



INNER WEST

Cost Benefit for Proposed Inner West Council

De-amalgamation

Inner West Council

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Executive summary

Inner West Council ('Council'/'Inner West') has commissioned Morrison Low to undertake a high-level cost benefit assessment case, to identify the benefits and costs of a potential de-amalgamation of the Inner West Council into its former councils of Ashfield Council, Leichhardt Council and Marrickville Council.

The Council requested that a cost benefit analysis on a potential demerger be prepared to assess complex economic, social and environmental issues. This analysis is to include the financial impact, the ongoing costs and benefits and the impacts on communities and the organisation itself. The purpose of this analysis is to inform the Council, community and decision-makers.

The report notes that there is no prescribed methodology for a de-amalgamation of councils in NSW and therefore proposes a methodology and assumptions. It is, however, acknowledged that different de-amalgamation approaches could be applied. Further there were time limitations, thus affecting availability/analysis of some information.

This report finds that a de-amalgamation of the Inner West Council to reinstate Ashfield, Leichhardt and Marrickville Councils would have the following financial impacts. The indicative estimated net costs for the proposed de-amalgamation are:

- one-off de-amalgamation costs - \$26.2 million
- ongoing costs and benefits (net cost) - \$22.1 million.

The consequential impact of these net costs per rateable assessment is illustrated in the following table, with some high-level sensitivity assessment of the one-off de-amalgamation costs.

Table 1 Indicative de-amalgamation costs

Indicative de-amalgamation costs	Ashfield Council		Leichhardt Council		Marrickville Council	
	0%	50%	0%	50%	0%	50%
Transition government funding	0%	50%	0%	50%	0%	50%
One-off transition costs – '000s	\$5,105	\$2,553	\$9,392	\$4,696	\$11,745	\$5,873
Ongoing costs – '000s	\$8,471		\$4,609		\$9,030	
Rate assessments	17,436	17,436	25,438	25,438	36,678	36,678
Cost/rate assessment						
One-off transition costs	\$293	\$146	\$369	\$185	\$320	\$160
Ongoing costs	\$486		\$181		\$246	

For Inner West, 41% of the estimated merger costs were funded by government. Using a 50% funding scenario, for de-amalgamation, the above table compares no government funding to a scenario of 50% indicating a total reduction of \$13.1 million and a subsequent decrease in the cost per rateable assessment.

The report uses, as its basis, a predicative model to replicate the former councils' long term financial plans (LTFPs) had the merger not occurred. These plans have been tested for appropriateness and accuracy and serve as a basis to apply costs and benefits as a result of the merger, along with any costs that the councils would have incurred regardless of the merger, for example costs shifted from government. This creates a point of comparison that, at the time of any de-amalgamation, the three councils would replicate the services and service levels delivered by the Inner West Council at that time. This enables a comparison between the costs and benefits of either continuing the Inner West Council or the de-amalgamation of the Council to reconstitute the three former councils.

Having allocated the de-amalgamation costs and benefits in accordance with the distribution approach, the estimated net operating results, before grants and contributions provided for capital purposes, for the ten-year forecast period 2022/23 to 2031/32 are provided below.

Table 2 Estimated net operating results

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s
Ashfield	(\$11,688)	(\$6,780)	(\$6,895)	(\$7,010)	(\$7,084)	(\$7,012)	(\$6,929)	(\$6,711)	(\$6,380)	(\$6,261)
Leichhardt	(\$14,995)	(\$5,696)	(\$5,627)	(\$5,603)	(\$5,499)	(\$5,190)	(\$4,849)	(\$4,316)	(\$3,554)	(\$3,105)
Marrickville	(\$27,317)	(\$15,949)	(\$16,031)	(\$16,199)	(\$16,270)	(\$16,094)	(\$15,891)	(\$15,433)	(\$14,670)	(\$14,303)

The first year, 2022/23, includes the one-off de-amalgamation cost for each council. For each council there is a year-on-year funding gap, operating deficit, that would need to be addressed.

A key driver for councils is financial viability and sustainability over the long term. These results indicate the councils are not sustainable, that is that expenses exceed income. To address the funding gap, a one-off special rate variation (SRV) has been estimated and applied to year one operations, 2022/23.

Table 3 Funding gaps

Funding gap	Special rate variation		Rate assessments	\$ increase per rateable assessment
	10-year gap '000s	%		
Ashfield	\$74,600	19%	17,437	\$396
Leichhardt	\$58,400	10%	25,438	\$220
Marrickville	\$162,000	22%	36,678	\$417

There are a range of potential SRV scenarios that can be applied over a number of years to reduce the immediate burden on ratepayers. This would be a matter for each council. A high-level comparative analysis against Inner West Council is detailed in this report.

As a result of applying the SRV, a high-level assessment on the average rates indicates that the average rate increases for all councils, as detailed on the following page.

Table 4 Average rates

Council	Current average rate	SRV average rate	Increase
Ashfield	\$ 1,723	\$2,044	\$321
Leichhardt	\$1,836	\$2,016	\$180
Marrickville	\$1,376	\$1,673	\$297

The average rate increase for each council is lower than the increased cost per rateable assessment. The financial forecast modelling takes into account, amongst other things, a factor for growth over the ten-year period, thus reducing the level of SRV required to fund the de-amalgamation costs.

This report makes some comments on scale and capacity, which was the key driver for the merger. The former councils were deemed not to have sufficient scale and capacity, however, as the NSW Government’s preferred merger model, it was deemed that Inner West Council has sufficient scale and capacity to perform more effectively than its former councils.

A comparison of the Inner West constituent councils’ social and demographic characteristics was undertaken prior to merger, and this has been updated to reflect the attributes of the Inner West communities today. There are a number of similarities in the makeup of these communities and fewer differences. Since the merger any change between communities have been minor in nature, as might be expected as the merger only occurred five years ago.

The strategic aspirations of the individual communities pre-merger are consistent with, and have largely been carried forward into, the Inner West Council community priorities post-merger. The community is largely satisfied with the performance of Inner West Council and more satisfied when compared to other metropolitan councils. The social analysis suggests that the social and community impacts have not changed as a result of the merger and therefore there are no significant advantages or disadvantages of either the merger or any potential de-amalgamation.

Similarly, an analysis of the *Local Environmental Plan’s* aims pre- and post-merger show a consistency in the land use planning aims that too suggests there are no significant advantages or disadvantages of either the merger or any potential de-amalgamation. The Inner West Council has also launched a number of new environmental initiatives around, water waste, energy, renewables and greening the community.

This consistent social and environmental direction is, as would be expected, because focus is more on the communities themselves than the governance model employed.

The Minister for Local Government recently made a decision on the de-amalgamation proposals for Snowy Valleys Council and Cootamundra Gundagai Regional Council. In both instances the decision was not to proceed with the proposals, this was despite the Boundary Commission recommending proceeding with the Snowy Valleys proposal and not the Cootamundra Gundagai proposal.

Key risks

The de-amalgamation of Inner West Council, to create three new councils, also creates a range of risks that would need to be managed. In our view, the key priorities for the councils, if this proposed de-amalgamation proceeds, and recognising the risks inherent with any such change to local government, are:

1. managing the transition from the existing council into three new councils
2. managing the loss of staff

3. not recovering the full one-off de-amalgamation costs
4. realising any benefits the de-amalgamation can provide.

The NSW Government have indicated a willingness to fund the de-amalgamation process, but there is a high level of uncertainty as to what de-amalgamation costs will be eligible. Merger incentive funding was provided in 2016 for merging councils and, should either the Inner West Council or the three new councils be required to partially or fully fund the costs of the de-amalgamation, the communities must fund these costs.

Introduction

Background

The Inner West Council was formed, constituted by Local Government Proclamation dated 12 May 2016, as a merger of Ashfield, Leichhardt and Marrickville Councils.

Under the NSW Government’s Fit for the Future program, the Independent Local Government Review Panel had recommended a merger of Ashfield, Burwood, City of Canada Bay, Leichhardt, Marrickville and Strathfield Councils, to form an ‘Inner West Council’ with an estimated population of over 330,000. Ashfield, Leichhardt, and Marrickville Councils submitted stand-alone proposals to the Fit for the Future process. The Independent Pricing and Regulatory Tribunal’s (IPART) report, *Assessment of Council Fit for the Future Proposals*¹, ultimately rejected these stand-alone proposals based on a lack of scale and capacity.

The current population of the Inner West and its former councils is shown below. The former council areas have been calculated by combining suburb counts of those councils.

Table 5 Populations

	Population 2011	Population 2016	Population 2021*	5yr % change	10yr % change
Marrickville	85,104	91,699	103,167	7.75%	21.22%
Ashfield	41,080	43,062	47,596	4.82%	15.86%
Leichhardt	51,385	55,147	61,764	7.32%	20.20%
Inner West total	177,569	189,908	212,527	6.95%	19.69%

*Estimated resident population

A comparison of the councils prior to the merger was reported in pre-merger analysis undertaken by Morrison Low in 2015² and is shown in the following table (using the Office of Local Government’s comparative data) compared to the Inner West in 2019/20.

¹ Independent Pricing and Regulatory Tribunal, 2015. *Assessment of Council Fit for the Future Proposals, Local Government – Final Report*.

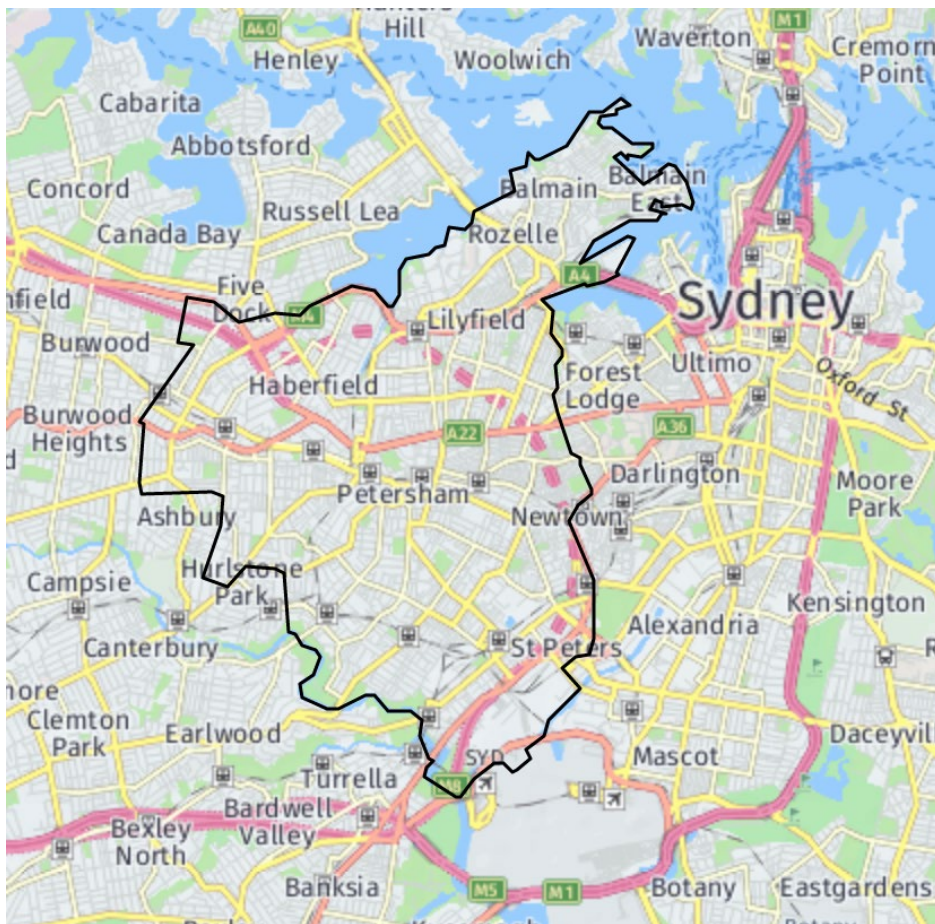
² Morrison Low, 2015. *Merger Business Case Comparison*, Sydney.

Table 6 Council comparator data

	Marrickville Council	Ashfield Council	Leichhardt Council	Inner West 2019/20
Full time equivalent staff	536	180	434	1,035
Geographic area	10.3km ²	8.3km ²	16.5km ²	35.1km ²
Population	82,523	44,175	57,266	212,527
Population projection 2031 ³	102,300	53,400	67,550	223,200
Annual expenditure ('000s)	\$100,536	\$40,551	\$77,101	\$241,600
Number of councillors	12	12	12	15

The following map⁴ shows the Inner West local government area (LGA) as it is today.

Figure 1 Inner West Council area



³ NSW Department of Planning and Environment, 2014. *New South Wales State and Local Government Area Population Projections: 2014 Final*.

⁴ .id, 2021. *Inner West Council community profile*. Retrieved from <https://profile.id.com.au/inner-west/home>.

The option to de-amalgamate

The NSW Parliament passed the *Local Government Amendment Act 2021* (Amendment Act)⁵ on 13 May 2021, which provides in Section 218CC that “The new council may, within 10 years of the constitution of the new area, submit a written business case to the Minister setting out:

- a) a proposal for the de-amalgamation of the new area, whether by reconstituting the former areas or constituting different areas, and
- b) the reasons in support of the proposal.”

Section 218CC goes further to prescribe the process for de-amalgamation which, in summary, is:

1. An amalgamated council sends a proposal with reasons to the Minister.
2. The Minister must, within 28 days refer it to the Boundaries Commission.
3. The Boundaries Commission makes a recommendation to the Minister.
4. The Boundary Commission’s report must be publicly released within 48 hours of it being received.
5. The Minister must, within 28 days, make a decision.
6. The Minister is to ensure that any approved de-amalgamation is fully funded by grants or other funds.

Scope

Inner West Council has commissioned Morrison Low to undertake a high-level cost benefit assessment case, to identify the benefits and costs of a potential de-amalgamation of the Inner West Council into its former councils of Ashfield, Leichhardt and Marrickville Councils.

At the Extraordinary Council Meeting on 24 May 2021, the Inner West Council has “resolved that Council:

1. Use the opportunity presented by the recent amendments to the Local Government Act to investigate de-amalgamation of Inner West Council and to prepare a report for an Extraordinary Council meeting in the first week in August 2021. Councils’ case should include:
 - a. Councils’ financial position;
 - b. Councils’ future financial position;
 - c. harmonisation changes in rates and costs;
 - d. service performance of Council has not improved and has been subject to significant community concern;
 - e. strong community dissatisfaction with the merger remains after 5 years;
 - f. communities of interest and community cohesion;
 - g. the dramatic fall in community representation (Councillors/population ratio) has not been good for our people;

⁵ NSW Government, 2021. *Local Government Amendment Act 2021 No 11*. Retrieved from <https://legislation.nsw.gov.au/view/pdf/asmade/act-2021-11>.

- h. the merged Council has created a huge bias which favours political party control of Council; along with reduced opportunity and greater hurdles for non-political party representation on Council;
 - i. Council engages in community consultation;
 - j. thorough cost benefit analysis on demerger by a reputable independent source that has the capacity to assess complex economic social and environmental issues;
 - k. the ongoing costs and benefits on each of the councils if they were to demerge. The estimated cost of demerger in the ranges in vicinity of \$20M to \$34M and an annual cost ranging from \$11M to \$15M year;
 - l. the impact on staff, to be assessed independently;
 - m. the effect on the consolidated information communication and technology costs;
 - n. the effect on current governance arrangements; and
 - o. the effect on the ability to introduce new or improved service delivery.
2. Pursuant to section 14 of the Local Government Act 1993 (NSW):
- a. Take a poll of electors on the question of whether the Inner West local government area should be de-amalgamated, so as to restore the former local government areas of Ashfield, Leichhardt and Marrickville; and
 - b. Hold the poll on the day of the 2021 NSW local government elections, being Saturday, 4 September 2021 or such later or other day as may subsequently be proclaimed.
3. Examine any additional cost of a poll on the amalgamation as part of the quarterly budget review;
4. Write to Local Government NSW and seek to place on the business paper for the forthcoming Local Government NSW Conference the following motion, that: The NSW Government pay 100% of costs of de-amalgamation of local government areas forced to amalgamate where a referendum of residents has chosen to reverse the forced amalgamation; and
5. Write to the Premier, Minister for Local Government, Leader of the Opposition, and cross benchers in the NSW Parliament asking their support for the NSW Government to pay 100% of costs of de-amalgamation of local government areas forced to amalgamate where a referendum of residents has chosen to reverse the forced amalgamation.”

This report is intended to inform the Council and community of the possible costs and future costs and benefits of any de-amalgamation.

There are no rules or procedures to guide a de-amalgamation process for NSW local government. The preferred process and procedures will need to be determined should the de-amalgamation proceed and therefore we acknowledge the methodologies used in this analysis can be subject to different interpretation and challenge.

There has been a very limited timeframe within which to undertake this assessment, as this information is sought to help inform Council prior to the poll at the local government elections on Saturday 4 September 2021. Therefore, in the absence of any formal guidance, Morrison Low has relied on past relevant de-amalgamation cases, processes used in the merger and has made a number of assumptions under which the de-amalgamation would occur, which are listed in this report. The most recent de-amalgamation of councils in Australia occurred in Queensland on the 1 January 2014 and we have looked to these mergers for a guide to the possible costs and benefits that may occur as a result of a de-amalgamation of the Inner West Council.

The data used in preparing this report is largely based on publicly available information, along with information from the Inner West Council.

In 2015, Morrison Low prepared a number of merger business cases to inform councils on the likely costs and benefits of any merger. A business case was prepared for a possible merger of Ashfield, Leichhardt and Marrickville Councils,⁶ as was a business case for a larger potential merger that also included Burwood, Canada Bay and Strathfield.⁷ This information has been validated and used to inform this cost benefit analysis.

Therefore, this analysis and this report is a limited study which concentrates on:

- estimating the ongoing financial costs and savings including changes to services from the Inner West merger
- estimating the one-off de-amalgamation costs
- distribution of one-off de-amalgamation costs and ongoing Inner West costs and savings
- predicting the financial performance of the de-amalgamated councils and Inner West against the Office of Local Government (OLG) performance indicators over the period covered by the Inner West Council's LTFP
- comparing that performance against each individual council
- reviewing the perception of the performance of the Inner West Council
- comparing each council's strategic direction through their Community Strategic Plans
- considering any environmental implications that may result as an outcome of a de-amalgamation
- consider the representation implications
- considering the potential risks.

Modelling the proposed de-amalgamation

Inner West Council has commissioned Morrison Low to undertake a high-level cost and benefit analysis of a proposed de-amalgamation of Inner West Council, to the former councils of Ashfield, Leichhardt and Marrickville.

The modelling to establish cost structures, benefits and services changes was based on using a combination of public information, namely financial statements, Long Term Financial Plan, Annual Reports, Asset Management Plans and Council reports. Additionally, Council provided information tested and validated through individual staff interviews and some comparative assessment based on our knowledge and experience in the local government industry across Australia and New Zealand.

We have also drawn on previous work undertaken by Morrison Low as part of the Fit for the Future program, *Fit for the Future – Shared Modelling*⁸ and a *Merger Business Case Comparison*,⁹ for the development and validation of the de-amalgamated modelling.

⁶ Morrison Low, *Merger Business Case Comparison*.

⁷ Morrison Low, 2015. *Inner West Council's Fit for the Future - Shared Modelling*, Sydney.

⁸ *ibid*.

⁹ Morrison Low, *Merger Business Case Comparison*.

The modelling is intended to allow the councils to understand what the benefits and costs of the potential de-amalgamation are, based on the current service levels of Inner West Council. It has involved analysing historic, current and forecast performance, as well as drawing on information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The analytical results present the potential financial implications for the three proposed councils and the impact on ratepayers. A number of the NSW Office of Local Government performance indicators are used for comparative assessment.

Methodology

Methodology options

To re-establish the de-amalgamated councils of Ashfield, Leichhardt and Marrickville for comparative analysis is complex. One option was to allocate and distribute the current services and functions of Inner West Council by developing a range of service/function related criteria for distribution of assets, services and staff. This is effectively a zero-based budgeting methodology where all activities are justified for each service/function, with actuals/budgets/services built based upon what the service/function levels are for the future period, regardless of any previous position. The outputs of this approach would be extremely difficult to validate and justify for modelling purposes into the future. This option is also time consuming to analyse and construct. It was not possible to complete this type of analysis within the timeframes available.

A second option to re-establish the former councils is to use and validate the 2015¹⁰ modelling projects that Morrison Low undertook to create a pre-merger starting position. Each proposed council's position will be created by using modelling for the six Inner West councils and validate by comparing the results of three councils that remain operational. Drawing on this work we will establish the starting financial and service/functional positions and for each proposed council for 2019/20. Change in service levels, costs, benefits and new industry compliance obligations that have occurred since the Inner West merger will be identified and allocated to the proposed de-amalgamated councils.

There are numerous variations to the above options that could be used, however, given the time limitations, the readily available information, past, current and future, comparative assessments and modelling reliability and validity, Morrison Low has chosen to use the second approach as a basis our assessment.

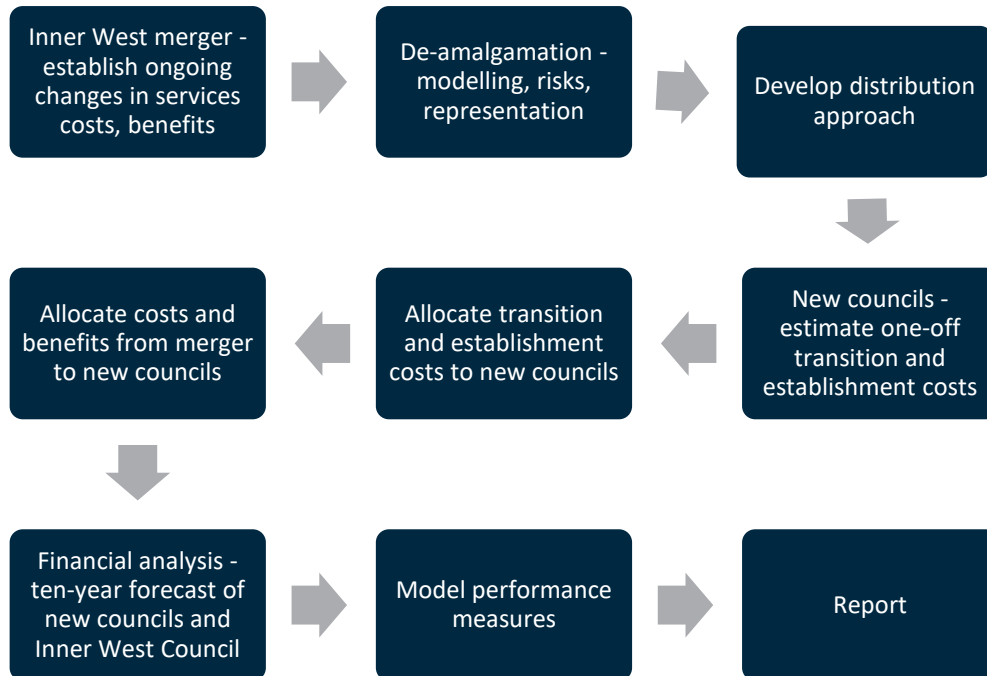
The nominal de-amalgamation starting date for this report is 1 July 2022.

The key methodologies and assumptions are detailed in Appendix A.

¹⁰ *ibid.*

The following diagram illustrates the approach taken, based on the principle that the de-amalgamated councils' service levels/functions/compliance obligations will be similar, to that of Inner West Council.

Figure 2 Cost benefit analysis methodology



Reporting

This report has been prepared to provide the key information required for Inner West to use for informing the community and other stakeholders of the potential issues and implications of the proposed de-amalgamation of Inner West Council. The report addresses the social, economic, environmental and financial areas of the proposed de-amalgamation. We have used OLG performance indicators as guide to the indicative performance of the de-amalgamated councils, with a comparison to Inner West Council. Indicative estimates for the average rate by rating category for each of the four council entities has been used to illustrate potential impact on the average ratepayer.

Limitations

The timeframes for this project have been challenging, with limited time and data constraints for the work to be undertaken. Notwithstanding these influences, the necessity for the tight timeframes is acknowledged and is tempered with recognition that the data available for modelling has some limitations as a result.

The data provided within the model is drawn from a variety of public and internal Council sources. The constraints and timeframes have limited our capacity to refine both the available data and the model itself to a fine level of detail. For consistency, largely publicly available information has formed the basis of the analysis, supplemented by some research, review, interviews, validation and assessment of Council provided data. Time constraints have been a limitation on the extent of assessment of Council information.

Assessment of the Inner West Council

The Inner West merger

The Inner West Council was formed and constituted by Local Government Proclamation, dated 12 May 2016, as a merger of Ashfield, Leichhardt and Marrickville Councils. The Council undertook a transition process that entailed a one-off merger of costs along with ongoing harmonisation and rationalisation of functions and services undertaken by the former councils, to operationally form the Inner West Council.

There is limited reported information on the one-off merger costs for the Inner West Council. There were initial reports prepared in 2017, as a requirement of the NSW Government's merger process, however it appears no further reports were produced subsequent to this period.

Using the initial reports and information provided by Council staff assessing and comparing those one-off merger costs, the estimated indicative costs are in the order of \$24.3 million, largely made up of redundancies, information, technology and council establishment costs. These costs maybe understated due to the limited reporting and the timely availability of relevant information. Council received a \$10 million merger implementation grant from the NSW Government that partly offset these expenses. The one-off demerger costs are sunk costs and have adversely impacted Council's cash position in the order of \$14 million.

As a direct result of the Inner West merger, over the past five years, Council has harmonised and changed a range of services and functions, developed and changed business processes, and identified and implemented efficiency gains. These initiatives have resulted in improvements and rationalisation of processes and resources, changes to the organisational structure and staffing model as well as adjustments to contracted service provision to support service delivery and organisational operation for Inner West services.

Costs and benefits

This section identifies, assesses and, to some level, validates the change in costs and benefits and subsequently services that Inner West has generated. These changes have established the revised service level offerings, policy and organisational operations that have harmonised services and offered a more equitable level of service across the entire Inner West LGA. These changes in costs, benefits and services, that were not in place prior to the merger, form the basis of the allocation to the de-amalgamated councils, enabling fairer comparison of the four council entities.

Through a process of reviewing and validating public and Council information, we have identified and documented the major ongoing changes over the last five years in:

- costs
- benefits
- services
- function, and
- compliance obligations.

The rationale and justification that makes up each of the line items in the Income Statement are detailed below. Following is a summary of the income and expenditure for those changes.

Table 7 Summary of income and expenditure

Income Statement	Ongoing costs / benefits for distribution '000s
Rates & annual charges	(\$7,300)
User fees & charges	\$4,891
Grants & contributions - operations	\$0
Grants & contributions for capital	\$0
Interest and investment income	\$0
Gains from disposal assets	\$0
Other income	\$0
Total income	(\$2,409)
Expenses	
Borrowing costs	\$1,100
Employee benefits	\$7,724
Gains & losses on disposal	\$0
Depreciation & amortisation	\$1,654
All other expenses	\$9,223
Total expenses	\$19,701
Operating result (deficit)/surplus	(\$22,110)

A summary explanation of the main contributors for each of the above line items of the Income Statement follows. Non-financial efficiencies have been identified detail in this section. More detail is provided in the 'Ongoing costs and benefits allocation for the de-amalgamated councils' section of this report.

Rates and annual charges

The former Marrickville Council had a \$1.5 million temporary SRV that ceased as at 30 June 2020, which hasn't been reapplied for through IPART. The Inner West Council decided to reduce the domestic waste management charge totalling \$5.8 million.

User fees and charges

The change is a combination of COVID-19 related impacts on Inner West Council, with reduction in income to 2019/20 of \$15.3 million, with recovery over the following three years. Noting the 2020 *Report on Local Government*¹¹, which highlighted that 91% of metropolitan councils reported fees and charges revenue decreases. Further there was an increase in user fees as a result of new services introduced, current services extended and some services ceasing due to contracts not being renewed. The net increase in fees and charges income is estimated at \$8.1 million.

Borrowing costs

This represents the interest component of the loan to build the Ashfield Aquatic Centre.

¹¹ Audit Office of NSW, 2021. *Report on Local Government 2020*, Sydney.

Employee benefits

Employee costs are the key cost drivers of Council's services and activities. To identify and validate the overall full-time equivalent (FTE) changes, a baseline of employee numbers was established and confirmed. From public information there was a recorded decrease of 115 FTEs through the merger process, as at the end of 2019/20. This change was validated through the review, interviews and assessment of information provided by Council, including redundancies, new and increased services, closed services and efficiency gains.

The allocation to the de-amalgamated councils is based on the change in services that were not in existence immediately prior to the merger. These include closed or ceased services, new or changed services and rationalisation of services due to efficiency gains in processes and vacant positions. This has resulted in an estimated net increase in cost of \$7.7 million.

Several new services have been introduced and relate to childcare, early intervention and early learning centres. There have been significant increases in some services namely, recreation, parks and gardens, litter control, building certification, fire safety and companion animals. A number of care and community services are no longer operating. Inner West Council harmonised three salary systems into one, which resulted in an increase in salary costs. Inner West also achieved some efficiency gains in the back of office, library and civil works services.

Depreciation

To support some of the new and expanded services, Inner West Council had to create new building assets. To maintain these assets over their lifetime, depreciation costs of \$1.7 million have been generated.

Other expenses (includes material and contracts)

Other expenses, including materials and contract costs, have seen an estimated net increase of \$9.2 million. This is a combination of new expenses that were not in existence prior to the Inner West merger, expenses to support the delivery of the new and increased service levels and decrease in costs for those services that have closed or where there have been efficiency gains.

The services detailed above, in the 'Employee benefits' section, all have other expenses as part of the service delivery costs and, in addition, there are a number of other expenses that have been incurred by Inner West Council that were not present at the time of merger. These include the Emergency Service Levy, new/additional governance and compliance requirements for all councils, additional community programs, community engagement, asset maintenance for the new building assets, information technology and communications, planning panels and design review panels.

Other merger efficiencies

Inner West Council has undertaken service reviews to optimise the efficiencies¹² of Council's operation in the delivery of improved service levels. These efficiencies include:

- Improved governance - Audit, Risk and Improvement Committee improved focus on financial reporting, risk management, internal controls, governance and internal and external audit.
- Risk management - a harmonised approach to risk management including business continuity planning and incident management, a risk framework and controls.
- Online customer request system with tracking capability, including parking permits, certificates and customer requests.
- Online booking systems for community venues, waste and parks.
- Development application processing times - improvement of 29% on former Marrickville Council.
- Online development application lodgement tracking system.
- Audit and response to external combustible cladding across the LGA.
- Installation of new technologies across the library network, including a floating collection.
- Utility contracts and pricing.

Other efficiencies achieved through economies of scale include procurement processes, enhanced purchasing power and value for money. A real increase in productivity through resource specialisation, improved business processes and more timely delivery of projects through enhanced project management practices.

Scale and capacity

Scale and capacity were the key drivers for the merger. The Independent Local Government Review Panel's assessment of Ashfield, Leichhardt and Marrickville determined that while the councils were financially sustainable, all individually lacked scale and capacity. By default, as the NSW Government's chosen merger model, it was determined that the Inner West Council had sufficient scale and capacity.

Since the merger, the Inner West Council has been able draw on its increased capacity to:

- Partner and be represented on regional and NSW Government networks. Inner West has established and maintained ongoing relationships with executives including, for example, deputy secretaries, chief executive officers and executive directors of the Departments of Communities and Justice, Planning, Industry and Environment, Multicultural NSW, Create NSW and the Public Service Commission.
- Participate in various advocacy, planning, strategic development/alignment, partnerships and resourcing opportunities with NSW and Commonwealth agencies.
- Work closely with key regional neighbours and support the sector in general. Inner West Council supported Eurobodalla with the local supply of officers following the devastating bushfires in 2020.

¹² Inner West Council, 2021. *Report to Council - 24th May 2021*, Sydney.

- Become involved in a broader range of projects and initiatives that benefit the community including:
 - resource recovery
 - zero waste
 - waste and food and organics improvements
 - solar energy, renewables and energy efficiency.

While some of these initiatives may have been delivered by the constituent council, the scale and capacity of the Inner West Council has enabled a broader range of initiatives that were delivered more cost effectively.

The de-amalgamation

Model fundamentals

Given that the Amendment Act does not define the specific basis for the treatment of de-amalgamating councils, there are no objective standards nor requirements for the distribution of income, expenses, assets and liabilities of a merged local government entity, such as Inner West Council.

The purpose of our de-amalgamation model is not to attempt to predict the outcome of the specific requirements concerning the breakup and allocation of Inner West Council, that may follow any decision to actually de-amalgamate, in the event that such a decision eventuated and gained Ministerial Approval.

Given this context, we have taken the approach of modelling the operating position that each of the pre-merger councils would have been in, had they:

- not merged, but continued to operate as separate entities
- nonetheless, implemented similar decisions during the period of amalgamation to those actually taken by the Inner West Council in relation to such issues as service levels, delivery of new assets, responses to external impacts (COVID-19), etc
- incurred costs similar to those of amalgamation and de-amalgamation.

As noted above (refer to 'Methodology options'), this method of modelling:

1. is not a zero-based model
2. takes the previous operating structure of pre-merger councils as its starting point
3. adopts amendments to reflect binding decisions and changes in organisational environment during the period of merged operations
4. absorbs and distributes legacy costs and benefits of the amalgamation/de-amalgamation process.

This is to some extent a counter-factual model - it answers the question "what would the financial position of councils be, had they not merged?". We consider that this provides a useful starting point for analysis and consideration of the de-amalgamation option.

Details of modelling

The nominal de-amalgamation date for the purposes of this report is 1 July 2022.

The specific processes adopted to create the de-amalgamation model include the following:

1. We have commenced with the operating statement and balance sheet for each of the pre-amalgamation councils, as per 2014/15 published financial statements and previous modelling to 2019/20.
2. We have used utilised modelling techniques and assumptions based on our experience and benchmark data, applicable to the NSW metropolitan local government context, to forecast the financial position of each council in 2021/22.
3. We have validated these methodologies and assumptions by applying these same techniques to modelling the long-term financial performance of three councils that did not participate in LGA mergers (Burwood, Canada Bay, Strathfield). The result of this comparison was that the modelled assumptions were able to accurately predict the financial position of these un-merged councils to 2019/20. This serves to confirm that the modelling methods and assumptions are not unreasonable.
4. To further validate the modelling of the subject councils, we compared the 2019/20 actual results for Inner West Council with the aggregate of the modelled position of Ashfield, Leichhardt and Marrickville. We were able to largely reconcile the results, indicating that any departures between the forecast aggregate position and actual Inner West Council are explainable in terms of the schedule of identified changes.

We have therefore assumed that de-amalgamated councils will effectively return to their previous operating structure, staffing levels, etc; and will substantially return to their previous position in terms of hard assets (IPP&E) and loan debt with the addition of new assets and loans.

Representation

One of the benefits of de-amalgamation is the improvement in representation. The number of people represented by each councillor will decrease under a de-amalgamation arrangement, providing easier access to their councillors and the council. We have assumed that the number of councillors will be the same as they were prior to the merger.

Following is the population representation per councillor based on the 2021 estimated population.

Table 8 Comparison of representation

Council	Councillors	Representation (population / councillor)
Ashfield	12	3,966
Leichhardt	12	5,147
Marrickville	12	8,597
Inner West Council	15	14,168

Risks arising from a de-amalgamation

There are a number of significant potential financial and non-financial risks arising from the particular de-amalgamation that will need to be considered, including the following:

- Transition structure, approach and process for the de-amalgamation.
- Transitional costs may be more significant than identified with no funding source from NSW government.
- The efficiencies generated by Inner West Council and projected in this analysis may not be delivered by the new councils.
- The implementation costs may be higher.
- Decisions subsequent to the de-amalgamation may increase cost base of the de-amalgamated councils.
- Establishing a fully functioning new organisational structure given some skills are difficult to source in the current employment market.
- The cultural separation of the Inner West Council organisation may not go well resulting in low morale, increased staff turnover rate, etc. This would reduce business performance and prolong the time it takes for transition to effectively operating new councils.
- Service levels have risen across the merged council and community dissatisfaction may occur if services are returned original levels.
- The financial performance of the de-amalgamated merged council is less than that modelled, resulting in the need to either reduce services, find efficiency gains and/or increase rates to address the operating deficit.

The risks from a three council de-amalgamation of Inner West Council may be lower considering that Ashfield, Leichhardt and Marrickville Councils were operating successfully before the merger, however there are likely to be challenges associated with unpacking and establishing new service levels, organisational operating procedures, systems, processes, policies, plan and organisational behaviours.

While there are some minor differences in the three communities (growth, density and ethnicity), they also have many features in common (demographic, economic and employment profiles). The relatively similar community of interest profiles suggest the risks in separating the communities are lower than they might otherwise be, but also the differences are not significant enough to make the Inner West Council less effective delivering services to three constituent councils.

Perhaps the largest risk arises from the fact that the future councils, who will make many of these key decisions, are yet to be elected. Their political alignment, policy program and priorities will not be known for some time and may impact on the realisation of planned benefits.

The Queensland de-amalgamations that took place in 2014 provide an insight into organisational dynamics. Those organisations experienced significant redundancies and staff displacement during the transfer process from the originating council to the new councils. Those redundancies occurred through voluntary and forced processes as the newly formed council ran as lean as possible for the first year or two after establishment.

Apportionment of revenues and expenses under de-amalgamation

This report's starting point for apportionment of Inner West Council revenues and expenses between the three proposed new councils, namely Ashfield, Leichhardt and Marrickville, has been based on a resumption of the last pre-amalgamation operational structure, modelled through to 2022/23 as a central assumption.

This modelling has accounted for the changes in operating performance that would have occurred in the absence of the merger, including:

- indexation of costs and revenues
- depreciation of the pre-existing assets (as per 2014/15 Financial Statements)
- paydown of pre-existing debt (as per 2014/15 Financial Statements).

Our analysis has modelled growth of revenues and expenses from the assumed date of de-amalgamation on the basis that current Inner West service levels will be maintained within each of the three de-amalgamated councils. We have therefore made specific adjustments to the indexed pre-merger revenue and expenses of each council, to account for decisions taken by Inner West Council during the period of amalgamation, including:

- changes in services levels that have been implemented by Inner West Council
- new/additional compliance requirements that have come into force since the 2016 merger
- capital expenditure and asset renewals delivered
- additional debt.

In order to distribute these Inner West revenue and expense changes amongst the three proposed de-amalgamated councils, we have developed a range of distribution approaches appropriate to each class of revenue and expense change. For some categories of revenue and expense, there may be various methodologies for apportionment that could be reasonably justified. We have sought to align the basis for distribution of revenues and expenses with the primary driver of the magnitude of the change. These are summarised in the table of distribution approaches on the following page.

Distribution approaches

Table 9 Distribution approaches

Basis of distribution	Distribution approach	Sample of changes
Population	Inner West costs allocated pro-rata to NSW Planning's 2016 reported population of each former council.	<ul style="list-style-type: none"> • Changes to fees and charges • Emergency Services Levy introduction • Changes to library operating costs and similar front line service delivery costs
Rate assessments	Allocated based on rate assessment numbers of each council based on 2016 financial year statements.	<ul style="list-style-type: none"> • IT costs of de-amalgamation • Audit costs • Back of house services
Allocated entirely to a specific council	To an individual council where a service change solely impacts one council.	<ul style="list-style-type: none"> • Ashfield Aquatic Centre debt and staffing • Leichhardt Park Child Care Centre • Yirran Gumal ELC Steel Park • Harmonisation of service levels impacting individual councils (e.g. verge mowing)
Per council	Allocated based on same cost/service change regardless of size.	<ul style="list-style-type: none"> • Corporate infrastructure - branding, policy development, etc • Integrated planning and reporting development • Community engagement costs
Proportion	Based on operational requirements of the service.	<ul style="list-style-type: none"> • New/increased animal service • New/increased fire safety service • New/increase building certification service
Staff numbers	Allocated by former council staff numbers for the 2016 financial year.	<ul style="list-style-type: none"> • Redundancy and recruitment costs • Software licence costs

For the purposes of estimating the financial position of the three post-de-amalgamation councils, we have also assumed that each council will operate independently. Future decisions made by the new councils could change the operating model for each of the three individual councils, such as adopting shared service arrangements between de-amalgamated councils. For the purpose of this analysis, we have assumed the proposal is to return the councils to the shape and form that existed prior to the Inner West merger.

We have undertaken some sensitivity testing, by applying the rate assessment and population distribution approaches to the total net ongoing costs of the proposed demerger and compared this to application of all distribution approaches detailed in the above table (refer to Appendix C). The use of the population and rate assessment approaches equalise the distribution rather than reflecting the relative changes in services/obligations for each of the proposed councils. Therefore, we have used the distribution approach detailed in the table above.

One-off de-amalgamation costs

For comparative purposes of one-off and ongoing de-amalgamation costs, as referenced in Inner West Council's report of 24 May 2021, a research paper titled 'De-amalgamation in action: The Queensland Experience' published in 2014,¹³ estimated the cost of demerger per ratepayer. The report indicates the cost of demerger per ratepayer for Noosa at \$260 per ratepayer in the first year and \$142 per year per ratepayer thereafter and for Livingstone Shire at \$429 per ratepayer in the first year and \$192 per year per ratepayer thereafter. Applying these costs to the rate base of 79,500 rateable properties for Inner West Council, this would equate to an initial year cost ranging from \$20.7 million to \$34.1 million and an annual cost ranging from \$11.3 million to \$15.2 million per year. It is noted Council included these costs in its resolution proposing this analysis.

The Stimpson & Co report¹⁴ estimated establishment/transition costs of six options, for the proposed reorganisation of Wellington region in New Zealand, that ranged from \$25.5 million to \$127 million.

The indicative estimated net costs for the proposed de-amalgamation are:

- one-off de-amalgamation costs - \$26.2 million
- ongoing costs and benefits net - \$22.1 million.

These costs are largely within the ranges of the demerger costs associated with the Queensland demerger and Wellington reorganisation, noting additional costs for new and expended compliance requirements of councils, and therefore are reasonable to be used for comparative impact analysis of the de-amalgamation proposal for Inner West Council.

In relation to external funding of the de-amalgamation costs, currently it is very unclear, what, if any, of these costs would be eligible for funding. The *Local Government Amendment Act 2021* does make provisions for the NSW Government to fund the cost of a de-amalgamation, but the eligible costs or grant funding levels have not been determined as yet. Comparative assessment of a level of funding has been undertaken.

Through our research, reviewing and validating public and Council information, de-amalgamated council case studies, industry assessment and comparison, we have identified and documented the major one-off de-amalgamation costs for the proposed three councils.

Following is a summary of the expenditure for the one-off de-amalgamation costs.

¹³ Queensland Audit Office, 2015. *Results of audit: Local government entities 2013–14, Report 16: 2014–15*, Brisbane.

¹⁴ Stimpson & Co, 2014. *Report to Local Government Commission on Wellington Reorganisation Transition Costs*, p.3.

Figure 3 One-off costs and benefits summary

Income Statement	One-off cost and benefits summary			
	'000s			
	Ashfield	Leichhardt	Marrickville	Total
Total income	0	0	0	0
Expenses				
Borrowing costs	0	0	0	0
Employee benefits	\$1,316	\$2,174	\$3,920	\$8,410
Gains & losses on disposal	0	0	0	0
Depreciation & amortisation	0	0	0	0
All other expenses	\$3,788	\$6,218	\$7,825	\$17,832
Total expenses	\$5,105	\$9,392	\$11,745	\$26,242
Operating result	(\$5,105)	(\$9,392)	(\$11,745)	(\$26,242)

Employee benefits

This represents the redundancies for Inner West council staff as a result of de-amalgamation. As evidenced by other de-amalgamations, voluntary redundancies occur for a range of reasons. For an Inner West de-amalgamation, staff will have the choice to decline an offer of position in the de-amalgamated councils and take redundancy. This could occur if the position offered will change the size, complexity, satisfaction and pay levels of their current role. Other staff may choose not to accept a role due to personal situations. The Queensland Audit Office (QAO) prepared a report¹⁵ that included an estimate of 138 redundancies resulting from four mergers. The average redundancy was 11.5% of the total positions for the separating councils. This number could be higher than reported, as Queensland Governments Open Data Portal¹⁶ counts a loss of a further 472 FTE staff positions (in addition to the 138 identified redundancies by the QAO) between those the councils collectively reported in 2013 and after separation in 2014. The Inner West merger had a redundancy rate of 13.4 % of the total positions, excluding executive position, portioned between managers - 31% and others 69%.

It is difficult to estimate redundancy levels, however it is estimated it could be in the range of 7.5% to 13.4%. At 7.5% the estimated redundancy costs are \$6.6 million, at 11.5% - \$10.2 million and at 13.4% - \$11.8 million. For the proposed de-amalgamation, we have taken a conservative redundancy rate of 9.5%. The indicative total redundancy costs are \$8.4 million.

¹⁵ Queensland Audit Office, *Results of audit*.

¹⁶ Queensland Government, *Open Data Portal*. Retrieved from <https://www.data.qld.gov.au/dataset/c7c0c31e-a844-480d-bf8e-4b689179a5cf/resource/9e81cb82-d71e-4c2d-ad2b-54a053cfeadf/download/qld-local-government-comparative-information-report-cdc-personnel.csv>.

Other expenses (includes materials and contracts)

Following is an explanation and rationale for the major one-off de-amalgamation costs.

Information technology

There will be a requirement to establish three information technology and communication (ITC) systems for the de-amalgamated councils. We have assumed a cloud-based solution, using Technology One SaaS as the enterprise software solution. We have used and assessed a combination of information from the Inner West Council merger, advice from an industry provider who works for over 100 councils across Australia, including with the Technology1 solution, along with indicative pricing for Technology One licencing and implementation. The indicative cost for the ITC solution and implementation for the three councils is \$12.5 million. The *2020 Report on Local Government*¹⁷ highlighted a number of high-risk ITC issues including cyber security, controls and gaps in user access management processes and system capacity for remote working.

Election costs

Council election costs for three councils is based on an IPART report¹⁸ where they "found that the NSWEC's proposed costs for administering local government elections in September 2020 are greater than efficient levels". It proposed costs of \$12.72 per elector (2020-21). This is 45% higher than the cost of administering elections in 2016 and 2017, and 96% higher than the cost of administering elections in 2012. Considering the significant increase in costs, including inflation, from the 2012 elections, an allowance of a 75% increase in 2012 election costs based on 20/21 costs has been included. This equates to \$825,000 allocated based an estimated number of voters of 166,900.

De-amalgamation transition costs

For the orderly creation and transition to the three new entities, with the appropriate authority, experience, knowledge and capacity, it is best practice to establish a de-amalgamation transition process where an administrator or a transition committee of some kind can make the necessary transition decisions required for the new councils to be fully operational on day one. It is noted for the Inner West merger, an administrator was in place for some 16 months. Broadly the responsibilities would include recruiting the new general manager, ICT systems scope and procurement and, in conjunction with the new general manager, developing an organisational structure, appointing key staff, participating in the staff relocation approach, liaising with government agencies, establishment of the governance and business frameworks and key policies for each new council allocation. There are a large number of activities that will need to occur for the new council to be fully operational and effective from day one. A transition process will also be required to 'wind up' the Inner West Council, handover services and functions to the new councils, manage staff redundancies and transfer information and records and ensure the processes put in place by the Inner West Council are transferred to the new councils to continue or reshape.

¹⁷ Audit Office of NSW, *Report on Local Government*.

¹⁸ Independent Pricing and Regulatory Tribunal, 2019. *Review of local government election costs*.

For more specific examples of the proposed tasks to be undertaken, please refer to Appendix B. These were benchmarked against the Auckland Transition Agency (ATA) results 2009 for the proposed Wellington reorganisation in 2014, and the costs as estimated by Stimpson & Co.¹⁹

It could take some six to 12 months for the transition authority to complete their required responsibilities. The Stimpson & Co report estimates a nine-month period. Also noting the estimates for the transition tasks detailed in the Stimpson & Co report are dealt with elsewhere in this report. However, given the need for management of the establishment and distribution/allocation of services and resources to the new council, we have conservatively estimated the costs as \$1.8 million or \$200,000 per month for resources (establishment general manager and senior staff, consultants, recruitment costs and operational costs) to undertake these tasks, which has been included.

Operational establishment costs

Other establishment requirements identified include rebranding, audio visual equipment and other installation, print rooms, salary systems, council policies, integrated planning and reporting documents, internal ombudsman services and community engagement. The indicative costs are estimated at \$1.5 million.

Recruitment costs

Each of the new councils will need to undertake extensive recruitment for key executive, manager, coordinator, technical and other positions, to ensure the resources are available to manage and deliver on the new council service and governance requirements. The usual recruitment costs are between 12% – 18% of a position's salary. The de-amalgamated councils will need to re-establish their organisational structures and FTEs to support service delivery and operational needs. Considering most current employees will transfer to one of the de-amalgamated councils, there will be an uplift in employee numbers and a level of redundancies to be recruited.

Recruitment costs will vary depending on number of positions and salary value. We have conservatively estimated that a third of the reinstated positions will attract recruitment costs at 15%, with an the indicate cost of \$1.2 million for the three councils.

¹⁹ Stimpson & Co, *Report to Local Government*.

Ongoing costs and benefits allocation

The following table is a summary of the allocation of all changes to income, costs and services of Inner West Council that will be allocated to the proposed de-amalgamated councils, using the distribution approach detailed earlier in this report. The allocation is based on all councils having similar levels of service, along with new council obligations that were not in place prior to the Inner West merger.

Table 10 Ongoing costs and benefits summary

Income Statement	Ongoing cost and benefits summary			
	Ashfield	Leichhardt	Marrickville	Total distributed
	'000s			
Income				
Rates & annual charges	(\$1,276)	(\$1,971)	(\$4,053)	(\$7,300)
User fees & charges	\$3,693	\$1,320	(\$122)	\$4,891
Grants & contributions - operations	\$0	\$0	\$0	\$0
Grants & contributions for capital	\$0	\$0	\$0	\$0
Interest and investment income	\$0	\$0	\$0	\$0
Gains from disposal assets	\$0	\$0	\$0	\$0
Other income	\$0	\$0	\$0	\$0
Total income	\$2,417	(\$651)	(\$4,175)	(\$2,409)
Expenses				
Borrowing costs	\$1,100	\$0	\$0	\$1,100
Employee benefits	\$4,836	\$1,989	\$900	\$7,724
Gains & losses on disposal	\$0	\$0	\$0	\$0
Depreciation & amortisation	\$805	\$62	\$787	\$1,654
All other expenses	\$4,147	\$1,907	\$3,168	\$9,223
Total expenses	\$10,888	\$3,958	\$4,855	\$19,701
Operating result	(\$8,471)	(\$4,609)	(\$9,030)	(\$22,110)

Further to the summary information provided earlier in the report, the information below is a more detailed commentary for each of the above line items of the income statement for each of the de-amalgamated councils.

Rates and annual charges

Rates

The three former councils have used the SRV process differently over the past decades, with these ratepayers experiencing rate increases as described in table on the following page. Inner West Council has not made an SRV application to date.

Table 11 History of special rate variations

Council	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<i>Rate Peg:</i>			2.80%	3.60%	3.40%	2.30%	2.40%	1.80%	1.50%	2.30%
<i>SRV, inclusive of rate peg:</i>										
Ashfield	7.50%						7.50%	8.20%	8.90%	9.30%
Leichhardt										
Marrickville							5.40%			

In addition to the 12-year time period shown in the table above, Marrickville Council was granted a 15-year temporary special rate variation in the 2005/06 financial year of 6.96% (including the rates peg amount), which expires on 30 June 2020. Inner West Council reduced its total general rates revenue by the cumulative value of the temporary increase, being \$1.5 million, from 1 July 2021.

The rate reduction of \$1.5 million has been allocated to the proposed Marrickville Council only.

Annual charges

Inner West recently made the decision to reduce the domestic waste management charge. This has been incorporated into Council’s approved budget and Long Term Financial Plan. This represents a total income decrease of \$5.8 million and has been allocated to the new councils based on rate assessment numbers.

User fees and charges

These changes are a combination of the COVID-19 impact on Inner West Council, with a reduction in income to 2019/20 of \$15.3 million, with recovery over the following three years.

In addition, there is an increase in user fees as a result of new services introduced, current services extended and some services ceasing due to contracts not being renewed. The net increase in fees and charges income is estimated at \$8.1 million.

For Ashfield, this is due to an increase in income from the new aquatic centre and increased building certification, companion animal and fire safety services.

For Leichardt, the change is as a result of the new Leichhardt Park childcare facility, closure of the home maintenance service and an increase in the building certification, companion animal and fire safety services.

For Marrickville, the new Yirran Gumal ELC Steel Park, closure of Stanmore and Camdenville Outside School Hours Care services and increases in the building certification, companion animal and fire safety services have impacted fees and charges revenue.

Borrowing costs

Inner West Council have borrowed money to fund the construction of Ashfield Aquatic Centre. This cost represents the commencing interest payment.

Employee benefits

The allocation of employee costs to the de-amalgamated councils is based on the change in services that were not in existence immediately prior to the merger. These include new, closed and changed services and rationalisation due to efficiency gains in processes and vacant positions, with an estimated net increase in cost of \$7.7 million.

In addition to the services detailed in the user fees and charges section immediately above, other changes include increased services for verge mowing, litter and weed control and harmonised salary system costs for Ashfield. There were very minimal other changes for Leichhardt and Marrickville, with Inner West achieving some efficiency gains in the back of office, library and civil works services that have been allocated to the three councils proportionally.

Depreciation

Additional depreciation costs of \$1.7 million have been generated through the construction of new buildings by Inner West Council to support some of the new and expanded services. These include the Ashfield Aquatic Centre, childcare facilities at Leichhardt and, for Marrickville, affordable housing, Yirran Gumal ELC and the new library.

Other expenses (includes material and contracts)

These costs are a combination of new expenses that were not in existence prior to the Inner West merger, expenses to support the delivery of the new and increased service levels and decrease in costs for those services that have closed or where there have been efficiency gains. The indicative net estimated increase is \$9.2 million.

In addition to those services detailed above in the user fees and charges and employee benefits sections (which mostly have other expenses as part of the service delivery costs), there are a number of other expenses incurred by Inner West Council that were not present at the time of merger. These include:

- Emergency Service Levy
- new ITC operational requirements such as, disaster recovery, WIFI and cyber security
- modernised ICT solutions including enhancements to ICT maturity and reliability in the areas of desktop replacement, data centre, network and communications and switches
- internal ombudsman services
- community engagement resources including media monitoring, online systems and communication tools
- new community arts program
- refugee welcome resources
- enhanced graffiti resources
- Local Planning Panels
- Design Review Panels
- asset maintenance for the new building and recreation assets.

The consequential impact of the total net de-amalgamation costs per rateable assessment is illustrated in the following table, with some high-level sensitivity assessment of the one-off de-amalgamation costs.

Table 12 Total net de-amalgamation costs per rateable assessment

Indicative de-amalgamation costs	Ashfield		Leichhardt		Marrickville	
	0%	50%	0%	50%	0%	50%
Transition funding	0%	50%	0%	50%	0%	50%
One-off transition costs - '000s	\$5,105	\$2,553	\$9,392	\$4,696	\$11,745	\$5,873
Recurring costs - '000s	\$8,471		\$4,609		\$9,030	
Rate assessments	17,436	17,436	25,438	25,438	36,678	36,678
Cost/rate assessment						
One-off transition costs	\$293	\$146	\$369	\$185	\$320	\$160
Recurring costs	\$486		\$181		\$246	

For Inner West, 41% of the estimated merger costs were funded by government. Using a 50% funding scenario, for de-amalgamation, the above table indicates a total reduction of \$13.1 million and a subsequent decrease in the cost per rateable assessment. The table separates the net one-off and ongoing de-amalgamation cost per rateable assessment for each council.

Financial analysis

Financial viability and long-term sustainability are key drivers for all local government councils' ability to deliver the range services that their communities expect currently and into the future.

The modelling incorporates the one-off de-amalgamation costs in year one (2022/23) along with the relevant ongoing costs and benefits and is forecast over ten years, as detailed in the early sections of this report, to project the financial sustainability of the new councils. Councils with a significant funding gap are financially unsustainable (where expenses exceed income) and need to develop an improvement plan to close the gap.

Funding gap

Having allocated the de-amalgamation costs and benefits in accordance with the distribution approach detailed in the report, the estimated projected operating result for each council is detailed on the following page. The first year, 2022/23, includes the one-off de-amalgamation cost for each council. For each council there is a year-on-year funding gap that would need to be addressed.

Table 13 Ashfield Council Income Statement ten-year forecast

Ashfield	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Income from continuing operations										
Rates and annual charges	37,270	38,147	39,118	40,122	41,189	42,404	43,654	45,067	46,574	47,899
User charges and fees	8,015	8,320	8,635	8,943	9,260	9,587	9,925	10,274	10,669	11,077
Interest and investment revenue	1,062	259	-	-	-	-	-	-	-	-
Other revenues	2,630	2,696	2,763	2,832	2,903	2,976	3,050	3,126	3,205	3,285
Grants and contributions - Operating	2,447	2,508	2,571	2,635	2,701	2,769	2,838	2,909	2,982	3,056
Grants and contributions - Capital	184	184	184	184	184	184	184	184	184	184
Total Income	51,609	52,114	53,272	54,716	56,237	57,920	59,651	61,560	63,614	65,502
Expenses from continuing operations										
Employee benefits and oncosts	27,476	28,163	28,867	29,588	30,328	31,086	31,864	32,660	33,477	34,314
Borrowing costs	1,161	1,114	1,064	1,014	964	911	854	803	743	681
Materials and contracts	5,105	-	-	-	-	-	-	-	-	-
Depreciation and amortisation	7,757	8,108	8,460	8,806	9,159	9,498	9,844	10,194	10,549	10,813
Other expenses	20,552	21,066	21,593	22,133	22,686	23,253	23,834	24,430	25,041	25,667
Total Expenses	62,051	58,451	59,983	61,542	63,137	64,748	66,396	68,087	69,810	71,474
Net Operating Result	(10,442)	(6,337)	(6,711)	(6,826)	(6,900)	(6,828)	(6,745)	(6,527)	(6,196)	(5,973)
Net operating result before grants and contributions provided for capital purposes	(10,626)	(6,521)	(6,895)	(7,010)	(7,084)	(7,012)	(6,929)	(6,711)	(6,380)	(6,157)

Table 14 Leichhardt Council Income Statement ten-year forecast

Leichhardt	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Income from continuing operations										
Rates and annual charges	57,353	58,708	60,209	61,757	63,403	65,278	67,206	69,385	71,712	73,759
User charges and fees	19,794	20,480	21,189	21,885	22,603	23,344	24,107	24,894	25,769	26,672
Interest and investment revenue	1,008	323	53	-	-	-	-	-	-	-
Other revenues	6,752	6,921	7,094	7,271	7,453	7,640	7,831	8,026	8,227	8,433
Grants and contributions - Operating	6,681	6,848	7,019	7,195	7,375	7,559	7,748	7,942	8,140	8,344
Grants and contributions - Capital	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687
Total Income	94,275	95,967	98,251	100,796	103,522	106,508	109,578	112,933	116,535	119,895
Expenses from continuing operations										
Employee benefits and oncosts	51,264	52,545	53,859	55,205	56,586	58,000	59,450	60,936	62,460	64,021
Borrowing costs	151	157	152	157	162	167	162	185	180	175
Materials and contracts	9,392	-	-	-	-	-	-	-	-	-
Depreciation and amortisation	11,098	11,502	11,883	12,277	12,670	13,062	13,461	13,868	14,285	14,642
Other expenses	33,058	33,884	34,732	35,600	36,490	37,402	38,337	39,296	40,278	41,285
Total Expenses	104,962	98,088	100,625	103,240	105,907	108,631	111,410	114,285	117,202	120,123
Net Operating Result	(10,687)	(2,121)	(2,374)	(2,444)	(2,386)	(2,124)	(1,832)	(1,352)	(667)	(228)
Net operating result before grants and contributions provided for capital purposes	(13,374)	(4,808)	(5,061)	(5,131)	(5,073)	(4,811)	(4,519)	(4,039)	(3,354)	(2,915)

Table 15 Marrickville Council Income Statement ten-year forecast

Marrickville	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Income from continuing operations										
Rates and annual charges	71,534	73,354	75,358	77,383	79,534	81,971	84,476	87,297	90,375	93,110
User charges and fees	19,179	19,918	20,681	21,424	22,191	22,982	23,800	24,644	25,602	26,593
Interest and investment revenue	979	-	-	-	-	-	-	-	-	-
Other revenues	15,021	15,396	15,781	16,176	16,580	16,995	17,419	17,855	18,301	18,759
Grants and contributions - Operating	6,682	6,849	7,020	7,196	7,376	7,560	7,749	7,943	8,142	8,345
Grants and contributions - Capital	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969
Total Income	119,364	121,486	124,810	128,148	131,650	135,478	139,414	143,707	148,389	152,776
Expenses from continuing operations										
Employee benefits and oncosts	63,216	64,796	66,416	68,076	69,778	71,523	73,311	75,144	77,022	78,948
Borrowing costs	58	61	59	61	63	64	63	71	70	68
Materials and contracts	11,745	-	-	-	-	-	-	-	-	-
Depreciation and amortisation	14,448	14,974	15,471	15,992	16,505	17,020	17,542	18,076	18,621	19,087
Other expenses	50,375	51,635	52,926	54,249	55,605	56,995	58,420	59,880	61,377	62,912
Total Expenses	139,843	131,465	134,871	138,378	141,950	145,602	149,335	153,171	157,090	161,014
Net Operating Result	(20,479)	(9,980)	(10,062)	(10,230)	(10,301)	(10,125)	(9,922)	(9,464)	(8,701)	(8,239)
Net operating result before grants and contributions provided for capital purposes	(26,448)	(15,949)	(16,031)	(16,199)	(16,270)	(16,094)	(15,891)	(15,433)	(14,670)	(14,208)

Table 16 Inner West Council Income Statement ten-year forecast

Inner West	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Income from continuing operations											
Rates and annual charges	161,162	164,385	167,855	171,530	175,552	179,804	184,299	189,336	194,510	200,280	206,222
User charges and fees	45,071	46,243	47,399	48,584	49,798	51,043	52,320	53,628	54,968	56,342	57,751
Interest and investment revenue	4,205	3,552	4,055	3,975	4,197	4,442	4,799	5,212	5,633	6,257	7,063
Other revenues	22,342	22,923	23,496	24,083	24,685	25,303	25,935	26,584	27,248	27,929	28,628
Grants and contributions - Operating	10,006	10,266	10,523	10,786	11,056	11,332	11,615	11,906	12,203	12,508	12,821
Grants and contributions - Capital	25,054	25,054	25,054	25,054	25,054	25,054	25,054	25,054	25,054	25,054	25,054
Net gain from the disposal of assets	(1,606)	-	-	-	-	-	-	-	-	-	-
Total Income	266,234	272,424	278,382	284,012	290,343	296,978	304,022	311,719	319,617	328,371	337,539
Expenses from continuing operations											
Employee benefits and oncosts	120,930	124,453	127,565	130,754	134,023	137,373	140,807	144,328	147,936	151,634	155,425
Borrowing costs	979	868	788	720	675	635	593	550	507	462	417
Materials and contracts	55,699	57,036	58,405	59,806	61,242	62,711	64,217	65,758	67,336	68,952	70,607
Depreciation and amortisation	31,983	31,590	32,365	33,069	33,783	34,487	35,172	35,860	36,553	37,252	37,802
Other expenses	35,984	36,920	37,843	38,789	39,758	40,752	41,771	42,815	43,886	44,983	46,108
Total Expenses	245,575	250,867	256,964	263,138	269,481	275,958	282,560	289,311	296,217	303,283	310,358
Net Operating Result	20,659	21,556	21,418	20,875	20,862	21,020	21,462	22,408	23,400	25,088	27,181
Net operating result before grants and contributions provided for capital purposes	(4,395)	(3,498)	(3,636)	(4,179)	(4,192)	(4,034)	(3,592)	(2,646)	(1,654)	34	2,127

The funding gap estimates accumulated ten-year shortfall of income over expenses (operating deficit), it is the amount of funds required to fund the operational requirements of council. Following is the indicative ten-year funding gap for each council.

Table 17 Indicative ten-year funding gaps

Council	Ten-year funding gap '000s
Ashfield	\$71,300
Leichhardt	\$53,800
Marrickville	\$167,000
Inner West	\$25,300

The net present value (NPV), using a real discount rate of 4.7%,²⁰ has been calculated on the net de-amalgamation costs over the ten-year forecast period and are detailed below.

Table 18 Net present values

Council	Ashfield '000s	Leichhardt '000s	Marrickville '000s	Inner West '000s
Net present value	(\$50,000)	(\$39,300)	(\$118,700)	(\$19,500)

The de-amalgamated councils have a significant funding gap and are financially unsustainable, requiring an improvement plan to close the gap. This is usually a combination of council identified improvements, reduction in service levels, asset rationalisation and an SRV. For the purpose of this report, we have calculated a one-off nominal SRV amount that closes the gap, creating sustainable councils.

The following table details the proposed SRV for each council and the impact on rateable assessments for each council.

Table 19 Proposed SRVs and impact on rateable assessments

Council	Funding gap Ten-year gap '000s	SRV		Rate assessments	\$ increase per rateable assessment
		%	'000s		
Ashfield	\$71,300	19%	\$6,907	17,437	\$396
Leichhardt	\$53,800	10%	\$5,600	25,438	\$220
Marrickville	\$167,000	22%	\$15,300	36,678	\$417
Inner West	\$25,300	5%	\$6,300	79,553	\$79

There are a range of potential SRV scenarios that can be applied over a number of years to reduce the immediate burden on ratepayers. This would be a matter for each council.

The estimated backlog ratios for all councils will require attention through the development and review of asset management plans. Given the level of the renewal expenditure detailed in the table below, additional investment will be required to increase the renewal expense ratio and therefore improvement the asset backlog ratio for all councils.

Table 20 Building and infrastructure asset renewal ratios

Building and infrastructure asset renewal ratio	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Marrickville	129%	94%	88%	80%	74%	76%	81%	64%	62%	60%
Leichhardt	125%	95%	88%	81%	76%	76%	79%	65%	63%	61%
Ashfield	129%	95%	85%	80%	71%	67%	65%	53%	51%	50%
Inner West	132%	98%	91%	84%	77%	77%	80%	65%	62%	61%
Target	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

²⁰ Independent Pricing and Regulatory Tribunal, 2021. *Local government discount rate Facts Sheet*.

Impact on ratepayers

Detailed modelling of the changes in rates in a de-amalgamation is very difficult to do with any degree of accuracy, as there is a need to establish new rating structures and model each of the 79,500 assessments. However, as a means of understanding the potential impact of the de-amalgamation, an estimate of the average rate for each council, using a rate peg amount of 2%, has been calculated.

As a result of applying the SRV, a high-level assessment on the average rates indicates that the average rate increases for all councils are as detailed below.

Table 21 Average rates

Council	Current average rate	SRV average rate	Increase
Ashfield	\$ 1,723	\$2,044	\$321
Leichhardt	\$1,836	\$2,016	\$180
Marrickville	\$1,376	\$1,673	\$297
Inner West	\$1,598	\$1,676	\$78

The average rate increase for each council is lower than the increased cost per rateable assessment. The financial forecast modelling takes into account, amongst other things, a factor for growth over the ten-year period, thus reducing the level of SRV required to fund the de-amalgamation costs.

The following are the average rate calculations for residential and business categories, with a comparison of average rates of the four councils.

The graphs below are the average residential rates without the SRV and with the SRV and, as expected, average rates increase. The year one increase in the average residential rate because of the SRV is Ashfield 18.6%, Leichhardt 9.8%, Marrickville 21.6% and Inner West 4.9%.

Figure 4 Residential average income without SRV

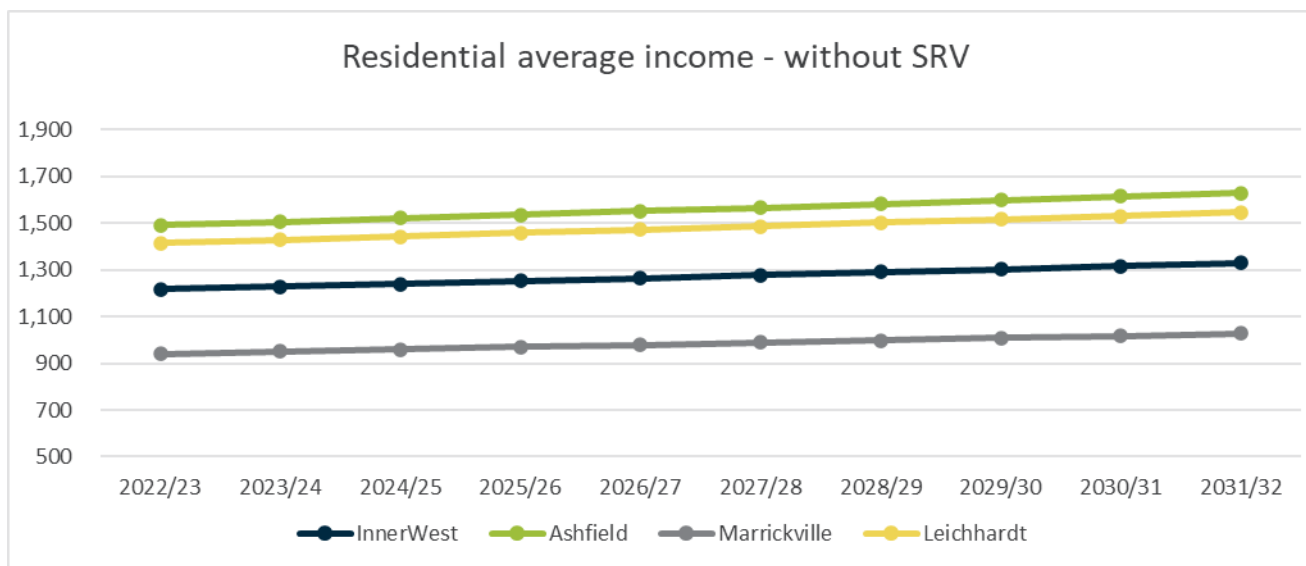
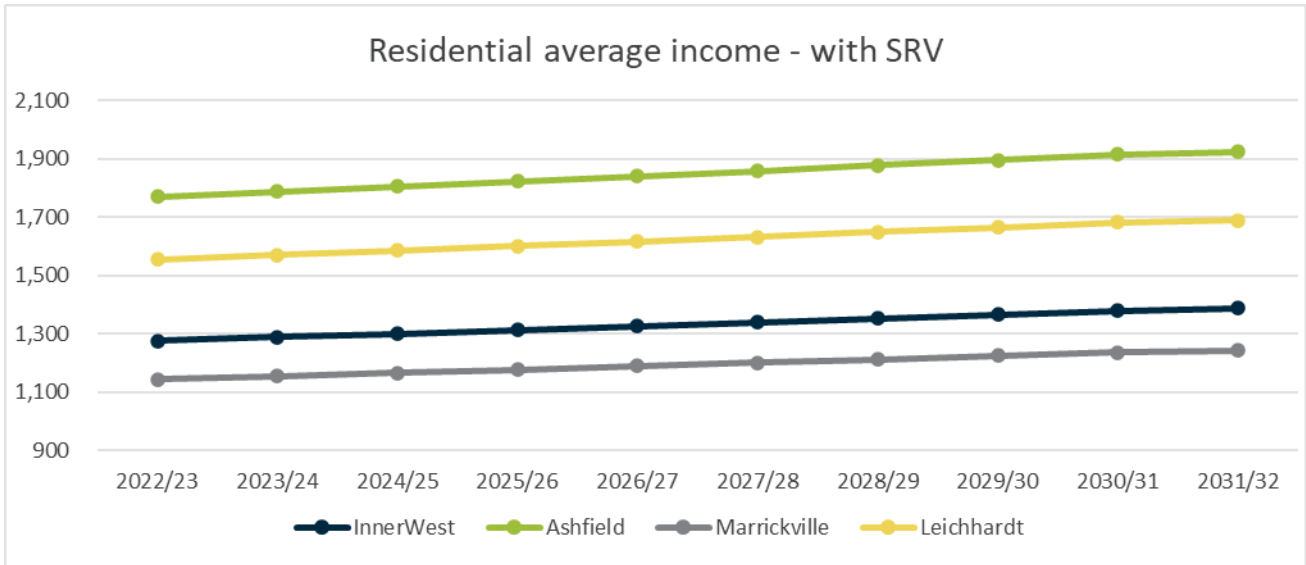


Figure 5 Residential average income with SRV



Following are the average business rates without the SRV and with the SRV.

Figure 6 Business average income without SRV

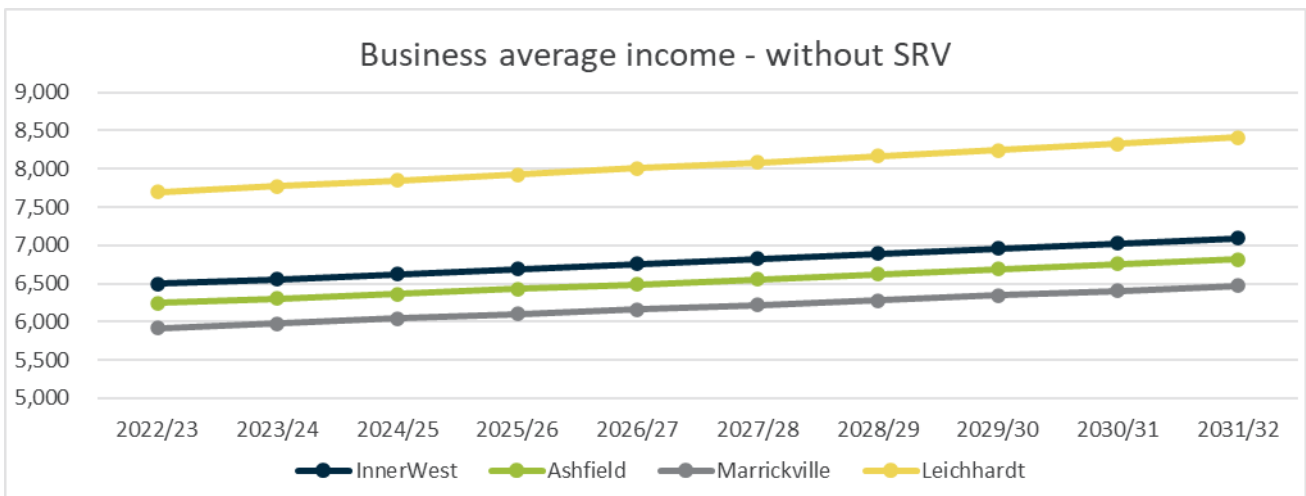
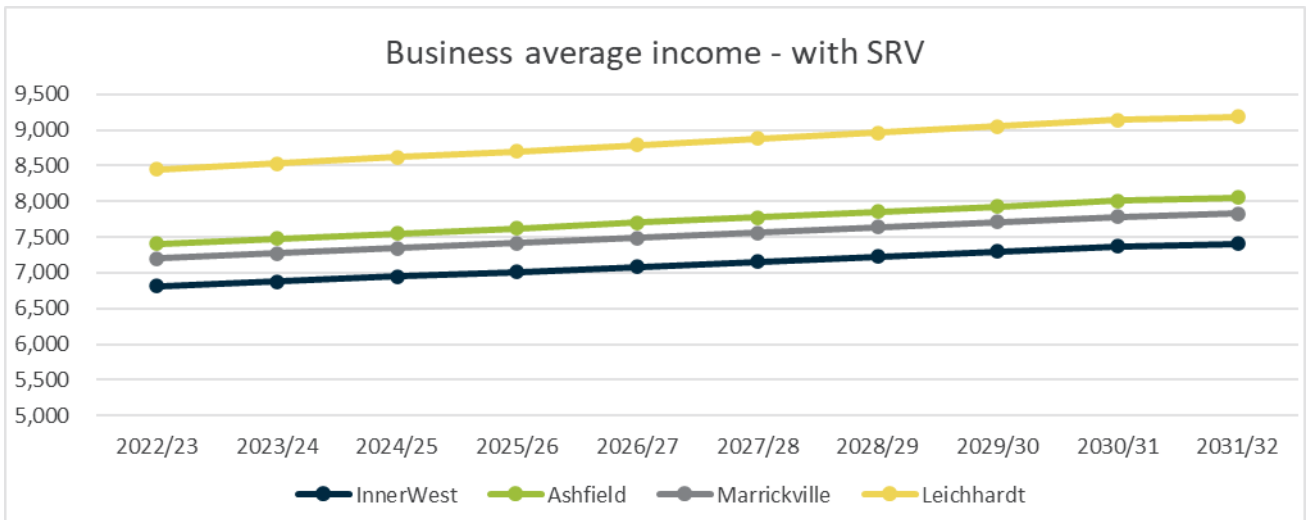


Figure 7 Business average income with SRV



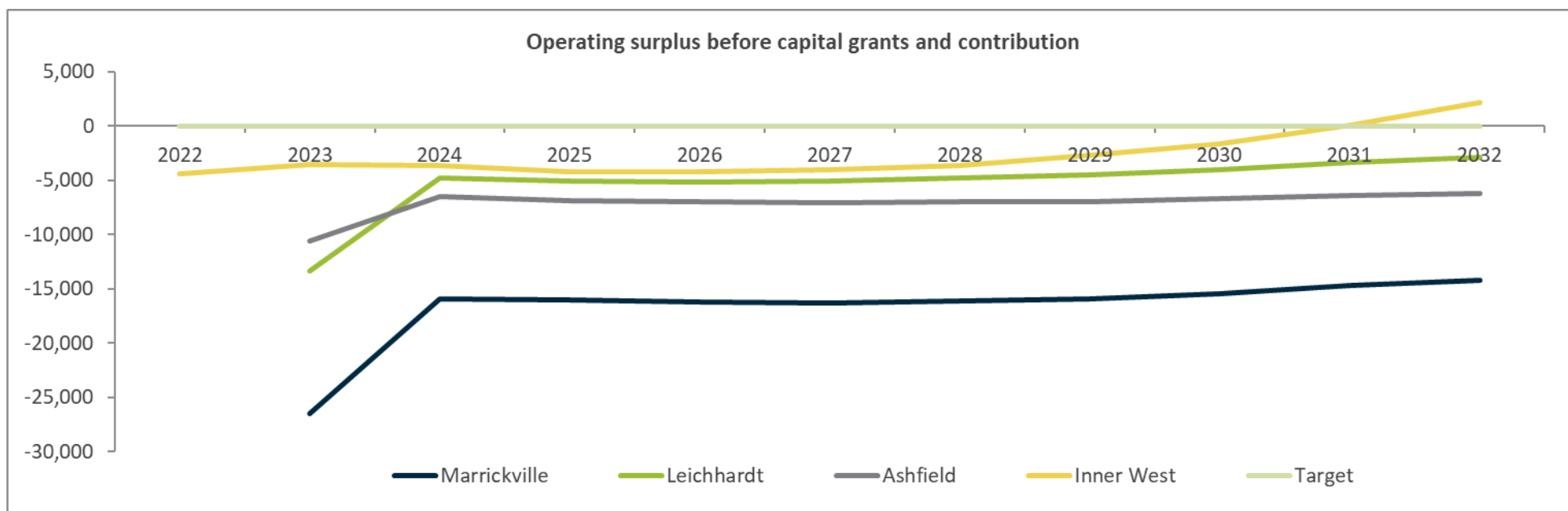
The year one increase in the average business rate because of the SRV is Ashfield 15.7%, Leichhardt 8.9%, Marrickville 17.7% and Inner West 4.7%.

Performance measures

The performance of each council is measured against Office of Local Government performance indicators. Following are the estimated performance results.

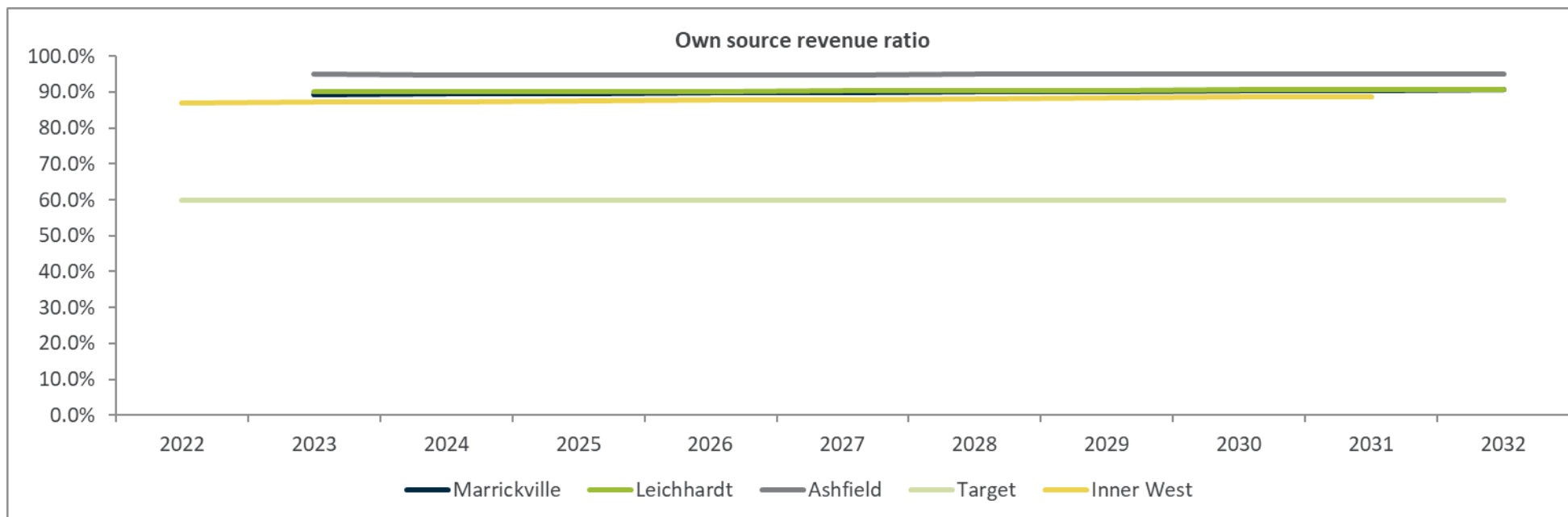
As illustrated in the graph below, all four councils are largely unsustainable with operating deficits across the ten-year forecast period, with the exception of Inner West forecasting a surplus in 2030/31. Year-on-year deficits have an adverse impact on councils' financial capacity to fund recurring expenditure and projects.

Figure 8 Operating surplus before capital grants and contributions



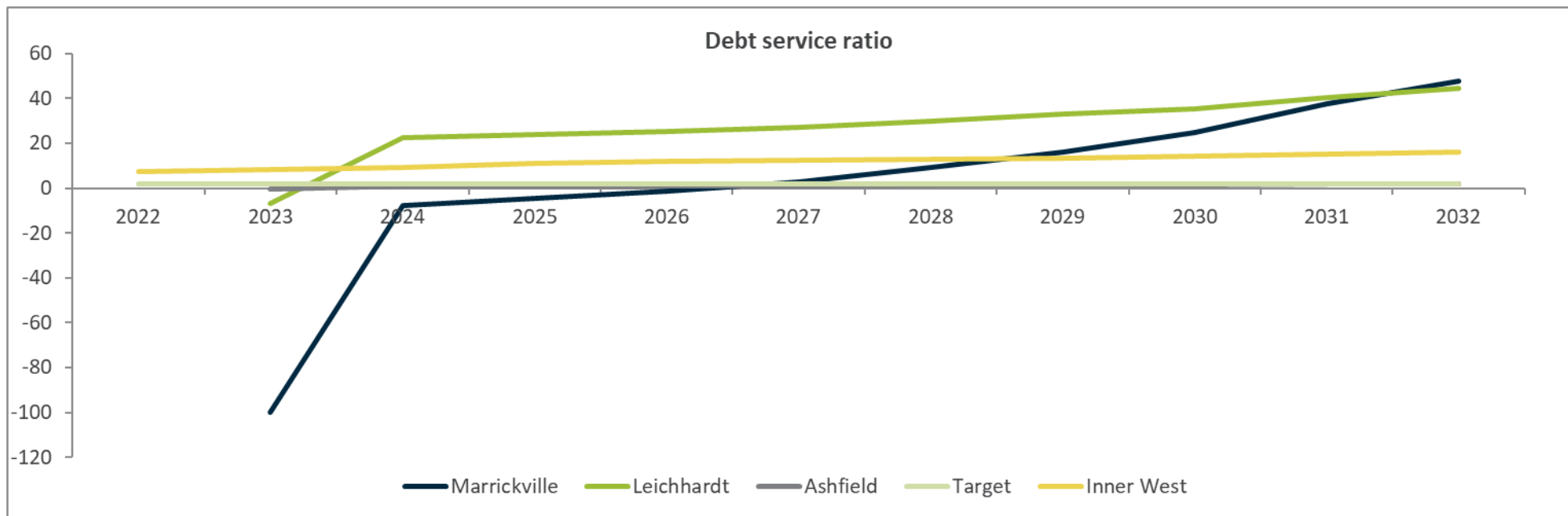
As shown below, all councils exceed the performance target of greater than 60% indicating the degree upon which councils rely on external funding sources such as operating grants and contributions.

Figure 9 Own source revenue



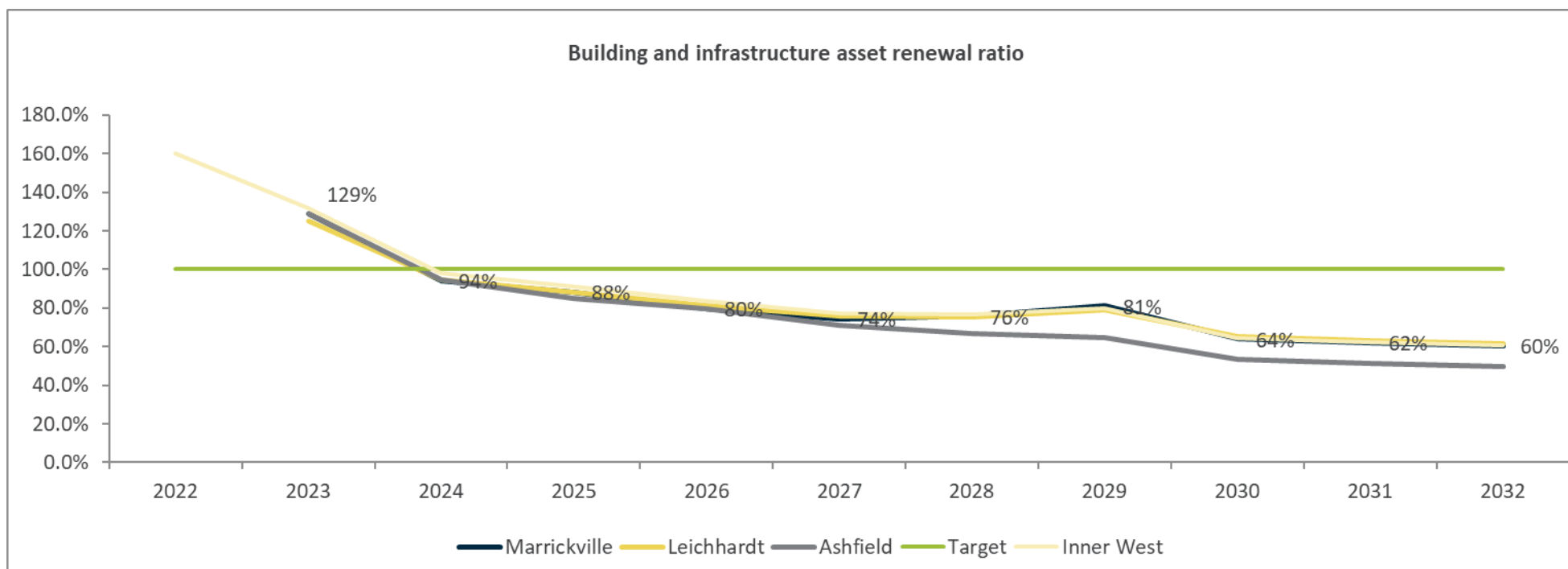
The graph below measures the operating cash available to service debt, with performance target of greater than two times. There some anomalies in the initial years for the de-amalgamated councils, with the transition costs and increase services greater than the operating cash.

Figure 10 Debt service ratio



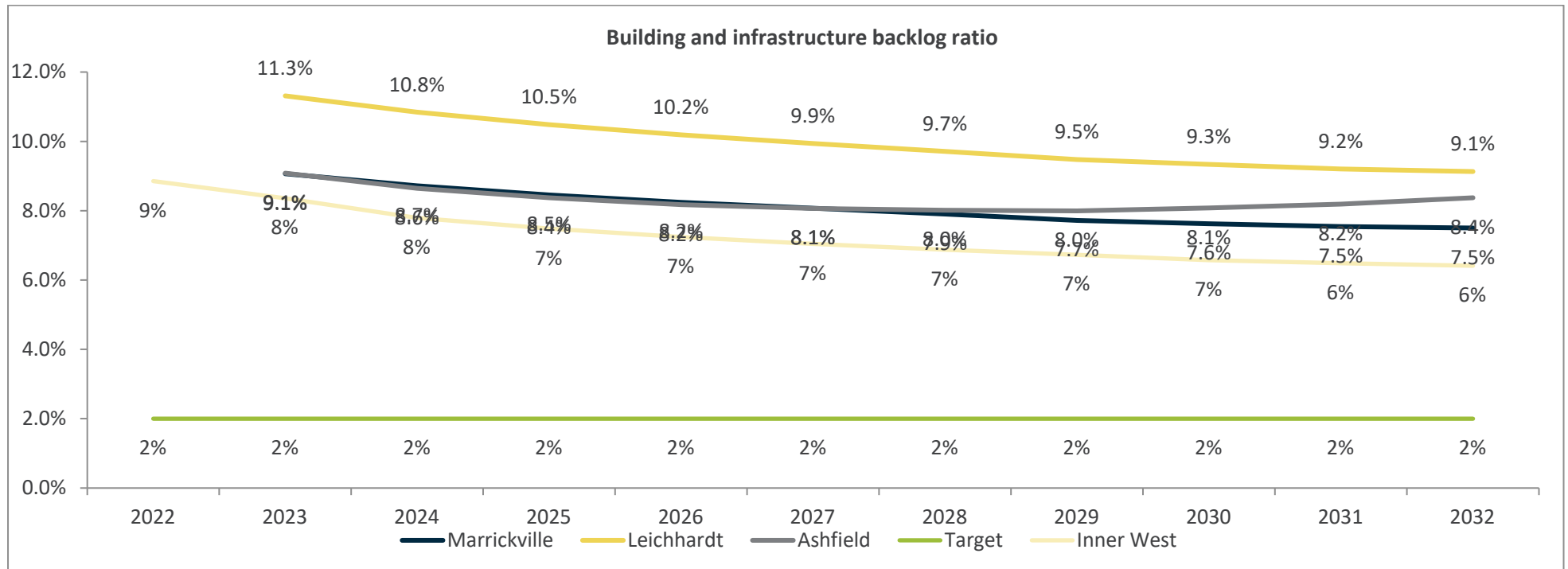
The ratio below assesses the rate at which assets are being renewed against the rate they are depreciating. All councils are substantially below the performance indicator of 100%. This has an adverse impact on the condition of assets exponentially over a period of time. Councils will need to increase asset renewal expenditure as part of developing, reviewing and implementing asset management plans.

Figure 11 Asset renewal ratio



It is evident from the graph below that all councils have an unacceptable backlog ratio that need to be addressed. The infrastructure backlog performance target is 2%, which can be achieved through asset management strategies and increase investment in the asset renewal program.

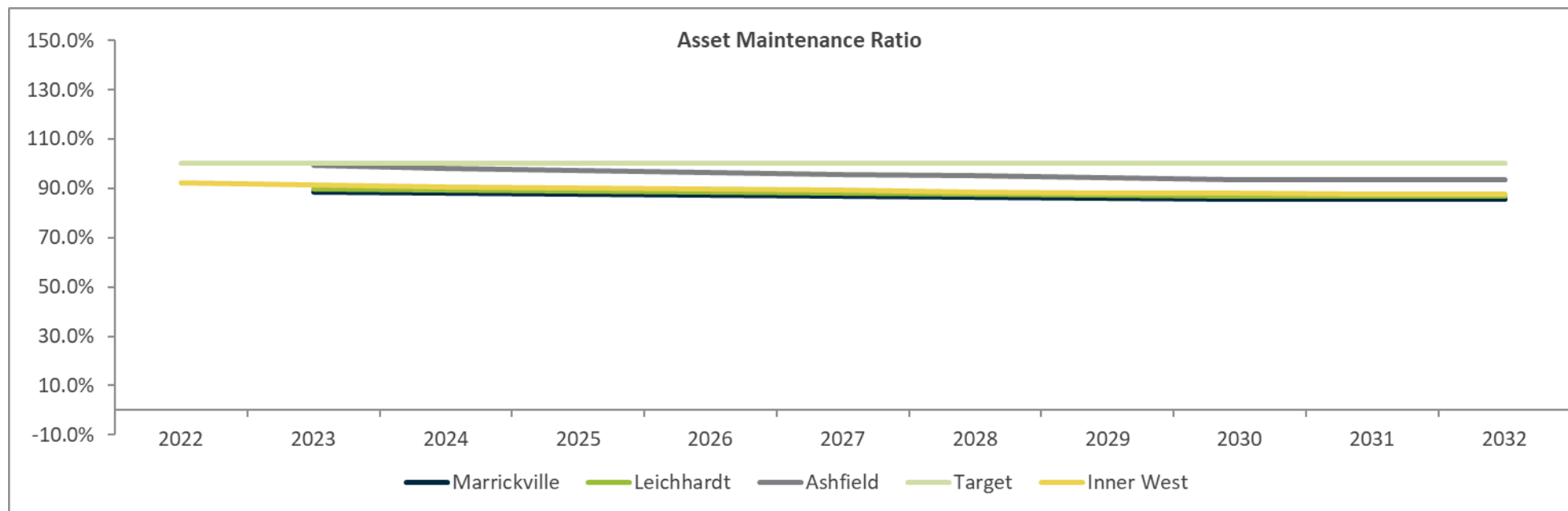
Figure 12 Asset backlog ratio



The asset maintenance ratio compares actual versus required annual asset maintenance. Ashfield has a slightly higher ratio, ideally all need to be closer to the performance target of 100%.

This can be address addressed by increasing expenditure on asset maintenance in accordance with asset management plans.

Figure 13 Asset maintenance ratio



Social analysis

Community satisfaction

The Inner West Council conducts community research annually to understand and identify community priorities for the Inner West and identify the community’s overall level of satisfaction with Council performance. An independent survey of 1,002 residents was undertaken by Micromex Research between 4 - 25 June 2021 and the results were reported in July 2021.²¹ This survey has been undertaken since the establishment of the Inner West Council in 2016.

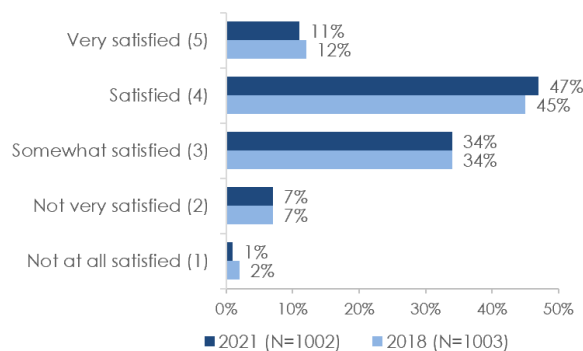
General satisfaction with the Inner West Council has improved since the formation of the Council and is shown below in the table. The number of residents who are at least somewhat satisfied has remained consistent over the last three years at a level that is above the Micromex LGA benchmark for the metropolitan region. This level of satisfaction is comparable across the wards, with the highest mean satisfaction ratings in the Marrickville and Ashfield Wards and the lowest in the Balmain Ward.

Figure 14 Community satisfaction survey results

Q4a. Overall, how satisfied are you with the performance of Inner West Council, not just on one or two issues but across all responsibility areas?

	2021	2018	Male	Female	18-24	25-34	35-49	50-64	65+	Ratepayer	Non-ratepayer
Mean rating	3.58	3.58	3.54	3.63	3.69	3.82▲	3.55	3.39▼	3.44▼	3.53	3.68▲
Base	1002	1003	483	519	103	246	302	202	148	646	356

	Ward					Time lived in the area			
	Ashfield	Leichhardt	Balmain	Stanmore	Marrickville	Less than 2 years	2-5 years	6-10 years	More than 10 years
Mean rating	3.63	3.56	3.49	3.58	3.64	3.79	3.77▲	3.74▲	3.48▼
Base	196	203	156	245	202	83	130	157	632



	Inner West Council 2021	Inner West Council 2018	Inner West Council 2017	Inner West Council 2016	Micromex LGA Benchmark - Metro
Mean rating	3.58	3.58	3.49	3.42	3.55
T3 Box	92%	91%	90%	85%	89%
Base	1002	1003	1002	1008	37,950

Other results of note include:

- Satisfaction with Council’s integrity and decision making rose slightly. Those living in Balmain were significantly less satisfied when compared to those in other wards.

²¹ Micromex Research, 2021, *Inner West Council Community Research*.

- When it came to living in the Inner West, aside from ‘Council offers good value for money’, agreement with every measure either rose or stayed the same since 2018. The majority of these measures that are comparable to Micromex’s LGA metropolitan benchmark were performing above it.
- 88% of resident believe Inner West Council is at least somewhat caring. Younger age groups and newcomers to the area were significantly more likely to believe that Council were caring.
- There has been a slight increase since 2018, with 85% of residents stating Council is at least somewhat creative. Again, younger residents and newcomers are more likely to believe so.
- Residents’ perceptions of Council being ‘just’ saw residents’ ratings shifting from ‘very just’ and ‘just’ down to ‘somewhat just’, this resulting in a significant drop in the mean rating when compared to 2018 research. Younger age groups and those who had been in the area for less than five years were significantly more likely to think that Council were just.

Overall, this research suggests that the Inner West communities are generally more satisfied than not with the Council, that this satisfaction has improved since the Council was formed and is generally higher than other metropolitan Sydney councils. The research does not identify any dissatisfaction from one of the former council residents to inform a potential de-amalgamation.

Community Strategic Plans

An analysis of the individual community priorities pre-merger is set out in the following table. This analysis has been drawn from the Council Community Strategic Plans (CSPs) that existed at the time and then compared with the vision and priorities in the current Inner West Community Strategic Plan.

Table 22 Analysis of individual community priorities pre-merger

Council	Vision	Broader themes
<p>Inner West</p>	<p>Our Inner West 2036 sets the community vision for the merged Council area as:</p> <p>We are Inner West, land of the Gadigal and Wangal peoples, whose rich cultures, heritage and history we acknowledge and respect. We are defined by our diversity of people, places and ideas. We are an inclusive, vibrant, caring and progressive community where everyone is welcome, people and nature live in harmony, and creativity is a way of life.</p>	<p><i>An ecologically sustainable Inner West:</i> Inner West is a zero emissions community. We generate our own clean and 100% renewable energy. We are zero waste with a vibrant share economy. We are water sensitive and rich with biodiversity. Our waterways are clean, swimmable and brimming with wildlife. We show energetic leadership in collectively addressing climate change. People live sustainably because it's easy to do. We work together on complex urban environmental issues and develop creative solutions through collaboration, partnerships and education. We enjoy the benefits that our healthy ecosystems provide the human environment – like trees, fresh, clean air, water and food.</p> <p><i>Unique, liveable, networked neighbourhoods:</i> Inner West is the most liveable place in Greater Sydney. Most services and needs can be accessed within 15 minutes. Moving around our network of neighbourhoods is cool, quick, convenient and enjoyable. Each of our neighbourhoods has a unique inner city urban vibe. Our heritage and culture – a mix of old and new – is visible and valued. Inner West is affordable for all. People connect through ideas, technology, transport and the places they call home – enjoying a diversity of people, places, housing and experiences.</p> <p><i>Creative communities and a strong economy:</i> Inner West is the creative and cultural engine room of Sydney – bringing a wealth of experience and employment to the city. We are home to artists, musicians, writers, studios, galleries, creative industries, artistrun initiatives, academics, theatres and festivals. We are an incubator for new ideas, at the forefront of using new technologies to support and grow a diverse and thriving local economy. Our residents, workers and visitors enjoy food, music, the arts, recreation, diverse shopping experiences and interesting places that are vibrant, inspiring and pleasurable.</p> <p><i>Caring, happy, healthy communities:</i> We have a strong sense of social justice. We see our diversity as an asset. Everyone is valued and accepted for who they are, and supported to participate in community life. We are resilient in the face of adversity and change. We keep each other and ourselves safe. We collaborate with each other and create meaningful partnerships. We are active and healthy people with access to the services and spaces we need for recreation for our mental and physical wellbeing. Our public places and spaces facilitate our enjoyment of urban living and community cultural expression.</p> <p><i>Progressive local leadership:</i></p> <p>We are a community of diverse voices that are listened to and respected. We have trust in our leaders and feel empowered to become leaders ourselves. All of us have the information, support and opportunities to show leadership and effect change. We are innovative and creative in our approaches to tackling big issues. We stand up for what we believe in and collectively shape and own our future.</p>

Council	Vision	Broader themes
<p>Leichhardt</p>	<p>Leichhardt Council had set the following vision for 2025:</p> <p>Our Local Community – making it the place where we want to live, work, play and visit.</p> <p>Democratic Responsible Government – open, participative and proactive Council leading the community.</p> <p>Sustainability – shared passion and commitment to consistently do all the things required to enhance and preserve the social, environmental, economic and civic leadership factors that are important to the lives of future generations and life on our planet.</p>	<p>A Leichhardt community that is equitable, cohesive, connected, caring, diverse, healthy, safe, culturally active, creative and innovative, and has a strong sense of belonging and place.</p> <p>Accessibility: Easy access for people, services, information and facilities that promotes the amenity, health and safety of the community and that reduces private car dependency for all travel.</p> <p>A liveable place – socially, environmentally and economically; a sustainable environment created by inspiring, leading and guiding our social, environmental and economic activities.</p> <p>Thriving businesses and a vibrant community working together to improve the local economy.</p> <p>Sustainable services and assets and accountable civic leadership that delivers services and assets to support the community now and in the future.</p>

Council	Vision	Broader themes
Marrickville	<p>Marrickville Council’s vision for 2023 was for:</p> <p>A culturally diverse, forward thinking, inner city communities and neighbourhoods.</p> <p>A community that remains welcoming, proud of its diversity and its history.</p> <p>A place where businesses are confident and responsive to the needs of the local community. Is a creative community.</p> <p>A place that values the people who celebrate, challenge and inspire local identity and sense of place.</p> <p>The environment is healthy and native plants and animals are thriving.</p> <p>Local communities work closely with Council, which is ethical, effective and accountable.</p>	<p>A diverse community that is socially just, educated, safe and healthy.</p> <p>A creative and cultural Marrickville.</p> <p>A vibrant economy and well planned, sustainable urban environment and infrastructure.</p> <p>Effective, consultative and representative council.</p>
Ashfield	<p>Ashfield’s vision for 2023 was for:</p> <p>A caring community of linked villages inspired by its rich cultural history, heritage and diversity.</p>	<p>Creative and inclusive community.</p> <p>Unique and distinctive neighbourhoods.</p> <p>Living sustainably.</p> <p>Thriving local economy.</p> <p>Attractive and lively town centre.</p> <p>Engaging and innovative local democracy.</p>

There are a number of similarities between the former councils that have carried forward into the Inner West Community Strategic Plan. Word clouds have been prepared of the higher-level strategic visions and themes of the four CSPs and, perhaps not surprisingly, all have the community at their core and a number of common themes largely driven by the common aspirations of communities in general. The Inner West strategic direction is well aligned to that of its former councils’ CSPs and there are no significant strategic advantages or disadvantages as a result of the merger or potential de-amalgamation.

Figure 15 Inner West Council strategic visions and themes



Figure 16 Ashfield Council strategic visions and themes



Figure 17 Leichhardt Council strategic visions and themes



Figure 18 Marrickville Council strategic visions and themes



Communities of interest

Morrison Low undertook a desktop review²² of the communities of Marrickville, Ashfield and Leichardt Council areas in 2015 to advise the then Marrickville Council on community similarities and differences for a potential merger of the councils. This was undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas and the interrelationships and communities of interest that exist within the area. The key sources of information for the review were ABS Census Data, population, household and dwelling projections prepared by the NSW Department of Planning and Environment²³, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report.²⁴

We have reviewed this information, given six years have elapsed and one census in 2016 has added to the data set. We note there have been some minor changes but for the purposes of this report the community similarities and differences has not changed substantially since then, so this report is still of relevance. One of the challenges with future comparisons is the local government comparative data by former council is no longer collected in that format.

Communities of interest are more likely to have similar interests and needs from their council, whereas people who do not share a community of interest are more likely to have different needs from their council.

Summary of similarities and differences

There are a number of similarities and differences between the two areas noted in 2015, including:

- The forecast population growth rate for Ashfield and Leichardt is slightly lower than for Marrickville.
- Ashfield has a much higher proportion of high-density dwellings and a lower proportion of medium-density dwellings relative to Leichardt and Marrickville.
- The three councils belong to a cluster which features moderately high household wealth and much of this wealth is in housing.
- All three councils belong to a cluster of councils with a low ratio of children to adults of parenting age and a low proportion of elderly people.
- The three councils have similar industry profiles with a predominance residents employed in professional, scientific and technical services, health care and social assistance and education and training.
- All three areas have a predominance of residents employed as professionals and managers.
- Leichardt and Marrickville belong to the inner ring commuter cluster where around 35% or more commute to the City of Sydney for work. Ashfield belongs to the middle ring commuter cluster where between 20 and 35% of the resident workforce is employed in the City of Sydney.

²² Morrison Low, 2015. *Communities of Interest: Marrickville, Leichardt and Ashfield*, Sydney.

²³ NSW Government, Department of Planning Industry and Environment, 2019. Projects. Retrieved from <http://www.planning.nsw.gov.au/en-au/deliveringhomes/populationandhouseholdprojections/data.aspx>.

²⁴ National Institute of Economic and industry Research, 2013. *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel*, Clifton Hill.

Observations from the latest forecasts are:

- population apportionments between the former council remain unchanged
- all three former council areas have experienced increased population density
- both the former Marrickville and Leichhardt Council areas have experienced higher loss of single dwelling units moving to high-density and medium-density developments respectively
- the mix of household types have remained very similar.

Capacity to pay

Inner West Council was required to harmonise the three former councils' rating structures that it had in place by 30 June 2021. As part of informing this process, Morrison Low undertook community analysis²⁵ to inform this decision. The new rating system needed to take into account a number of factors including equity, efficiency, and capacity to pay. This report puts due emphasis on the capacity to pay principle; given that some ratepayers have more ability to pay rates than others.

This report provides a useful analysis and evaluation of relative wealth and financial capacity; it looks at the financial vulnerability and exposure of different community groups within the LGA. The key findings are summarised on the following page.

²⁵ Morrison Low, 2020. *Revised Capacity to Pay Report - Inner West Council, Sydney.*

Table 23 Ward characteristics

Ward	Characteristics
Areas of advantage	
Balmain	<ul style="list-style-type: none"> Characterised by established families and empty nesters Very high levels of household income High property values and high levels of home ownership Very low levels of disadvantage
Stanmore	<ul style="list-style-type: none"> Characterised by a significant large young workforce Very high levels of household income High proportion of renters
Leichhardt	<ul style="list-style-type: none"> Characterised by established families High levels of household income High levels of home ownership
Areas of disadvantage	
Ashfield	<ul style="list-style-type: none"> Average levels of household income High proportion of renters High levels of vulnerable individuals (unemployment, housing stress, etc.)
Marrickville	<ul style="list-style-type: none"> Characterised by a significant large young workforce Average levels of household income High levels of home ownership High levels of vulnerable individuals (unemployment, housing stress, etc.)

Environmental comparative analysis

On 23 June 2020, Council endorsed the planning proposal to facilitate the draft Inner West Local Environmental Plan (LEP) 2020, to consolidate the provisions of the three former councils’ LEPs into a single new LEP that operates across the Inner West LGA. The following summary is based on the overarching LEP plan aims from Inner West Council (2020 LEP) and the three former councils’ LEPs that existed at the time of the merger. This analysis provides an analysis of the similarities and differences in approached to:

- protection of the natural environment
- protection the built environment and built heritage
- general approach to growth and development.

Table 24 Environmental comparative analysis

Council	Natural	Built	Approach to growth
Inner West	<p>Relative emphasis on natural environment – medium-high.</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> ● to mitigate the impact of climate change and adapt to its impacts ● to protect, enhance and sustainably manage biodiversity, natural ecosystems, water resources, ecological processes and urban forest ● to ensure that the risk to the community in areas subject to urban and natural hazards is minimised ● to identify, protect and conserve environmental and cultural heritage and significant local character ● to protect and enhance significant views and vistas from the public domain and promote view sharing from and between private dwellings. 	<p>Relative emphasis on built heritage – medium.</p> <p>The particular aims of the LEP which relate to the protection of built heritage are:</p> <ul style="list-style-type: none"> ● to retain, protect and increase industrial and employment land and enhance the function and vitality of centres ● to protect and enhance the amenity, vitality and viability of Inner West for existing and future residents, workers and visitors. 	<p>Emphasis on encouraging transport oriented, quality sustainable development and housing diversity:</p> <ul style="list-style-type: none"> ● to ensure development applies the principles of ecologically sustainable development ● to ensure that existing and future residents, visitors and workers have access to sustainable transport including walking and cycling, social and community infrastructure, services and public open space ● to promote accessible and diverse housing types to support people at all stages of life, including the provision and retention of affordable housing ● to achieve a high-quality urban form and open space in the public and private domain by ensuring new development exhibits architectural and urban design excellence ● to prevent adverse social, economic and environmental impacts including cumulative impacts.

Council	Natural	Built	Approach to growth
Ashfield	<p>Relative emphasis on natural environment – medium.</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are:</p> <ul style="list-style-type: none"> ● to promote the orderly and economic development of Ashfield in a manner that is consistent with the need to protect the environment ● to identify and conserve the environmental and cultural heritage of Ashfield ● to ensure that development has proper regard to environmental constraints and minimises any adverse impacts on biodiversity, water resources, riparian land and natural landforms ● to require that new development incorporates the principles of ecologically sustainable development. 	<p>Relative emphasis on built heritage – medium.</p> <p>The particular aims of the LEP which relate to the protection of built heritage are:</p> <ul style="list-style-type: none"> ● to retain and enhance the identity of Ashfield as an early residential suburb with local service industries and retail centres ● to protect the urban character of the Haberfield, Croydon and Summer Hill urban village centres while providing opportunities for small-scale, infill development that enhances the amenity and vitality of the centres. 	<p>Emphasis on encouraging transport oriented, quality compact development:</p> <ul style="list-style-type: none"> ● to provide increased housing choice in locations that have good access to public transport, community facilities and services, retail and commercial services and employment opportunities ● to strengthen the viability and vitality of the Ashfield town centre as a primary centre for investment, employment, cultural and civic activity, and to encourage a majority of future housing opportunities to be located within and around the centre.
Leichhardt	<p>Relative emphasis on natural environment – high.</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are to:</p> <ul style="list-style-type: none"> ● to ensure that development applies the principles of ecologically sustainable development ● to minimise land use conflict and the negative impact of urban development on the natural, social, economic, physical and historical environment ● to identify, protect, conserve and enhance the environmental and cultural heritage of Leichhardt 	<p>Relative emphasis on built heritage – high.</p> <p>The particular aims of the LEP which relate to the protection of built heritage are:</p> <ul style="list-style-type: none"> ● to maintain and enhance Leichhardt’s urban environment ● to minimise land use conflict and the negative impact of urban development on the natural, social, economic, physical and historical environment 	<p>Emphasis on encouraging transport oriented, quality compact development:</p> <ul style="list-style-type: none"> ● to ensure that land use zones are appropriately located to maximise access to sustainable transport, community services, employment and economic opportunities, public open space, recreation facilities and the waterfront

Council	Natural	Built	Approach to growth
	<ul style="list-style-type: none"> to protect and enhance views and vistas of Sydney Harbour, Parramatta River, Callan Park and Leichhardt and Balmain civic precincts from roads and public vantage points to prevent undesirable incremental change, including demolition, that reduces the heritage significance of places, conservation areas and heritage items to ensure that development responds to, conserves, protects and enhances the natural environment, including terrestrial, aquatic and riparian habitats, bushland, biodiversity, wildlife habitat corridors and ecologically sensitive land to promote energy conservation, water cycle management (incorporating water conservation, water reuse, catchment management, stormwater pollution control and flood risk management) and water sensitive urban design to ensure that existing landforms and natural drainage systems are protected to ensure that the risk to the community in areas subject to environmental hazards is minimised to ensure that the impacts of climate change are mitigated and adapted to. 	<ul style="list-style-type: none"> to ensure that development is compatible with the character, style, orientation and pattern of surrounding buildings, streetscape, works and landscaping and the desired future character of the area to protect, conserve and enhance the character and identity of the suburbs, places and landscapes of Leichhardt, including the natural, scientific and cultural attributes of the Sydney Harbour foreshore and its creeks and waterways, and of surface rock, remnant bushland, ridgelines and skylines. 	<ul style="list-style-type: none"> to provide for development that promotes road safety for all users, walkable neighbourhoods and accessibility, reduces car dependency and increases the use of active transport through walking, cycling and the use of public transport to ensure an adequate supply of land and housing to facilitate employment and economic opportunities, and to ensure that development provides high quality landscaped areas in residential developments. <p>Also some emphasis on housing type and mix and affordability:</p> <ul style="list-style-type: none"> to promote accessible and diverse housing types, and affordable housing.

Council	Natural	Built	Approach to growth
Marrickville	<p>Relative emphasis on natural environment – low/medium.</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are to:</p> <ul style="list-style-type: none"> to ensure development applies the principles of ecologically sustainable development to promote sustainable transport, reduce car use and increase use of public transport, walking and cycling. 	<p>Relative emphasis on built heritage – low/medium.</p> <p>The particular aims of the LEP which relate to the protection of the natural environment are to:</p> <ul style="list-style-type: none"> to identify and conserve the environmental and cultural heritage of Marrickville. 	<p>Emphasis on encouraging transport oriented, quality compact development:</p> <ul style="list-style-type: none"> to support the efficient use of land, vitalisation of centres, integration of transport and land use and an appropriate mix of uses to increase residential and employment densities in appropriate locations near public transport while protecting residential amenity to protect existing industrial land and facilitate new business and employment to promote sustainable transport, reduce car use and increase use of public transport, walking and cycling. <p>Also some emphasis on housing type and mix and affordability:</p> <ul style="list-style-type: none"> to promote accessible and diverse housing types including the provision and retention of affordable housing.

The four council LEPs’ aims are relatively consistent with no major conflicts observed. This suggests there are no significant environmental differences in approaches between the Inner West Council and the three former councils, therefore there are few benefits to be gained from a de-amalgamation from an environmental perspective.

The Council has prepared and adopted a number of strategies including:

- Inner West Climate and Renewables Strategy
- Draft Zero Waste Strategy (plan exhibited, on agenda 3rd August 2021 for adoption)
- Local Strategic Planning Statement (Strategic Planning Team)
- Going Places - Integrated Transport Plan (Strategic Planning Team)
- Litter Prevention Strategy – draft in consultation
- Green Places Plan – draft under review.

The Zero Waste Strategy and recent Inner West initiatives have strengthened the Council’s environmental activities, in particular in resource recovery, waste, food and garden organics.

In addition the Council has adopted a number of environmental targets:

- Corporate carbon target: carbon neutral and 100% renewable electricity by 2025: Inner West Council currently 25% renewable for electricity, tender in progress to source 100% renewable electricity).
- 100% divestment from fossil fuel - achieved 1st council in NSW.
- By 2036:
 - community emissions are 75% less than in 2017
 - 100% of schools have installed solar
 - Inner West community solar PV capacity is 20 times greater than in 2017.
- Reduce waste landfilled per capita by 50% by 2036.
- Reduce food and garden organic waste disposed in landfill by 60% by 2030.
- Divert 60% of recyclables from the garbage bin by 2036.
- Increase recycling of televisions and computers by 80% by 2036.
- Reduce the amount of hazardous waste presented in the garbage to 50% by 2036.
- Reduce illegal dumping by 50% by 2030.

The Inner West Council has reported progress against these initiatives including:

- Urban canopy mapping completed – targeted areas for renewed planting identified.
- Whole of LGA tree asset audit finalised.
- First stages of accelerated public planting program commenced.
- Designing reuse hub with local organisations and deliver repair workshops to maximise reuse of household items.
- Aligning the household bulky clean-up service for households to an on-request booked collection.
- Food recycling service for all apartments across the Inner West. The food recycling service became available to all apartments from March 2021 and collects over 500 tonnes annually (increasing with more apartments using the service), reducing organics sent to landfill.
- Home composting workshops and subsidies. About 700 composting systems subsidised by Council are purchased annually by Inner West residents.

- Two community recycling centres (CRCs) open on weekends for dropping off problem waste including paint, oil, batteries, gas bottles, fluorescent globes, smoke detectors, fire alarms and e-waste. Around 80 tonnes of chemicals were dropped off in 2019-20 and 20 tonnes of e-waste for recycling through the CRCs and drop off.
- Inner West Council corporate carbon emissions are now 28% less than they were in 2016/17.
- Solar capacity in the Inner West has more than doubled since 2017. Go solar program was expanded to apartments, schools and local businesses.
- \$1.6 million rooftop solar and energy efficiency program has more than doubled Council's solar capacity since the program commenced. Council has over 700kW of solar PV installed on over 35 buildings.
- Accelerated LED street lighting roll out. 99% complete - the targeted inefficient lights have been replaced with highly efficient LED. Project has reduced Council's electricity from streetlighting by 22% and 9% of Council total electricity consumption. Council is working in a regional collaboration to undertake similar upgrades on main road streetlighting.
- First group of local government organisations to establish a renewable energy agreement in NSW (with Moree Solar Farm). Inner West Council is supplied with over 4,000,000 kilowatt-hours of renewable power each year from Moree Solar Farm. This amount covers almost all of Council's daytime electricity use. Daytime use is approximately 25% of our overall operational electricity consumption. Current tender in progress to source 100% renewable electricity.
- Council received a national Climate Award in October 2020 from the Cities Power Partnership for engaging the community on solar. Solar capacity in the Inner West has more than doubled since 2017. Program was expanded to apartments, schools and local businesses.
- Office of Renewable Energy Innovation, Renewable Energy Innovation Officer (three-year position created).
- 11% of 2019/20 solar installations in the Inner West can be attributed to the solar quote service provided by Inner West Council.
- 'Solar my School', Council is working with 23 local schools. A combined audience of over 23,500 students and their families and a solar potential of over 2MW of rooftop solar.
- Haystacks solar garden: Council is promoting the Haystacks Solar Garden project. The 1MW solar farm will be constructed in the NSW Riverina Region and split into 3kW solar plots, benefitting 333 'solar gardeners' who will receive a credit on their home electricity bills. Targeting residents who may not be able to install solar on their homes because they rent or live in an apartment.
- Green Living Centre program extended reach to entire Inner West LGA. Face-to-face and online workshops, events.

The Inner West Council has also been addressing regional issues such as catchment management, natural resource management, biodiversity and develop programs such as Green Living Centre program.

It is not possible to know whether the constituent councils would have adopted or delivered the same level of environmental initiatives over the last five years compared the Inner West Council. It is relatively clear the Inner West Council has been actively focused on the environment (receiving a number of awards) and this benefited the entire community.

Potential de-amalgamation benefits

There are potential benefits that could accrue as a result of a de-amalgamation of the Inner West Council, although these will depend on the de-amalgamation legislation, guidelines and process adopted. If the legislation enables immediate change to services and/or does not protect staff like the merger process, there may be some short-term benefits.

Potential benefits include:

- Improved access by residents to elected representation. The current elected representation per resident is a little over 14,000 people per elected member. Under a de-amalgamated model this number would be between approximate 4,000 and 8,000 depending on the council and final number of elected members.
- The ability to reset. One Queensland chief executive that we spoke to, identified the opportunity to shed some assets and processes to create a new organisation from scratch as benefit. For example, moving ICT into the cloud rather than setting up new infrastructure.
- Create further efficiencies. The creation of a new council creates new efficiencies or the opportunity to wind back some of the improvements introduced by the Inner West Council such as equalised service levels, like verge maintenance.
- The community of interest is the same as Inner West.
- Ability to work more closely with established community groups developing a better understanding of community challenges.

There are other potential short-term gains. We noted in our research of the Queensland de-amalgamations in 2014, that there was a tendency for the newly separated councils to run as leanly as possible for the first few years, potentially to disprove the amalgamation and demonstrate their capability on their own. This tended to be relatively short lived, with councils returning to their original size within a few years.

Appendix A Assumptions and key methodologies

The following assumptions have been made in preparing this report.

- The Inner West Council will be dissolved, and three new councils established based on the former local government areas of Ashfield, Leichhardt and Marrickville.
- There are no prescribed methodology or rules for de-amalgamation in NSW and acknowledge differences of methodologies can be used.
- For guidance, past de-amalgamation cases and merger processes have been drawn on to support this analysis.
- Cost and benefit assessment based on the current service levels of Inner West Council.
- There will be no shared services between the councils. The newly formed councils will establish and operate independently as they did prior to the merger. New systems and processes will be developed and these must be operational on day one.
- Methodology to re-establish three former councils as if the merger had not occurred using a predictive model to replicate the former councils' long term financial plans and validated.
- Nominal de-amalgamation date is 1st July 2022.
- A combination of public information, namely financial statements, Long Term Financial Plan, Annual Reports and Council reports have been utilised. Council provided information tested and validated through individual staff interviews with some comparative assessment.
- Establish ongoing benefits, costs, and service changes of Inner West merger.
- De-amalgamation modelling undertaken of the operating position that each of the pre-merger councils would have been in. Using 2014/15 published financial statements and previous modelling to 2019/20, validation by a comparative assessment to the three councils that did not participate in LGA mergers (Burwood, Canada Bay, Strathfield), that predicted the financial position of these un-merged Councils to 2019/20.
- Developed a range of distribution approaches appropriate to each type of revenue and expense change.
- Established on off de-amalgamation costs and benefits for distribution.
- There will be a process whereby all staff with the exception of senior staff of Inner West Council will be offered roles in one of the three councils. There is likely to be some redundancies, as was evidenced in the Queensland de-amalgamations, although it is assumed there will be no forced redundancies. Redundancies will occur by staff choice enforcing award provision as a result of some staff electing not to accept a substantially different position in one of the smaller new councils.
- All staff transferred will be protected for a period as they were in 2016. There will be no forced redundancies by the new councils.
- Recruitment costs have been allowed given the expect redundancies.
- Transition structure created with an estimated transition period of nine months to enable the establishment of the three new councils. During that time an administrator or transition body will recruit a new general manager and make preliminary decisions to ensure the councils are able to operate effectively on day one of establishment. During the transition period the new general manager will create a new organisational structure and appoint staff to operate from day one.

- Allowed for COVID-19 impact by decreases to de-amalgamated councils' income by the estimated loss in income of Inner West Council and recovery adjusted in line with future modelling of Inner West LTFP model.
- Allowed for additional election costs due to the significant increases in costs from the 2012 election detailed in IPART's review of election costs report, August 2019.
- Allowed for the creation of three separate information technology installations cloud base with Technology One as the enterprise solution.
- Ongoing costs and benefits from Inner West Council have been allocated based on the distribution approaches.
- Used rateable assessment numbers to illustrate the potential cost of the de-amalgamation.
- Used the special rates variation approach as the source of funding for the de-amalgamation costs.
- Used the average rate approach to demonstrate the potential impact on ratepayers of each of the three de-amalgamated councils.
- For customer satisfaction used the Micromex Research 2021 survey results.

Appendix B Establishment and transition

Transition costs

The formation of the new entity from the current state of the three councils to one will require a transition to ensure that the new entity is able to function on day one. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co²⁶ for the proposed Wellington reorganisation.

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from day one with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below.

Governance	<ul style="list-style-type: none"> • Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	<ul style="list-style-type: none"> • Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the human resource capacity for the new entity and ensuring all policies, processes and systems are in place for day one • Ensuring that positions required are filled
Finance and Treasury	<ul style="list-style-type: none"> • Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	<ul style="list-style-type: none"> • Planning and managing the integration and harmonisation of business processes and systems for day one, including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc • Developing an initial ICT strategy to support the day one operating environment that includes the identification of those processes and systems that require change • Developing a longer-term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond day one
Communications	<ul style="list-style-type: none"> • Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period

²⁶ Stimpson & Co, *Report to Local Government*.

Legal	<ul style="list-style-type: none"> • Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	<ul style="list-style-type: none"> • Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for day one
Planning Services	<ul style="list-style-type: none"> • Ensuring the new entity is able to meet its statutory planning obligations from day one and beyond • Ensuring that the entity is able to operate efficiently, and staff and customers understand the planning environment from day one • Developing a plan to address the statutory planning requirements beyond day one
Regulatory Services	<ul style="list-style-type: none"> • Ensuring that day one regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from day one and beyond
Customer Services	<ul style="list-style-type: none"> • Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from day one and beyond • Ensuring no customer service system failures on day one and beyond • Ensuring that staff and customers are well informed for day one and beyond
Community Services	<ul style="list-style-type: none"> • Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note: this is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on day one. The estimated transition costs for establishment of a new entity are discussed below.

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at \$36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as \$20.6 million and, on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the merger is \$11 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

Appendix C Distribution sensitivity analysis

Income Statement	Ongoing cost and benefits summary								
	Ashfield			Leichhardt			Marrickville		
	All approaches	Population	Rate assessments	All approaches	Population	Rate assessments	All approaches	Population	Rate assessments
Rates & annual charges	-\$ 1,276	-\$ 1,655	-\$ 1,602	-\$ 1,971	-\$ 2,120	-\$ 2,333	-\$ 4,053	-\$ 3,525	-\$ 3,365
User fees & charges	\$ 3,693	\$ 1,109	\$ 1,073	\$ 1,320	\$ 1,420	\$ 1,563	-\$ 122	\$ 2,362	\$ 2,254
Grants & contributions - operations	0			0			0		
Grants & contributions for capital	0			0			0		
Interest and investment income	0			0			0		
Total income	\$ 2,417	-\$ 546	-\$ 529	-\$ 651	-\$ 700	-\$ 770	-\$ 4,175	-\$ 1,163	-\$ 1,110
Expenses									
Borrowing costs	\$ 1,100	\$ 249	\$ 241	\$ -	\$ 319	\$ 352	\$ -	\$ 531	\$ 507
Employee benefits	\$ 4,836	\$ 1,751	\$ 1,695	\$ 1,989	\$ 2,243	\$ 2,469	\$ 900	\$ 3,730	\$ 3,560
Depreciation & amortisation	\$ 805	\$ 375	\$ 363	\$ 62	\$ 480	\$ 529	\$ 787	\$ 799	\$ 762
All other expenses	\$ 4,147	\$ 2,091	\$ 2,024	\$ 1,907	\$ 2,678	\$ 2,948	\$ 3,168	\$ 4,453	\$ 4,251
Total expenses	\$ 10,888	\$ 4,467	\$ 4,323	\$ 3,958	\$ 5,721	\$ 6,297	\$ 4,855	\$ 9,513	\$ 9,080
Operating result	-\$ 8,471	-\$ 5,013	-\$ 4,852	-\$ 4,609	-\$ 6,420	-\$ 7,067	-\$ 9,030	-\$ 10,676	-\$ 10,190