency - Based on OLG CPI														
Real Operating Expenditure (Trend)	-0.01	-0.08	-0.12	-0.08	-0.12	-0.12	-0.08	-0.07	-0.05	-0.05	-0.04	-0.06	-0.06	99.12
Where 13/14 is Base Year at 100	-0.01	-0.08	-0.12	-0.08	-0.12	-0.12	-0.08	-0.07	-0.05	-0.05	-0.04	-0.06	-0.06	99.12
Total Rate Increase (Ind 2.5% peg)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	

Meets FFT Benchmark  
Does not meet FFT Benchmark

Cumulative incl rate peg  
Cumulative exd rate peg

\*Avg = average for the current year + 2 prior years

\*Trend = trend observed over current year + 4 prior years discounted by average CPI

FFFT Model	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	TARGET	
Asset Maintenance	12.439	12.339	12.602	12.733	13.347	13.450	13.759	14.222	14.600	14.472	14.342	14.213	13,940	
Asset Renewal	8.331	8.384	9.208	7.686	9.324	11.601	11.601	6.680	6.633	7.281	8.251	8.223	9,893,285	
Infrastructure Backlog	63.849	20.405	20.842	22.811	24.355	24.780	22.979	26.139	29.384	31.986	33.623	35.294	9,799	
Structural Deficit	6.952	4.699	2.602	1.977	1.047	1.342	571	603	477	124	-577	-1,308	0	

## EXTRAORDINARY MEETING

Meeting Date: 16 February 2016

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Attachment 4 - Fit for the Future Benchmark Comparisons

Projected Performance Indicators LTFP - HCC Assumptions													
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TARGET
Sustainability													
Operating Performance Ratio (Avg)	-0.125	-0.098	-0.084	-0.055	-0.036	-0.032	-0.026	-0.024	-0.018	-0.016	-0.009	-0.001	0.000
Own Source Revenue Ratio (Avg)	65.69%	73.71%	79.75%	85.15%	83.22%	82.95%	83.08%	84.86%	85.75%	87.23%	87.68%	88.04%	60.00%
Building & Asset Renewal Ratio (Avg)	76.94%	92.36%	89.26%	85.53%	81.26%	77.29%	87.86%	82.16%	74.52%	61.57%	68.04%	73.18%	100.00%
Effective Infrastructure & Service Management													
Infrastructure Backlog Ratio	14.05%	4.24%	4.33%	4.86%	5.36%	5.67%	5.49%	6.36%	7.16%	7.87%	8.38%	8.91%	2.00%
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Debt Service Ratio (Avg)	0.47%	0.87%	1.22%	1.19%	1.15%	1.12%	1.09%	1.07%	1.04%	0.92%	0.57%	0.24%	>0%<20%
Efficiency - Based on OLG CPI													
Real Operating Expenditure (Trend)	-0.01	-0.08	-0.12	-0.07	-0.11	-0.07	-0.07	-0.06	-0.05	-0.05	-0.04	-0.04	<0
Where 13/14 is Base Year at 100	-0.01	-0.08	-0.12	-0.07	-0.11	-0.07	-0.07	-0.06	-0.05	-0.05	-0.04	-0.04	99.23
Total Rate Increase (incl 2.5% peg)													
	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Meets FFTF Benchmark													
Does not meet FFTF Benchmark													
	Cumulative incl rate peg												
	Cumulative exd rate peg												
	13.14%												
	0.00%												
* Avg = average for the current year + 2 prior years													
*Trend = trend observed over current year + 4 prior years discounted by average CPI													
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Asset Maintenance	12.439	12.339	12.602	12.785	13.400	13.560	13.928	14.395	14.601	14.471	14.342	14.213	13,940
Asset Renewal	8.331	8.384	9.208	7.152	7.209	8.144	10.369	5.623	5.986	6.618	7.569	7.522	9,893,285
Infrastructure Backlog	63,849	20,405	20,842	22,811	24,355	24,780	22,979	26,139	29,384	31,986	33,623	35,294	9,799
Structural Deficit	6,952	4,699	2,602	2,370	1,602	2,031	1,299	1,363	1,085	782	0	-613	0

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