

# The Hills Shire Council and Hornsby Shire Council

## Preliminary analysis of a Hills/Hornsby Council merger

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and confidential  
10 April 2013



**pwc**

Contents | Executive summary | Selected information | Appendices | Glossary

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Dear Sirs,

**Subject: Advisory services – preliminary analysis of a Hills/Hornsby Council merger**

PwC are delighted to submit to you our report on specific areas of a proposed amalgamation of the Hills Shire Council and Hornsby Shire Council in anticipation of the recommendations that may be made to the NSW Government by the Independent Panel .

Save as described in the contract or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else or for any other purpose in connection with this report and it may not be provided to anyone else.

Should you have any questions regarding the report please contact me directly.

Yours faithfully

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# Contents

<b>Transmittal letter</b>	<b>2</b>
<b>Executive summary</b>	<b>4</b>
1 Introduction and approach	5
2 Key Findings	6
<b>Selected information</b>	<b>13</b>
3 Current financial positions – standalone councils	14
4 Advantages and disadvantages of merged councils	24
5 Projected financial sustainability of merged councils	33
6 High level cost savings from merged councils	41
7 Productivity dividends of merged councils	44
<b>Appendices</b>	<b>53</b>
1 Forecast financial information for individual councils	54
2 Strategic goals and objectives	56
<b>Glossary</b>	<b>67</b>

### **To navigate this report on-screen (in pdf format)**

From any page – click on the section title in the header navigation bar

From this Contents page – click on the title of the section or sub-section

From the contents listing on any section divider – click on the title of the sub-section

# Executive summary

<b>Executive summary</b>	<b>4</b>
1 Introduction and approach	5
2 Key Findings	6

## Introduction

- PwC has been engaged to carry out a high level analysis of:
  1. The current individual financial sustainability of both the Hills and Hornsby Shire Councils;
  2. The advantages and disadvantages (real or perceived) or a merged Hills/Hornsby Council;
  3. Assess and comment on the projected financial sustainability of a merged Hills/Hornsby Council, Hills/Hawkesbury Council and Hornsby/Ku-ring-gai Council;
  4. Assess at a high level the cost savings that would potentially be achieved as a consequence of a merged Hills/Hornsby Council, Hills/Hawkesbury Council and Hornsby/Ku-ring-gai Council; and
  5. Advise whether any or all of the three merged arrangements would play an expanded role in future planning and service delivery for their areas and comment on the ability of a newly merged council to return the productivity dividend in the form of:
    - a) Increase service delivery for rate payers
    - b) Invest in future capital assets
    - c) Upgrade existing infrastructure
    - d) Re-calibrate the capital structure
    - e) Cap or fix rates over the short to medium term
- The purpose of the analysis is to provide the Hills Shire and Hornsby Shire Councils with sufficient high level information on specific areas of the selected councils' operating, strategic and financial performance in anticipation of the recommendations that may be made to the NSW Government by the Independent Panel.

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5

## Our approach

- We have been instructed to perform our analysis based on:
  - Publicly available information for the Hills, Hornsby, Hawkesbury and Ku-ring-gai councils. With respect to these councils we have obtained for our high level review:
    - Integrated planning framework and supporting documents (strategic & community plans, delivery program, operation plan and annual report)
    - Financial statements for the periods ended 30 June 2011 and 30 June 2012.
  - Limited additional information provided by Hills and Hornsby councils by correspondence.

We present on key observations and recommendations in this report.

## Guide to report

- **Section 1** summarises our key findings.
- **Section 2** sets out the detailed analysis we have undertaken to reach our conclusions
- **Appendix** sets out additional information and analysis that we have performed in bringing further context to our findings

## Executive summary – At a glance

### 1 There are significant differences in the current and projected FY13 to FY16 financial positions of the four councils.

Each of the Councils are at different stages of growth which has a direct impact on their existing financial position and future financial sustainability.

Hornsby and Hawkesbury may require additional sources of funding for operating activities due to their net deficit positions in the budget period.

### 2 There may be perceived 'winners' and 'losers' in any merged council scenario.

The varying levels of financial profitability and position between the councils means that the proposed merger combinations may benefit some councils more than others from a financial sustainability perspective. The Hills shire appears to have the strongest financial performance indicators and a potential merger with Hornsby may have a negative impact on its financial position in the short term.

We note however that merged councils may benefit through harmonisation of revenue streams, asset rationalisation and cost saving opportunities, which will need to be assessed in detail to ascertain a more accurate level of financial positions and future sustainability for any of the merged councils.

### 3 Both Hills and Hornsby have an aligned strategic direction which provides a framework for project and program prioritisation in a merged council.

Strategic alignment can provide a clear focus, a sense of joint purpose and the basis for measuring and rewarding progress to create additional sources of value for:

- Rate payers through more services, better services and/or cost effective services; and
- Council through improved utilisation of assets, economies of scale and stronger lobbying position.

### 4 We have identified several shared operating activities and potential cost savings which can be classified under the following areas:

- Finance
- Human Resources
- Procurement
- Development
- Plant and fleet management
- Customer relations
- Maintenance of land and public works

### 5 If implemented effectively, a merged council can create benefits for the community in the following areas:

- Improve strategic capacity and scope for services
- Stronger council financial position and flexibility
- Potential to access more and better services at reduced cost
- Improved ability to invest in capital assets
- Improvement in accessibility and quantity of services
- Rationalisation and upgrade of existing assets and infrastructure
- Improved local democracy in attracting representative talent and community engagement
- Re-calibration of the capital structure

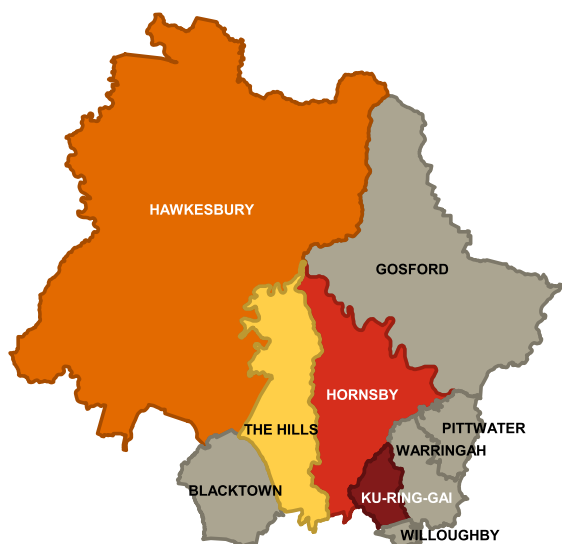
**Key Findings – Overview of the four councils**

**PwC view** – *There is an opportunity to better utilise council infrastructure and rationalise assets in a merger scenario.*

**Average Rate per Assessment – 2010/11**

	Hills	Hornsby	Hawkesbury	Ku-ring-gai	State Average
<b>Residential</b>	\$917.97	\$865.51	\$936.44	\$780.15	\$811.52
<b>Farmland</b>	\$1,498.80	\$1,418.83	\$828.28	-	\$1,968.76
<b>Business</b>	\$1,830.56	\$2,441.27	\$3,831.46	\$3,375.81	\$4,305.09

Source: Comparative Information on NSW Local Government Councils 2010/11

**Key Council Infrastructure**

	Hills	Hornsby	Hawkesbury	Ku-ring-gai
<b>Population (2011 Census)</b>	169,872	157,387	64,234	114,000
<b>Suburbs</b>	29	41	63	27
<b>Geographic area (approx)</b>	401km <sup>2</sup>	510km <sup>2</sup>	2,776km <sup>2</sup>	85km <sup>2</sup>
<b>Council Wards</b>	4	3	1; not subdivided	5
<b>Roads</b>	944km	649km	1,032km	417km
<b>Libraries</b>	5	5	2	4
<b>Parks</b>	330	186	215	171
<b>Council child care facilities</b>	6	5	12	2
<b>Aquatic centres</b>	1	4	1	1
<b>Community halls</b>	21	19	13	11
<b>Council offices</b>	1	1	1	1
<b>Stadiums</b>	-	1	1	-
<b>Depots</b>	Not available	Not available	4	1
<b>Museums &amp; galleries</b>	1	1	2	1
<b>Showgrounds</b>	1	-	1	1
<b>Youth centres</b>	-	1	1	3

Source: Hills, Hornsby, Hawkesbury and Ku-ring-gai websites, Operational Reports.

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10 April 2013  
7

**Key findings – Overview of the four councils**

**PwC view** - *There are significant differences in the current and projected financial positions of the four councils.*

<b>Key Performance Indicators</b>	<b>Hills</b>	<b>Hornsby</b>	<b>Hawkesbury</b>	<b>Ku-ring-gai</b>
<b>Net operating result for the year before grants &amp; contributions provided for capital purposes</b>	\$9,395k	(\$4,032)k	(\$8,853)k	\$8,360k
<b>Income growth rate (excluding grants, contributions &amp; revaluations) FY11-FY12</b>	4.9%	5.5%	2.8%	3.5%
<b>Expenses growth rate FY11-FY12</b>	6%	(0%)	8%	1%
<b>Net assets</b>	\$3,180k	\$1,444k	\$791k	\$970k
<b>Unrestricted current ratio</b>	9.65:1	1.76:1	4.86:1	2.05:1
<b>Debt service ratio</b>	0.00%	4.66%	0.71%	2.30%
<b>Rates &amp; annual charges coverage ratio<sup>1</sup></b>	42.27%	68.73%	50.47%	58.57%
<b>Rates, annual charges, interest &amp; extra charges outstanding</b>	3.15%	3.16%	6.26%	3.39%
<b>Building &amp; infrastructure renewals ratio<sup>2</sup></b>	155.51%	61.74%	64.15%	95.09%
<b>Infrastructure backlog (condition of public works)<sup>2</sup></b>	\$45.826k <sup>3</sup>	\$8,500k	\$75,394k	\$172,174k
<b>Number of FTE's</b>	581	539	266	443
<b>Avg. Employee benefits cost per FTE</b>	\$78.2k	\$79.2k	\$80.0k	\$76.5k

<sup>1</sup> Rates & annual charges coverage ratio for Hills is low compared to other councils in FY12 due to significant increase in capital grants & contributions. FY11 ratio for Hills is 51.48% which is more in line with the other councils.

<sup>2</sup> These ratios are based on unaudited data as presented in the Financial Statements Special Schedule 7, which are subjective depending on each council's estimate.

<sup>3</sup> The backlog ratio for Hills has been adjusted to exclude proactive amounts which were incorrectly included in the total backlog amounts in the FY12 Financial Statements.

Source: Financial Statements, PwC Analysis, Management information

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10 April 2013  
8

**Hills Shire Council** – the current and projected financial position of the council indicate strong profitability, high levels of liquidity (with zero debt) and substantial asset base with ability for continued investment.

**PwC view** – based on our high level review of the current and FY13 – FY16 financial budgets, the proposed merger combinations would not appear to benefit the Hills Shire Council from a financial sustainability perspective.

**Overview of financial sustainability of merged councils - Hills perspective**

Net operating result show that the council currently has sufficient levels of recurrent income to support the current and budgeted cost base.

Whilst the current income growth rates improve with a merger with Hornsby, this is not indicative of future trend as Hornsby has had a higher rate peg which is due to end in 2014.

Hills' recurrent income base may improve as a result of a merger, given the higher levels of recurrent income from Hornsby and Hawkesbury.

Given infrastructure backlogs will increase with a merger, the merged councils present opportunities to reassess the funding structure for capital items.

Key Performance Indicators	At at 30 June 2012			4 Yr Cumulative Budget FY13-FY16		
	Hills	Hills + Hornsby	Hills + Hawkesbury	Hills	Hills + Hornsby	Hills + Hawkesbury
1 Net operating result for the year (before grants & contributions provided for capital purposes) (\$'000s)	9,395 ↓	5,363 ↓	542	153,735 ↓	35,173 ↓	(28,463)
2 NOR as a % of income before grants, contributions & revaluations	8.63% ↓	2.58% ↓	0.34%	8.52% ↓	3.66% ↓	(3.93%)
3 Income growth rate (before grants, contributions & revaluations)	4.92% ↑	5.21% ↓	4.22%	N/Q	N/Q	N/Q
4 Total expenses growth rate	6.20% ↑	2.81% ↓	6.70%	N/Q	N/Q	N/Q
5 Employee benefits expense as % of income before grants, contributions & revaluations	41.76% ↓	42.46% ↑	41.87%	40.38% ↓	41.07% ↑	38.52%
6 Net assets (\$'000s)	3,180 ↑	4,624 ↑	3,971	N/Q	N/Q	N/Q
7 Unrestricted current ratio	9.65 ↓	4.66 ↑	12.28	N/Q	N/Q	N/Q
8 Rates & annual charges coverage ratio	42.27% ↑	52.19% ↑	44.61%	53.50% ↑	61.74% ↑	58.08%
9 Building & infrastructure renewals ratio	155.51% ↓	103.55% ↓	109.87%	N/Q	N/Q	N/Q
10 Infrastructure backlog (\$'000s)	60,683 ↓	69,183 ↓	136,077	N/Q	N/Q	N/Q
11 Avg. employee benefits cost per FTE (\$'000s)	78.2 ↓	78.7 ↓	78.8	N/Q	N/Q	N/Q
<b>Metric comparisons:</b>						
No. of metrics that improve		4	4		1	2
No. of metrics that deteriorate		7	7		3	2
No. of non quantifiable metrics		-	-		7	7
<b>Total number of KPIs</b>		<b>11</b>	<b>11</b>		<b>11</b>	<b>11</b>

Source: Financial Statements, PwC Analysis

The merged Hills/Hawkesbury budget shows operating deficits for FY13 – FY16. As part of our high level review we have not quantified the effects of harmonisation of revenue streams and cost rationalisation opportunities arising from the merger. These factors as well as other drivers will need to be modelled and quantified to ascertain a more accurate level of profitability for the merged councils.

We note that the number of metrics tallied represents a high level indicator only as it does not take into account the relativity of importance of some metrics over others or the non-financial KPIs.

**Hornsby Shire Council** – whilst the current and projected financial position of the council indicate that it has sufficient levels of liquidity and a substantial asset base, the continued operating deficits indicate that current operating costs are not able to be supported by the existing recurring revenue base. Alternative sources of funds may be required to support the provision of future services and capital expenditure.

**PwC view** – based on our high level review of the current and FY13 – FY16 financial budgets, the proposed merger combinations would likely benefit the Hornsby Shire Council from a financial sustainability perspective.

**Overview of financial sustainability of merged councils - Hornsby perspective**

Net operating results show a current and budgeted deficit for the council. Therefore, the proposed mergers may present opportunities for Hornsby to benefit from financial support from other councils for the provision of future services.

Whilst the current income growth rates appears to decline with a merger, this is not indicative of future trend as Hornsby has had a higher rate peg which is due to end in 2014.

Given that Hills is in a strong financial position with zero debt, a merger between Hornsby and Hills may allow Hornsby to recalibrate its capital structure to fund future expenditure.

Key Performance Indicators	At at 30 June 2012			4 Yr Cumulative Budget FY13-FY16		
	Hornsby	Hornsby + Hills	Hornsby + Ku-ring-gai	Hornsby	Hornsby + Hills	Hornsby + Ku-ring-gai
1 Net operating result for the year (before grants & contributions provided for capital purposes) (\$'000s)	(4,032) ↑	5,363 ↑	4,328	(7,983) ↑	35,173 ↑	41,022
2 NOR as a % of income before grants, contributions & revaluations	(4.09%) ↑	2.58% ↑	2.27%	(1.76%) ↑	3.66% ↑	4.61%
3 Income growth rate (before grants, contributions & revaluations)	5.55% ↓	5.21% ↓	4.54%	N/Q	N/Q	N/Q
4 Total expenses growth rate	(0.41%) ↑	2.81% ↑	0.34%	N/Q	N/Q	N/Q
5 Employee benefits expense as % of income before grants, contributions & revaluations	43.23% ↑	42.46% ↑	40.17%	41.84% ↑	41.07% ↑	38.35%
6 Net assets (\$'000s)	1,444 ↑	4,624 ↑	2,414	N/Q	N/Q	N/Q
7 Unrestricted current ratio	1.76 ↑	4.66 ↑	1.89	N/Q	N/Q	N/Q
8 Rates & annual charges coverage ratio	68.73% ↓	52.19% ↓	63.72%	72.89% ↓	61.74% ↓	63.63%
9 Building & infrastructure renewals ratio	61.74% ↑	103.55% ↑	75.44%	N/Q	N/Q	N/Q
10 Infrastructure backlog (\$'000s)	8,500 ↓	69,183 ↓	180,674	N/Q	N/Q	N/Q
11 Avg. employee benefits cost per FTE (\$'000s)	79.2 ↑	78.7 ↑	78.0	N/Q	N/Q	N/Q
<b>Metric comparisons:</b>						
No. of metrics that improve		8	8		3	3
No. of metrics that deteriorate		3	3		1	1
No. of non quantifiable metrics		-	-		7	7
<b>Total number of KPIs</b>		<b>11</b>	<b>11</b>		<b>11</b>	<b>11</b>

Source: Financial Statements, PwC Analysis

We note that this is the result of adding the two budgets together and we have not quantified the effects of harmonisation of revenue streams and cost rationalisation opportunities arising from the merger. These factors as well as other drivers will need to be modelled and quantified to ascertain a more accurate level of profitability for the merged councils.

Whilst Hornsby undertook a restructure and cut employee costs in FY12, the analysis indicate that there may be opportunities for further cost rationalisation under merged scenarios.

We note that the number of metrics tallied represents a high level indicator only as it does not take into account the relativity of importance of some metrics over others or the non-financial KPIs.



**Key Findings – strategic goals and objectives**

**PwC view** - *There is strategic alignment between Hills and Hornsby councils which will greatly assist in enhancing the goals and objectives of both councils if amalgamation is pursued.*

**Strategic alignment between Hills and Hornsby**

- There is an alignment of a number of strategic goals of Hills and Hornsby as identified below. This alignment indicates that there are potential synergies to be gained in achieving these goals from an amalgamation of the councils.
  - Ecology and environment strategies in relation to climate change, bush land and natural areas, environmental education, development and water.
  - Economy and infrastructure strategies in relation to transport, economic development, recreation, employment, assets and business development.
  - Community strategies in relation to community engagement, service provision, cultural engagement and crime.
  - Governance strategies in relation to reporting, internal policies, stakeholder management and risk management.
- There is divergence in the areas of noise pollution, residential development, facilitated activities and health.
- Both Hills and Hornsby operate through a similar organisational structure based on the configuration of functional expertise and the delivery of services (i.e. infrastructure/works capabilities are separate from corporate functions such as finance and human resources). This can reduce the execution risk of removing duplicate functions.
- There is a divergence between strategy development within Hills and Hornsby. The strategic planning functions of Hills are located in a single division, and are not within the service areas.

**Key advantages and disadvantages of merging councils**

- ✓ **Strategic capacity:** Access to a larger pool of financial and non-financial resources may enable the Hills/Hornsby Council to undertake new functions and deliver new services.
- ✓ **Lobbying:** A larger council may have greater weight in applying for State and Federal funding in addition to having a stronger negotiating position when discussing tenders and preferred supplier arrangements.
- ✓ **Asset utilisation and rationalisation:** There may be an increased ability to utilise assets by sharing resources and disposing of surplus or duplicated assets.
- ✗ **Prioritisation:** There may be competing interests for resources and capital funding in a merger, limiting the ability to execute on key local projects.
- ✗ **Planning and consultation:** Potential synergies or savings are reduced or lost where the merger process is flawed due to inadequate planning and consultation.
- ✗ **Duplication:** There may be increased local bureaucracy where the same number of local representatives are kept and rate payers may be confused where they are dealing with multiple authorities.
- ✗ **Rate changes:** Equalisation/harmonisation of rates for a merger council will need to be considered from both financial and political perspective.

**Key findings – areas of potential cost savings from merged councils**

**PwC view** - *Realisation of surplus assets and increasing Council borrowing may enhance the ability to invest in future capital assets and allow reserves to be redeployed to fund additional projects to enhance productivity.*

**Shared operating activities and potential cost savings**

It is anticipated that the amalgamation of the Council's will yield some benefits from shared operating activities and removal of duplication. However, there is little evidence that amalgamation will itself yield economies of scale or that such economies are available across many of local government's functions by whatever means (Source: Consolidation in Local Government: A Fresh Look).

Areas where potential cost savings may be generated include:

- Finance operations including accounting services, treasury management, internal Counsel and strategic planning.
- Human resources including recruitment, performance management, training and skills and policy development.
- Procurement functions including contract management.
- Centralised development, delivery of significant projects, acquisitions and disposals of the Council's property assets and subdivision and building application processing.
- Plant and fleet management and workshop/depot services.
- Customer relations including call centres, community service centres and enforcement activities.
- Maintenance of land including flora and fauna and road, traffic and footpath management.
- Removal of duplicate corporate functions, headcount reduction, optimisation of capital structure, improved utilisation of assets and facilities rationalisation. It is anticipated that the removal of corporate functions has the shortest time to implement and the highest probability of success.

**Ability to achieve an increase in productivity**

- 1 **Increase service delivery:** Removing duplicate activities in multiple community centres, standardisation of services and increased scale of processes may allow for more cost efficient delivery of services. Strategic location of newly developed infrastructure and assets of newly merged council could benefit a larger population, reducing the need to duplicate investment in infrastructure.
- 2 **Investment in future capital assets:** Realisation of surplus assets may provide additional funds to reinvest in future capital projects, reduce the need borrow or allow for the redeployment reserves for new projects.
- 3 **Upgrade existing infrastructure:** An amalgamation may allow for some facilities to be closed, delivering maintenance savings and income from property sales. An evaluation of the infrastructure requiring remediation may be undertaken to identify overlap and identify areas of potential savings.
- 4 **Re-calibrate capital structure:** Generally, the loan funding levels of each of the individual councils identified is relatively low, with Debt Service Ratios not exceeding 5%. There is capacity to increase borrowings to fund capital budgets and reduce backlogs in costs to bring assets to a satisfactory condition. There may also be an ability to refinance or repay existing debt to reduce borrowing costs given the stronger balance sheet position of the merged council.

# *Selected information*

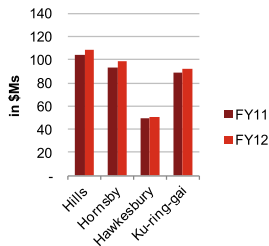
<b>Selected information</b>		<b>13</b>
3	Current financial positions – standalone councils	14
4	Advantages and disadvantages of merged councils	24
5	Projected financial sustainability of merged councils	33
6	High level cost savings from merged councils	41
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# *Current financial positions – standalone councils*

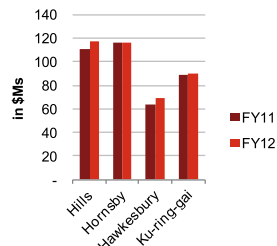
## Overview of current financial position – FY12

**There are significant differences in the current financial performance between the councils.**

**Total income excl. grants & contributions**

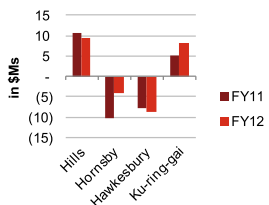


**Total expenses from continuing operations**

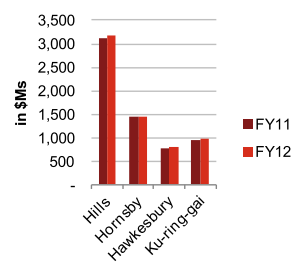


Total income excl. Grants & contributions has been normalised to exclude one-off asset revaluations  
Source: Financial Statements, PwC analysis

**NOR for the year before Grants and Contributions provided for Capital Purposes**



**Net assets**



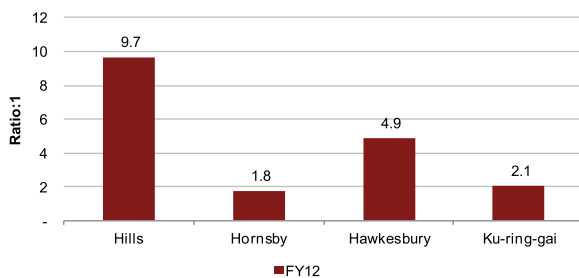
Source: Financial statements, PwC analysis

- There are significant variances between the councils' performance, in particular:
  - **Net operating result (NOR) before grants and contributions for the year** showed two councils in profit making positions (Hills and Ku-ring-gai) whilst Hornsby and Hawkesbury both made a loss in FY11 and FY12.
  - The **Income growth rates excluding grants, contributions and asset revaluations** reflect that each council has had minimal growth in base revenue due to the rate peg. Hornsby has had the highest growth rate due to the Special Rate Variation (SRV) which is due to end in 2014. Therefore, Net Operating Result growth has been driven primarily by the timing of one-off or restricted grants and contributions. Hills in particular has experienced a significant increase in FY12 in revenue arising from grants and contributions for operating and capital projects.
  - Increase in **operating expenses** for Hills and Hawkesbury were in line with increased activities / projects funded by grants and contributions. We note that **expense growth rate outstripped income growth rates** in FY12 for Hills and Hawkesbury.
  - The difference in **net assets** is primarily driven by the level of I, PP&E recognised. Hills has over \$3b in I,PP&E assets in its books whereas Hawkesbury has about a quarter of this amount of c.\$740m.

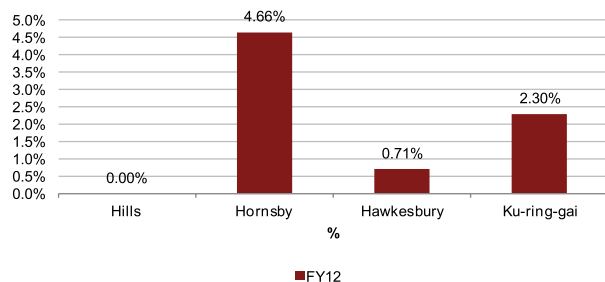
## Key performance indicators – councils side by side

**All four councils are showing sufficient liquidity levels.**

**Unrestricted Current Ratio**



**Debt Service Ratio**



Unrestricted current ratio = Unrestricted current assets / Non-specific purpose current liabilities

Source: Financial Statements Note 13(a)

Debt service ratio = Debt service cost / Income from continuing operations excluding capital items & specific purpose grants/ contributions

Source: Financial Statements Note 13(a)

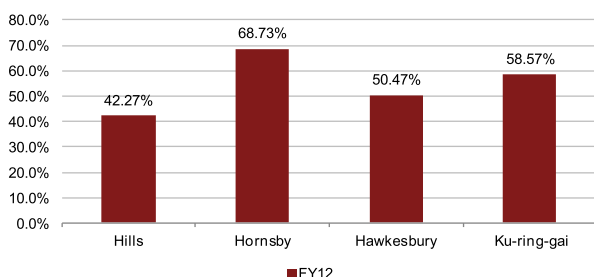
- The **unrestricted current ratio** shows sufficient liquidity levels for all four councils, with Hills in particular holding significant amounts of cash and short-term investment assets. Hills has the highest level of financial liquidity / flexibility with an unrestricted current ratio of 9.65x compared to Hornsby which has 1.8x. We note that all four councils had a ratio of above 1.5x which is the recommended benchmark from IPART (Dec 2009 Revenue Framework for Local Government report).
- All four councils currently have low levels of debt, and this is reflected in the **Debt service ratio**. In addition, the three councils that have debt are able to adequately service its current debt commitments. Please refer to subsequent sections of this report for analysis of debt capacity and capital structure are performed.



## Key financial indicators – councils side by side continued

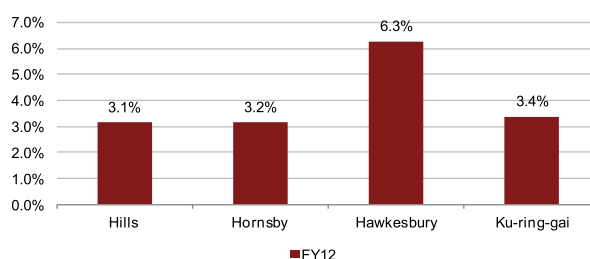
The councils have different levels of revenue concentration depending on their stage of growth.

### Rates & Annual Charges Coverage Ratio



Rates & Annual charges coverage ratio = Rates & annual charges / Income from continuing operations.  
Source: Financial Statements Note 13(a)

### Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage



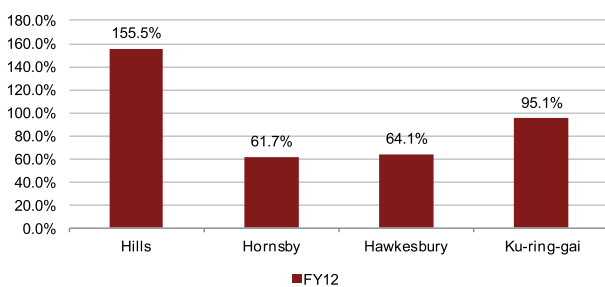
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage = Rates, Annual & Extra Charges Outstanding / Rates, Annual & Extra Charges Collectible  
Source: Financial Statements Note 13(a)

- Hornsby has the highest **rates & annual charges coverage ratio** of 68.73%, indicating that it is less reliant on other sources of revenue. Hills in contrast has the highest proportion of its total revenue derived from operating grants and contributions. We note however that this is reflective of the stage of growth that Hills is currently experiencing, with more land being released for development and attracting higher proportion of grants to build sufficient infrastructure to support to planned growth in population and commercial developments. Hills' ratio for FY11 was 51.48% which is more in line with the other councils.
- Hawkesbury stands out as having the highest level of **outstanding rates percentage** at 6.3%, which is significantly higher than the rest of the group at c.3%. Reasons for this may include underlying demographics and process/procedures for collecting outstanding rates may need to be reviewed to understand the factors driving the current performance.

## Key financial indicators – councils side by side continued

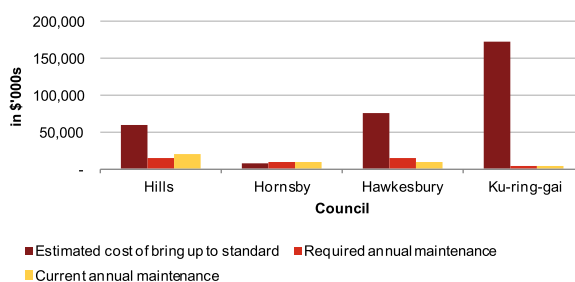
There are significant infrastructure backlogs for all councils.

### Building & Infrastructure Renewals Ratio



Building & Infrastructure Renewals Ratio = Asset renewals / Depreciation, amortisation & impairment  
Source: Financial Statements Note 13(a)

### Special Schedule 7 - Condition of Public Works - FY12



Source: Financial Statements Special Schedule 7

- Hornsby and Hawkesbury have the lowest levels of infrastructure **asset renewals** of the group, having spent significantly less on asset renewals compared to the level of depreciation of existing assets. Over a longer term period and if we exclude new asset additions, this results in a decreasing infrastructure asset base. In contrast, Hills has spent significantly more on asset renewals, which may be due to the Hills Shire experiencing a growth period in their cycle compared to the other councils.
- Each Council has estimated costs to bring its assets to a satisfactory condition in its **infrastructure backlog (condition of public works)** estimate. Ku-ring-gai has significantly high infrastructure backlog of \$172m compared to the other three councils. However, it has identified the lowest amount of required annual maintenance amount (as per Special Schedule 7 of the financial statements) compared to the other councils. We note that Special Schedule 7 is unaudited and are self-assessed by each council and therefore open to subjectivity. The variances identified above may arise from differences in the method of assessment used by each council and may not be reflective of the actual condition of public works in each council.
- Ku-ring-gai's **required annual maintenance of public works** is \$3.8m compared to Hills of \$15.2m, Hornsby of \$9.7m and Hawkesbury of \$14.1m. At the current rate of expenditure, it would take at least 40 years for Ku-ring-gai to catch-up on its existing infrastructure backlog.

## Current financial sustainability - Hills Shire Council

### FY11 and FY12 Income statements show strong financial performance for the council for the two historical periods.

#### Hills Shire Council Income Statement

For the period ended 30 June 2012

\$ in 000s	FY11	FY12	M'ment	
			FY11-12	FY11-12 (%)
<b>Income from Continuing Operations</b>				
<i>Revenue</i>				
Rates & Annual Charges	79,409	81,519	2,110	3%
User Charges & Fees	13,301	14,540	1,239	9%
Interest & Investment Revenue	4,697	6,085	1,388	30%
Other Revenues*	5,647	5,833	186	3%
Grants & Contributions provided for Operating Purposes	17,550	17,960	410	2%
Grants & Contributions provided for Capital Purposes	32,156	55,688	23,532	73%
<i>Other Income</i>				
Net gains from the disposal of assets	677	853	176	26%
<b>Total Income from Continuing Operations</b>	<b>153,437</b>	<b>182,478</b>	<b>29,041</b>	<b>19%</b>
<b>Expenses from Continuing Operations</b>				
Employee Benefits & On-Costs	44,557	45,444	887	2%
Materials & Contracts	22,484	24,796	2,312	10%
Depreciation & Amortisation	17,246	17,705	459	3%
Other Expenses	26,255	29,450	3,195	12%
<b>Total Expenses from Continuing Operations</b>	<b>110,542</b>	<b>117,395</b>	<b>6,853</b>	<b>6%</b>
<b>Operating Result from Continuing Operations</b>	<b>42,895</b>	<b>65,083</b>	<b>22,188</b>	<b>52%</b>
<b>Net Operating Result for the Year</b>	<b>42,895</b>	<b>65,083</b>	<b>22,188</b>	<b>52%</b>
Net Operating Result attributable to Council	42,895	65,083	22,188	52%
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes*</b>				
	<b>10,739</b>	<b>9,395</b>	<b>(1,344)</b>	<b>(13%)</b>
Rates & annual charges as % of total income	52%	45%	(7%)	(14%)
Grants & contributions for Capital Purposes as % of total income	21%	31%	10%	46%
Employee benefits & on-costs as % of total expenses	40%	39%	(2%)	(4%)
Materials & contracts as % of total expenses	20%	21%	1%	4%
Depreciation & Amortisation as % of total expenses	16%	15%	(1%)	(3%)
Other expenses as % of total expenses	24%	25%	1%	6%

\*Other revenues have been normalised to take out one-off asset revaluations  
Source: Financial Statements

Key observations are:

#### Revenue

- Rates & annual charges have grown due to rate increases. This is the primary source of income for the council, however in FY12 it has decreased to 45% of total income, indicating an increasing reliance on other sources of income for the council.
- User charges & fees have increased due to a combination of increased planning & building regulation charges, increase in aged care and child care facilities and general rate of increase for fees.
- Interest earned on investments increased due to an increase in the average level of investments held during FY12. Other revenues (excluding revaluations) have remained consistent with the prior period.
- Grants & contributions have grown significantly due to an increase in S94 developer contributions towards amenities/services (increase of \$15.8m) and sub-divider dedication increase of \$8.9m. This reflects the stage of growth that Hills is experiencing as it requires funds to build the necessary infrastructure to support a growing population and business hub.

#### Expenses

- Employee benefit costs have remained in line with headcount and award wage rate increase.
- Significant growth has been experienced in materials & contracts expenses due to reclassification of contractor & consultancy costs on software IT costs of \$1m (in other expenses in FY11) and raw materials increase for works on roads and parks of \$0.9m.
- Other expenses increased due to contribution levies in line with growth and one-off project costs.

## Current financial sustainability - Hills Shire Council continued

### The current balance sheet show a strong net asset and liquidity position.

#### Hills Shire Council Balance Sheet

As at 30 June 2012

\$ in 000s	Jun-11	Jun-12	M'ment	
			M'ment	(%)
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash & Cash Equivalents	10,833	28,360	17,527	162%
Investments	81,631	71,071	(10,560)	(13%)
Receivables	7,089	9,421	2,332	33%
Inventories	5,588	5,866	278	5%
Other	276	690	414	150%
<b>Total Current Assets</b>	<b>105,417</b>	<b>115,408</b>	<b>9,991</b>	<b>9%</b>
<i>Non-Current Assets</i>				
Receivables	413	526	113	27%
Infrastructure, Property, Plant & Investment Property	3,018,808	3,074,311	55,503	2%
	6,996	17,355	10,359	148%
<b>Total Non-Current Assets</b>	<b>3,026,217</b>	<b>3,092,192</b>	<b>65,975</b>	<b>2%</b>
<b>TOTAL ASSETS</b>	<b>3,131,634</b>	<b>3,207,600</b>	<b>75,966</b>	<b>2%</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Payables	12,808	12,705	(103)	(1%)
Provisions	13,946	14,760	814	6%
<b>Total Current Liabilities</b>	<b>26,754</b>	<b>27,465</b>	<b>711</b>	<b>3%</b>
<i>Non-Current Liabilities</i>				
Provisions	558	483	(75)	(13%)
<b>Total Non-Current Liabilities</b>	<b>558</b>	<b>483</b>	<b>(75)</b>	<b>(13%)</b>
<b>TOTAL LIABILITIES</b>	<b>27,312</b>	<b>27,948</b>	<b>636</b>	<b>2%</b>
<b>NET ASSETS</b>	<b>3,104,322</b>	<b>3,179,652</b>	<b>75,330</b>	<b>2%</b>
<b>EQUITY</b>				
Retained Earnings	2,834,176	2,909,506	75,330	3%
Revaluation Reserves	270,146	270,146	-	0%
<b>Council Equity Interest</b>	<b>3,104,322</b>	<b>3,179,652</b>	<b>75,330</b>	<b>2%</b>
<b>Total Equity</b>	<b>3,104,322</b>	<b>3,179,652</b>	<b>75,330</b>	<b>2%</b>

Source: Financial Statements

Key observations are:

- Net increase in cash and investments due to prior year profits being invested in short-term deposits and increased developer contributions not yet expended for the provision of specified services.
- Debtors have increased in line with increase in revenue.
- Inventories relate primarily to real estate acquired for development / resale and have not increased significantly during the period.
- I,PP&E increase related mainly to acquisition of community land, non-specialised buildings and various infrastructure additions (roads, bridges, footpaths). 72% (\$52.8m) of total additions in 2012 were for new assets as opposed to asset renewals.
- Increase in provisions were mainly for employees who became eligible for long service leave. There were minimal movements in other payables and provisions.
- Total net assets increase was driven by the increase in infrastructure assets and revaluation of investment property.
- The balance sheet indicates high levels of liquidity and zero debt. There may be opportunities to recalibrate the capital structure if required, for example to invest in new infrastructure. The implications of this as part of a merged council is discussed later in this report.

## Current financial sustainability - Hornsby Shire Council

**FY12 Income statements showed improved financial performance from prior period, however the council is still in a net loss making position.**

### Hornsby Shire Council Income Statement For the period ended 30 June 2012

\$ in 000s	FY11	FY12	M'ment	
			FY11-12	FY11-12 (%)
<b>Income from Continuing Operations</b>				
<i>Revenue</i>				
Rates & Annual Charges	73,340	79,432	6,092	8%
User Charges & Fees	11,988	11,643	(345)	(3%)
Interest & Investment Revenue	2,387	2,545	158	7%
Other Revenues	5,792	4,991	(801)	(14%)
Grants & Contributions provided for Operating Purposes	12,537	13,195	658	5%
Grants & Contributions provided for Capital Purposes	3,956	3,684	(272)	(7%)
<i>Other Income</i>				
Net gains from the disposal of assets	-	82	82	(100%)
<b>Total Income from Continuing Operations</b>	<b>110,000</b>	<b>115,572</b>	<b>5,572</b>	<b>5%</b>
<b>Expenses from Continuing Operations</b>				
Employee Benefits & On-Costs	45,602	42,662	(2,940)	(6%)
Borrowing Costs	1,470	1,330	(140)	(10%)
Materials & Contracts	34,051	36,560	2,509	7%
Depreciation & Amortisation	23,186	23,420	234	1%
Other Expenses	12,013	11,948	(65)	(1%)
Net Losses from the Disposal of Assets	71	-	(71)	(100%)
<b>Total Expenses from Continuing Operations</b>	<b>116,393</b>	<b>115,920</b>	<b>2,607</b>	<b>2%</b>
<b>Operating Result from Continuing Operations</b>	<b>(6,393)</b>	<b>(348)</b>	<b>(5,547)</b>	<b>1594%</b>
<b>Net Operating result for the Year</b>	<b>(6,393)</b>	<b>(348)</b>	<b>(5,547)</b>	<b>87%</b>
Net Operating Result attributable to Council	(6,393)	(348)	6,045	95%
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>				
	<b>(10,349)</b>	<b>(4,032)</b>	<b>6,045</b>	<b>58%</b>
Rates & annual charges as % of total income	67%	69%	2%	3%
Grants & contributions for Operating Purposes as % of total income	11%	11%	0%	0%
Employee benefits & on-costs as % of total expenses	39%	37%	(2%)	(6%)
Materials & contracts as % of total expenses	1%	1%	(0%)	(9%)
Depreciation & Amortisation as % of total expenses	29%	32%	2%	8%
Other expenses as % of total expenses	20%	20%	0%	1%

Source: Financial Statements

The Hills Shire Council and Hornsby Shire Council  
PwC

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10 April 2013  
21

The key observations are:

#### Revenue

- Total revenue increase for the period was primarily attributable to increase in rates & annual charges.
- Rates & annual charges have increased due to the commencement of an approved SRV for Hornsby of 7.8% (including the LGA rate peg) which will be in place until 2014. The SRV represents annual increase of 3% over the estimated pegged rate.
- User charges & fees decreased mainly due to a decrease in the number of Nursery & Preschool hire charges.
- Other revenues decreased as there were a number of one-off income contained in the prior year amounting to c.\$0.6m in non recurring income (legal fees recovery, ATO claim settlement, insurance claims and road closure income).

#### Expenses

- Employee benefits costs decreased as a result of an internal review conducted in FY11, which saw a reduction in the number of FTEs from 603 to 539 that occurred in FY12 to reduce the council's cost base.
- Materials & contracts increased mainly due to increase in costs for garbage collection, tipping & recycling as the contract with external service providers were up for renewal which resulted in a substantial increase. However, the increase is offset by an equivalent increase in user charges and annual charges for waste management, which is not subject to the LGA rate peg.

## Current financial sustainability – Hornsby Shire Council continued

**There has been a minimal movement in the net asset position of the council in 2012.**

### Hornsby Shire Council Balance Sheet As at 30 June 2012

\$ in 000s	Jun-11	Jun-12	M'ment	M'ment (%)
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash & Cash Equivalents	19,190	16,657	(2,533)	(13%)
Investments	13,537	24,333	10,796	80%
Receivables	5,541	5,295	(246)	(4%)
Inventories	181	183	2	1%
Other	54	140	86	159%
<b>Total Current Assets</b>	<b>38,503</b>	<b>46,608</b>	<b>8,105</b>	<b>21%</b>
<i>Non-Current Assets</i>				
Investments	1,000	-	(1,000)	(100%)
Receivables	280	275	(5)	(2%)
Infrastructure, Property, Plant & Equipment	1,443,083	1,433,889	(9,194)	(1%)
Intangible Assets	2,272	1,411	(861)	(38%)
<b>Total Non-Current Assets</b>	<b>1,446,835</b>	<b>1,435,575</b>	<b>(11,060)</b>	<b>(1%)</b>
<b>TOTAL ASSETS</b>	<b>1,485,138</b>	<b>1,482,183</b>	<b>(2,955)</b>	<b>(0%)</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Payables	8,864	8,919	55	1%
Borrowings	3,584	3,798	214	6%
Provisions	11,954	12,529	575	5%
<b>Total Current Liabilities</b>	<b>24,402</b>	<b>25,246</b>	<b>844</b>	<b>3%</b>
<i>Non-Current Liabilities</i>				
Borrowings	16,167	12,369	(3,798)	(23%)
Provisions	492	539	47	10%
<b>Total Non-Current Liabilities</b>	<b>16,659</b>	<b>12,908</b>	<b>(3,751)</b>	<b>(23%)</b>
<b>TOTAL LIABILITIES</b>	<b>41,061</b>	<b>38,154</b>	<b>(2,907)</b>	<b>(7%)</b>
<b>NET ASSETS</b>	<b>1,444,077</b>	<b>1,444,029</b>	<b>(48)</b>	<b>(0%)</b>
<b>EQUITY</b>				
Retained Earnings	1,022,465	1,025,610	3,145	0%
Revaluation Reserves	421,612	418,419	(3,193)	(1%)
<b>Council Equity Interest</b>	<b>1,444,077</b>	<b>1,444,029</b>	<b>(48)</b>	<b>(0%)</b>
<b>Total Equity</b>	<b>1,444,077</b>	<b>1,444,029</b>	<b>(48)</b>	<b>(0%)</b>

Source: Financial Statements

The Hills Shire Council and Hornsby Shire Council  
PwC

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10 April 2013  
22

The key observations are:

- Total assets have decreased by c.\$3m driven primarily by I, PP&E not being replaced at a rate consistent with the rate by which the assets are depreciating. Total I,PP&E additions were \$17.7m however total depreciation was \$22.6m.
- The decrease in I,PP&E assets is offset by an increase in investments in long term deposits.
- Total borrowings have decreased by \$3.6m being the amount that have been paid down during the year.
- The increase in provisions was driven mainly by employees becoming eligible for long service leave.
- The net asset position have had minimal movement from prior period, essentially as cash has been used to pay down debt and invested in securities, and there has been a reduction in spend on I,PP&E.
- The balance sheet currently indicates sufficient levels of liquidity and a low level of debt. There may be opportunities to recalibrate the capital structure if required, for example to address the current infrastructure backlog of \$8.5m and to replace older infrastructure assets. The implications of this as part of a merged council is discussed later in this report.

## *There are some valuation differences in infrastructure, property, plant and equipment (I,PP&E)*

*As a result, the book values of these assets may not be directly comparable between the councils.*

- As at 30 June 2012, the book value of Hills Infrastructure, Property, Plant & Equipment (I, PP&E) was \$3.07b compared to \$1.4b for Hornsby.
- There are some differences between the Councils' accounting policies with respect to the valuation methodologies, capitalisation thresholds and depreciation rates used for some classes of I,PP&E.
- The differences noted were:

	<b>Hills</b>	<b>Hornsby</b>
<b>Valuation method</b>	Bulk Earthworks & Community land: External valuation	Bulk Earthworks & Community land: Internal valuation
<b>Capitalisation thresholds</b>	Park, Furniture & Equipment, Building renovations, other structures: 100% Capitalised	Park, Furniture & Equipment, Building renovations, other structures: >\$5,000 Capitalised
<b>Depreciation rates</b>	Buildings: 100 yrs Bulk earthworks: Infinite	Buildings: 40-80 yrs Bulk earthworks: 100 years

- As a result, PPE book value is not directly comparable between the councils and in the event of a merger, an alternative value may need to be agreed to which considers: valuation methodology, capitalisation thresholds and depreciation rates. We have not performed a calculation to estimate the impact of the book value differences between the two councils.
- We have not performed this analysis for Hawkesbury and Kuring-gai as it is out of the scope of this report, however we expect there to be differences consistent with those noted above.

# *Advantages and disadvantages of merged councils*

## Strategic goals and objectives

**Both Hills and Hornsby have an aligned strategic direction which provides a framework for project and program prioritisation in a merged council.**

A merged Hills/Hornsby Council may have synergies in achieving the aligned strategic goals and objectives for each Council.

PwC has examined the long-term Community Plans and Delivery Plans of the Hills and Hornsby Councils and identified a number of strategic goals and objectives that are aligned. Strategic goals and objectives have been categorised into four (4) key areas: Ecology and environment; Economy and infrastructure; Community; and Governance.

Refer to the Appendix for details in relation to the alignment of individual strategic goals of each council.

Strategic objective	Strategic focus	Synergies in achieving strategic objectives
Ecology and environment	Climate change	<ul style="list-style-type: none"> <li>Development of joint greenhouse gas emissions targets, awareness campaigns and potential adoption of a Sustainable Energy Strategy as identified by Hornsby.</li> </ul>
	Bush land & natural areas	<ul style="list-style-type: none"> <li>Consolidated asset management of flora and fauna and nature reserves. As the Hills is "Sydney's Garden Shire", it has expertise in biodiversity management that can be applied in the Hornsby region.</li> <li>Sharing of expertise in conservation management practices.</li> <li>Merging the two Councils may enhance community engagement to achieve a greater contribution to environmental protection efforts.</li> </ul>
	Environmental education	<ul style="list-style-type: none"> <li>A coordinated program of community education on waste minimisation could be developed by a merged council, adopting best practice from both Councils.</li> <li>Development of an overarching waste management strategy across both Councils, including long-term resource recovery options.</li> <li>Ability to harmonise messaging and share the costs of education and promotion of environmental practices.</li> </ul>
	Development	<ul style="list-style-type: none"> <li>Harmonisation of development and town planning services that establishes minimum environmental benchmarks i.e. energy and water saving requirements for new developments, minimum green space requirements.</li> </ul>
	Water	<ul style="list-style-type: none"> <li>Opportunity to implement the Total Water Cycle Management Strategy developed by Hornsby across both local jurisdictions.</li> <li>Joint water conservation and reuse projects.</li> </ul>
	Areas not aligned	<ul style="list-style-type: none"> <li>Reduced noise pollution was identified as a strategic goal of Hills; no comparable strategic objectives for Hornsby.</li> </ul>

The Hills Shire Council and Hornsby Shire Council  
PwC

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10 April 2013  
25

## Strategic goals and objectives

**A merger would almost double the population under the new jurisdiction of a merged council which would enhance the ability to lobby other tiers of government and service providers.**

Strategic objective	Strategic focus	Synergies in achieving strategic objectives
Economy & infrastructure	Transport	<ul style="list-style-type: none"> <li>A merged council may have an enhanced ability to lobby other tiers of government and service providers for the transport needs to the area.</li> <li>Linking cycle and walking paths to extend transport networks through the adjoining councils.</li> <li>Potential to gain efficiencies in traffic management solutions through partnership and/or outsourcing of functions to a third party contractor due to larger scale.</li> </ul>
	Economic development	<ul style="list-style-type: none"> <li>Prioritisation of economic development projects in the merged council to yield largest community/economic benefit:               <ul style="list-style-type: none"> <li>Hills - Carlingford Precinct, Baulkham Hills Town Centre, The Hills Centre and Administration Centre.</li> <li>Hornsby – Hornsby Aquatic Centre, Hornsby Quarry.</li> </ul> </li> <li>Leverage the opportunity to further develop Castle Hill and Norwest Business Park, in addition to the established Hornsby CBD to implement a clear business oriented identity for the newly merged council.</li> </ul>
	Recreation	<ul style="list-style-type: none"> <li>Conduct ongoing branding and marketing campaigns to promote health and wellbeing and encourage a healthy lifestyle within the newly merged community, including new health facilities available to the respective residents.</li> </ul>
	Employment	<ul style="list-style-type: none"> <li>Given the mature nature of Hornsby and growing nature of Hills, there may be the opportunity for a localised workforce development strategy to support demand in the Hills.</li> </ul>
	Assets	<ul style="list-style-type: none"> <li>Identification of mutual Council assets and implement relevant capital management and replacement plans.</li> <li>The merged council may be able to undertake an inventory of existing assets and infrastructure under the Council's control and eliminate duplicate where needs are being met.</li> <li>A merged council may have an enhanced ability to lobby other tiers of government for funding to support asset and infrastructure acquisition and renewal.</li> </ul>
	Businesses	<ul style="list-style-type: none"> <li>Review economic development strategies to identify areas to leverage existing opportunities and coordinated activities.</li> <li>Roll-out existing programs run by Hills that increase business competence and the capacity of local companies across the newly merged council.</li> <li>Review of combined property portfolio of the newly merged council to identify surplus assets and infrastructure.</li> </ul>
	Areas not aligned	<ul style="list-style-type: none"> <li>Residential development was identified as a strategic goal of Hills; no comparable strategic objectives for Hornsby.</li> </ul>

The Hills Shire Council and Hornsby Shire Council  
PwC

Strictly private and confidential

10 April 2013  
26



## Strategic goals and objectives

*Residents of the merged council may have access to a wider range of community service centres.*

Strategic objective	Strategic focus	Synergies in achieving strategic objectives
Community	Community engagement	<ul style="list-style-type: none"> <li>Residents in the merged council have greater access to a range of places accessing local services.</li> <li>Existing programs and structures within each Council will help strengthen relationships between diverse community groups.</li> <li>The existing network of community centres and other municipal buildings may be able to provide clear information about the newly merged council and its impact on the daily lives of residents.</li> </ul>
	Service provision	<ul style="list-style-type: none"> <li>Residents of the merged council may have access to a wider range of community service centres, such as libraries, sporting and aquatic facilities, childcare and municipal services.</li> </ul>
	Cultural engagement	<ul style="list-style-type: none"> <li>Align cultural calendars and host and facilitate events which bring the community together and showcase diversity and inclusiveness.</li> </ul>
	Crime	<ul style="list-style-type: none"> <li>Establish and maintain rapport with the law enforcement agencies and provide support for Emergency Services in order to respond effectively to any type of emergency using existing networks and contacts.</li> </ul>
	Areas not aligned	<ul style="list-style-type: none"> <li>Enhanced facilitated activities was identified as a strategic objectives of Hornsby; no comparable strategic objectives for Hills.</li> <li>Health was identified as a strategic objectives of Hornsby; no comparable strategic objectives for Hills.</li> </ul>

## Strategic goals and objectives

*There may be an ability to simplify and undertake a review of ward boundaries in the lead up to the merger, potentially enhancing relationships with in the community.*

Strategic objective	Strategic focus	Synergies in achieving strategic objectives
Governance	Governance	<ul style="list-style-type: none"> <li>Merging the Councils may allow for the development of new best practice governance framework for the council to operate.</li> <li>Progress Quadruple Bottom Line reporting framework and sustainability decision-making being implemented by Hornsby across the amalgamated council.</li> <li>Increase pool of high calibre elected officials and management staff to support the execution of strategy.</li> <li>Potential to spread governance costs over a larger revenue base.</li> </ul>
	Internal policies	<ul style="list-style-type: none"> <li>Both Councils have policies and procedures implemented in to establish a strong culture in relation to:               <ul style="list-style-type: none"> <li>The creation of a safe, healthy and non discriminatory working environment; and</li> <li>As identified in the Hornsby Shire Delivery Plan, continue to develop and implement a Talent Management Model that may be adopted by the merged council.</li> <li>Ability to refine/adopt policies based on best practice of each council.</li> </ul> </li> </ul>
	Stakeholder management	<ul style="list-style-type: none"> <li>Potential to amalgamate customer service to expedite answers to enquires, streamline receipting of applications and provision of accurate information to Council's customers.</li> <li>Potential to engage residents of both municipalities in the preliminary planning and decision making processes for the establishment of a merged council.</li> <li>There may be an ability to simplify and undertake a review of Ward boundaries in the lead up to the merger, potentially enhancing relationships with in the community.</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>Sharing of emergency response resources, bushfire reduction strategies and funding of public emergency awareness campaigns.</li> <li>Sharing the cost of risk management practices.</li> </ul>
	Viability	<ul style="list-style-type: none"> <li>There may be an opportunity to strengthen the capital structure of the individual councils by creating a merged council. Refer below for further discussion in relation to the re-calibration of the capital structure of the merged council,</li> </ul>



## Commercial and operational advantages and disadvantages

*The creation of the Hills/Hornsby may increase the capacity of the organisation to undertake new functions and deliver new or improved services.*

### Commercial advantages

- ✓ **Strategic capacity:** Larger pool of resources available to undertake projects on a larger scale.
- ✓ **Strategic capacity:** Ability to have more influence and a stronger lobbying position on the decisions made by other government bodies, industry bodies and corporates.
- ✓ **Cost savings:** A merged council may have a stronger negotiating position when discussing tenders and preferred supplier relationships.
- ✓ **Costs of community representation:** Lower costs of community representation and a more viable system of local government, with fewer representative across a larger constituency.
- ✓ **Strategic initiatives:** In metropolitan areas and rapidly developing regions, a larger council may hold greater weight in applying for federal initiatives for metropolitan planning and regional development.
- ✓ **Strategic initiatives:** Manage economic, environmental and social planning consistently within the communities of interest.
- ✓ **Functions and services:** A merged council may increase the capacity of the organisation to undertake new functions and deliver new or improved services that previously were not possible.
- ✓ **Knowledge and expertise:** Economies of skill may be created through the pooling of knowledge and expertise from two merged entities. The newly merged council may have enhanced access to specialist expertise and knowledge, creativity and innovation.
- ✓ **Employee management:** Potential simplification of workers compensation, public liability and professional indemnity, asset insurance, associated risk management services and superannuation.

### Commercial disadvantages

- ✗ **Rate changes:** Efficiency gains may be achieved through various forms of consolidation of commercial operations of each Council, but are unlikely to produce reductions in local rates and charges due to other expenditure needs.
- ✗ **Rate changes:** Equalisation/harmonisation of rates for a merger council will need to be considered from both financial and political perspective.
- ✗ **Two speed local economies:** The significant development occurring within the Hills may create challenges in the establishment of common service standards and determine regional priorities, as there will be competing interests in directing funds to projects.
- ✗ **Loss of focus:** Management's and Councillor's focus on the institutional arrangements of the local government system in each jurisdiction may draw their attention away from the fundamental issue of the societal functions performed by local government and its changing role.
- ✗ **Existing arrangements:** There may be a need to review existing state and federal financial assistance grants on amalgamation, potentially dissolving arrangements in place.
- ✗ **Loss of local identity:** Locally based economic development campaigns may lose their effectiveness
- ✗ **Transitional arrangements:** There may be transitional challenges with billing arrangements where councils issue bills at different times, resulting in delays in receipt of rates income.
- ✗ **Duplication of services:** Rate payers may be referred to multiple authorities, rather than one stop shop for all municipal services and resulting in an overlap of commercial operations.

## Commercial and operational advantages and disadvantages

*Maintenance of high calibre of local representation through the retention of a comparatively large number of councillors.*

### Operational advantages

- ✓ **Asset utilisation:** There may be an enhanced capacity to manage and utilise assets, especially infrastructure and plant where there are idle assets of significant value.
- ✓ **Streamlining internal services:** Cost reductions in specific functions or areas of service (e.g. savings in administrative overheads or waste management).
- ✓ **Service delivery:** New services and /or innovative approaches to service delivery.
- ✓ **Administration:** It is anticipated there will be a reduced compliance burden and administration from the production of single set of financial statements, operational, delivery and strategic plans.
- ✓ **Service provision:** Potential to outsource given greater scale, or a combination of sharing and outsourcing to an external provider.
- ✓ **Rationalisation of staff:** Flexibility in relation to staff reallocations and redundancies.
- ✓ **Governance:** Provides an opportunity to renew policies in relation to transparency, accountability and access to local government.
- ✓ **Governance:** Reduced obstacles in implementing state programs due to inconsistencies found in council policies and procedures, as well as duplication of by-laws.
- ✓ **Local democracy:** Maintenance of high level of local representation through the retention of a comparatively large number of councillors.
- ✓ **Local democracy:** Ability to enhance local democracy through mechanisms such as community councils or boards, precinct or ward committees and improved communication.
- ✓ **Rate pegging:** Scope for applying to IPART for a special variation to standard rate-pegging, recognising need to fund infrastructure in the newly merged municipality.

### Operational disadvantages

- ✗ **Scale:** Difficulties in undertaking effective local management in larger councils due to increased bureaucracy.
- ✗ **Prioritisation of projects:** Competing priorities for newly pooled funds for planned projects and the substantial backlog of infrastructure maintenance and renewal.
- ✗ **Dislocation of existing staff and assets:** Underestimation of time and efforts taken to relocate staff, assets and services may limit the Council's ability to effectively run its operations.
- ✗ **Planning and consultation:** Potential benefits are reduced or lost where the amalgamation process is flawed due to inadequate planning and consultation or failure to consider all the options available and what could be achieved.
- ✗ **Culture:** A newly merged council may require the development of new personnel management arrangements and culture.
- ✗ **Staff morale:** Loss of jobs, forced changes in roles and changes in organisational structure may result in the loss of key staff.
- ✗ **Service provision:** May result in the community having to travel further distances to get to services centres or facilities where there is a rationalisation of infrastructure for cost saving purposes.
- ✗ **Service provision:** Smaller councils may be more effective in delivering specialised services.
- ✗ **Constituency:** Reduced level of democratic representation for some constituents and less engagement in decision-making processes.

## Shared operating activities

*The are a number of business processes and operating activities that may be shared by the merged council, including finance function, strategic procurement and development assessment.*

Council functions	Business processes	Opportunity for shared operating activities
<b>Finance</b>	<ul style="list-style-type: none"> <li>Accounting services</li> <li>Treasury management</li> <li>Internal Counsel</li> <li>Strategy design</li> </ul>	<ul style="list-style-type: none"> <li>The merging of two Councils may allow for an enterprise wise accounting functions and convergence of finance systems.</li> <li>The following functions may be shared by the entities: Payroll, management and financial reporting, internal audit, risk management, accounts payable and accounts receivable.</li> <li>Centralised treasury and banking functions.</li> <li>Provision of internal legal services with the merged council</li> <li>Internal strategic planning including the provision strategic information, professional advice and support to allow responsible decisions to be made. Support services and advice in the development and effective implementation of corporate programs and activities.</li> </ul>
<b>Information systems</b>	<ul style="list-style-type: none"> <li>Information systems management</li> <li>Information management</li> </ul>	<ul style="list-style-type: none"> <li>Information systems management, operational and business support systems and technology. Alignment of IT may require an initial capital outlay to integrate systems and software platforms.</li> <li>Records and document management services.</li> </ul>
<b>Human resources</b>	<ul style="list-style-type: none"> <li>Strategic Human Resource Management</li> <li>Training &amp; skills</li> <li>Policy development</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Human Resource Management, recruitment and performance management functions.</li> <li>Training and education of staff.</li> <li>Local government policy development.</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>Strategic procurement</li> <li>Contract management</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity to benefit from volume based discounts or improved bargaining position due to larger size (e.g. waste management, maintenance).</li> <li>A newly merged council may allow for the negotiation of new and pre-existing contracts Source suppliers and maintain catalogues for provision of goods and services to Council.</li> </ul>
<b>Development</b>	<ul style="list-style-type: none"> <li>Development</li> <li>Subdivisions and certifications</li> </ul>	<ul style="list-style-type: none"> <li>Delivery of significant projects, acquisitions and disposals and other transactions in relation to the Council's property assets and property development.</li> <li>Subdivision and building application processing, inspections and building certification.</li> </ul>

## Shared operating activities

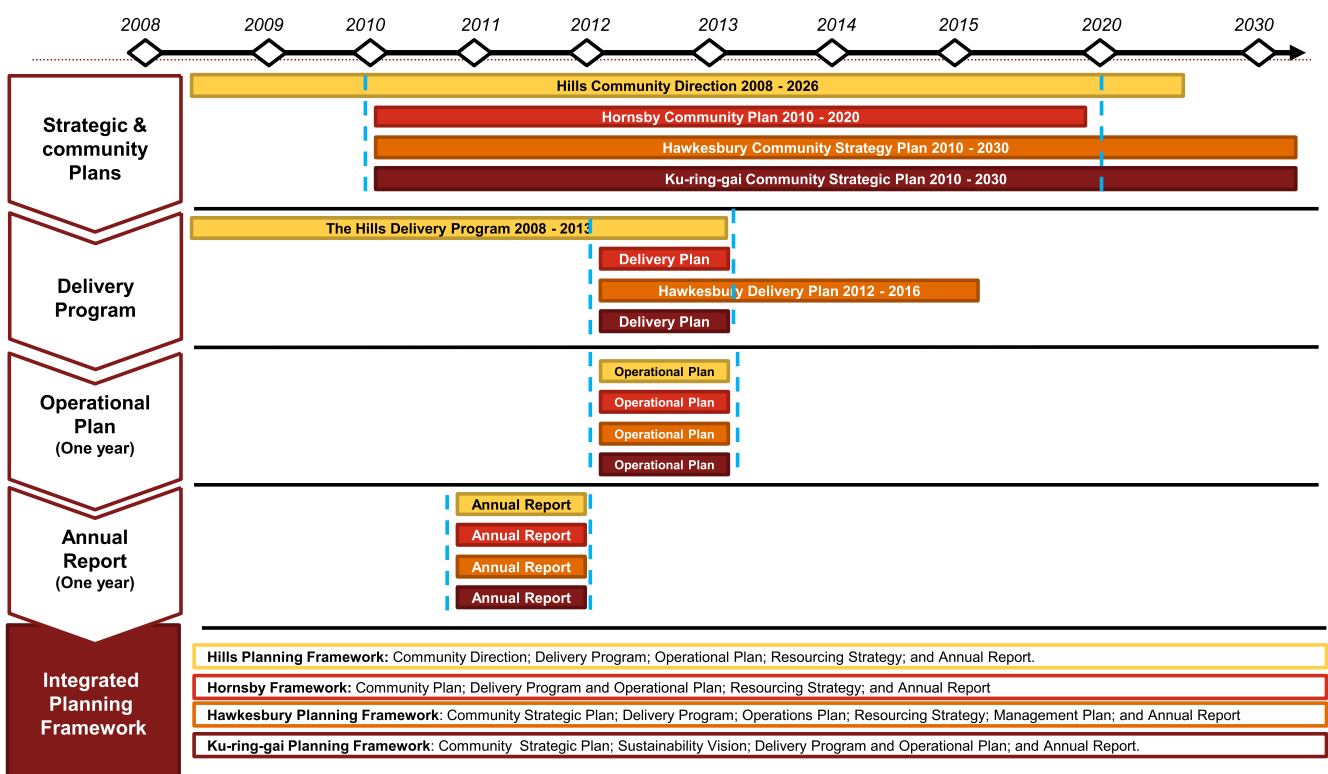
*Combination of the Hills and Hornsby Shires may remove duplicated efforts in multiple community centres, standardisation of services and increased scale of processes.*

Council functions	Business processes	Opportunity for shared operating activities
<b>Plant and fleet</b>	<ul style="list-style-type: none"> <li>Plant/Fleet management</li> <li>Workshop services</li> </ul>	<ul style="list-style-type: none"> <li>Ordering, management, maintenance and disposal of fleet and plant.</li> <li>Plant/fleet services functions within Council depots could be streamlined in centralised service operations.</li> </ul>
<b>Customer relations</b>	<ul style="list-style-type: none"> <li>Community centres</li> <li>Call centre</li> <li>Enforcement</li> </ul>	<ul style="list-style-type: none"> <li>Removing duplicated efforts in multiple community centres, standardisation of services and increased scale of processes.</li> <li>Providing customers with a service counter and telephone facility and informing customers.</li> <li>Community health officers, environmental rangers, development monitoring, fire safety inspections and parking inspector services could be centrally coordinated.</li> </ul>
<b>Maintenance and infrastructure</b>	<ul style="list-style-type: none"> <li>Land management</li> <li>Road, traffic and footpath management</li> </ul>	<ul style="list-style-type: none"> <li>Management of bushland reserves, bushland restoration, recreational tracks and pest species. Management and maintenance of parks, reserves, picnic facilities and playgrounds through the Council.</li> <li>Shared road plant assets and maintenance of sealed road pavements, road shoulders, footpaths/footways, stormwater drainage systems, roadside furniture and foreshore facilities.</li> <li>Administration and control of engineering maintenance programmes, asset management systems, forward planning and survey, design and construction of civil works.</li> </ul>
<b>Service provision</b>	<ul style="list-style-type: none"> <li>Child Care</li> <li>Libraries</li> <li>Community centres</li> <li>Waste management</li> </ul>	<ul style="list-style-type: none"> <li>Management and running of accredited child care centres and centralising waitlists within the new merged council.</li> <li>Provision of targeted programs, resource sharing and collections at all libraries for community groups.</li> <li>Coordinate the provision of local community centres and halls for community use and external hire.</li> <li>Providing waste removal, recycling and garden waste service, creating awareness programs to reduce waste and resource recovery services and infrastructure for commercial and residential waste.</li> </ul>

# Projected financial sustainability of merged councils

## Integrated Planning Framework for all four councils

There is a general alignment in the strategic planning for all four councils.



## Overview of FY12 financial position – Merged Councils

As there are significant variances in individual council’s current financial position, the proposed merged combinations differ substantially in current financial performance.

Performance Indicators	Hills/ Hornsby	Hills/ Hawkesbury	Hornsby/ Ku-ring-gai
Net operating result for the year before grants & contributions provided for capital purposes	\$5,363k	\$542k	\$4,328k
Total income growth rate (excluding grants, contributions & revaluations) FY11-FY12	5.2%	4.2%	4.5%
Expenses growth rate FY11-FY12	3%	7%	0%
Net assets	\$4,624k	\$3,971k	\$2,414k
Unrestricted current ratio	4.66:1	12.28:1	1.89:1
Debt service ratio	2.11%	0.22%	3.53%
Rates & annual charges coverage ratio	52.19%	44.61%	63.72%
Rates, annual charges, interest & extra charges outstanding	3.15%	4.19%	3.26%
Building & infrastructure renewals ratio	103.55%	109.87%	75.44%
Infrastructure backlog	\$69,183k	\$136,077k	\$180,674k
Number of FTE’s	1,120	847	982

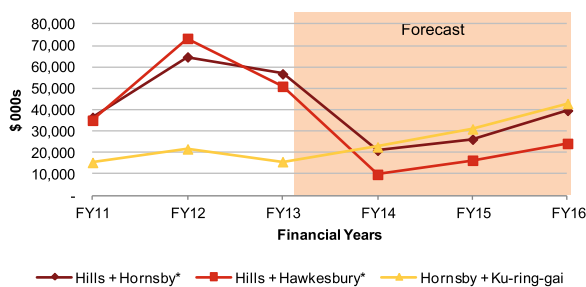
- The Hills/Hornsby combination shows the highest net operating result for the year excluding grants and contributions for capital purposes.
- Hills/Hawkesbury had the lowest income growth rate in FY12.
- Hills and Hawkesbury individually had the highest expenses growth in FY12, reflecting the highest expense growth rate combined. We note that this combination also shows expense growth rate out-growing income growth rate, which if continues to trend in this manner may not be sustainable for the merged council.
- Hills had double the net assets of the next council, Hornsby and therefore is driving the net asset positions of the Hills/Hornsby and Hills/Hawkesbury combinations.
- Hills/Hawkesbury combination has the highest level of liquidity and lowest debt.
- Hornsby/Ku-ring-gai combination has the highest concentration of rates & annual charges as % of total revenue.
- Hornsby/Ku-ring-gai has the lowest building & infrastructure renewals ratio as well as the highest infrastructure backlog.

Source: Financial Statements, PwC analysis

## Forecast financial information – Merged Councils

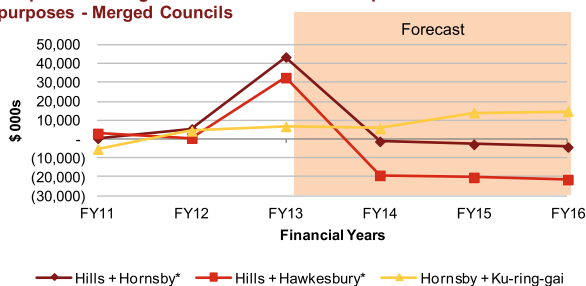
Two out of the three council combinations indicate a net loss position (before grants & contributions for capital purposes) for the forecast period FY14 to FY16.

Net profit for the year - Merged Councils



Source: Financial Statements Special Schedule 8

Net profit before grants & contribution for capital purposes - Merged Councils



Source: Financial Statements Special Schedule 8 and Annual Delivery Plans

Operating Result from Continuing Operations

\$ in 000s	FY11 Actual	FY12 Actual	FY13 Forecast	FY14 Forecast	FY15 Forecast	FY16 Forecast
Hills*	42,895	65,083	60,282	23,933	30,245	39,273
Hornsby	(6,393)	(348)	(3,463)	(2,837)	(3,969)	470
Hawkesbury	(7,759)	8,308	(9,278)	(14,072)	(13,793)	(14,959)
Ku-ring-gai	21,827	22,114	19,257	25,544	35,078	42,487
<b>Total Operating Result from Continuing Operations</b>	<b>50,570</b>	<b>95,157</b>	<b>66,798</b>	<b>32,568</b>	<b>47,561</b>	<b>67,271</b>

\*Total Operating Result from Continuing Operations\* excludes asset revaluations during the period.

Hills\* FY12 Actual has been normalised for one-off revaluation.

Source: Financial Statements Special Schedule 8

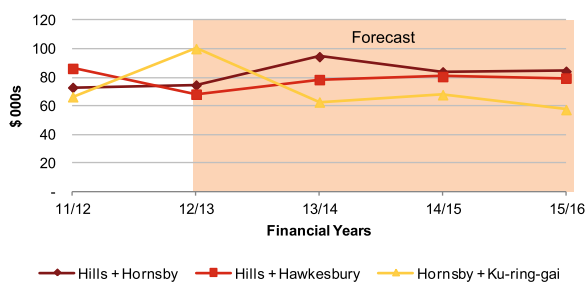
Key messages are:

- Hills forecasts a decrease in net operating result to FY13 and FY14 before an increase in performance is forecast in FY15 and FY16.
- Hornsby forecasts an increased deficit in FY13-FY15 before a small positive result is expected to be achieved in FY16.
- Hawkesbury forecasts a significant reduction in operating performance in FY13 which is expected to deteriorate further in FY14 and FY16.
- Hawkesbury has budgeted for increased operational spend in FY13 to FY16 however without an equivalent increase in revenue to fund the increased expenditure. It is not clear from publically available information as to how Hawkesbury plans to fund this.
- We note that while the forecast net operating results for the year show an upward trend in profitability for all combinations during the forecast period, the opposite trend is shown when excluding grants & contributions for capital purposes. Hills/Hornsby and Hills/Hawkesbury indicate net loss positions when excluding capital grants for FY14 to FY16 which demonstrates the importance of ongoing capital grants and contributions to the future sustainability of councils.

## Forecast capital budgets – Merged Councils

The four year forecast FY13 to FY16 show predominately steady capital budgets for all councils.

### Capital Budgets Grouped Councils



Source: Financial Statements Special Schedule 8

### Total Capital Budgets

\$ in 000s	FY12	FY13	FY14	FY15	FY16
	Actual	Forecast	Forecast	Forecast	Forecast
<b>Hills</b>	55,189	55,053	64,501	58,534	65,090
<b>Hawkesbury</b>	31,057	13,109	13,899	22,014	14,400
<b>Hornsby</b>	17,717	19,527	29,999	25,303	19,180
<b>Ku-ring-gai</b>	48,654	80,624	32,684	42,486	38,195
<b>Total Capital Budgets</b>	<b>152,617</b>	<b>168,313</b>	<b>141,083</b>	<b>148,337</b>	<b>136,865</b>

Source: Financial Statements Special Schedule 8

#### Key messages are:

- Significant increase in Ku-ring-gai capital budget for FY13 (to be funded by debt) will change the existing capital structure of a merged Hornsby/Ku-ring-gai council.
- Hills/Hornsby has the highest combined level of forecast capital expenditure for the four year period, totalling \$337.2m.
- We note that the forecast capital funding for individual councils result in different funding profiles for the merged council combinations (refer to page 47 of this report for merged councils capital funding split) :
  - Hills/Hornsby predominately will be funding capital expenditure from reserves and to a lesser extent, specified grant contributions.
  - Hills/Hawkesbury predominately will be funding capital expenditure from reserves and specified grant contributions.
  - Hornsby/Ku-ring-gai predominately will be funding capital expenditure from specified grant contributions, followed by reserves and new loans.
- The ability of newly merged councils to achieve an increase in productivity in the form of investment in future capital assets have been considered in the following sections of this report.

## Forecast financial performance – Hills + Hornsby

Net operating result before grants and contributions show a net deficit position for the forecast periods FY14 to FY16

Hills + Hornsby \$ in 000s	FY11 Actual	FY12 Actual	FY13 Budget	FY14 Budget	FY15 Budget	FY16 Budget
<b>Income from Continuing Operations</b>						
<i>Revenue</i>						
Rates & Annual Charges	152,749	160,951	172,640	180,095	186,360	192,680
User Charges & Fees	25,289	26,183	28,624	29,624	30,512	31,415
Interest & Investment Revenue	7,084	8,630	6,027	6,262	6,521	6,863
Other Revenues*	11,439	10,824	8,158	7,285	7,497	7,719
Grants & Contributions provided for Operating Purposes	30,087	31,155	24,723	25,096	25,799	26,533
Grants & Contributions provided for Capital Purposes	36,112	59,372	20,595	26,262	33,143	42,915
<i>Other Income</i>						
Net gains from the disposal of assets	677	935	47,676	1,052	1,361	1,769
<b>Total Income from Continuing Operations</b>	<b>263,437</b>	<b>298,050</b>	<b>308,443</b>	<b>275,676</b>	<b>291,193</b>	<b>309,894</b>
<b>Expenses from Continuing Operations</b>						
Employee Benefits & On-Costs	90,159	88,106	93,746	96,634	100,137	103,845
Borrowing Costs	1,470	1,330	1,095	997	1,589	1,842
Materials & Contracts	56,535	61,356	58,813	60,655	62,454	64,325
Depreciation & Amortisation	40,432	41,125	40,798	42,831	44,969	47,248
Other Expenses	38,268	41,398	49,956	49,529	51,721	53,936
Net Losses from the Disposal of Assets	71	-	-	-	-	-
<b>Total Expenses from Continuing Operations</b>	<b>226,935</b>	<b>233,315</b>	<b>244,407</b>	<b>250,646</b>	<b>260,868</b>	<b>271,196</b>
<b>Net Operating Result for the Year</b>	<b>36,502</b>	<b>64,735</b>	<b>64,035</b>	<b>25,030</b>	<b>30,324</b>	<b>38,699</b>
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>	<b>390</b>	<b>5,363</b>	<b>43,441</b>	<b>(1,233)</b>	<b>(2,819)</b>	<b>(4,217)</b>
<b>Year-on-year % increase for key categories</b>						
Rates & Annual charges	na	5%	7%	4%	3%	3%
Grants & Contributions provided	na	37%	(50%)	13%	15%	18%
Employee Benefits & On-Costs	na	(2%)	6%	3%	4%	4%
Materials & Contracts	na	9%	(4%)	3%	3%	3%
Depreciation & Amortisation	na	2%	(1%)	5%	5%	5%
Other Expenses	na	8%	21%	(1%)	4%	4%

\* Other revenues\* excludes asset revaluations during the period.

Source: Financial Statements, Annual Delivery Plans

- Based on the current budgets for Hills and Hornsby councils, the budgeted expenses will not sufficiently be covered by income before grants and contributions for capital purposes for the period FY14 to FY16. In addition, if the net gains from disposal of assets of \$48m are not realised in FY13, the FY13 budget will also be in a deficit position.
- We note however that the recognition of grants and contributions is impacted by the timing of its use and therefore we would expect high levels of volatility in terms of forecasting for this source of income.
- When compared to actual historical results of FY11 and FY12, other expenses appear significantly higher in FY13. This is driven by both Hills and Hornsby increasing their other expenses budget in FY13 by \$4.2m and \$4.3m respectively. For Hornsby, there has been a reallocation between materials & contracts expenses and other expenses of approximately \$2m between FY12 and the FY13 budget. The remainder of the increase is due to increase in contractor rates for projects. For Hills, the majority of other expense increase is for waste & tipping charges of \$2.4m to allow for Carbon Tax impact and \$0.7m for council elections in FY12/13.



## Forecast financial performance – Hills + Hawkesbury

Net operating result before grants and contributions show a significant net deficit position for the forecast periods FY14 to FY16

Hills + Hawkesbury \$ in 000s	FY11 Actual	FY12 Actual	FY13 Budget	FY14 Budget	FY15 Budget	FY16 Budget
<b>Income from Continuing Operations</b>						
<i>Revenue</i>						
Rates & Annual Charges	117,047	120,419	126,240	132,102	137,399	143,100
User Charges & Fees	17,877	19,622	19,170	19,918	20,746	21,604
Interest & Investment Revenue	7,642	8,876	5,967	6,543	6,788	7,059
Other Revenues*	9,181	9,395	8,477	7,648	7,836	8,108
Grants & Contributions provided for Operating Purposes	24,531	27,327	22,179	22,488	22,940	23,471
Grants & Contributions provided for Capital Purposes	44,422	72,849	18,479	23,803	30,612	40,310
<i>Other Income</i>						
Net gains from the disposal of assets	967	853	43,414	157	440	821
Net Share of interests in Joint Ventures & Associated Entities using the equity method	208	212	-	-	-	-
<b>Total Income from Continuing Operations</b>	<b>221,875</b>	<b>259,553</b>	<b>243,925</b>	<b>212,658</b>	<b>226,761</b>	<b>244,473</b>
<b>Expenses from Continuing Operations</b>						
Employee Benefits & On-Costs	65,938	66,728	66,506	68,557	70,694	72,973
Borrowing Costs	562	538	200	200	200	200
Materials & Contracts	39,307	42,309	42,654	54,103	55,673	57,600
Depreciation & Amortisation	33,488	36,112	37,782	39,599	41,662	43,865
Other Expenses	35,178	40,186	45,772	45,627	48,232	50,978
Net Losses from the Disposal of Assets	-	289	-	-	-	-
<b>Total Expenses from Continuing Operations</b>	<b>174,473</b>	<b>186,162</b>	<b>192,915</b>	<b>208,087</b>	<b>216,461</b>	<b>225,616</b>
<b>Net Operating Result for the Year</b>	<b>47,402</b>	<b>73,391</b>	<b>51,011</b>	<b>4,572</b>	<b>10,300</b>	<b>18,858</b>
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>	<b>2,980</b>	<b>542</b>	<b>32,532</b>	<b>(19,231)</b>	<b>(20,312)</b>	<b>(21,452)</b>
<b>Year-on-year % increase for key categories</b>						
Rates & Annual charges	na	3%	5%	5%	4%	4%
Grants & Contributions provided	na	45%	(59%)	14%	16%	19%
Employee Benefits & On-Costs	na	1%	(0%)	3%	3%	3%
Materials & Contracts	na	8%	1%	27%	3%	3%
Depreciation & Amortisation	na	8%	5%	5%	5%	5%
Other Expenses	na	14%	14%	(0%)	6%	6%

\* 'Other revenues' excludes asset revaluations during the period.

Source: Financial Statements, Annual Delivery Plans

The Hills Shire Council and Hornsby Shire Council  
PwC

Strictly private and confidential

10 April 2013  
39

- The Hills/Hawkesbury combination is showing a significant net deficit position for FY14 to FY16 which is primarily driven by the deficit forecast by Hawkesbury and reduced positive operating performance by Hills.
- We note that Hawkesbury had budgeted for only minimal amounts of grants and contributions for capital purposes in the budget period (c. \$500k per annum) compared to a historical level of >\$12m per annum) and therefore the net operating result for this merged council may be understated for FY13 to FY16. We understand that the FY12 budget was c. \$1.4m compared to actual amount of \$17m. This shows the difficulties associated with forecasting the timing of capital contributions.
- In the expenses budget, we note a significant increase in materials & contracts costs (by \$11.5m) in FY14 due to Hawkesbury planning to implement a bike and pedestrian mobility plan by extending the shared pathway and cycling network and improve the accessibility of the built environment (per Hawkesbury Delivery Program 2012-2016, Linking the Hawkesbury budget).

## Forecast financial performance – Hornsby + Ku-ring-gai

Further information on grants & contributions provided for capital purposes should be obtained to determine the true financial position of this merged council.

Hornsby + Ku-ring-gai	FY11 Actual	FY12 Actual	FY13 Budget	FY14 Budget	FY15 Budget	FY16 Budget
<b>Income from Continuing Operations</b>						
<i>Revenue</i>						
Rates & Annual Charges	136,120	145,211	155,864	161,962	167,924	172,345
User Charges & Fees	23,487	23,949	33,290	34,711	36,714	38,059
Interest & Investment Revenue	9,697	8,913	6,225	5,652	5,653	6,029
Other Revenues	12,643	12,286	3,154	3,246	3,340	3,437
Grants & Contributions provided for Operating Purposes	17,792	19,872	14,398	14,777	15,152	15,534
Grants & Contributions provided for Capital Purposes	20,774	17,438	16,344	20,826	21,020	27,031
<i>Other Income</i>						
Net gains from the disposal of assets	347	219	10,074	8,636	15,413	17,489
<b>Total Income from Continuing Operations</b>	<b>220,860</b>	<b>227,888</b>	<b>239,349</b>	<b>249,810</b>	<b>265,217</b>	<b>279,925</b>
<b>Expenses from Continuing Operations</b>						
Employee Benefits & On-Costs	79,248	76,549	80,798	83,547	86,705	89,922
Borrowing Costs/Interest charges	1,896	1,790	1,671	1,955	2,379	2,471
Materials & Contracts	61,771	64,804	60,531	62,556	64,456	66,406
Depreciation & Amortisation	37,877	38,378	38,581	40,037	40,887	42,372
Other Expenses	24,563	24,601	34,759	35,233	35,781	37,012
Net Losses from the Disposal of Assets	71	-	-	-	-	-
<b>Total Expenses from Continuing Operations</b>	<b>205,426</b>	<b>206,122</b>	<b>216,340</b>	<b>223,328</b>	<b>230,207</b>	<b>238,184</b>
<b>Net Operating Result for the Year</b>	<b>15,434</b>	<b>21,766</b>	<b>23,010</b>	<b>26,482</b>	<b>35,010</b>	<b>41,741</b>
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>	<b>(5,340)</b>	<b>4,328</b>	<b>6,666</b>	<b>5,657</b>	<b>13,990</b>	<b>14,710</b>
<b>Year-on-year % increase for key categories</b>						
Rates & Annual charges	na	7%	7%	4%	4%	3%
Grants & Contributions provided	na	(3%)	(18%)	16%	2%	18%
Employee Benefits & On-Costs	na	(3%)	6%	3%	4%	4%
Materials & Contracts	na	5%	(7%)	3%	3%	3%
Depreciation & Amortisation	na	1%	1%	4%	2%	4%
Other Expenses	na	0%	41%	1%	2%	3%

Source: Financial Statements, Annual Delivery Plans

The Hills Shire Council and Hornsby Shire Council  
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10 April 2013  
40

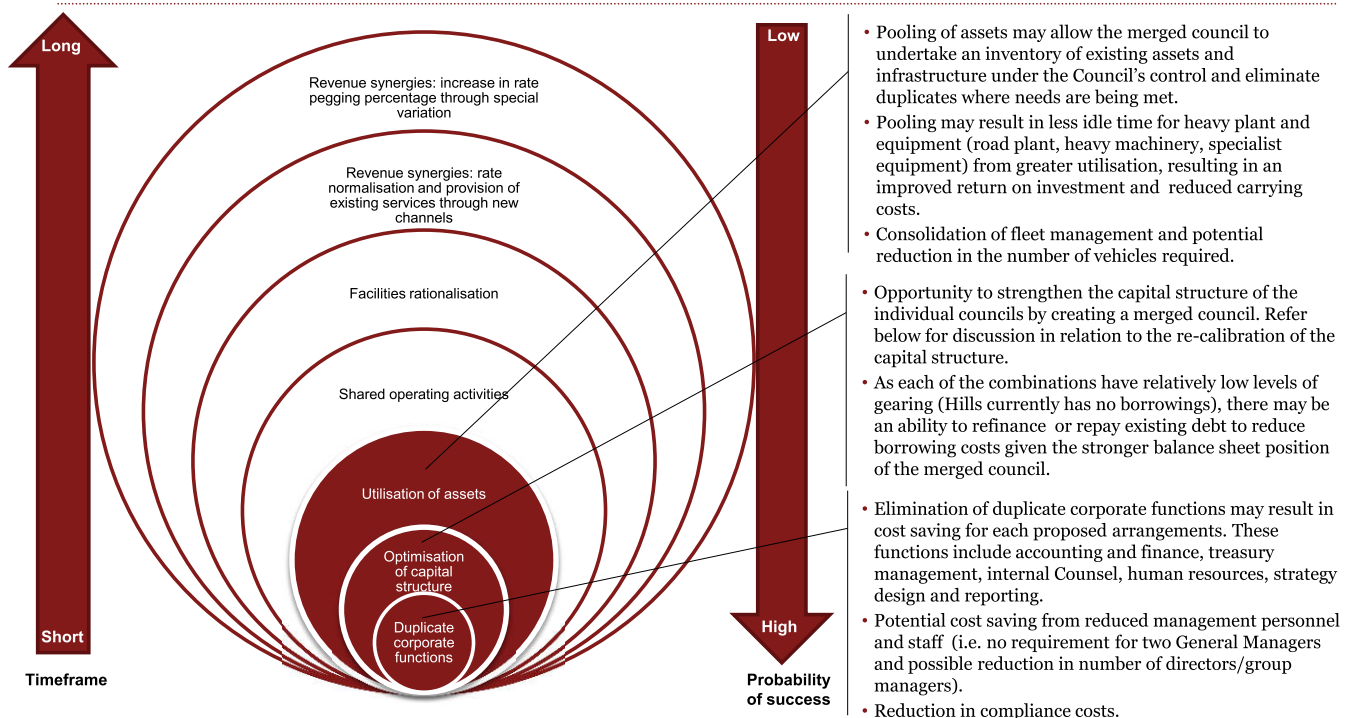
- Hornsby and Ku-ring-gai have forecasted an increasing level of grants & contributions provided for capital purposes. As previously mentioned, it is difficult to forecast the timing of this source of income and therefore councils should not depend heavily on this source of income being realised in the ordinary operation of its budget.
- This council combination also indicates significant net gains from the disposal of assets for the budget period compared to historical results, which is primarily driven by Ku-ring-gai's plan to sell 'surplus and under-utilised council assets' to fund a new council chambers and civic precinct in Gordon.
- When the effect of the gains from asset sales are removed, the net operating result before capital grants show a **net deficit of c. \$3m per annum for the budget period.**
- When compared to actual historical results of FY11 and FY12, other expenses appear significantly higher in FY13 due to re-allocation of costs for Hornsby between materials & contracts and other expenses.



# High level cost savings from merged councils

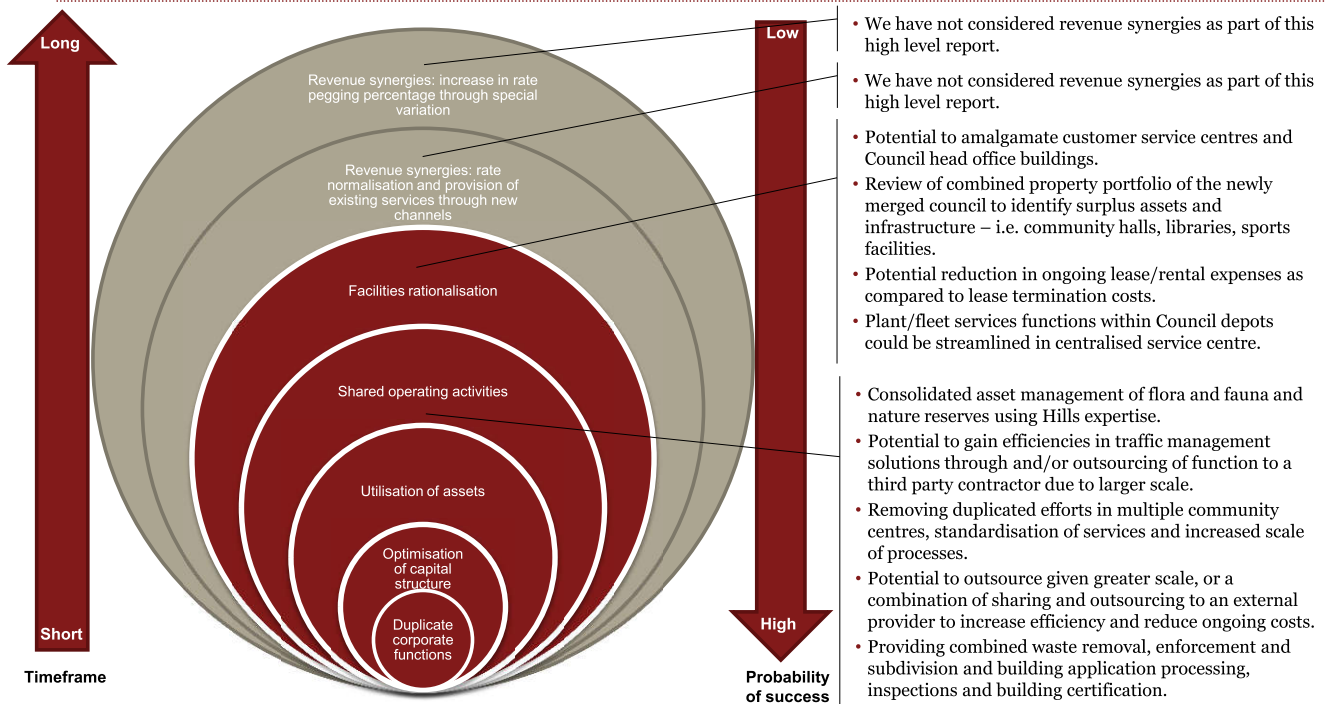
## Potential cost savings

**Potential cost savings may be generated from the amalgamation of the identified Councils through removing duplicate corporate functions, including finance, HR and reporting.**



## Potential cost savings (cont.)

**There is potential to amalgamate customer service centres and Council head office buildings to reduce costs.**



# Productivity dividends of merged councils

## Service delivery for rate payers

*There is an overlap of key infrastructure assets for each of the three potential combinations.*

The ability to deliver a productivity dividend through more efficient service delivery may be achieved through:

- Rate payers in each respective arrangement will have access to a wider range of community infrastructure.
- Removing duplicated efforts in multiple community centres, standardisation of services and increased scale of processes.
- There may be an ability to simplify and undertake a review of Ward boundaries in the lead up to the merger, potentially enhancing relationships with in the community and developing new programs to meet their services needs on wider basis.
- Strategic location of newly developed infrastructure and assets of merged council could benefit a larger population (i.e. the new Hornsby Aquatic Centre may accessible to Ku-ring-gai residents).
- Management and running of accredited child care centres and centralising waitlists within the new merged council.
- Provision of targeted programs, resource sharing and collections at all libraries for community groups.
- Coordinate the provision of local community centres and halls for community use and external hire.
- Providing waste removal, recycling and garden waste service, creating awareness programs and resource recovery. services and infrastructure for commercial and residential waste.

However, research has found that amalgamation will not in itself yield economies of scale or that such economies are available across many of local government’s functions by whatever means (Source: Consolidation in Local Government: A Fresh Look). The merger process should be managed and monitored to help deliver these potential benefits.

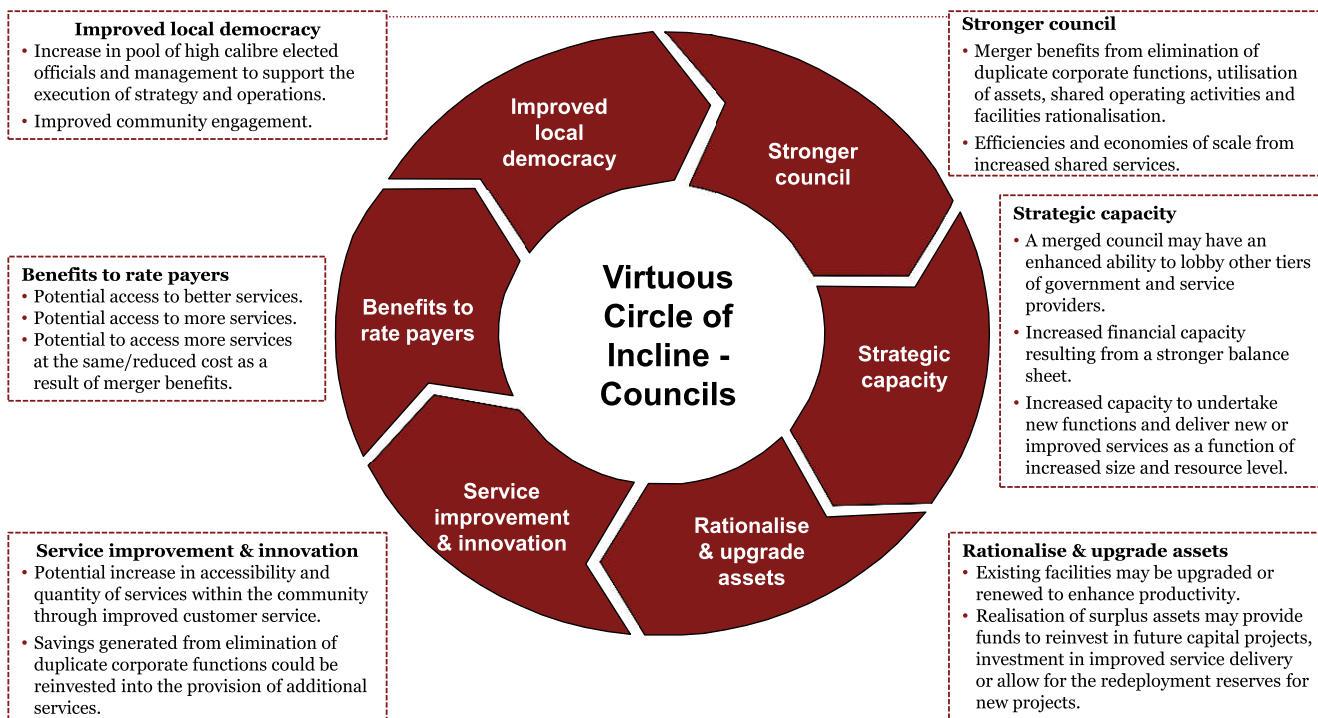
**Key Council infrastructure**

	Hills	Hornsby	Hawkesbury	Ku-ring-gai
<b>Population (2011 Census)</b>	169,872	157,387	64,234	114,000
<b>Suburbs</b>	29	41	63	27
<b>Geographic area (approx)</b>	401km <sup>2</sup>	510km <sup>2</sup>	2,776km <sup>2</sup>	85km <sup>2</sup>
<b>Council Wards</b>	4	3	1; not subdivided	5
<b>Roads</b>	944km	649km	1,032km	417km
<b>Libraries</b>	5	5	2	4
<b>Parks</b>	330	186	215	171
<b>Council child care facilities</b>	6	5	12	2
<b>Aquatic centres</b>	1	4	1	1
<b>Community halls</b>	21	19	13	11
<b>Council offices</b>	1	1	1	1
<b>Stadiums</b>	-	1	1	-
<b>Depots</b>	Not available	Not available	4	1
<b>Museums &amp; galleries</b>	1	1	2	1
<b>Showgrounds</b>	1	-	1	1
<b>Youth centres</b>	-	1	1	3

Source: Hills, Hornsby, Hawkesbury and Ku-ring-gai websites, Operational Reports.

## Service delivery for rate payers

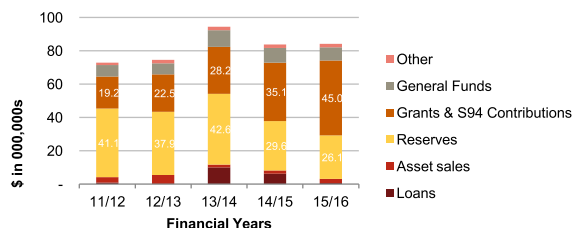
*If implemented effectively, a merged council can create benefits for the community resulting from increased service provision.*



## Investment in future capital assets

**The Hills and Hornsby Councils combination has the largest capital budget of all three proposed combinations.**

(i) Hills + Hornsby capital funding split

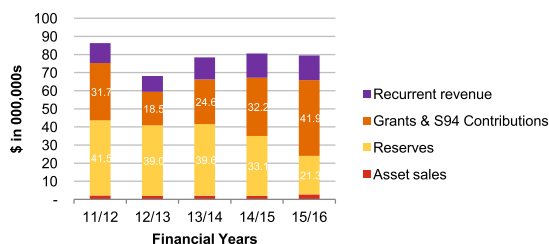


Source: Financial Statements Special Schedule 8

### Hills/Hornsby

- Hills/Hornsby has the highest combined level of forecast capital expenditure for the four year period, totalling \$337.2m. The average forecast capital works budgeted is \$59.6m per annum.
- Investment decisions in relation to the replacement/refurbishment of existing assets could be reconsidered to reduce the number of projects where there is a duplication of existing projects/assets.
- There may be the potential to leverage existing infrastructure in Hornsby to reduce forecast capital works budgeted for Hills.
- Realisation of surplus assets may provide additional funding to reinvest in future capital projects, reduce the need borrow or allow for the redeployment reserves for new projects.

(ii) Hills + Hawkesbury capital funding split



Source: Financial Statements Special Schedule 8

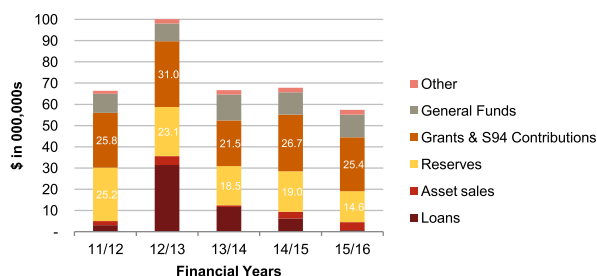
### Hills/Hawkesbury

- Hills/Hawkesbury has the largest forecast reliance on recurrent revenue to fund its capital funding for the four year period, totalling \$58.9m (15% of the total funding).
- This combination has not forecast any capital funding through the use of borrowings. Based on the indicative debt capacity of the arrangement, increasing borrowings may fund any revenue shortfalls in capital budgets. Refer below for further details in relation to re-calibration of capital structure.
- Utilisation of borrowings could allow reserves to be deployed to new projects to potentially enhance productivity for the new arrangement.
- Realisation of surplus assets may provide additional funding to reinvest in future capital projects, reduce the need borrow or allow for the redeployment reserves for new projects.

## Investment in future capital assets

**The Hornsby and Ku-ring-gai Councils combination is forecast to borrow the largest amount to fund its capital budget over the four year forecast period.**

(iii) Hornsby + Ku-ring-gai capital funding split



Source: Financial Statements Special Schedule 8

### Hornsby/Ku-ring-gai

- Significant increase in Ku-ring-gai capital budget for FY13 (to be funded by debt) will change the existing capital structure of a merged Hornsby/Ku-ring-gai council.
- Forecast capital expenditure funded by loans for the four year period is estimated to be \$53.0m. Increasing loan funding may generate capacity in its capital structure to fund this expenditure. Refer below for further details in relation to re-calibration of capital structure.
- Realisation of surplus assets may provide additional funding to reinvest in future capital projects, reduce the need borrow or allow for the redeployment reserves for new projects.

## Upgrade of existing infrastructure

**The Hills/Hornsby has the smallest estimated backlog of costs to bring its public works up to a satisfactory position/standard.**

The ability of a newly merged council to achieve an increase in productivity may be determined by the quality of existing assets, associated remedial costs, overlap of assets and efficiencies gain in the maintenance of existing infrastructure.

Each Council has estimated costs to bring the asset to a satisfactory condition. The asset condition is determined with reference to the Division of Local Government Integrated Planning Manual, which is a subjective assessment and judgement by each Council. In addition, each Council has estimated the Required Annual Maintenance that should be spent to maintain assets in a satisfactory standard (forward-looking) and Current Annual Maintenance that has been spent in the current year to maintain assets (historic).

General trends identified are:

- The evaluation of public works remediation is a subjective assessment by each Council and is not independently audited. Therefore estimated costs to bring assets up to a satisfactory condition requires judgement to avoid over/understatement.
- Hornsby has estimated costs to bring the asset to a satisfactory condition, required annual maintenance or current annual maintenance at an asset class level only, rather than on an individual asset basis.
- Public Roads remediation makes up the largest estimated cost to bring the asset to a satisfactory condition.

### Condition of public works as at 30 June 2012 – Hills + Hornsby

(\$ in 000)	Hills + Hornsby		
	Estimated cost to bring up to a satisfactory condition/standard	Required Annual Maintenance	Current Annual Maintenance
Buildings	9,632	5,083	6,691
Wharves & Jettys	-	283	283
Public Roads	44,041	14,686	20,410
Sewerage	-	-	-
Drainage Works	15,510	4,778	2,880
<b>TOTAL ALL ASSETS</b>	<b>69,183</b>	<b>24,830</b>	<b>30,264</b>
As % of required annual maintenance			121.9%

- Hills/Hornsby has the smallest estimated backlog of costs to bring its public works up to a satisfactory position/standard.
- All estimated remediation required for Buildings is for the Hills. Merging the Council's may allow for some of these facilities to be closed, delivering maintenance savings and income from property sales.
- There may be the potential to adopt Hornsby's Public Roads maintenance programs as best practice to generate potential efficiencies in management of this program across a newly merged Council. Costs for Hills for Public Roads remediation are estimated to be \$35.5m (WDV: \$543.1m), whereas Hornsby are \$8.5m (WDV: \$301.4m).
- It is noted that Current Annual Maintenance costs exceed the estimated Required Maintenance costs. Aligning maintenance plans with the required annual maintenance expenditure may deliver a one-off or recurring productivity dividend as expenditure will be reduced to budgeted levels.

Source: Financial Statements Special Schedule 7

The Hills Shire Council and Hornsby Shire Council  
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10 April 2013  
49

## Upgrade of existing infrastructure

**Hornsby/Ku-ring-gai has the largest estimated backlog of costs to bring its public works up to a satisfactory position/standard, yet has the lowest estimated annual maintenance costs.**

### Condition of public works as at 30 June 2012 – Hills + Hawkesbury

(\$ in 000)	Hills + Hawkesbury		
	Estimated cost to bring up to a satisfactory condition/standard	Required Annual Maintenance	Current Annual Maintenance
Buildings	14,096	3,792	5,493
Wharves & Jettys	-	-	-
Public Roads	96,881	19,360	20,894
Sewerage	7,350	1,905	1,896
Drainage Works	17,750	4,255	2,345
<b>TOTAL ALL ASSETS</b>	<b>136,077</b>	<b>29,312</b>	<b>30,628</b>
As % of required annual maintenance			104.5%

- Hills/Hawkesbury has the largest estimated annual maintenance costs to maintain its public works up to a satisfactory standard.
- There is a \$4.1m backlog in relation to Council Halls and estimated annual maintenance of \$1.2m, most of which relate to The Hills. Merging the Council's may allow for some facilities to be closed, delivering maintenance savings and income from property sales.
- Hawkesbury has rated its Public Roads average to very poor, highlighting that there may be limited opportunity to gain productivity benefit from these assets.
- Given the significant amount of funding required for Public Roads remediation, the newly merged entity may be able seek State or Federal assistance to meet this estimated cost.
- Out of the four councils, only Hawkesbury has Sewerage assets.

Source: Financial Statements Special Schedule 7

### Condition of public works as at 30 June 2012 – Hornsby + Ku-ring-gai

(\$ in 000)	Hornsby + Ku-ring-gai		
	Estimated cost to bring up to a satisfactory condition/standard	Required Annual Maintenance	Current Annual Maintenance
Buildings	47,035	3,059	3,811
Wharves & Jettys	-	283	283
Public Roads	105,429	7,766	7,452
Sewerage	-	-	-
Drainage Works	28,210	2,372	1,433
<b>TOTAL ALL ASSETS</b>	<b>180,674</b>	<b>13,480</b>	<b>12,979</b>
As % of required annual maintenance			96.3%

- Hornsby/Ku-ring-gai has the largest estimated backlog of costs to bring its public works up to a satisfactory position/standard, yet has the lowest estimated annual maintenance costs to maintain its public works up to a satisfactory position/standard.
- All estimated remediation required for Buildings is for the Ku-ring-gai Council. The most significant project in this category is \$15.5m for returning Council Offices to a satisfactory condition/standard.
- Given the significant amount of funding required for Public Roads remediation, the newly merged entity may be able seek State or Federal assistance to meet this estimated cost.
- On merger, there is the potential to amalgamate Council Buildings of both entities and in light of that improved state of Hornsby's assets, potentially eliminate a portion of the remediation cost and delivering a once-off productivity dividend.

Source: Financial Statements Special Schedule 7

The Hills Shire Council and Hornsby Shire Council  
PwC

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10 April 2013  
50



## Recalibrate capital structure

**Based on Tcorp benchmarks, a merged Hills and Hornsby council may have capacity to borrow up to 2x DSCR which equates to approximately \$64m.**

### Recalibration of Capital Structure

Recent *Financial Assessment, Sustainability and Benchmarking* reports compiled by NSW Treasury Corporation (Tcorp) for Hills and Hornsby recommended that each Council may be able to incorporate additional loan funding in addition to its existing debt facilities and those included in its Long-Term Financial Plan (LTFP).

### Current Debt Capacity

Generally, the loan funding levels of each of the individual councils identified is relatively low, with Debt Service Ratios not exceeding 5%.

Hills is debt-free and has not incorporated any borrowings in its current LTFP and it is Council's policy to consider borrowing for new capital only if a continuous income source can be identified to service the debt.

Tcorp uses the DSCR indicator to indicate the financial capacity of councils to incorporate additional loan funding in addition to existing debt facilities.

### Indicative Debt Capacity

Each merged entity will have its own risk appetite when determining an optimal capital structure.

Based on commentary provided by Tcorp, the benchmark DSCR for local councils in NSW is a multiple of two times (2x) Earnings Before Interest and Taxes / Principal repayments + Borrowing interest costs.

Factors that may be considered when seeking additional loan funding include annuity income streams derived from ratepayers; capital funding budgets and remediation backlogs; risk appetite; and access to funding options including State and Federal funding, issuing municipal bonds and funding from commercial and investment banks.

### Indicative debt capacity as at 30 June 2012

	Debt service cover ratio
Hills/Hornsby	• 11.8x
Hills/Hawkesbury	• 50.7x
Hornsby/Ku-ring-gai	• 6.2x

### Potential increase in productivity

- All proposed combinations are below the benchmark DSCR as identified by Tcorp, indicating each proposed arrangement has additional borrowing capacity.
- Tcorp identified that based on a benchmark of DSCR > 2, \$27.0m could be borrowed by Hills and \$37.0m by Hornsby in 2013 (Source: Financial Assessment Sustainability and Benchmark Report).

### Additional considerations

- Increasing borrowings may fund any shortfalls in Capital Budgets and reduce backlogs in costs to bring assets to a satisfactory condition.
- May increase ability to invest in income generating infrastructure and assets.
- As Hills currently has no borrowings, there may be an ability to refinance existing debt to reduce borrowing costs given the stronger balance sheet position of the merged council.

Source: Financial Statements, PwC Analysis

The Hills Shire Council and Hornsby Shire Council  
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10 April 2013  
51

## Cap or fix rates

**Hills/Hornsby and Hornsby/Ku-ring-gai may benefit as a result of the special variation to rates in 2013/14 for Hornsby.**

### Capping or fixing of rates

IPART announced the rate peg of 3.6% for 2012/13 for all Councils in NSW. The rate peg sets the maximum allowable increase in general income in 2012/13 for councils without an approved special variation for this year.

Year	Approved increase in general income (%)			
	Hills	Hornsby	Hawkesbury	Ku-ring-gai
2011/12	2.8%	7.8%	2.8%	7.8%
2012/13	3.6%	6.4%	3.6%	3.6%
2013/14	Pegged; Not yet available	3.9%	Pegged; Not yet available	Pegged; Not yet available

Source: Independent Pricing and Regulatory Tribunal

# Special rate variation

Councils seeking to increase their general income by an amount greater than the rate peg may apply for a special variation. These may be granted for:

- Councils seeking to increase their rates for a single year, and maintain this higher rate base for either a fixed period of years, or permanently.
- Councils seeking to increase rates by varying percentages for multiple years (2 to a maximum of 7 years), with increases permanently incorporated in the rates base.

### Average Rate per Assessment – 2010/11

	Hills	Hornsby	Hawkesbury	Ku-ring-gai	State Average
Residential	\$917.97	\$865.51	\$936.44	\$780.15	\$811.52
Farmland	\$1,498.80	\$1,418.83	\$828.28	-	\$1,968.76
Business	\$1,830.56	\$2,441.27	\$3,831.46	\$3,375.81	\$4,305.09

Source: IPART Report on IPART's functions in relation to local government in 2011/12

There may be an opportunity for the new arrangement to achieve a productivity benefit in the form of higher rates:

- Potential one-off benefit for Hills/Hornsby and Hornsby/Ku-ring-gai as a result of the special variation to rates in 2013/14 for Hornsby.
- As Hills is anticipated to continue to attract more businesses over the forecast and is one of its key strategy goals, the potential equalisation of Hills/Hawkesbury average business rates may yield higher rates from this revenue stream in the short to mid term.
- Newly amalgamated Councils may be in a stronger position to seek a special variation from IPART to fund any significant infrastructure backlogs or new projects.



# Appendices

Appendices		53
1	Forecast financial information for individual councils	54
2	Strategic goals and objectives	56

## Forecast financial information – individual councils Hills Shire Council and Hornsby Shire Council

Hills \$ in 000s	Actual 2011	Actual 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Hornsby \$ in 000s	Actual 2011	Actual 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016
<b>Income from Continuing Operations</b>							<b>Income from Continuing Operations</b>						
Revenue							Revenue						
Rates & Annual Charges	79,409	81,519	85,315	89,547	93,095	96,618	Rates & Annual Charges	73,340	79,432	87,325	90,548	93,264	96,062
User Charges & Fees	13,301	14,540	14,463	14,885	15,345	15,809	User Charges & Fees	11,988	11,643	14,161	14,739	15,166	15,606
Interest & Investment Revenue	4,697	6,085	4,377	4,586	4,816	5,071	Interest & Investment Revenue	2,387	2,545	1,650	1,676	1,705	1,792
Other Revenues*	5,647	5,833	5,004	4,039	4,158	4,282	Other Revenues	5,792	4,991	3,154	3,246	3,340	3,437
Grants & Contributions provided for Operating Purposes	17,550	17,960	15,739	15,852	16,287	16,744	Grants & Contributions provided for Operating Purposes	12,537	13,195	8,384	9,244	9,512	9,788
Grants & Contributions provided for Capital Purposes	32,156	55,688	17,642	23,224	30,016	39,698	Grants & Contributions provided for Capital Purposes	3,956	3,684	2,953	3,039	3,127	3,217
<b>Other Income</b>							<b>Other Income</b>						
Net gains from the disposal of assets	677	853	43,414	157	440	821	Net gains from the disposal of assets	-	82	4,262	895	921	948
<b>Total Income from Continuing Operations</b>	<b>153,437</b>	<b>182,478</b>	<b>185,953</b>	<b>152,289</b>	<b>164,157</b>	<b>179,043</b>	<b>Total Income from Continuing Operations</b>	<b>110,000</b>	<b>115,572</b>	<b>122,489</b>	<b>123,387</b>	<b>127,036</b>	<b>130,851</b>
<b>Expenses from Continuing Operations</b>							<b>Expenses from Continuing Operations</b>						
Employee Benefits & On-Costs	44,557	45,444	48,804	50,232	51,833	53,560	Employee Benefits & On-Costs	45,602	42,662	44,941	46,402	48,304	50,285
Borrowing Costs	-	-	-	-	-	-	Borrowing Costs	1,470	1,330	1,095	997	1,589	1,842
Materials & Contracts	22,484	24,796	24,283	25,040	25,806	26,615	Materials & Contracts	34,051	36,560	34,530	35,615	36,648	37,710
Depreciation & Amortisation	17,246	17,705	18,892	20,290	21,774	23,380	Depreciation & Amortisation	23,186	23,420	21,906	22,541	23,195	23,867
Other Expenses	26,255	29,450	33,691	32,793	34,499	36,215	Other Expenses	12,013	11,948	16,265	16,736	17,222	17,721
Net Losses from the Disposal of Assets	-	-	-	-	-	-	Net Losses from the Disposal of Assets	71	-	-	-	-	-
<b>Total Expenses from Continuing Operations</b>	<b>110,542</b>	<b>117,395</b>	<b>125,671</b>	<b>128,356</b>	<b>133,912</b>	<b>139,770</b>	<b>Total Expenses from Continuing Operations</b>	<b>116,393</b>	<b>115,920</b>	<b>118,737</b>	<b>122,291</b>	<b>126,957</b>	<b>131,426</b>
<b>Net Operating Result for the Year</b>	<b>42,895</b>	<b>65,083</b>	<b>60,283</b>	<b>23,934</b>	<b>30,245</b>	<b>39,274</b>	<b>Net Operating Result for the Year</b>	<b>(6,393)</b>	<b>(348)</b>	<b>3,753</b>	<b>1,096</b>	<b>79</b>	<b>(575)</b>
<b>Year-on-year % increase for key categories</b>							<b>Year-on-year % increase for key categories</b>						
Rates & Annual charges	na	3%	5%	5%	4%	4%	Rates & Annual charges	na	8%	10%	4%	3%	3%
Employee Benefits & On-Costs	na	2%	7%	3%	3%	3%	Employee Benefits & On-Costs	na	(6%)	5%	3%	4%	4%
Materials & Contracts	na	10%	(2%)	3%	3%	3%	Materials & Contracts	na	7%	(6%)	3%	3%	3%
Depreciation & Amortisation	na	3%	7%	7%	7%	7%	Depreciation & Amortisation	na	1%	(6%)	3%	3%	3%
Other Expenses	na	12%	14%	(3%)	5%	5%	Other Expenses	na	(1%)	36%	3%	3%	3%

\* Other revenues excludes asset revaluations during the period.

Source: Delivery & Operational Plan

Source: Delivery & Operational Plan

## Forecast financial information – individual councils

### Hawkesbury Shire Council and Ku-ring-gai Shire Council

Hawkesbury \$ in 000s	Actual 2011	Actual 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Ku-ring-gai \$ in 000s	Actual 2011	Actual 2012	Budget 2013	Budget 2014	Budget 2015	Budget 2016
<b>Income from Continuing Operations</b>							<b>Income from Continuing Operations</b>						
<i>Revenue</i>							<i>Revenue</i>						
Rates & Annual Charges	37,638	38,900	40,925	42,555	44,304	46,482	Rates & Annual Charges	62,780	65,779	68,539	71,414	74,660	76,283
User Charges & Fees	4,576	5,082	4,707	5,033	5,401	5,795	User Charges & Fees	11,499	12,306	19,129	19,972	21,548	22,453
Interest & Investment Revenue	2,945	2,791	1,590	1,957	1,972	1,988	Interest & Investment Revenue	7,310	6,368	4,575	3,976	3,948	4,237
Other Revenues	3,534	3,562	3,473	3,609	3,678	3,826	Other Revenues	6,851	7,295	-	-	-	-
Grants & Contributions provided for Operating Purposes	6,981	9,367	6,440	6,636	6,653	6,727	Grants & Contributions provided for Operating Purposes	5,255	6,677	5,414	5,533	5,640	5,746
Grants & Contributions provided for Capital Purposes	12,266	17,161	837	579	596	612	Grants & Contributions provided for Capital Purposes	16,818	13,754	13,391	17,787	17,893	23,814
<i>Other Income</i>							<i>Other Income</i>						
Net gains from the disposal of assets	290	-	-	-	-	-	Net gains from the disposal of assets	347	137	5,812	7,741	14,492	16,541
Net Share of interests in Joint Ventures & Associated Entities using the equity method	208	212	-	-	-	-							
<b>Total Income from Continuing Operations</b>	<b>68,438</b>	<b>77,075</b>	<b>57,972</b>	<b>60,369</b>	<b>62,604</b>	<b>65,430</b>	<b>Total Income from Continuing Operations</b>	<b>110,860</b>	<b>112,316</b>	<b>116,860</b>	<b>126,423</b>	<b>138,181</b>	<b>149,074</b>
<b>Expenses from Continuing Operations</b>							<b>Expenses from Continuing Operations</b>						
<i>Employee Benefits &amp; On-Costs</i>							<i>Employee Benefits &amp; On-Costs</i>						
Employee Benefits & On-Costs	21,381	21,284	17,702	18,325	18,861	19,413	Employee Benefits & On-Costs	33,646	33,887	35,857	37,145	38,401	39,637
Borrowing Costs	562	538	200	200	200	200	Borrowing Costs/Interest charges	426	460	576	958	790	629
Materials & Contracts	16,823	17,513	18,371	29,063	29,867	30,985	Materials & Contracts	27,720	28,244	26,001	26,941	27,808	28,696
Depreciation & Amortisation	16,242	18,407	18,890	19,309	19,888	20,485	Depreciation & Amortisation	14,891	14,958	16,675	17,496	17,692	18,505
Other Expenses	8,923	10,736	12,081	12,834	13,733	14,763	Other Expenses	12,550	12,653	18,494	18,497	18,559	19,291
Net Losses from the Disposal of Assets	-	289	-	-	-	-	Net Losses from the Disposal of Assets	-	-	-	-	-	-
<b>Total Expenses from Continuing Operations</b>	<b>63,931</b>	<b>68,767</b>	<b>67,244</b>	<b>79,731</b>	<b>82,549</b>	<b>85,846</b>	<b>Total Expenses from Continuing Operations</b>	<b>89,033</b>	<b>90,202</b>	<b>97,603</b>	<b>101,037</b>	<b>103,250</b>	<b>106,758</b>
<b>Net Operating Result for the Year</b>	<b>4,507</b>	<b>8,308</b>	<b>(9,272)</b>	<b>(19,362)</b>	<b>(19,945)</b>	<b>(20,416)</b>	<b>Net Operating Result for the Year</b>	<b>21,827</b>	<b>22,114</b>	<b>19,257</b>	<b>25,386</b>	<b>34,931</b>	<b>42,316</b>
<b>Year-on-year % increase for key categories</b>							<b>Year-on-year % increase for key categories</b>						
Rates & Annual charges	na	3%	5%	4%	4%	5%	Rates & Annual charges	na	5%	4%	4%	5%	2%
Employee Benefits & On-Costs	na	(0%)	(17%)	4%	3%	3%	Employee Benefits & On-Costs	na	1%	8%	4%	3%	3%
Materials & Contracts	na	4%	5%	58%	3%	4%	Materials & Contracts	na	2%	(8%)	4%	3%	3%
Depreciation & Amortisation	na	13%	3%	2%	3%	3%	Depreciation & Amortisation	na	2%	11%	5%	1%	5%
Other Expenses	na	20%	13%	6%	7%	8%	Other Expenses	na	1%	46%	0%	0%	4%

Source: Delivery &amp; Operational Plan

Source: Delivery &amp; Operational Plan

## Strategic goals and objectives

*There is an alignment of a number of strategic goals of the Hills Shire Council and Hornsby Shire Councils.*

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
<b>Plan coverage</b>		<b>2011-2026</b>	<b>2010-2020</b>	
<b>Ecology and environment</b>	Climate change	<ul style="list-style-type: none"> <li>Strategy 4.1.1 - Continue to lead climate change by reducing greenhouse gas emissions produced from Council and the Community.</li> <li>Strategy 4.2.4 - Ensure environmentally sustainable development practices are implemented.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 1.3.1 - Implement technologies in Council's facilities and infrastructure to reduce Council's greenhouse gas emissions.</li> <li>Strategy 1.3.2 - Undertake community education on best practice in environmental sustainability and management of climate change issues.</li> </ul>	<ul style="list-style-type: none"> <li>Development of joint greenhouse gas emissions targets and potential adoption of a Sustainable Energy Strategy as identified by Hornsby.</li> <li>Lower cost of community awareness programs.</li> </ul>
	Bush land & natural areas	<ul style="list-style-type: none"> <li>Strategy 4.2.1 - Enhance and protect the Council's biodiversity.</li> <li>Strategy 4.2.2 - Encourage and facilitate community contribution to environmental protection.</li> <li>Strategy 4.2.3 - Manage the rehabilitation of local bushland and protect local flora and fauna.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 1.1.1 - Protect and preserve existing bushland and natural areas.</li> <li>Strategy 1.1.3 - Provide opportunities for community involvement in projects directed towards improving the quality and amount of bushland.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated asset management of flora and fauna and nature reserves. As Hills is "Sydney's Garden Shire", it has expertise in biodiversity management that can be used in the Hornsby region.</li> <li>Sharing of expertise in conservation management practices.</li> <li>Merging the two Council's may allow a broader community engagement to achieve contribution to environmental protection.</li> </ul>
	Environmental education	<ul style="list-style-type: none"> <li>Strategy 4.3.1 - Reduce commercial and residential waste through effective resource recovery.</li> <li>Strategy 4.3.2 - Build community awareness and support for recycling and reuse.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 1.3.4 - Educate, promote and support the community in implementing waste minimisation strategies including reduce, reuse, recycle.</li> </ul>	<ul style="list-style-type: none"> <li>A coordinated program of community education on waste minimisation could be developed by a merged entity, adopting best practice from both Councils.</li> <li>Development of an overarching waste management strategy across both Councils, including long-term resource recovery options.</li> <li>Ability to harmonise messaging and share the costs of education and promotion of environmental practices.</li> </ul>

## Strategic goals and objectives

***A coordinated program of community education on waste minimisation could be developed by a merged entity, adopting best practice from both Councils.***

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
Ecology and environment (cont.)	Development	<ul style="list-style-type: none"> <li>Strategy 3.3.1 - Maintain green space to reflect the Council's natural 'green' character.</li> <li>Strategy 3.3.2 - Recognise and enhance the Council's natural and cultural heritage through quality urban planning and design.</li> <li>Strategy 3.3.3 - Enhance and maintain attractive and tidy centres and streetscapes in keeping with the Council's urban character.</li> <li>Strategy 3.3.4 - Ensure building and development in the Council meet legislative requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 1.1.2 - Ensure future land use planning and management enhances and protects biodiversity and natural heritage.</li> <li>Strategy 1.3.3 - Provide opportunities for community involvement in projects directed towards developing a more environmentally sustainable council.</li> <li>Strategy 4.3.1 - Provide infrastructure and services that are socially and environmentally responsive to community needs.</li> </ul>	<ul style="list-style-type: none"> <li>Harmonisation of development and town planning services that establishes minimum environmental benchmarks i.e. energy and water saving requirements for new developments, minimum green space requirements.</li> </ul>
	Water	<ul style="list-style-type: none"> <li>Strategy 4.1.3 - Monitor the natural qualities of the Council's waterways networks to ensure pollution is minimised.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 1.2.1 - Protect and improve the catchments in the Council by providing support and direction to the water catchments program.</li> <li>Strategy 1.2.2 - Identify and implement innovative water conservation and sustainable water cycle management practices.</li> <li>Strategy 1.2.3 - Work with the community to care for, protect, enjoy and enhance the health of waterways in the Council.</li> <li>Strategy 1.2.4 - Provide a water quality monitoring service using methods that are reliable, professional and contemporary.</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity to implement the Total Water Cycle Management Strategy developed by Hornsby across both local jurisdictions.</li> <li>Joint water conservation and reuse projects.</li> </ul>
	Areas not aligned	<ul style="list-style-type: none"> <li>Strategy 4.1.2 - Reduce the impacts of excessive noise.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Noise pollution; no comparable strategic objectives for Hornsby.</li> </ul>
The Hills Shire Council and Hornsby Shire Council PwC		Strictly private and confidential		10 April 2013 57

## Strategic goals and objectives

***A merged entity may have an enhanced ability to lobby other tiers of government for the transport needs to the area.***

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
Economy and infrastructure	Transport	<ul style="list-style-type: none"> <li>Strategy 3.1.1 - Advocate for the public transport needs of our community to other levels of government.</li> <li>Strategy 3.1.2 - Provide integrated transport alternatives that link residents to their homes, places of work and services and facilities.</li> <li>Strategy 3.1.3 - Provide traffic management solutions that promote safer roads and minimise traffic congestion.</li> <li>Strategy 3.1.4 - Provide effective, safe and well managed local roads and transport infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 2.1.2 - Encourage state agencies to develop additional infrastructure to support sustainable transport options.</li> <li>Strategy 4.2.3 - Work with appropriate partners towards improving transport networks throughout the council.</li> </ul>	<ul style="list-style-type: none"> <li>A merged entity may have an enhanced ability to lobby other tiers of government and service providers for the transport needs to the area.</li> <li>Linking cycle and walking paths to extend transport networks through the adjoining councils.</li> <li>Potential to gain efficiencies in traffic management solutions through partnership and/or outsourcing of functions to a third party contractor due to larger scale.</li> </ul>
	Economic Development	<ul style="list-style-type: none"> <li>Strategy 5.3.1 - Facilitate the provision of economic land and infrastructure to support business growth.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 2.2.1 - Consolidate Hornsby's position as a major centre and strengthen the town centres with more office and retail businesses.</li> <li>Strategy 2.2.3 - Monitor existing planning controls to ensure quality outcomes are achieved for the long term benefit of the Council.</li> </ul>	<ul style="list-style-type: none"> <li>Prioritisation of economic development projects in the merged entity to yield largest community/economic benefit: <ul style="list-style-type: none"> <li>Hills - Carlingford Precinct, Baulkham Hills Town Centre, The Hills Centre and Administration Centre.</li> <li>Hornsby - Hornsby Aquatic Centre, Hornsby Quarry.</li> </ul> </li> <li>Leverage the opportunity to further develop Castle Hill and Norwest Business Park, in addition to the established Hornsby CBD to implement a clear business oriented identity for the newly merged council.</li> </ul>
The Hills Shire Council and Hornsby Shire Council PwC		Strictly private and confidential		10 April 2013 58

## Strategic goals and objectives

### Identification of mutual Council assets and implement relevant capital management and replacement plans.

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
<b>Economy and infrastructure (cont)</b>	Recreation	<ul style="list-style-type: none"> <li>Strategy 2.1.1 - Manage and maintain a diverse range of well used and relevant open space settings, participation opportunities and recreation facilities.</li> <li>Strategy 2.1.2 - Promote health and well being and involvement in sport, recreation and leisure.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 4.2.1 - Provide infrastructure and services that serves current and future community needs, including active and passive recreational facilities</li> <li>Strategy 4.2.2 - Support and facilitate community networks and programs which promote health and wellbeing and encourage a healthy lifestyle.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct ongoing branding and marketing campaigns to promote health and wellbeing and encourage a healthy lifestyle within the newly merged community, including new health facilities available to the respective residents.</li> </ul>
	Employment	<ul style="list-style-type: none"> <li>Strategy 3.2.3 - Provide easily accessible employment, services and infrastructure to support housing areas.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 2.3.1 - Support the community to take up opportunities for sustainable local employment</li> <li>Strategy 2.3.2 - Build strong links with educational institutions for the development of diverse local skills</li> </ul>	<ul style="list-style-type: none"> <li>Given the mature nature of Hornsby and growing nature of Hills, there may be the opportunity for a localised workforce development strategy to support demand in the Hills.</li> </ul>
	Assets	<ul style="list-style-type: none"> <li>Strategy 1.2.1 - Provide well maintained plant and equipment.</li> <li>Strategy 1.2.3 - Manage and maintain assets and infrastructure under Council's control to meet the needs of our community and future generations.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 4.3.2 - Act to improve the Council's ageing infrastructure and facilities to meet the changing needs of the community</li> <li>Strategy 4.3.3 - When renewing, upgrading or replacing Council assets refer to and implement the relevant aspects of the Sustainable Energy Code for Council Assets</li> </ul>	<ul style="list-style-type: none"> <li>Identification of mutual Council assets and implement relevant capital management and replacement plans.</li> <li>The merged council may be able to undertake an inventory of existing assets and infrastructure under the Council's control and eliminate duplicate where needs are being met.</li> <li>A merged council may have an enhanced ability to lobby other tiers of government for funding to support asset and infrastructure acquisition and renewal.</li> </ul>

## Strategic goals and objectives

### Ability to leverage off existing Hornsby CBD and infrastructure to implement a clear business oriented identity for the newly merged council.

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
<b>Economy and infrastructure (cont)</b>	Businesses	<ul style="list-style-type: none"> <li>Strategy 5.1.1 - Promote the Council as a destination for new businesses and visitors.</li> <li>Strategy 5.1.2 - Establish and implement a clear business oriented identity for the Hills region.</li> <li>Strategy 5.2.1 - Develop processes that support the development of business networks and export markets.</li> <li>Strategy 5.2.2 - Facilitate programs that increase business competence and capacity.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 2.2.2 - Increase the marketing of the Council as a location of choice for industry and businesses.</li> <li>Strategy 2.3.3 - Support and facilitate opportunities for local businesses to grow and prosper.</li> <li>Strategy 4.1.1 - Support the living centres in the Council to be distinctive and vibrant, and provide opportunities for small businesses to flourish.</li> </ul>	<ul style="list-style-type: none"> <li>Leverage the opportunity to further develop Castle Hill and Norwest Business Park, in addition to the established Hornsby CBD to implement a clear business oriented identity for the newly merged council.</li> <li>Review economic development strategies to identify areas to leverage existing opportunities and coordinated activities.</li> <li>Roll-out existing programs run by Hills that increase business competence and the capacity of local companies across the newly merged entity.</li> <li>Review of combined property portfolio of the newly merged entity to identify surplus assets and infrastructure.</li> </ul>
	Areas not aligned	<ul style="list-style-type: none"> <li>Strategy 3.2.1 - Encourage a connected community through coordinated residential developments.</li> <li>Strategy 3.2.2 - Make available diverse sustainable, adaptable and affordable housing options through effective land use planning.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Residential development; no comparable strategic objectives Hornsby.</li> </ul>

## Strategic goals and objectives

**Residents in the merged council have greater access to a range of places accessing local services.**

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
Community	Community engagement	<ul style="list-style-type: none"> <li>Strategy 1.5.1 - Provide prompt, knowledgeable, friendly and helpful advice to the community and organisation.</li> <li>Strategy 1.5.2 - Provide clear information about who to contact in or outside Council.</li> <li>Strategy 1.5.3 - Provide localised access to Council services.</li> <li>Strategy 1.5.4 - 'Close the loop' on customer requests and concerns.</li> <li>Strategy 2.3.1 - Value and recognise our community's diversity.</li> <li>Strategy 2.3.3 - Value and encourage community interaction and volunteering.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 3.2.1 - Explore ways to improve social connectedness and the inclusion of all persons in the community.</li> <li>Strategy 3.2.3 - Ensure the Council's distinctiveness, diversity and sense of identity is valued, promoted and celebrated.</li> <li>Strategy 3.3.2 - Provide equitable access to a range of places and spaces for all in the community.</li> <li>Strategy 3.3.3 - Support programs which strengthen relationships between our diverse community groups.</li> </ul>	<ul style="list-style-type: none"> <li>Residents in the merged council have greater access to a range of places accessing local services.</li> <li>Existing programs and structures within each Council will help strengthen relationships between diverse community groups.</li> <li>The existing network of community centres and other municipal buildings may be able to provide clear information about the newly merged entity and its impact on the daily lives of residents.</li> </ul>
	Cultural engagement	<ul style="list-style-type: none"> <li>Strategy 2.3.2 - Provide opportunities to express and appreciate our local heritage and culture.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 3.2.2 - Recognise Council's role in supporting and facilitating arts and cultural programs in partnership with the community.</li> </ul>	<ul style="list-style-type: none"> <li>Align cultural calendars and host and facilitate events which bring the community together and showcase diversity and inclusiveness.</li> </ul>
	Service provision	<ul style="list-style-type: none"> <li>Strategy 2.4.1 - Provide equitable access to a range of community services and facilities.</li> <li>Strategy 2.4.2 - Provide integrated social planning that accounts for the needs of specific people groups within the Council.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 2.1.1 - Prepare for potential changes in the nature of services provided based on a review of expected demographic change.</li> <li>Strategy 3.1.3 - Maintain the provision of high quality, accessible community services to meet the needs of the community.</li> <li>Strategy 5.2.1 - Deliver timely services, based on community needs.</li> </ul>	<ul style="list-style-type: none"> <li>Residents of the merged council may have access to a wider range of community service centres, such as libraries, sporting and aquatic facilities, childcare and municipal services.</li> </ul>

## Strategic goals and objectives

**Hornsby strategy includes ensuring residents can stay at home as long as possible.**

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
Community (cont.)	Crime	<ul style="list-style-type: none"> <li>Strategy 2.2.1 - Establish partnerships and cooperatives to enhance community safety.</li> <li>Strategy 2.2.2 - Promote safety awareness and safe behaviours in public and private environments.</li> <li>Strategy 2.2.3 - Manage the coordination and protection of people and their property in the Council.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 3.3.1 - Work with key partners and the community to reduce crime and improve perceptions of community safety.</li> </ul>	<ul style="list-style-type: none"> <li>Establish and maintain rapport with the law enforcement agencies and provide support for Emergency Services in order to respond effectively to any type of emergency using existing networks and contacts.</li> </ul>
	Health	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 3.1.1 - Work with key partners and the community to lobby for effective health services in the Council.</li> <li>Strategy 4.1.2 - Facilitate access to services so those that choose to do so can remain comfortably accommodated at home for as long as possible.</li> </ul>	<ul style="list-style-type: none"> <li>N/A; no comparable strategic objectives for Hills.</li> </ul>
	Activities	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 3.1.2 - Support local communities to attract additional resources to pursue interests.</li> <li>Strategy 4.1.3 - Encourage the provision of facilitated activities in community facilities.</li> </ul>	<ul style="list-style-type: none"> <li>N/A; no comparable strategic objectives for Hills.</li> </ul>

## Strategic goals and objectives

### *Merging the Councils may allow for the development of new governance framework.*

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
<b>Governance</b>	Governance	<ul style="list-style-type: none"> <li>Strategy 1.3.1 - Ensure Council is accountable to the community and meets legislative requirements.</li> <li>Strategy 1.3.2 - Integrate and align Council planning with the community direction.</li> <li>Strategy 1.3.4 - Equip and support Council's elected representatives for their role in the community.</li> <li>Strategy 5.3.2 - Promote Council as an effective and efficient regulator.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 5.1.1 - Maintain a sound governance framework within which Council operates.</li> </ul>	<ul style="list-style-type: none"> <li>Merging the Councils may allow for the development of new best practice governance framework.</li> <li>Progress Quadruple Bottom Line reporting framework and sustainability decision-making being implemented by Hornsby across the amalgamated council.</li> <li>Increase pool of high calibre elected officials and management staff to support the execution of strategy.</li> <li>Potential to spread governance costs over a larger revenue base.</li> </ul>
	Internal policies	<ul style="list-style-type: none"> <li>Strategy 1.4.1 - Provide a safe, environmentally responsible and inspiring Strategy workplace.</li> <li>Strategy 1.4.2 - Provide opportunities for Council staff to develop their skills and reach their full potential.</li> <li>Strategy 1.4.3 - Provide staff with access to up-to-date information and support for their role in the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 5.1.3 - Provide a safe, healthy and non discriminatory working environment.</li> <li>Strategy 5.2.3 - Enable continuous improvement through the implementation of new methods and technologies to deliver facilities and services.</li> </ul>	<ul style="list-style-type: none"> <li>Both Councils have policies and procedures implemented in to establish a strong culture in relation to: <ul style="list-style-type: none"> <li>The creation of a safe, healthy and non discriminatory working environment; and</li> <li>As identified in the Hornsby Shire Delivery Plan, continue to develop and implement a Talent Management Model that may be adopted by the merged council.</li> </ul> </li> </ul>

## Strategic goals and objectives

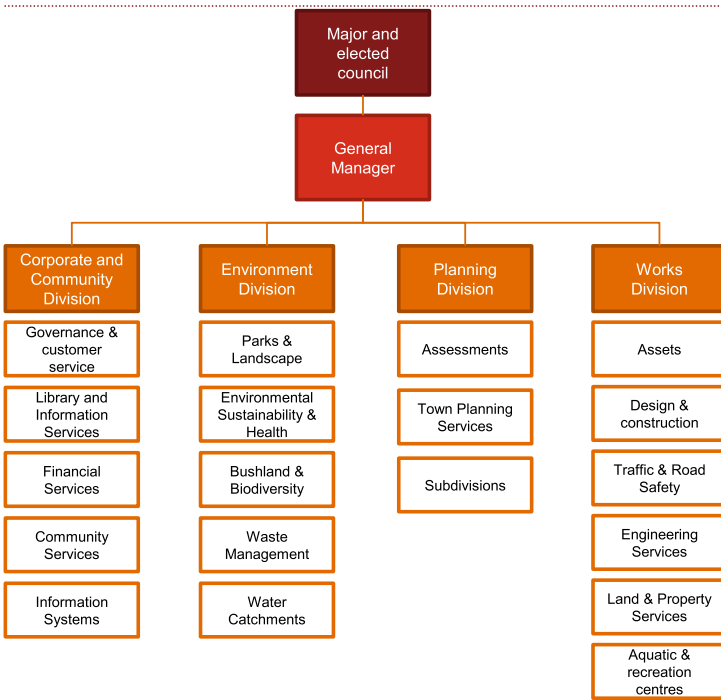
### *Potential to amalgamate customer service to expedite answers to enquires, streamline receipting of applications and provision of accurate information to Council's customers.*

Strategic objective	Strategic focus	Hills Strategic goals	Hornsby Strategic goals	Synergies in achieving strategic objectives
<b>Governance (cont.)</b>	Stakeholder management	<ul style="list-style-type: none"> <li>Strategy 1.1.1 - Facilitate and develop strong relationships and partnerships with the community and with other organisations.</li> <li>Strategy 1.1.2 - Actively advocate community issues to other levels of government.</li> <li>Strategy 1.1.3 - Involve our community in the planning and decision making processes of Council.</li> <li>Strategy 1.1.4 - Proactively inform our community about Council's activities.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 5.2.2 - Facilitate good communication and relationships with our residents and ratepayers.</li> <li>Strategy 5.3.1 - Provide opportunities and make it easy for the community to participate in and influence decision making.</li> <li>Strategy 5.3.2 - Strive to inform residents and engage stakeholders on local issues and planning.</li> </ul>	<ul style="list-style-type: none"> <li>Potential to amalgamate customer service to expedite answers to enquires, streamline receipting of applications and provision of accurate information to Council's customers.</li> <li>Potential to engage residents of both municipalities in the preliminary planning and decision making processes for the establishment of a merged council.</li> <li>There may be an ability to simplify and undertake a review of Ward boundaries in the lead up to the merger, potentially enhancing relationships with in the community.</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>Strategy 1.3.3 - Manage Council and the community's exposure to risk.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 2.1.3 - Support the community to adapt to future change in order to prevent and ameliorate the most serious potential risks such as increased bushfire and storm events.</li> <li>Strategy 3.3.4 - Promote the appropriate responses to disasters and serious incidents.</li> </ul>	<ul style="list-style-type: none"> <li>Sharing of emergency response resources, bushfire reduction strategies and funding of public emergency awareness campaigns.</li> <li>Sharing the cost of risk management practices.</li> </ul>
	Viability	<ul style="list-style-type: none"> <li>Strategy 1.2.2 - Ensure Council's financial resources support the delivery of services and strategies that align with the future vision.</li> <li>Strategy 1.2.4 - Balance Council's rates and fees and charges with the active pursuit of external revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy 5.1.2 - Ensure Council's long term financial sustainability through effective short and long term financial management that is transparent and accountable.</li> </ul>	<ul style="list-style-type: none"> <li>There may be an opportunity to strengthen the capital structure of the individual Councils by creating a merged council.</li> </ul>



# Hornsby Shire Council Organisational Structure

The Hornsby is structured in four divisions: corporate and community, environment, planning and works.



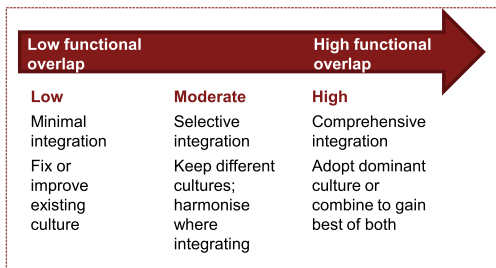
Hornsby is structured in four divisions: corporate and community, environment, planning and works.

The Mayor and Councillors are supported by a General Manager, with each division having an individual Manager with oversight.

The corporate and community division includes a combination of external community services functions and internal reporting and management.

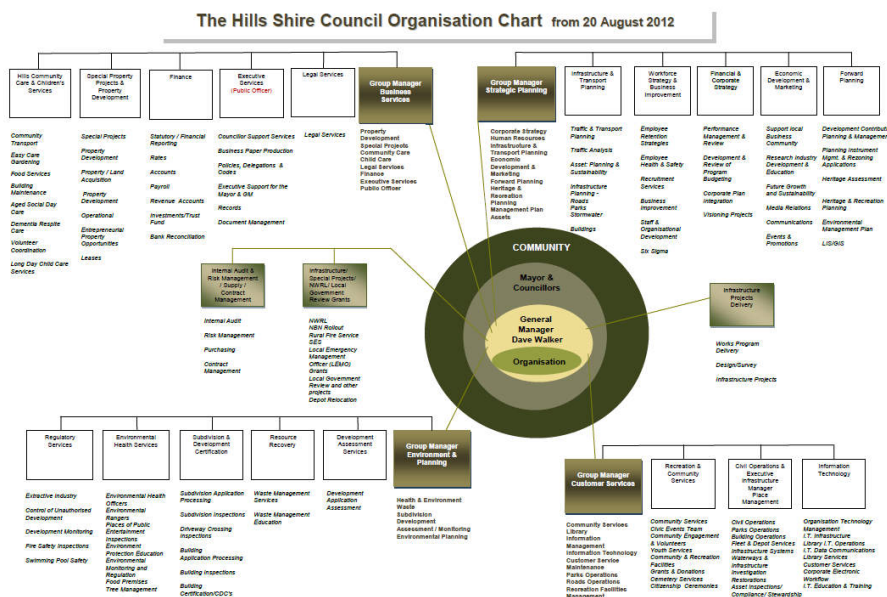
Integration effort required may be influenced by the functional and service overlap of the two councils. Where a number of areas are aligned, full integration of full activities may capture the value that drove the amalgamation (e.g. consolidating offices, lowering administration per employee).

The below diagram indicate the scale of integration based on overlap of functions:



# Hills Shire Council Organisational Chart

The Hills is structured in four divisions: environment and planning, business services, customer services and strategic planning.



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The Mayor and Councillors are supported by a General Manager, with each division having an individual Manager with oversight.

It is noted that the strategic planning functions are located in a single division, and are not within the operational service areas.

## ***Glossary***

<b>Term</b>	<b>Definition/Meaning</b>
<b>EBITDA</b>	Net operating result before Grants and contributions provided for Capital Purposes before interest, tax, depreciation and amortisation
<b>FY</b>	Financial year ending ...
<b>KPI</b>	Key performance indicator
<b>p.a.</b>	Per annum
<b>PwC view</b>	Our view in the context of the scope of our work and the circumstances at the time of our field work
<b>DSCR</b>	EBITDA / (Principal repayments from the statement of cash flows + borrowing interest costs from the income statement)
<b>IPART</b>	NSW Independent Pricing and Regulatory Tribunal
<b>FTE</b>	Full time equivalent employee
<b>SRV</b>	Special rate variation
<b>I, PP&amp;E</b>	Infrastructure and property, plant and equipment
<b>LGA</b>	Local government area
<b>WDV</b>	Written down value
<b>Tcorp</b>	Treasury Corporation New South Wales