



# INNER WEST

## De-amalgamation Business Case for Inner West Council

Final

August 2022



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# 1 Executive summary

Whilst the merger that created Inner West Council ('the amalgamated council') has been in effect since May 2016, there have been calls from within the community over this time to revert to the three former councils of Ashfield, Leichhardt and Marrickville ('the de-amalgamated councils').

In an election poll conducted during the last local government election on 4 December 2021, a de-amalgamation was supported by 62.49% of electors (representing an 80.75% voter turnout)<sup>1</sup>. Consequently, in their first meeting in February 2022, the newly elected council resolved to develop a business case for de-amalgamation to be put to the Minister for Local Government and considered by the NSW Local Government Boundaries Commission.

This document outlines the business case for the de-amalgamation of Inner West Council and sets out the case as follows:

- **The case for change:** what is the need being addressed and why is it important?
- **Cost benefit analysis:** what are the options? How do they maximise benefit and deliver value for money?
- **Financial and commercial analysis:** what are the transition costs and capabilities required?
- **Managerial analysis:** can it be delivered? What are the risks associated?

This business case is the result of a campaign from self-organised community groups who have worked towards the de-amalgamation of Inner West Council, some since the amalgamation was proclaimed in 2016. These efforts have been supported by the recent poll which saw 62.49% of voters support a de-amalgamation.

The key benefits of de-amalgamation, that the community have assessed as worth the additional costs, include:

- smaller councils being able to better serve the needs of the community
- significantly improved local representation
- expected service level improvements, particularly around rubbish collection, bins in public spaces, graffiti removal and street cleaning
- a right to self-determination and the removal of an unpopular "forced amalgamation".

This business case presents two options for a de-amalgamation:

- option A (preferred) - pre-merger service levels - amending service levels to that provided prior to amalgamation
- option B - current Inner West Council service levels.

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<sup>1</sup> Australian Electoral Commission, 2020. 'Inner West – Poll Election'. Retrieved from: <https://pastvtr.elections.nsw.gov.au/LG2101/inner-west/poll>.

A third option (option C) investigates shared services. This option has been discounted after a review of the literature indicated there was no significant or demonstrated benefit in shared services in NSW local government. However, certain shared service arrangements could provide marginal net benefit for particular services if managed closely and could be considered through business cases by the proposed de-amalgamated councils if the de-amalgamation goes ahead.

The key benefits identified above are not quantifiable and cannot be included in a calculation of net benefit or cost of de-amalgamation. As a result, the evaluation of two options for service levels (options A and B) both show an overall cost in net present value (NPV) terms of between \$150.8 million and \$162.9 million over ten years and between \$200.7 million and \$232.8 million over 20 years.

With the additional one-off transition costs estimated at \$31.2 million over two years (NPV of \$27.3 million), expected to be funded by the State Government as per S218CC(6) of the Local Government Act (NSW) 1993.

**Table 1 NPV across options over ten and twenty years (\$'000s)**

Accounts (\$'000s)	Net present value – ten years		Net present value – 20 years	
	Option A	Option B	Option A	Option B
NPV of demerging Inner West Council	-150,811	-162,860	-200,675	-232,819
One-off transition cost	-27,257	-27,257	-27,257	-27,257
NPV of demerging Inner West Council (including transition costs)	-178,068	-190,118	-227,932	-260,076

The NPV reflects an additional on-going cost impact of de-amalgamation for each council – approximately \$3.8 million per annum for Ashfield, \$2.8 million per annum for Leichhardt and \$3.2 million per annum for Marrickville (under option A). However, each of the de-amalgamated councils will determine how to bring their council into a financially sustainable position. They can decide to improve revenues by improving cost recovery of services, increasing annual charges or rates. They can elect to find efficiency gains through reviewing the levels and types of services provided. In fact, they can select a combination of any or all these options.

As with the de-amalgamations in 2014 in Queensland, councils were allowed to de-amalgamate on the basis that residents supported it. In this case, even though the full cost of demerger was borne entirely by the de-amalgamating council, these councils were able to determine revenues, services and service levels for their communities that brought the councils back to a financially sustainable operating position.

To provide an indication of the impact, if all of the identified on-going costs were absorbed through rate increases, the approximate average increase per rate assessment would be estimated at between \$87 and \$217 per annum for option A and between \$224 and \$471 per annum for option B, depending on the council.

**Table 2 Cost impacts per rate assessment - options A and B**

Option A:	Ashfield	Leichhardt	Marrickville
Recurring costs (\$'000s)	\$3,793	\$2,811	\$3,209
Rate assessments	17,463	25,348	36,678
<b>Cost per rates assessment</b>	<b>\$217</b>	<b>\$111</b>	<b>\$87</b>
Option B:	Ashfield	Leichhardt	Marrickville
Recurring costs (\$'000s)	\$8,227	\$5,686	\$10,892
Rate assessments	17,463	25,348	36,678
<b>Cost per rates assessment</b>	<b>\$471</b>	<b>\$224</b>	<b>\$297</b>

The estimated cost per rates assessment is not dissimilar to the high-level cost benefit assessment undertaken in July 2021, which estimated an average rate increase of between \$180 and \$297 per annum. The outcomes of this cost benefit assessment were made public, they were the subject of flyers promoting the subsequent consultation and election poll. Regardless of the estimated costs associated with a de-amalgamation, the community voted to de-merge with 62.49% in favour and 37.51% against.

This business case assesses the de-amalgamation of the Inner West Council into the three former councils of Ashfield, Leichhardt and Marrickville in line with the pre-2016 amalgamation proclamation boundaries. Noting the modelling includes the 15 former executive management positions and the 36 councillors, with an estimated cost differential of \$2.25 million more than the current Inner West Council.

The business case finds that while there is a net financial cost to a de-amalgamation and the benefits of de-amalgamation are largely unquantifiable and subjective, the affected community had access to the information about the potential costs and financial impact ahead of the poll.

Community consultation in July 2022 on the draft of this business case was inconclusive on whether the community supported or did not support the de-amalgamation, with 53% of telephone survey respondents supporting that Inner West Council remain as is. While this survey was statistically representative of the broader community with 600 respondents, there was a margin of error of up to +/- 4%.

Of those that supported the de-amalgamation the key reasons for their support were that smaller council areas provide better management, services and facilities and that the amalgamated council has not provided any improved services or services have declined. Of those that did not support de-amalgamation, the key reasons given were the financial impact of de-amalgamation and the efficiency of service delivery and management under the current council.

However, in weighing the estimated costs against their expectation of benefits, 62.49% of the 104,219 electors who voted in the 2021 council election voted for a de-amalgamation. This indicates that in the community's mind at least, there are significant non-financial benefits which should be considered.



## 2 Introduction

### 2.1 Background

#### 2.1.1 The creation of Inner West Council

The Inner West Council was formed, constituted by Local Government Proclamation dated 12 May 2016, as an amalgamation 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*<sup>2</sup>, ultimately rejected these stand-alone proposals based on a lack of scale and capacity.

On 6 January 2016, the Minister for Local Government referred a proposal for the merger of Ashfield, Leichhardt, and Marrickville Councils to the Acting Chief Executive Officer for the Office of Local Government, which ultimately resulted in the creation of Inner West Council on 12 May 2016<sup>3</sup>. Burwood, Canada Bay and Strathfield were not amalgamated.

#### 2.1.2 The current Inner West local government area

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 areas.

**Table 3 Populations**

	Population 2011	Population 2016	Population 2021*	Five-year % change	Ten-year % change
Marrickville	85,104	91,699	103,167	12.51%	21.22%
Ashfield	41,080	43,062	47,596	10.53%	15.86%
Leichhardt	51,385	55,147	61,764	12.00%	20.20%
<b>Inner West total</b>	<b>177,569</b>	<b>189,908</b>	<b>212,527</b>	<b>11.91%</b>	<b>19.69%</b>

\*Estimated resident population

A comparison of the councils prior to the amalgamation was reported in pre-merger analysis undertaken by Morrison Low in 2015<sup>4</sup> and is shown in the following table (using the Office of Local Government’s comparative data) compared to the Inner West in 2019/20.

<sup>2</sup> Independent Pricing and Regulatory Tribunal (IPART), 2015. *Assessment of Council Fit for the Future Proposals, Local Government – Final Report*, Sydney.

<sup>3</sup> Local Government Boundaries Commission (LGBC), 2016. *Proposed Merger of Ashfield, Leichhardt Municipal and Marrickville Councils – Comments by the NSW Local Government Boundaries Commission on the Report by the Delegate of the Acting Chief Executive Officer of the Office of Local Government*, Sydney.

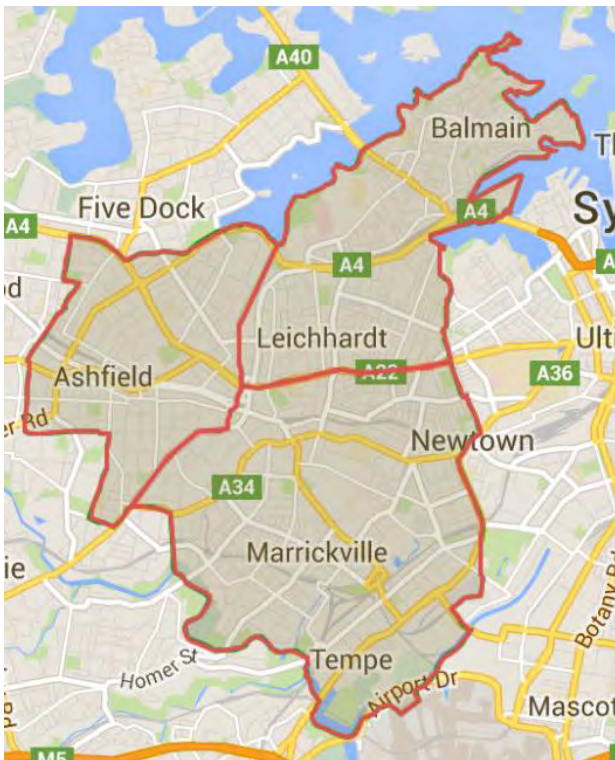
<sup>4</sup> Morrison Low, 2015. *Merger Business Case Comparison*, Sydney.

**Table 4 Council comparator data**

	Marrickville Council (2015)	Ashfield Council (2015)	Leichhardt Council (2015)	Inner West Council (2020)
Full time equivalent staff (FTE)	536	180	434	1,035
Geographic area	10.3km <sup>2</sup>	8.3km <sup>2</sup>	16.5km <sup>2</sup>	35.1km <sup>2</sup>
Population	82,523	44,175	57,266	212,527
Population projection 2031 <sup>5</sup>	102,300	53,400	67,550	223,250
Annual expenditure ('000s)	\$100,536	\$40,551	\$77,101	\$241,600
Number of councillors	12	12	12	15

The following map shows the Inner West local government area (LGA) as it is today, showing the location of the three former councils.

**Figure 1 Inner West Council area<sup>6</sup>**



<sup>5</sup> NSW Department of Planning and Environment, 2014. *New South Wales State and Local Government Area Population Projections: 2014 Final*.

<sup>6</sup> Local Government Boundaries Commission, 2016. *Proposed Merger of Ashfield, Leichhardt Municipal and Marrickville Councils – Comments but the NSW Local Government Boundaries Commission on the Report by the Delegate of the Acting Chief Executive Officer of the Office of the Local Government, Sydney*, p.1.

### 2.1.3 The journey to de-amalgamate

The amalgamation proclamation was immediately met with community resistance. A month after the interim administrator handed over to the first elected council in September 2017, it called for investigations into a de-amalgamation, with the first motion on a potential public inquiry and the timings and costs of a possible plebiscite carried in October 2017.

In May 2021, the NSW Parliament passed the *Local Government Amendment Act 2021* (Amendment Act)<sup>7</sup>, 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.

S218CC(6) of the Local Government Act also deals with the costs of the amalgamation as follows:

*“The Minister is, by making grants under section 620 or using money otherwise appropriated by Parliament for the purpose, to ensure that the cost of any de-amalgamation of the new area resulting from a business case submitted under this section is fully funded.”*

At the Extraordinary Council Meeting on 24 May 2021, the Inner West Council “*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;*

<sup>7</sup> 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.”*

In July 2021, Morrison Low completed a high-level cost benefit assessment of a potential de-amalgamation. The assessment was included in information made available to the public, prior to community consultation and a poll in the 4 December 2021 council election.

The poll resulted in 62.5% of electors supporting a de-amalgamation. The community consultation was more mixed in its support of a de-amalgamation, with further commentary indicating there was some concern about how much a de-amalgamation would cost.

On 8 February 2022, the newly elected council resolved that Council “commences the preparation of a business case for demerger and notifies the NSW Government of the commencement of the development of a business case for demerger:

- 1. Notes the concerns expressed by Council officers through the resolution of the Joint Consultative Committee about the impact of demerger on morale and productivity within the organisation and commits to engaging with Council staff and their representatives throughout the development of the business case;**
- 2. Notes the overwhelming majority vote of the Inner West Community to demerge; and**
- 3. Involve the community in the preparation of the business case.”**

## 2.2 Scope

The development of the de-amalgamation business case was undertaken in two phases:

- Phase one (April – early June 2022): the development of a draft business case to be adopted by Council in June 2022.
- Phase two: finalise the business case after community and staff consultation.

Inner West Council has commissioned Morrison Low to develop the draft business case for phase one. Council will conduct the phase two community consultation and update the business case with this feedback.

There are no published requirements or guidelines for the development of a business case or proposal to de-amalgamate. In the absence of this, the NSW Government Business Case Guidelines have been utilised where it is appropriate to inform the structure and content of this de-amalgamation business case. The financial and commercial analysis sections outlined in the guidelines have been consolidated. This business case is considered a detailed business case under the NSW Government Business Case Guidelines and, as such, covers stages nought to two outlined in the guidelines.

This business case has been prepared for submission to the NSW Minister for Local Government, who under S218CC(2) of the Local Government Act is required to refer it to the Local Government Boundaries Commission (LGBC) within 28 days to conduct an inquiry and report on the proposal. The LGBC’s role is defined under chapter nine, part three of the Local Government Act. S263(3) outlines the factors that the LGBC are required to consider as follows:

*“When considering any matter referred to it that relates to the boundaries of areas or the areas of operations of county councils, the Boundaries Commission is required to have regard to the following factors –*

**Table 5 Local Government Act chapter nine, part three - factors**

<b>Factor</b>	<b>Addressed in this report in the following sections:</b>
<i>a. the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned</i>	Section four: Cost benefit analysis
<i>b. the community of interest and geographic cohesion in the existing areas and in any proposed new area</i>	Section four: Cost benefit analysis
<i>c. the existing historical and traditional values in the existing areas and the impact of change on them</i>	Section four: Cost benefit analysis
<i>d. the attitude of the residents and ratepayers of the areas concerned</i>	Section three: The case for change
<i>e. the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area</i>	Section four: Cost benefit analysis
<i>e1. the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities</i>	Section four: Cost benefit analysis
<i>e2. the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned</i>	Section six: Managerial analysis

Factor	Addressed in this report in the following sections:
<i>e3. the impact of any relevant proposal on rural communities in the areas concerned</i>	Not applicable (no rural communities)
<i>e4. in the case of a proposal for the amalgamation of two or more areas, the desirability (or otherwise) of dividing the resulting area or areas into wards</i>	Not applicable (not an amalgamation proposal)
<i>e5. in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented</i>	Not applicable (not an amalgamation proposal)
<i>f. such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.”</i>	Section four: Cost benefit analysis

The relevant factors have been considered in this business case, in the sections outlined above.

In July 2021, the then Minister for Local Government announced an independent statutory review into the provisions that govern the LGBC. However, to date there is no communicated time frame for when this review will be conducted. This business case is written under the assumption that the current provisions in the Local Government Act remain in place for LGBC to review the de-amalgamation proposal.

### 2.2.1 In scope for the business case

The high-level cost benefit assessment conducted in 2021 was used as a starting point for this business case. The analysis underlying this assessment has been reviewed as part of the development of this business case, and relevant parts of the cost benefit assessment report have been replicated in this document.

The business case includes:

- A review and updating of the financial analysis provided in the high-level cost benefit assessment from 2021, including:
  - estimating the ongoing financial costs and savings including changes to services
  - estimating the one-off transition costs, which it is assumed under S218CC(6) of the Local Government Act will be funded by the NSW State Government
  - predicting the financial performance of the de-amalgamated councils against the Office of Local Government (OLG) performance indicators over a ten-year period
  - estimating the net present value for all of the financial savings and costs of de-amalgamation.
- Identifying the non-financial benefits and cost of de-amalgamation including:
  - reviewing the perception of the performance of the Inner West Council
  - comparing each council’s strategic direction through their Community Strategic Plans
  - considering the representation implications of de-amalgamation
  - reviewing community feedback on a de-amalgamation, including consultation in 2021 on the cost benefit assessment, the poll results and consultation undertaken on the draft of this business case.
- Analysing the risks associated with a de-amalgamation, including an analysis of impacts on key resources including people, assets, finances and information technology.

### 2.2.2 Out of scope for the business case

This business case does not include any detailed analysis or review of the 2016 decision to amalgamate the three councils, recognising that the NSW Boundaries Commission have noted in its most recent reviews that its role is “not to review the 2016 merger”<sup>8</sup>. However, some consideration has been given to the veracity of the claimed amalgamation net benefits identified in 2016.

## 2.3 Approach

Morrison Low has relied on past relevant de-amalgamation cases, processes used in the amalgamation and has made assumptions under which the de-amalgamation would occur (provided in Appendix A).

The most recent de-amalgamation of councils in Australia occurred in Queensland on 1 January 2014 and we have looked to these de-mergers for a guide to the possible costs and benefits that may occur in a de-amalgamation of the Inner West Council.

We have also considered the recent de-amalgamation proposals of Snowy Valleys and Cootamundra-Gundagai and the LGBC’s determinations on these (including the dissenting reports).

The data used in preparing this report is largely based on publicly available information, namely financial statements, Long Term Financial Plans, Annual Reports, Asset Management Plans and Council reports, along with information from Inner West Council. Council provided information was 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.

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

To re-establish the former councils, Morrison Low used the validated 2015<sup>9</sup> modelling to create a pre-merger starting position. Each proposed council’s position was created by using modelling for the six Inner West councils and validated by comparing the results of the three recreated councils to the three councils that have remained stand alone. Drawing on this work we established the starting financial and service/functional positions for each proposed council for 2019/20. Changes in service levels, costs, benefits, and new industry compliance obligations that have occurred since the Inner West amalgamation were identified and allocated to the proposed de-amalgamated councils. This process was extensively validated through consultation with relevant staff.

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<sup>8</sup> NSW Local Government Boundaries Commission, 2021. *Examination of a proposal to alter the boundaries of the Cootamundra Gundagai local government area and create a new Local government area - Report by the Local Government Boundaries Commission to the Minister for Local Government*. Sydney, p.4. and

NSW Local Government Boundaries Commission, 2021. *Examination of a proposal to alter the boundaries of the Snowy Valleys local government area and create a new local government area - Report by the Local Government Boundaries Commission to the Minister for Local Government*. Sydney, p3.

<sup>9</sup> Morrison Low, 2015. *Inner West Council’s Fit for the Future - Shared Modelling*. Sydney.

In July 2021, the then Minister for Local Government announced an independent statutory review into the provisions that govern the LGBC. However, to date there is no communicated time frame for when this review will be conducted. This business case is written under the assumption that the current provisions in the Local Government Act remain in place for LGBC to review the de-amalgamation proposal.



### 3 The case for change

The 2016 amalgamation of Ashfield, Leichhardt and Marrickville Councils into the Inner West Council was an unpopular decision for some community members from the outset. The community has expressed a desire to return to the three former councils.

This has culminated in the poll conducted in the December 2021 council elections, which showed that 62.49% of electors supported a de-amalgamation of the Inner West Council. This proposal reflects the communities of the Inner West's right to self-determination and puts forward an objective business case to de-amalgamate, for consideration by the NSW Minister for Local Government and the NSW Local Government Boundaries Commission.

We estimate that a de-amalgamation will cost on average per rates assessment between \$87 and \$471 per annum, but the key benefits are not easily quantifiable. The comparison of financial (quantitative) benefits and qualitative benefits is a subjective one. It is ultimately the community's view of how they are balanced that matters.

We note that the analysis in this business case is not materially different from the cost benefit assessment undertaken in July 2021. That assessment was made public and was the subject of community consultation leading up to the poll. Despite the financial assessment indicating an overall cost, the community remained supportive of the de-amalgamation.

It has to be assumed from this that the community's perceived qualitative benefits of de-amalgamation outweigh the estimated financial costs.

This section outlines further the following factor under S263(3) of the Local Government Act that are required to be considered by the LGBC:

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

#### 3.1 Community response to the amalgamation

The community's dissatisfaction with the amalgamation was expressed from the outset. The first meeting of the newly merged council was abandoned after it was taken over by protestors to the amalgamation. Since this time there has been a sustained campaign for the de-amalgamation of the Inner West Council by self-organised groups such as Save Our Councils and Residents for De-amalgamation, supported by a variety of local and state politicians, as well as other groups like the Demerger NSW Alliance.

When the interim administrator of Inner West Council handed over to the first elected council in September 2017, the newly elected council quickly commenced investigations into a potential de-amalgamation. In October 2017, the Council resolved to investigate the potential for a public inquiry and plebiscite for a de-amalgamation.

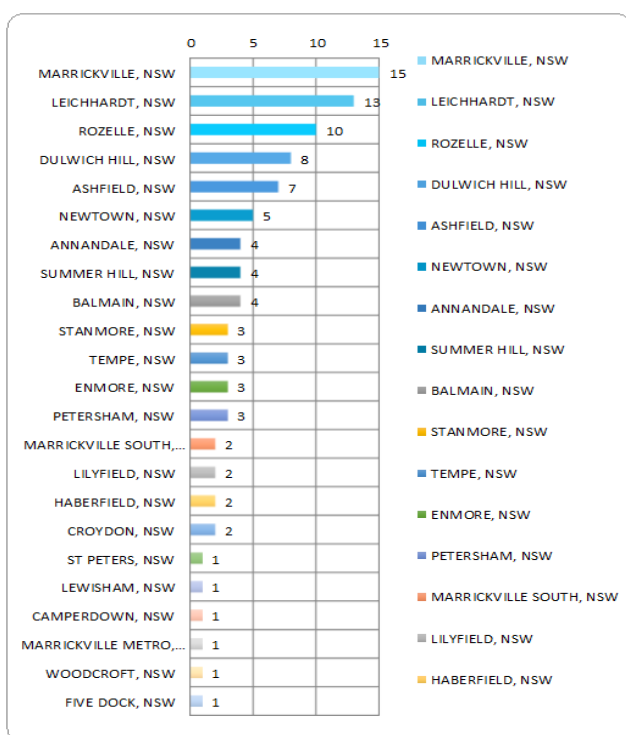
Over the last five years, community groups continued to mobilise and call for a plebiscite and there has been continued debate in council meetings to investigate the costs of de-amalgamation and a plebiscite. In May 2021, this resulted in the resolution to undertake a cost benefit assessment, investigate staff sentiment and to develop a de-amalgamation poll question for the next council election.

### 3.2 Results of 2021 community consultation on cost benefit assessment

In August 2021, the Council conducted community consultation on the de-amalgamation cost benefit assessment. The community was invited to provide feedback online via Council’s engagement hub ([yoursay.innerwest.nsw.gov.au](https://yoursay.innerwest.nsw.gov.au)). The project was promoted through Council’s website, social media channel, press release, Council’s e-news and Your Say Inner West special bulletin.

Community feedback opened on 31 August 2021 and closed on 15 September 2021, a total of 413 participants viewed the project page and 122 participants responded to the survey. An additional 25 responses were received by email through an online petition tool called “the Action Network”.

**Figure 2 Geographic distribution of survey respondents**



The feedback on de-amalgamation cost benefit was mixed, the key themes included<sup>10</sup>:

- de-amalgamation should be done at no cost to ratepayers who didn’t want it at first
- unwillingness to want to pay additional costs for de-amalgamation
- the area is too large and too diverse to be managed under one ‘banner’
- de-amalgamation will cause significant financial burden – economies of scale should prevail
- de-amalgamation is a costly exercise to ratepayers
- satisfied with fewer councillors serving a larger area
- de-amalgamation means more interruption and rate rises
- the only benefit reported is greater access to local councillors
- patently obvious that there is great cost and little benefit to de-amalgamation

<sup>10</sup> Inner West Council, 2021. *De-amalgamation cost benefit community consultation highlights*.

- a complete waste of the money spent on doing the amalgamation
- there are far more important issues to be spending time and money on
- de-amalgamation will be a long, arduous and expensive process – pure bureaucratic waste of funds
- will only result in an increase in costs and rates
- de-amalgamation is only good if ratepayers don't pay for it
- need to move on rather than live in the past
- services have deteriorated.

The community also provided feedback on the cost benefit assessment that has been considered in the development of this business case, including:

- inclusion of an option in the cost benefit analysis which considers going back to pre-merger service levels, where possible
- review of recent Local Government Boundaries Commission reports on previously considered de-amalgamation proposals
- provide a clearer executive summary for the community
- more information on qualitative benefits, including democratic representation
- investigate shared services options.

### 3.3 The de-amalgamation poll

As part of the December 2021 council election, a poll was conducted for Inner West electors that asked:

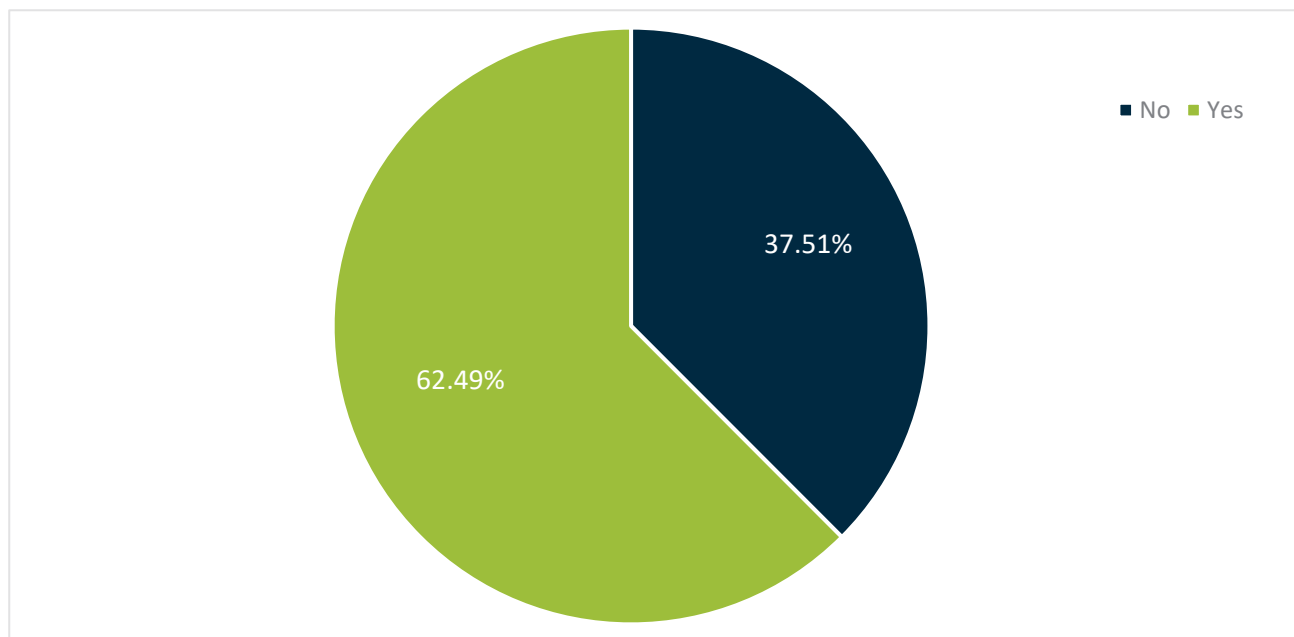
*In May 2016, Ashfield, Leichhardt and Marrickville councils were amalgamated into one local government area by the State Government. Do you support the Inner West local government area being de-amalgamated, so as to restore the former local government areas of Ashfield, Leichhardt and Marrickville?*

Of the 106,950 votes representing 80.73% of registered voters, 2.55% were informal votes. Of the remaining 104,219 votes, 65,126 (62.49%) voted “yes” on the above question supporting a de-amalgamation and the remaining 39,093 (37.51%) voted “no”.<sup>11</sup>

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<sup>11</sup> NSW Electoral Commission, 2021. *Inner West Poll Election results*. Retrieved from <https://pastvtr.elections.nsw.gov.au/LG2101/inner-west/poll> on 3 May 2022.

Figure 3 Inner West de-amalgamation poll results



### 3.4 Results of 2022 community consultation on this business case (phase two)

In order to complete this business case, Council undertook community engagement to seek feedback on the current level of community satisfaction with Council, community priorities, reasons why the community wanted the de-amalgamation, and the preferred service levels as outlined within this business case.

As part of the preparation of the business case the following engagement was undertaken with the community:

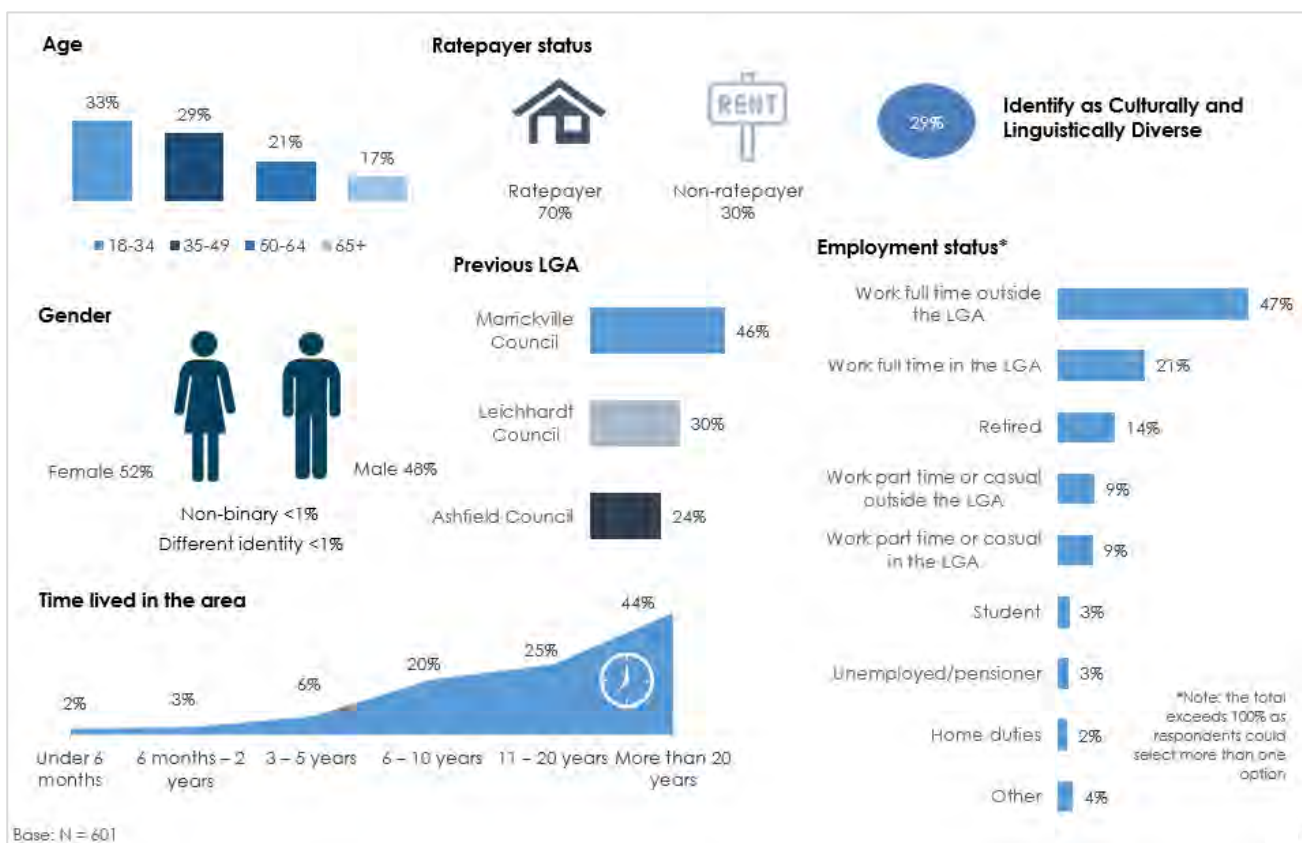
- A flyer letterboxed to all households was prepared by the same independent copywriter that developed the cost benefit analysis flyer in 2021 (not by Council staff) and was reviewed by an independent fact checker prior to distribution.
- The draft business case was placed on public exhibition for 28 days.
- The engagement for the draft business case was promoted via the following communication channels:
  - Council’s website
  - social media
  - media release
  - Council’s e-newsletter
  - Your Say Inner West
  - Inner West Newsletter
  - Council’s column in the local newspaper.
- The Council invited submissions via Council’s engagement hub ([yoursay.innerwest.nsw.gov.au](https://yoursay.innerwest.nsw.gov.au)) and also provided options to the community to provide feedback via:
  - paper survey

- phone or through the TIS and voice relay services.
- An online public forum was chaired by the general manager and attended by Morrison Low.

Details of the communications undertaken are provided in the campaign report in Appendix F. The online forum had 71 attendees, 21 of these registered with email addresses ending in “@innerwest.nsw.gov.au” identifying them as either staff or councillors. Of the remaining 50 participants, 14 registered with non-council email addresses and a further 36 joined anonymously (some of these may be duplicates). The forum was recorded and the recording was made available on Council’s website for those that could not attend the live meeting. Details of the questions and comments posted in the forum are provided in Appendix G.

Additionally, Council engaged Micromex Research to conduct a phone survey of 601 residents to explore the community support for submitting a de-amalgamation business case to the Minister. The sample surveyed was weighted by age and gender to reflect the 2021 ABS community profile for the Inner West LGA, as well as weighted by the pre-merger LGA populations. As a result, the telephone survey results are statistically representative of the community with the greatest margin of error of +/- 4%.

**Figure 4 Telephone survey sample profile**

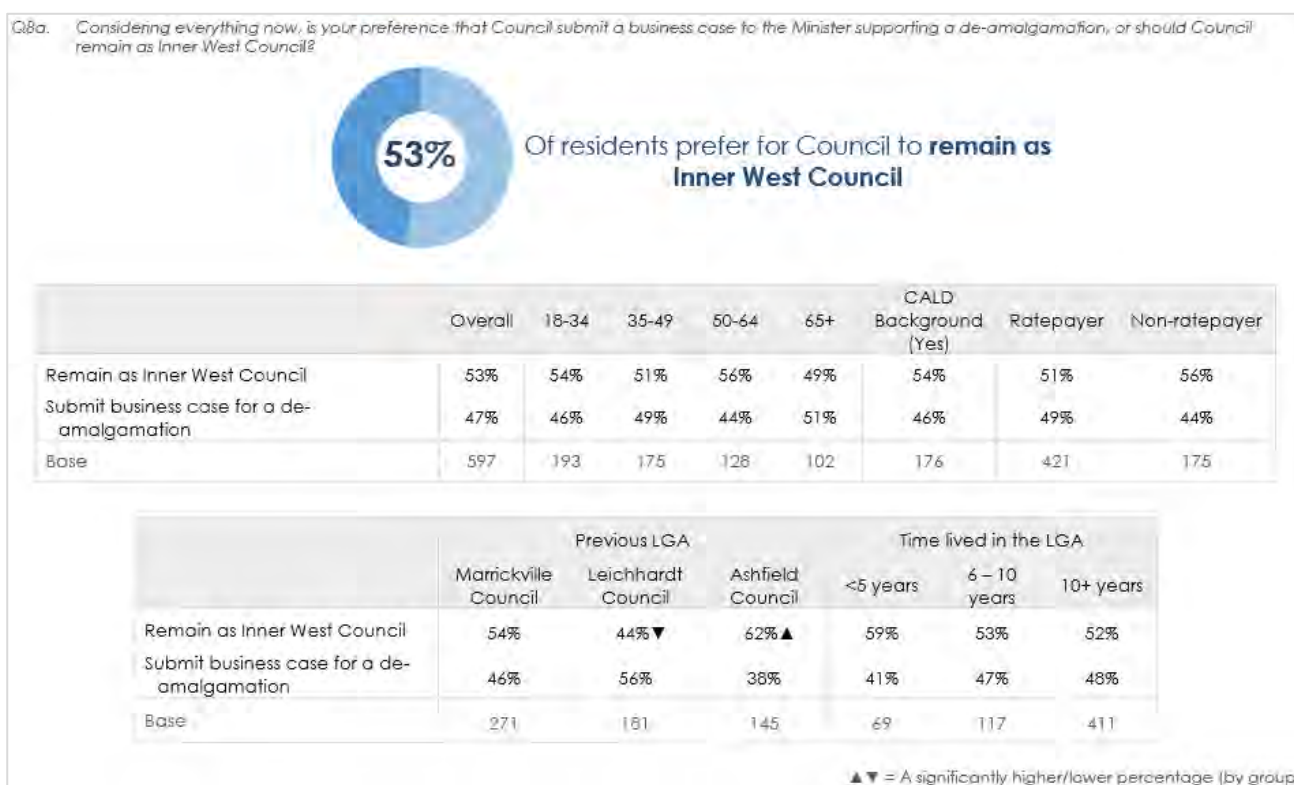


Council utilised the same questions for an online Your Say Inner West survey. As participants self-selected to respond, the results of the online survey cannot be considered statistically representative of the wider community.

From the telephone survey, 87% of respondents were at least somewhat satisfied with the performance of Inner West Council in the last 12 months. While 53% of telephone survey respondents prefer for Council to remain as Inner West Council. However, as the survey's greatest margin of error is +/- 4%, it is impossible to conclude with confidence that there is support for either remaining or de-amalgamating. Those in the former-Ashfield LGA were most supportive of remaining as Inner West Council. Support for submitting the de-amalgamation business case was greatest in Leichardt and generally increased with the respondent's age and length of time lived in the LGA.

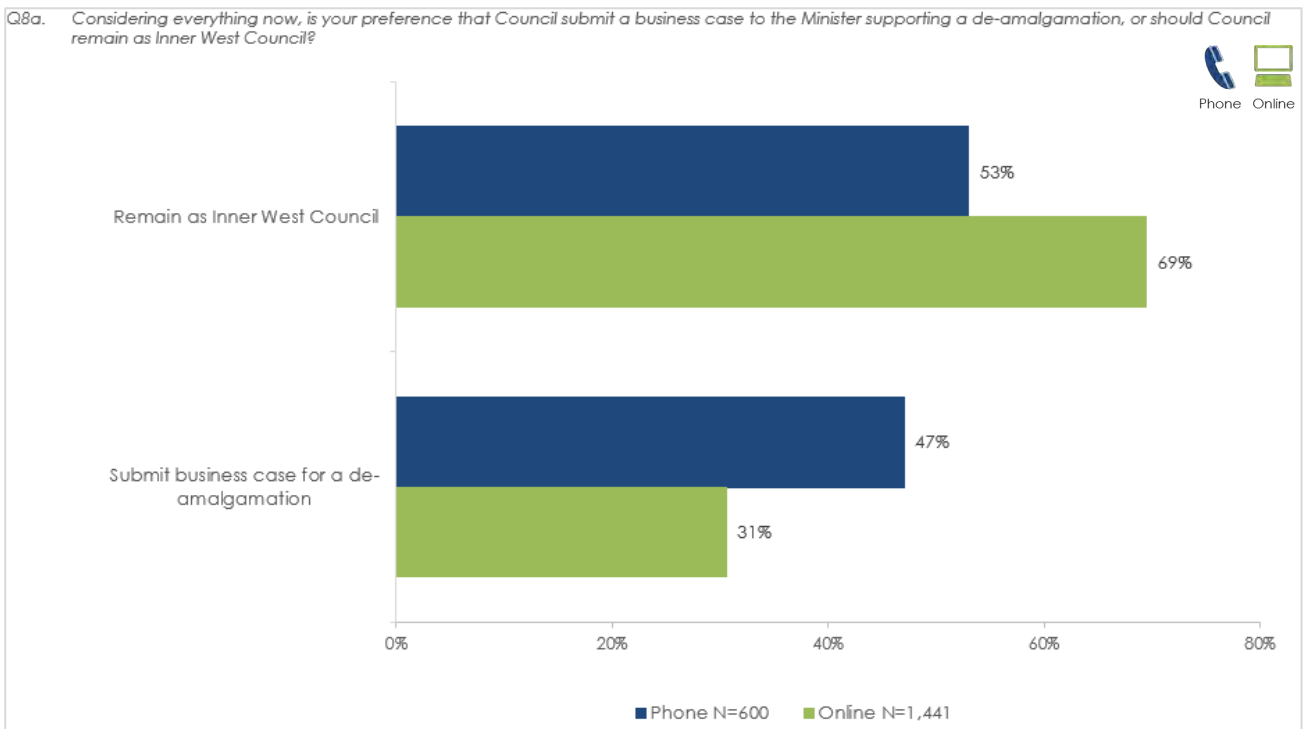
The top reasons for remaining as the Inner West Council were the financial impact of de-amalgamation and the efficiency of service delivery and management under the current council. The top reasons given to submit the business case for de-amalgamation were that smaller council areas provide better management, services and facilities and that the amalgamated council has not provided any improved services or services have declined.

**Figure 5 Telephone survey - preference for de-amalgamation or remaining Inner West Council**



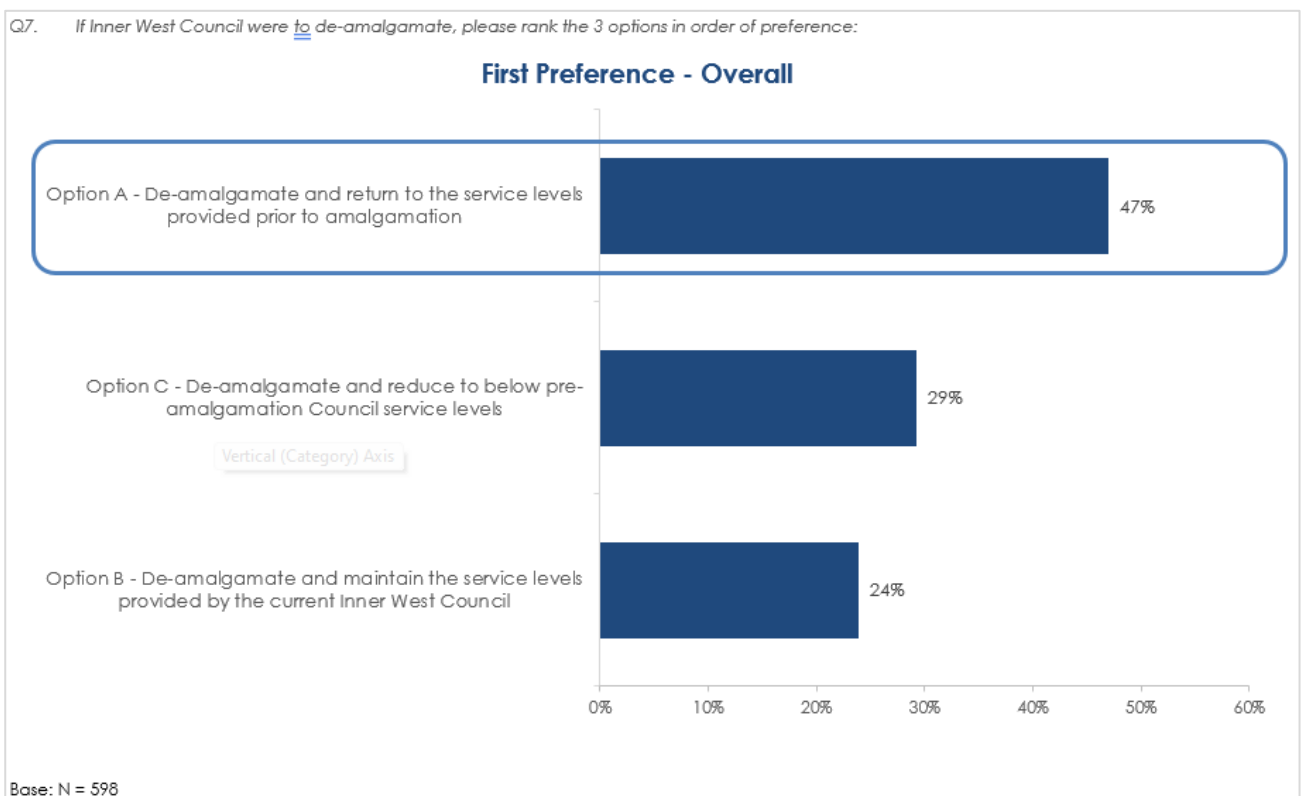
Respondents to the online survey were more supportive on remaining as Inner West Council, and this difference flowed through in many of the online survey results.

**Figure 6 Telephone and online comparison – preferences for de-amalgamation or remaining Inner West Council**



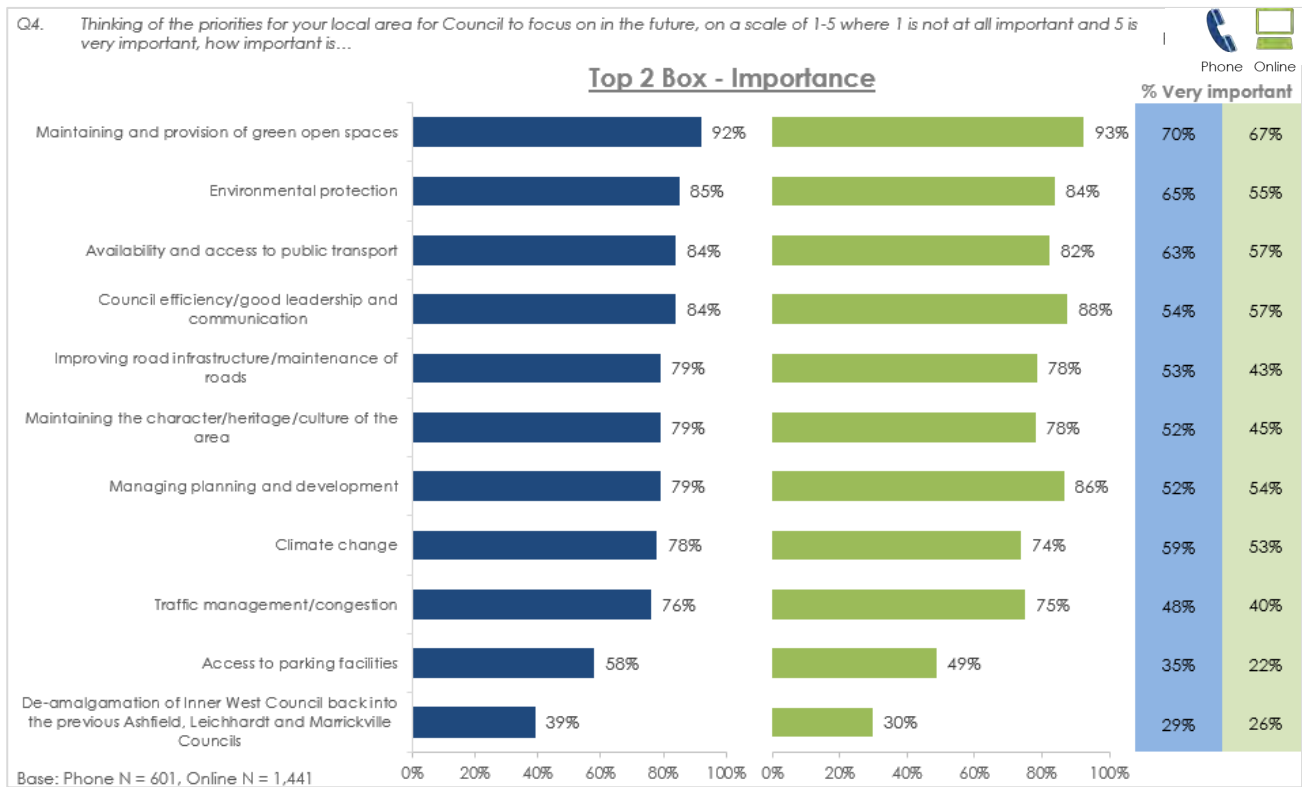
When considering the de-amalgamation options presented in the draft business case, telephone survey respondents showed a preference for option A - pre-merger service levels. As a result, the final business case has been updated to reflect this as their preferred option.

**Figure 7 Telephone survey – preferred de-amalgamation option**



Both telephone and online survey respondents prioritised many issues as significantly more important than de-amalgamation. As detailed in the following table blue telephone and green online survey results.

**Figure 8 Telephone and online – priorities for Council to focus on in the local area**



The full results for both surveys, including the unedited responses to open-ended questions, are provided in Appendices H, I, J, K and L. The community engagement also provided further insight into the benefits of the amalgamation, which is included in the relevant sections of this business case.



## 4 Cost benefit analysis

This section outlines the financial and qualitative (social, economic and environmental) costs and benefits of the proposed de-amalgamation of Inner West Council.

Three options for de-amalgamation have been investigated. Two of these, options A and B, which investigate different levels of service for the de-amalgamated councils, are modelled and compared to the base case, the current Inner West Council. A third option of shared services is considered but discounted after a review of the literature indicated there was little demonstrated benefit of shared services for NSW local government.

The analysis in this section addresses the following factors under S263(3) of the Local Government Act that are required to be considered by the LGBC:

The financial cost-benefit analysis addresses:

- a. the financial advantages or disadvantages (including the economies or diseconomies of scale) of any relevant proposal to the residents and ratepayers of the areas concerned*
- e1. the impact of any relevant proposal on the ability of the councils of the areas concerned to provide adequate, equitable and appropriate services and facilities.*

The qualitative analysis addresses:

- b. the community of interest and geographic cohesion in the existing areas and in any proposed new area*
- c. the existing historical and traditional values in the existing areas and the impact of change on them*
- e. the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area*
- f. such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.*

While the financial analysis of the de-amalgamation options may demonstrate a negative NPV, the quantum of the financial costs should be considered against the non-financial benefits identified.

### 4.1 Financial model fundamentals

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.

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 options.

We have modelled two scenarios:

- **Option A (preferred) - services and service levels prior to the amalgamation:** this scenario assumes that each de-amalgamated council reverts back to the services and service levels that were provided for that council prior to the 2016 amalgamation, where feasible. Some services that have been created post-amalgamation cannot be undone, and these remained in the model. Examples of these services include the Ashfield pool expansion, the new Leichhardt Park and Yirran Gumal childcare centres, and the introduction of the Emergency Services Levy.
- **Option B - current service and service levels of Inner West Council:** this scenario assumes each of the de-amalgamated councils 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). As a result, this scenario is the current services and service levels of Inner West Council delivered by the de-amalgamated councils.

A third option, **option C - shared services**, has been investigated but not modelled. There are many permutations of potential shared services, but as the analysis in section 4.5 (page 39) shows, a review of the academic and professional literature indicated that there was no demonstrated benefit in shared services in an Australian local government context.

The intention of the analysis is to identify the likely range of costs and benefits of de-amalgamation. We have not therefore identified a preferred option (that is either option A or B) as service levels of each of the de-amalgamated councils will be a decision for that council.

As under S218CC(6) of the Local Government Act one off transition costs are funded by the NSW Government, these have been modelled separately and are discussed in section five, ‘Financial and commercial analysis’, below. One-off transition costs are not expected to vary significantly between the modelled options. NPV calculations on each of the modelled options are provided inclusive and exclusive of the one-off transition costs.

#### 4.1.1 Details of modelling

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.

This modelling has accounted for the changes in operating performance that would have occurred in the absence of the amalgamation, 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).

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. For this analysis, we have assumed the proposal is to return the councils to the shape and form that existed prior to the Inner West amalgamation.

The nominal de-amalgamation date for the purposes of this report is 1 July 2023.

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. The modelling assumes the executive structure and councillor numbers in place pre-amalgamation would be in place should the de-amalgamation occur. The estimated total costs of the executive structure for the three councils (three general managers and 12 director-level positions) are in the order of ~ \$3.85 million per annum. For Inner West Council (one general manager and five director-level positions) they are estimated at ~ \$1.9 million per annum.<sup>12</sup> Estimated councillor costs for the three de-amalgamated councils (36 councillors including three mayors) are ~ \$880,000 per annum and for Inner West Council (15 councillors including a mayor) are ~ \$556,000 per annum.<sup>13</sup>
3. We have used 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 2022/23.
4. 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 reasonable.
5. 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.

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<sup>12</sup> McArthur, 2021. '2021- 2022 / Local Government National Remuneration Survey'. Additional remuneration information provided by Inner West Council.

<sup>13</sup> Data sourced from the NSW Local Government Remuneration Tribunal.

## 4.2 The base case - Inner West Council

The basis to compare the de-amalgamation options to is the 2021-22 financial position and 2022-23 Long Term Financial Plan (LTFP) of the Inner West Council. The current LTFP shows Council starting to produce growing surpluses before capital items from 2023-24.

**Table 6 Inner West Council 2022-23 LTFP Income Statement**

(\$'000s)	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
<b>Income from continuing operations</b>											
Rates and annual charges	161,162	165,444	168,305	171,529	175,055	178,752	183,040	186,635	190,277	193,988	197,826
User fees and charges	45,071	52,007	53,044	54,102	55,181	56,282	57,405	58,550	59,718	60,910	62,125
Interest and investment income	4,205	3,450	3,486	3,522	3,560	3,600	3,640	3,680	3,722	3,765	3,808
Other income	17,557	18,330	18,355	18,381	18,407	18,434	18,461	18,489	18,518	18,547	18,576
Rental income	4,785	5,809	8,092	7,814	7,226	7,370	7,518	7,668	7,821	7,978	8,137
Grants & contributions – operating	10,006	9,310	9,310	10,275	9,260	9,260	9,260	10,225	9,260	9,260	9,260
Grants & contributions – capital	25,054	28,928	44,198	14,993	13,393	13,143	13,143	13,036	13,143	13,143	13,143
Gain/loss on disposal of assets	1,606	-1,582	-1,638	-1,912	-728	-368	-874	-1,488	-1,321	-796	207
<b>Total income</b>	<b>266,233</b>	<b>281,696</b>	<b>303,152</b>	<b>278,706</b>	<b>281,355</b>	<b>286,474</b>	<b>291,593</b>	<b>296,797</b>	<b>301,139</b>	<b>306,795</b>	<b>313,084</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	120,930	127,200	130,176	132,853	136,195	139,565	143,021	146,565	150,200	153,927	157,750
Borrowing costs	979	860	792	724	680	639	597	555	511.00	466	421
Materials and contracts	78,383	79,360	79,092	81,065	80,412	80,928	81,454	83,300	82,653	83,287	84,007
Depreciation	31,983	33,104	33,650	34,360	35,021	35,487	36,180	36,809	37,340	37,751	38,029
Other expenses	13,300	12,988	13,063	13,138	13,214	13,292	13,371	13,451	13,532	13,614	13,698
<b>Total expenses</b>	<b>245,574</b>	<b>253,513</b>	<b>256,771</b>	<b>262,140</b>	<b>265,522</b>	<b>269,912</b>	<b>274,623</b>	<b>280,680</b>	<b>284,236</b>	<b>289,045</b>	<b>293,904</b>
<b>Net operating result</b>	<b>20,659</b>	<b>28,183</b>	<b>46,380</b>	<b>16,565</b>	<b>15,833</b>	<b>16,563</b>	<b>16,970</b>	<b>16,117</b>	<b>16,903</b>	<b>17,750</b>	<b>19,180</b>
<b>Net operating result before capital items</b>	<b>-4,395</b>	<b>-744</b>	<b>2,182</b>	<b>1,572</b>	<b>2,440</b>	<b>3,419</b>	<b>3,826</b>	<b>3,081</b>	<b>3,760</b>	<b>4,607</b>	<b>6,036</b>

Council’s LTFP also demonstrates that it is meeting all the key financial ratios, except for the asset maintenance ratio. However, Council plans to spend more on asset renewal to improve asset conditions.

**Table 7 Inner West 2022-23 LTFP financial performance ratios**

	Benchmark	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Operating performance ratio	>0	-1.8%	-0.3%	0.8%	0.6%	0.9%	1.3%	1.4%	1.1%	1.3%	1.6%	2.0%
Own source operating revenue	>60%	86.8%	86.4%	82.4%	90.9%	92.0%	92.2%	92.3%	92.2%	92.6%	92.7%	92.8%
Unrestricted current ratio	>1.5x	3.7	1.6	1.5	1.6	1.5	1.6	1.6	1.6	1.7	1.7	1.6
Rates and annual charges outstanding ratio	<5%	3.3%	3.3%	3.3%	3.2%	3.2%	3.2%	3.1%	3.1%	3.1%	3.1%	3.0%
Cash expense cover ratio	>3 months	15.1	8.5	7.1	6.6	6.4	6.2	6.3	6.3	6.6	6.7	6.8
Infrastructure renewal ratio	>100%	66.0%	163.0%	143.0%	119.0%	106.0%	101.0%	106.0%	108.0%	100.0%	99.0%	96.0%
Asset maintenance ratio	>100%	64.0%	61.0%	59.0%	60.0%	61.0%	61.0%	62.0%	63.0%	64.0%	64.0%	65.0%

The 2022-23 LTFP demonstrates that Inner West Council is in a strong financial position and is meeting the Fit for the Future financial benchmarks. It is one of the few merged councils in this position. The two de-amalgamation options are compared to this current state LTFP to determine the net present value of each.

### 4.3 Option A (preferred) - pre-merger services and service levels

This option modelled growth of revenues and expenses from the assumed date of de-amalgamation on the basis that the de-amalgamated councils revert to their pre-merger service levels where feasible. This option was identified as the preferred option for 47% of telephone survey respondents in the survey undertaken to seek feedback on the draft of this business case in July 2022.

We have 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 that cannot be undone, including:

- new/additional compliance requirements that have come into force since the 2016 amalgamation
- capital expenditure and asset renewals delivered.

The table below provides an outline of how these costs and revenues have been distributed to the de-amalgamated councils.

**Table 8 Distribution approaches - option A**

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"> <li>• Emergency Services Levy introduction</li> </ul>
Allocated entirely to a specific council	To an individual council where a service change solely impacts one council.	<ul style="list-style-type: none"> <li>• Ashfield Aquatic Centre debt and staffing</li> <li>• Leichhardt Park Child Care Centre</li> <li>• Yirran Gumal Early Learning Centre, Steel Park</li> </ul>
Per council	Allocated based on same cost/service change regardless of size.	<ul style="list-style-type: none"> <li>• IT, HR and project management resourcing costs</li> </ul>

#### 4.3.1 Ongoing costs and benefits allocation

The following table is a summary of the allocation of all adjustment to income, costs and services allocated to the proposed de-amalgamated councils, using the distribution approach detailed above.

**Table 9 Changes to ongoing costs and benefits - option A**

	(\$'000s)	Ashfield	Leichhardt	Marrickville	Total distributed
<b>Income from continuing operations</b>					
Rates & annual charges		0	0	0	0
User fees & charges		3,967	1,704	645	6,316
Interest and investment income		0	0	0	0
Other income		0	0	0	0
Grants & contributions - operations		0	0	0	0
Grants & contributions - capital		0	0	0	0
<b>Total income</b>		<b>3,967</b>	<b>1,704</b>	<b>645</b>	<b>6,316</b>
<b>Expenses from continuing operations</b>					
Employee benefits & oncosts		2,721	1,564	-152	4,133
Borrowing costs		1,100	0	0	1,100
Depreciation		805	62	787	1,654
All other expenses		3,133	2,888	3,219	9,240
<b>Total expenses</b>		<b>7,759</b>	<b>4,514</b>	<b>3,854</b>	<b>16,127</b>
<b>Operating result</b>		<b>-3792</b>	<b>-2810</b>	<b>-3209</b>	<b>-9811</b>

The consequential impact of the total net de-amalgamation costs per rateable assessment is illustrated in the following table.

**Table 10 Costs impacts per rate assessment - option A**

	Ashfield	Leichhardt	Marrickville
Recurring costs (\$'000s)	\$3,792	\$2,810	\$3,209
Rate assessments	17,463	25,348	36,678
<b>Cost per rates assessment</b>	<b>\$217</b>	<b>\$111</b>	<b>\$87</b>

### 4.3.2 Long-term financial projections

The estimated projected operating result for each proposed de-amalgamated council is detailed in the following tables. All three councils are projected to make deficits (excluding capital items) that slowly reduce over the ten-year period. This is a result of increased costs for the new facilities in each council area, as well as increased cost burden for some services.

Both Ashfield and Marrickville reported operating deficits in the years prior to the amalgamation. As Leichhardt reported surpluses prior to amalgamation, it is projected to return to surpluses faster. Marrickville is projected to experience the highest deficits, which is partly due to the expiry of their special rate variation in the amalgamation period.

**Table 11 Ashfield Council - income statement - option A**

(\$000)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income from continuing operations</b>											
Rates and annual charges	37,270	38,147	39,118	40,122	41,189	42,404	43,654	45,067	46,574	47,899	49,259
User charges and fees	8,215	8,543	8,883	9,212	9,552	9,903	10,265	10,640	11,068	11,511	11,969
Interest and investment income	1,206	634	326	81	-	-	-	-	-	-	-
Other income	2,630	2,696	2,763	2,832	2,903	2,976	3,050	3,126	3,205	3,285	3,367
Grants and contributions - operating	2,447	2,508	2,571	2,635	2,701	2,769	2,838	2,909	2,982	3,056	3,133
Grants and contributions - capital	184	184	184	184	184	184	184	184	184	184	184
<b>Total Income</b>	<b>51,953</b>	<b>52,713</b>	<b>53,846</b>	<b>55,066</b>	<b>56,529</b>	<b>58,235</b>	<b>59,991</b>	<b>61,926</b>	<b>64,012</b>	<b>65,935</b>	<b>67,911</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	25,254	25,886	26,533	27,196	27,876	28,573	29,287	30,019	30,770	31,539	32,328
Borrowing costs	1,161	1,114	1,064	1,014	964	911	854	803	743	681	617
Materials and contracts	-	-	-	-	-	-	-	-	-	-	-
Depreciation	7,757	8,108	8,460	8,806	9,159	9,498	9,844	10,194	10,549	10,813	11,083
Other expenses	20,643	21,159	21,688	22,230	22,786	23,356	23,940	24,538	25,152	25,780	26,425
<b>Total Expenses</b>	<b>54,815</b>	<b>56,267</b>	<b>57,744</b>	<b>59,247</b>	<b>60,785</b>	<b>62,337</b>	<b>63,925</b>	<b>65,554</b>	<b>67,213</b>	<b>68,813</b>	<b>70,453</b>
<b>Net Operating Result</b>	<b>(2,862)</b>	<b>(3,555)</b>	<b>(3,898)</b>	<b>(4,182)</b>	<b>(4,256)</b>	<b>(4,102)</b>	<b>(3,934)</b>	<b>(3,628)</b>	<b>(3,201)</b>	<b>(2,878)</b>	<b>(2,542)</b>
<b>Net operating result before capital items</b>	<b>(3,046)</b>	<b>(3,739)</b>	<b>(4,082)</b>	<b>(4,366)</b>	<b>(4,440)</b>	<b>(4,286)</b>	<b>(4,118)</b>	<b>(3,812)</b>	<b>(3,385)</b>	<b>(3,062)</b>	<b>(2,726)</b>



Table 12 Leichhardt Council - income statement - option A

(\$000)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income from continuing operations</b>											
Rates and annual charges	57,353	58,708	60,209	61,757	63,403	65,278	67,206	69,385	71,712	73,759	75,860
User charges and fees	20,076	20,786	21,518	22,237	22,978	23,742	24,530	25,343	26,251	27,188	28,155
Interest and investment income	1,026	621	351	186	21	-	-	-	-	-	-
Other income	6,752	6,921	7,094	7,271	7,453	7,640	7,831	8,026	8,227	8,433	8,643
Grants and contributions - operating	6,681	6,848	7,019	7,195	7,375	7,559	7,748	7,942	8,140	8,344	8,552
Grants and contributions - capital	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687
<b>Total Income</b>	<b>94,575</b>	<b>96,571</b>	<b>98,879</b>	<b>101,333</b>	<b>103,918</b>	<b>106,906</b>	<b>110,002</b>	<b>113,383</b>	<b>117,017</b>	<b>120,411</b>	<b>123,898</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	50,818	52,088	53,391	54,725	56,094	57,496	58,933	60,407	61,917	63,465	65,051
Borrowing costs	151	157	152	157	162	167	162	185	180	175	171
Materials and contracts	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortisation	11,098	11,502	11,883	12,277	12,670	13,062	13,461	13,868	14,285	14,642	15,008
Other expenses	34,090	34,942	35,815	36,711	37,629	38,569	39,533	40,522	41,535	42,573	43,638
<b>Total Expenses</b>	<b>96,156</b>	<b>98,689</b>	<b>101,240</b>	<b>103,871</b>	<b>106,554</b>	<b>109,294</b>	<b>112,090</b>	<b>114,982</b>	<b>117,916</b>	<b>120,855</b>	<b>123,867</b>
<b>Net Operating Result</b>	<b>(1,581)</b>	<b>(2,118)</b>	<b>(2,361)</b>	<b>(2,537)</b>	<b>(2,636)</b>	<b>(2,388)</b>	<b>(2,088)</b>	<b>(1,599)</b>	<b>(899)</b>	<b>(444)</b>	<b>31</b>
<b>Net operating result before capital items</b>	<b>(4,268)</b>	<b>(4,805)</b>	<b>(5,048)</b>	<b>(5,224)</b>	<b>(5,323)</b>	<b>(5,075)</b>	<b>(4,775)</b>	<b>(4,286)</b>	<b>(3,586)</b>	<b>(3,131)</b>	<b>(2,656)</b>

Table 13 Marrickville Council - income statement - option A

(\$000)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income from continuing operations</b>											
Rates and annual charges	73,094	74,947	76,988	79,053	81,245	83,730	86,284	89,161	92,297	95,082	97,939
User charges and fees	19,800	20,591	21,409	22,202	23,021	23,867	24,741	25,643	26,675	27,742	28,846
Interest and investment income	1,204	565	136	-	-	-	-	-	-	-	-
Other income	15,021	15,396	15,781	16,176	16,580	16,995	17,419	17,855	18,301	18,759	19,228
Grants and contributions - operating	6,682	6,849	7,020	7,196	7,376	7,560	7,749	7,943	8,142	8,345	8,554
Grants and contributions - capital	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969
<b>Total Income</b>	<b>121,770</b>	<b>124,317</b>	<b>127,304</b>	<b>130,595</b>	<b>134,190</b>	<b>138,120</b>	<b>142,162</b>	<b>146,571</b>	<b>151,384</b>	<b>155,897</b>	<b>160,535</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	62,111	63,664	65,256	66,887	68,559	70,273	72,030	73,831	75,676	77,568	79,508
Borrowing costs	58	61	59	61	63	64	63	71	70	68	66
Materials and contracts	-	-	-	-	-	-	-	-	-	-	-
Depreciation	14,448	14,974	15,471	15,992	16,505	17,020	17,542	18,076	18,621	19,087	19,564
Other expenses	50,428	51,689	52,981	54,306	55,663	57,055	58,481	59,943	61,442	62,978	64,552
<b>Total Expenses</b>	<b>127,046</b>	<b>130,387</b>	<b>133,767</b>	<b>137,245</b>	<b>140,790</b>	<b>144,412</b>	<b>148,116</b>	<b>151,921</b>	<b>155,809</b>	<b>159,701</b>	<b>163,690</b>
<b>Net Operating Result</b>	<b>(5,276)</b>	<b>(6,070)</b>	<b>(6,463)</b>	<b>(6,650)</b>	<b>(6,599)</b>	<b>(6,292)</b>	<b>(5,953)</b>	<b>(5,350)</b>	<b>(4,425)</b>	<b>(3,804)</b>	<b>(3,155)</b>
<b>Net operating result before capital items</b>	<b>(11,245)</b>	<b>(12,039)</b>	<b>(12,432)</b>	<b>(12,619)</b>	<b>(12,568)</b>	<b>(12,261)</b>	<b>(11,922)</b>	<b>(11,319)</b>	<b>(10,394)</b>	<b>(9,773)</b>	<b>(9,124)</b>

### 4.3.3 Financial performance ratios

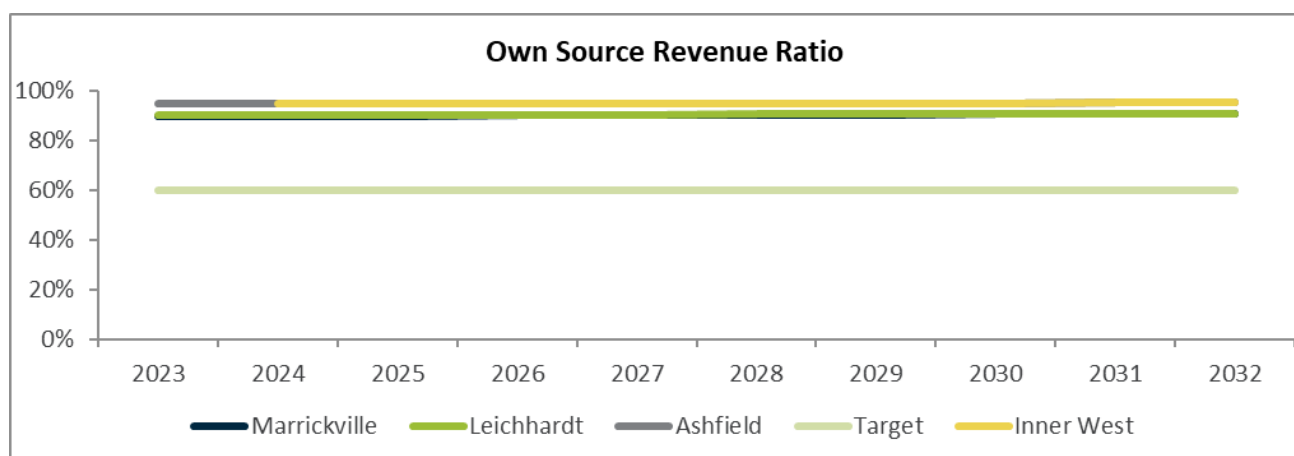
The performance of each council is measured against Office of Local Government performance indicators. The graphs below show the estimated performance results for the three proposed de-amalgamated councils in comparison to Inner West Council’s projected performance as per their 2022-23 LTFP across some of the key ratios. Key ratios definitions are provided in Appendix D.

Inner West Council is projecting modest surpluses in their 2022-23 LTFP and therefore project an operating performance ratio above the benchmark of 0% from 2023-24 onward. The three proposed de-amalgamated councils are projected to incur deficits and therefore negative operating performance ratios over the period. All councils are expected to generate revenues from their own sources (rates and charges) well above the benchmark set at 60% of total revenue.

**Figure 9 Operating performance ratio - option A**



**Figure 10 Own source revenue ratio**

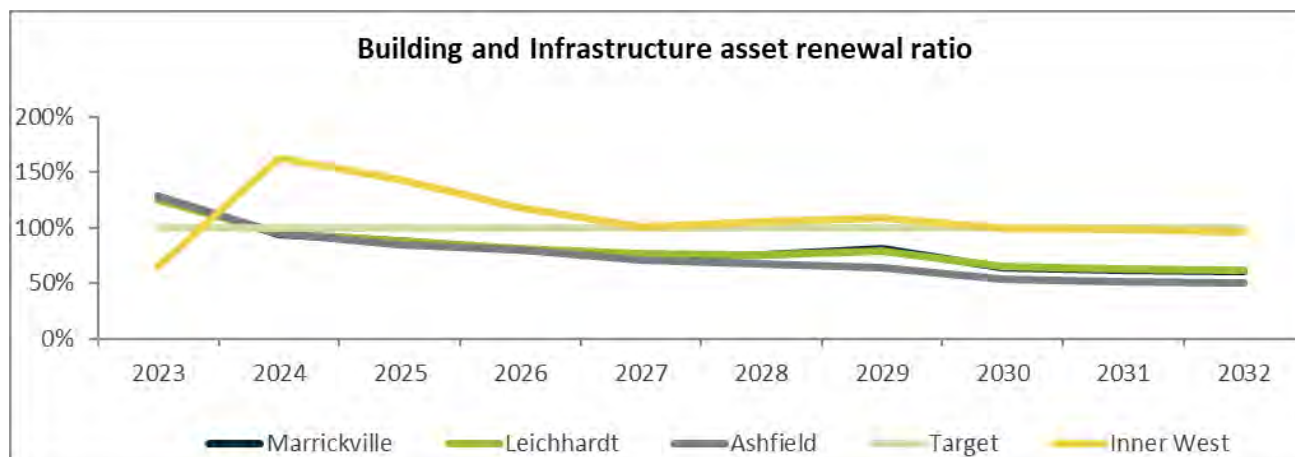


As part of its 2022-23 LTFP, the Inner West Council is utilising its projected surpluses to invest into asset renewal and reduction of asset backlog. As a result, it is projecting a strong asset renewal ratio above the benchmark of 100% and a reduction in its asset backlog ratio approaching 0%, well below the 2% benchmark.

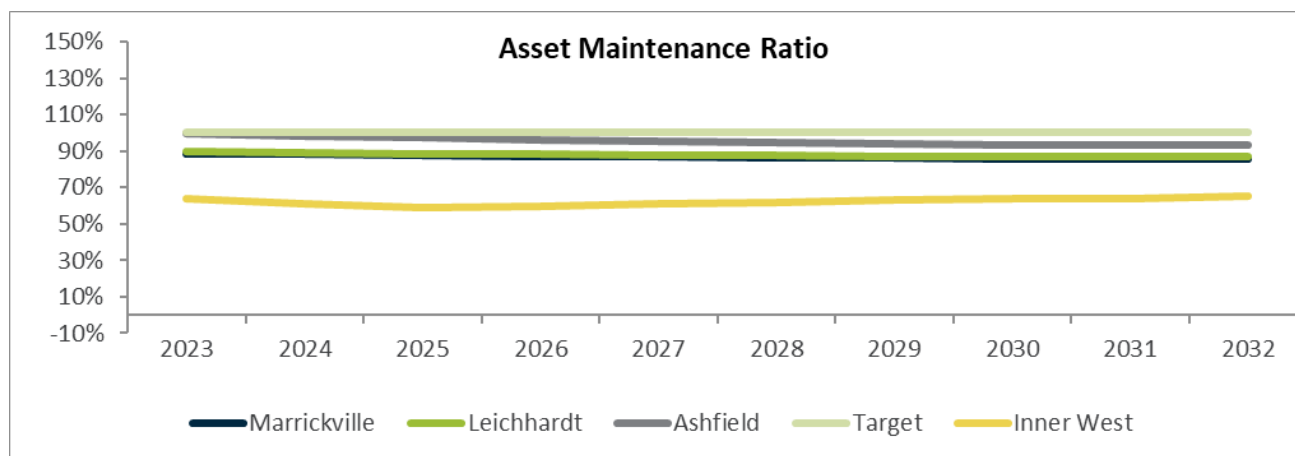
As the three proposed de-amalgamated councils will project deficits over the period, their asset renewal will not meet the benchmark, as they do not have the surpluses to invest in asset renewal.

The three proposed de-amalgamated councils are projected to maintain their asset maintenance ratios at or close to the benchmark of 100%. While the Inner West Council is projecting a lower ratio, it is also projected a strong asset renewal program and that reduces its backlog to close to 0%. This allows Inner West to absorb a lower asset maintenance ratio without risking deteriorating asset conditions.

**Figure 11 Infrastructure renewal ratio - option A**



**Figure 12 Asset maintenance ratio - option A**



## 4.4 Option B - current Inner West services and service levels

This option 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 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 service levels that have been implemented by Inner West Council
- new/additional compliance requirements that have come into force since the 2016 amalgamation
- capital expenditure and asset renewals delivered
- additional debt.

In order to distribute these changes amongst the three proposed de-amalgamated councils, we have developed 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 below. Distribution sensitivity testing was undertaken as part of the initial high-level cost benefit assessment in 2021, which showed the use of population and rate assessment approaches equalised the distribution rather than amplifying changes in services/obligations for each of the proposed councils.

**Table 14 Distribution approaches - option B**

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

Basis of distribution	Distribution approach	Sample of changes
<b>Proportion</b>	Based on operational requirements of the service.	<ul style="list-style-type: none"> <li>• New/increased animal service</li> <li>• New/increased fire safety service</li> <li>• New/increase building certification service</li> </ul>
<b>Staff numbers</b>	Allocated by former council staff numbers for the 2016 financial year.	<ul style="list-style-type: none"> <li>• Redundancy and recruitment costs</li> <li>• Software licence costs</li> </ul>

#### 4.4.1 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 above. 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 amalgamation, for details refer Appendix B.

**Table 15 Changes to ongoing costs and benefits - option B**

Income statement (\$'000s)	Ashfield	Leichhardt	Marrickville	Total distributed
<b>Income from continuing operations</b>				
Rates & annual charges	-1,276	-1,971	-4,053	-7,300
User fees & charges	3,693	1,320	-122	4,891
Interest and investment income	0	0	0	0
Other income	0	0	0	0
Grants & contributions - operations	0	0	0	0
Grants & contributions - capital	0	0	0	0
<b>Total income</b>	<b>2,417</b>	<b>-651</b>	<b>-4,175</b>	<b>-2,409</b>
<b>Expenses from continuing operations</b>				
Employee benefits	5,286	2,439	1,950	9,675
Borrowing costs	1,100	0	0	1,100
Depreciation	805	62	787	1,654
All other expenses	3,453	2,534	3,980	9,967
<b>Total expenses</b>	<b>10,644</b>	<b>5,035</b>	<b>6,717</b>	<b>22,396</b>
<b>Operating result</b>	<b>-8,227</b>	<b>-5,686</b>	<b>-10,892</b>	<b>-24,805</b>

The impact of the total net de-amalgamation costs per rateable assessment is illustrated in the following table.

**Table 16 Total net de-amalgamation costs per rateable assessment**

	Ashfield	Leichhardt	Marrickville
Recurring costs (\$'000s)	\$8,227	\$5,686	\$10,892
Rate assessments	17,463	25,348	36,678
<b>Cost per rates assessment</b>	<b>\$471</b>	<b>\$224</b>	<b>\$297</b>

#### 4.4.2 Long-term financial projections

The estimated projected operating result for each proposed de-amalgamated council is detailed in the following tables. All amounts are in thousands (\$,000s).

- Like option A, all three councils are projected to make deficits (excluding capital items) that slowly reduce over the ten-year period.
- However, the scale of these deficits is greater than in option A. This is a result of Inner West Council harmonising service delivery across some services to the higher service level of the three former councils. Each of the proposed de-amalgamated councils will, under this scenario have, some services and deliver some services to a higher service level than they did before the amalgamation.

Table 17 Ashfield Council - income statement - option B

(\$000)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income from continuing operations</b>											
Rates and annual charges	37,270	38,147	39,118	40,122	41,189	42,404	43,654	45,067	46,574	47,899	49,259
User charges and fees	8,015	8,320	8,635	8,943	9,260	9,587	9,925	10,274	10,669	11,077	11,500
Interest and investment income	1,015	337	-	-	-	-	-	-	-	-	-
Other income	2,630	2,696	2,763	2,832	2,903	2,976	3,050	3,126	3,205	3,285	3,367
Grants and contributions - operating	2,447	2,508	2,571	2,635	2,701	2,769	2,838	2,909	2,982	3,056	3,133
Grants and contributions - capital	184	184	184	184	184	184	184	184	184	184	184
<b>Total Income</b>	<b>51,561</b>	<b>52,192</b>	<b>53,272</b>	<b>54,716</b>	<b>56,237</b>	<b>57,920</b>	<b>59,651</b>	<b>61,560</b>	<b>63,614</b>	<b>65,502</b>	<b>67,442</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	27,949	28,647	29,364	30,098	30,850	31,621	32,412	33,222	34,053	34,904	35,777
Borrowing costs	1,161	1,114	1,064	1,014	964	911	854	803	743	681	617
Materials and contracts	-	-	-	-	-	-	-	-	-	-	-
Depreciation	7,757	8,108	8,460	8,806	9,159	9,498	9,844	10,194	10,549	10,813	11,083
Other expenses	20,979	21,504	22,041	22,592	23,157	23,736	24,329	24,938	25,561	26,200	26,855
<b>Total Expenses</b>	<b>57,845</b>	<b>59,373</b>	<b>60,928</b>	<b>62,511</b>	<b>64,130</b>	<b>65,766</b>	<b>67,439</b>	<b>69,156</b>	<b>70,906</b>	<b>72,598</b>	<b>74,332</b>
<b>Net Operating Result</b>	<b>-6,284</b>	<b>-7,182</b>	<b>-7,656</b>	<b>-7,795</b>	<b>-7,893</b>	<b>-7,846</b>	<b>-7,789</b>	<b>-7,596</b>	<b>-7,292</b>	<b>-7,096</b>	<b>-6,890</b>
<b>Net Operating Result before capital items</b>	<b>-6,468</b>	<b>-7,366</b>	<b>-7,840</b>	<b>-7,979</b>	<b>-8,077</b>	<b>-8,030</b>	<b>-7,973</b>	<b>-7,780</b>	<b>-7,476</b>	<b>-7,280</b>	<b>-7,074</b>



Table 18 Leichhardt Council - income statement - option B

(\$000)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income from continuing operations</b>											
Rates and annual charges	57,353	58,708	60,209	61,757	63,403	65,278	67,206	69,385	71,712	73,759	75,860
User charges and fees	19,794	20,480	21,189	21,885	22,603	23,344	24,107	24,894	25,769	26,672	27,605
Interest and investment income	948	509	210	13	-	-	-	-	-	-	-
Other income	6,752	6,921	7,094	7,271	7,453	7,640	7,831	8,026	8,227	8,433	8,643
Grants and contributions - operating	6,681	6,848	7,019	7,195	7,375	7,559	7,748	7,942	8,140	8,344	8,552
Grants and contributions - capital	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687	2,687
<b>Total Income</b>	<b>94,215</b>	<b>96,154</b>	<b>98,408</b>	<b>100,809</b>	<b>103,522</b>	<b>106,508</b>	<b>109,578</b>	<b>112,933</b>	<b>116,535</b>	<b>119,895</b>	<b>123,347</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	51,736	53,030	54,356	55,715	57,107	58,535	59,998	61,498	63,036	64,612	66,227
Borrowing costs	151	157	152	157	162	167	162	185	180	175	171
Materials and contracts	-	-	-	-	-	-	-	-	-	-	-
Depreciation	11,098	11,502	11,883	12,277	12,670	13,062	13,461	13,868	14,285	14,642	15,008
Other expenses	33,717	34,560	35,424	36,310	37,218	38,148	39,102	40,079	41,081	42,108	43,161
<b>Total Expenses</b>	<b>96,702</b>	<b>99,249</b>	<b>101,814</b>	<b>104,459</b>	<b>107,157</b>	<b>109,912</b>	<b>112,723</b>	<b>115,631</b>	<b>118,582</b>	<b>121,537</b>	<b>124,567</b>
<b>Net Operating Result</b>	<b>-2,487</b>	<b>-3,095</b>	<b>-3,406</b>	<b>-3,650</b>	<b>-3,635</b>	<b>-3,405</b>	<b>-3,145</b>	<b>-2,698</b>	<b>-2,047</b>	<b>-1,642</b>	<b>-1,219</b>
<b>Net Operating Result before capital items</b>	<b>-5,174</b>	<b>-5,782</b>	<b>-6,093</b>	<b>-6,337</b>	<b>-6,322</b>	<b>-6,092</b>	<b>-5,832</b>	<b>-5,385</b>	<b>-4,734</b>	<b>-4,329</b>	<b>-3,906</b>

Table 19 Marrickville Council - income statement - option B

(\$000)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Income from continuing operations</b>											
Rates and annual charges	71,534	73,354	75,358	77,383	79,534	81,971	84,476	87,297	90,375	93,110	95,915
User charges and fees	19,179	19,918	20,681	21,424	22,191	22,982	23,800	24,644	25,602	26,593	27,617
Interest and investment income	877	60	-	-	-	-	-	-	-	-	-
Other income	15,021	15,396	15,781	16,176	16,580	16,995	17,419	17,855	18,301	18,759	19,228
Grants and contributions - operating	6,682	6,849	7,020	7,196	7,376	7,560	7,749	7,943	8,142	8,345	8,554
Grants and contributions - capital	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969	5,969
<b>Total Income</b>	<b>119,262</b>	<b>121,546</b>	<b>124,810</b>	<b>128,148</b>	<b>131,650</b>	<b>135,478</b>	<b>139,414</b>	<b>143,707</b>	<b>148,389</b>	<b>152,776</b>	<b>157,283</b>
<b>Expenses from continuing operations</b>											
Employee benefits and oncosts	64,319	65,927	67,575	69,264	70,996	72,771	74,590	76,455	78,366	80,325	82,334
Borrowing costs	58	61	59	61	63	64	63	71	70	68	66
Materials and contracts	-	-	-	-	-	-	-	-	-	-	-
Depreciation	14,448	14,974	15,471	15,992	16,505	17,020	17,542	18,076	18,621	19,087	19,564
Other expenses	51,229	52,510	53,823	55,169	56,548	57,961	59,410	60,896	62,418	63,979	65,578
<b>Total Expenses</b>	<b>130,055</b>	<b>133,472</b>	<b>136,928</b>	<b>140,485</b>	<b>144,111</b>	<b>147,817</b>	<b>151,605</b>	<b>155,498</b>	<b>159,475</b>	<b>163,459</b>	<b>167,542</b>
<b>Net Operating Result</b>	<b>-10,793</b>	<b>-11,926</b>	<b>-12,118</b>	<b>-12,337</b>	<b>-12,461</b>	<b>-12,339</b>	<b>-12,191</b>	<b>-11,791</b>	<b>-11,086</b>	<b>-10,683</b>	<b>-10,259</b>
<b>Net Operating Result before capital items</b>	<b>-16,762</b>	<b>-17,895</b>	<b>-18,087</b>	<b>-18,306</b>	<b>-18,430</b>	<b>-18,308</b>	<b>-18,160</b>	<b>-17,760</b>	<b>-17,055</b>	<b>-16,652</b>	<b>-16,228</b>

### 4.4.3 Financial performance ratios

The performance of each council is measured against Office of Local Government performance indicators. The graphs below show the estimated performance results for the three proposed de-amalgamated councils in comparison to Inner West Council’s projected performance as per their 2022-23 LTFP across some of the key ratios. Key ratio definitions are provided in Appendix D.

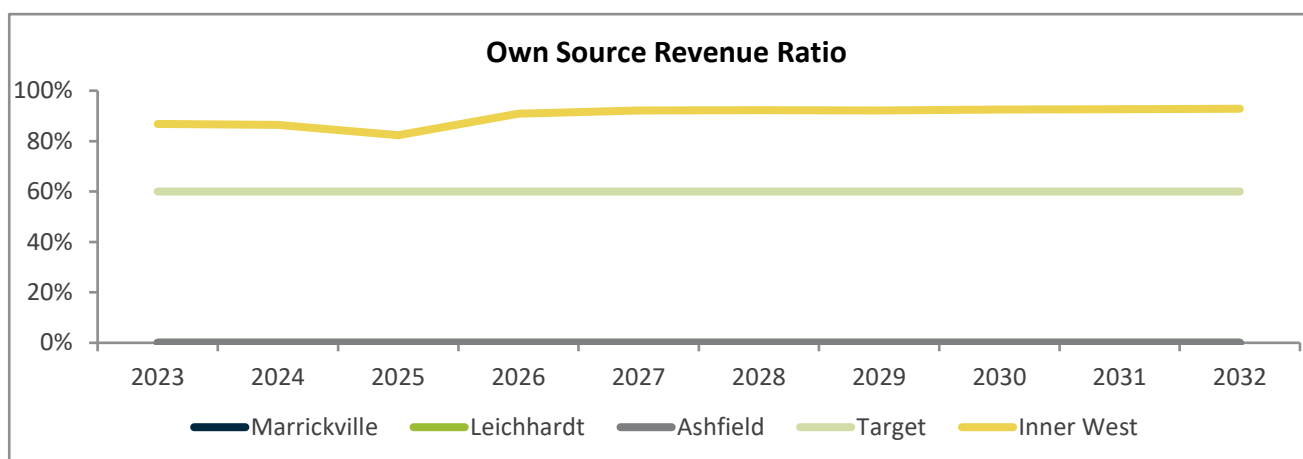
The trends in financial performance ratios are similar to that of option A, but the difference between Inner West and the proposed de-amalgamated councils is greater under option B.

Inner West Council projects modest surpluses in their 2022-23 LTFP and therefore projects an operating performance ratio above the benchmark of 0% from 2023-24 onward. The three proposed de-amalgamated councils are projected to incur deficits and therefore negative operating performance ratios over the period. All councils are expected to generate revenue from their own sources (rates and charges) well above the 60% benchmark.

**Figure 13 Operating performance ratio - option B**



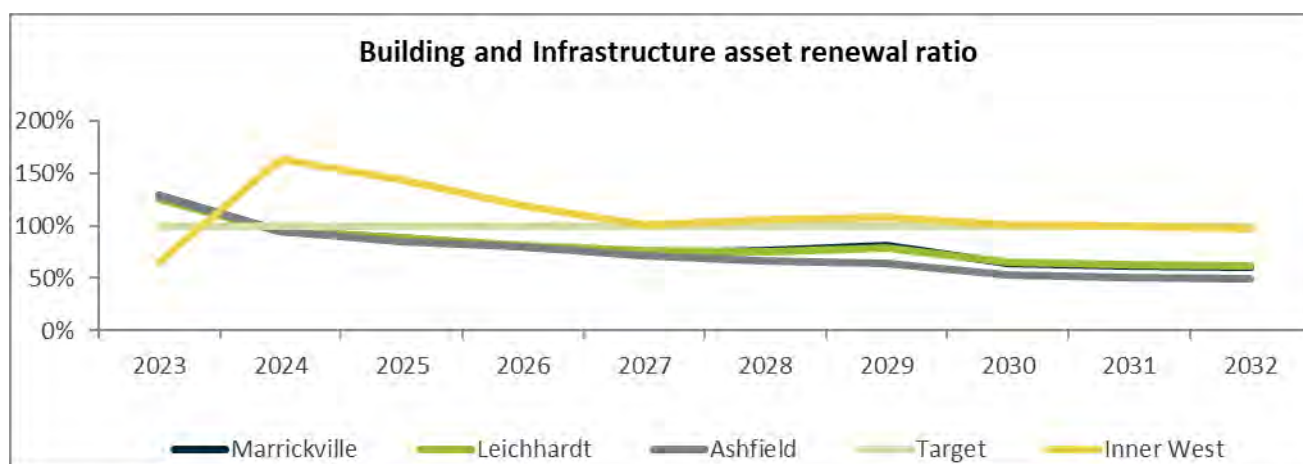
**Figure 14 Own source revenue ratio - option B**



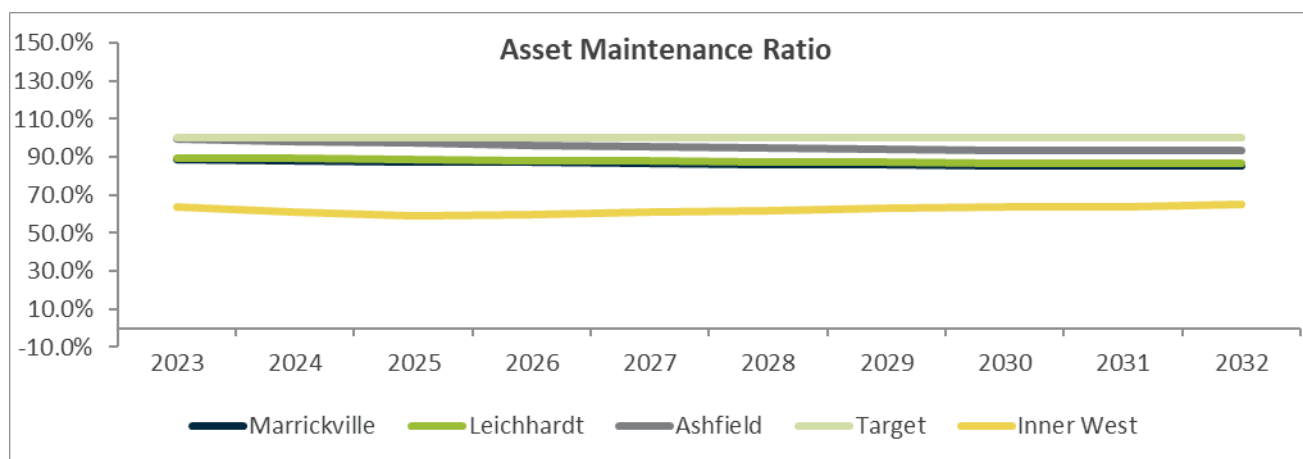
As part of its 2022-23 LTFF, the Inner West Council is utilising its projected surpluses to invest into asset renewal and reduction of asset backlog. As a result, it is projecting a strong asset renewal ratio above the benchmark of 100% and a reduction in its asset backlog ratio to 0% by 2023-24, well below the 2% benchmark. As the three proposed de-amalgamated councils will project deficits over the period, their asset renewal will not meet benchmarks, as they do not have the surpluses to invest in asset renewal.

The three proposed de-amalgamated councils are projected to maintain their asset maintenance ratios at or close to the benchmark of 100%. While the Inner West Council is projecting a lower ratio, it is unlikely to impact asset condition with a projected strong asset renewal program and a 0% backlog.

**Figure 15 Asset renewal ratio - option B**



**Figure 16 Asset maintenance ratio - option B**



## 4.5 Option C - potential shared services

Shared services are two or more councils jointly managing activities to deliver services or perform back-office functions.<sup>14</sup> There are innumerable permutations of what and how shared services can be delivered. The key considerations for share service arrangements, which drive the variety of options and outcomes are:

- What services to share?

<sup>14</sup> Audit Office of New South Wales, 2018. *Shared Services in Local Government*. Sydney, p.1.

- Why is a shared service arrangement the best model of a particular service delivery than other options (e.g. in-house, outsourced)?
- With whom to share these services?
- What model of shared services to use?

In developing this business case we looked at shared services across NSW and Australasia. We initially undertook a desktop literature review, which indicated that there were potential disbenefits of shared services across local government. In a recent empirical study, by Drew, McQuestin and Dollery (2019), investigating the cost and benefits of shared services, the evidence pointed to a “statistically significant... mean increase to unit expenditure of 8.11 percent”<sup>15</sup> from shared services.

This analysis is supported by the 2018 NSW Audit Office report on ‘Shared Services in Local Government’ and a similar review by the Victorian Auditor General’s Office in 2014.

The NSW Audit Office in its 2018 review of shared services in local government surveyed 67 of the 128 NSW councils (52%), and found that:

- councils do not always analyse their existing services nor build a sound business case before deciding to enter into shared service arrangements
- governance models for sharing services should be fit for purpose, efficient, transparent and accountable
- councils can seek support to build their capability.

The NSW Audit Office report recommended that:

- Councils should base their decision to engage in shared services on a sound needs analysis, a review of service delivery models and a strong business case, which clearly identifies the expected costs and benefits. This should align with the council’s delivery program and community strategic plan.
- Councils should collect baseline information, monitor and evaluate services that will be shared. They should also ensure that services perform to expectations.
- Councils should ensure that the governance models they select to deliver shared services are fit for purpose. They should ensure clear roles, responsibilities, accountability and transparency of decisions.
- Councils should build the capability of councillors and council staff in the areas of assessing and managing shared services, leading to better understanding of opportunities and management of risk.
- The NSW Office of Local Government develop guidance which outlines the risks and opportunities of governance models that councils can use to share services. This should include advice on legal requirements, transparency in decisions, and accountability for effective use of public resources.

The Victorian Auditor General’s Office<sup>16</sup> made similar findings and recommendations in their 2014 report, albeit with a greater emphasis on the support the Victorian Department of Transport, Planning and Local Infrastructure should provide to councils to enable better shared service delivery.

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<sup>15</sup> Drew, J., McQuestin, D. and Dollery, B., 2019. ‘Good to share? The pecuniary implications of moving to shared service production for local government services’. *Public Administration*. 97(1), pp.132-146.

<sup>16</sup> Victorian Auditor General’s Office, 2014. *Shared Services in Local Government*. Melbourne.

Both the Victorian and NSW reviews identified that while most councils had some shared service delivery, a significant weakness was many didn't have clearly set performance expectations or baseline data on the services, making it impossible to determine benefits of the use of shared services.

The NSW Audit Office report identified three main reasons for considering shared services, which were not dissimilar to the stated benefits of amalgamations:

- **economies of scale** - councils combining resources to reduce the cost of a service (e.g. procurement, information technology)
- **economies of scope** - councils combining resources to provide a wider range of services (e.g. libraries, expert professional resource sharing)
- **regional benefits** - shared service enables strategic regional responses, shared knowledge of service delivery practices, and the possibility of working with other levels of government. (e.g. water resource management, natural disaster prevention planning).

Some services lend themselves better to being delivered through shared services. Generally, those that are more transactional can produce economies of scale in shared services models. Others may be more strategic or regionally aligned across LGAs. The NSW Audit Office identified waste management, procurement, human resources (HR) and information technology (IT) as areas where local government have exhibited success in shared service delivery.

A variety of governance models can be employed with a variety of costs associated with their establishment and maintenance.

**Table 20 Models used for shared services in NSW<sup>17</sup>**

Model	How it works
Committees of council	Under section 355 of the Local Government Act 1993 (NSW) a function of a council may be delegated to a committee of the council.
Incorporated association	A not-for-profit and non-commercial entity established under the Associations Incorporation Act 2009 (NSW).
Contracted joint ventures	Complex arrangement for high-cost activity between joint venture partners.
Council-owned companies	Councils form a company limited by guarantee or a proprietary limited company with Minister's consent under section 358 of the Local Government Act 1993 (NSW). It must comply with the Corporations Act 2001 (Cth).
County council	A county council (sections 385–400) is a specialist council undertaking functions such as water, sewerage, noxious weed control or floodplain management.
Joint organisation (JO)	The core activities of JOs are regional strategic planning, regional advocacy, and collaboration with state and Australian Government. JOs can engage in shared services as an optional additional function to these core activities.
Informal arrangement	Voluntary arrangement between councils or between councils and other levels of government to develop and/or manage a common initiative or service. Informal arrangements can be supported by memoranda of understanding, service-level agreements, and deed of agreements.

<sup>17</sup> Audit Office of New South Wales, 2018. *Shared Services in Local Government*. Sydney, p.5.

The choice of model can impact the effectiveness of shared service arrangements, for example:

- committees of council require one ‘host council’ to take on the risks and liabilities for all participating councils, as well as employ staff on behalf of the committee, taking on the industrial relation risks on behalf of participant councils
- incorporated associations have a financial cap on their operations, limiting their potential size and scope
- council-owned companies are private companies and operate as commercial entities. Potential conflict may arise between the commercial direction of a company and councils’ consideration of their local community needs.

The following table outlines some of the models’ effects on effective shared service delivery.

**Table 21 Legislative and governance models available to councils to share services<sup>18</sup>**

	Committees of council (S355 of Local Government Act)	Incorporated association	Council-owned company
<b>Operating under the Local Government Act 1993</b>	✓ With limits on delegations (sections 377–381).	✗ Associations Incorporation Act 2009.	✗ Corporations Act 2001 as per Ministerial approval (S358 of Local Government Act).
<b>Transparency</b> Public meetings and transparency of decisions	✓ May be public with public notice and meetings	? Meetings as per Constitution, according to each association	? Meetings as per Constitution, according to each company
<b>Tender</b> Able to accept joint tender on behalf of council members	✗	✗	✗
<b>Liability</b> Representatives subject to OLG inspections (section 430), Ombudsman and ICAC investigations and audits by the Auditor-General of NSW	✓	✗ Offences can be enforced by NSW Fair Trading taking court proceedings against the association or its committee members.	✗ Failure of directors/officers to comply with some Corporations Act provisions can constitute civil/ criminal offences
<b>Governance</b> Separate legal entity	✗ One council (‘host council’) assumes the risks to employ staff, sign contracts, accept tenders. Reporting lines can be confusing.	✓	✓
<b>Ceiling on income, assets and expenditures</b>	? Inability to receive funding	✓ \$2.0 million	✗

<sup>18</sup> Audit Office of New South Wales, 2018. *Shared Services in Local Government*. Sydney, p. 15. Note: table does not include consideration of joint organisations or county councils as these were out of scope for the NSW Audit Office review.

A particular barrier for councils considering shared services exist around joint tendering, where each council needs to approve tenders and sign contracts individually, increasing administrative costs and timeframes for establishing shared services. Other areas of risk for shared services include transparency, accountability, perceived loss of autonomy, lack of clarity around benefits or costs, resolving issues, managing risks, and timely reporting.

The New England Strategic Alliance of Councils (NESAC) provides an example of how shared services is not an alternative to amalgamation. Established in 2005 as an alternative to the amalgamation of Armidale Dumaresq, Guyra, Uralla and Walcha Councils, NESAC was effectively ended in 2009. While some smaller shared services remained (e.g. companion animal shelter, back-office functions), the key issues for its failure include<sup>19</sup>:

- councils failed to agree on the nature and extent of reform required at the outset of the alliance
- lack of trust, fear of loss of autonomy and loss of control of core services and key staff
- failure to address important governance issues (e.g. legal liability, assets, and termination)
- no agreed timeline or targets to implement and measure shared arrangements
- convoluted decision-making processes
- lack of formal, well-structured service level agreements to provide accountability
- ineffective performance management arrangements
- complex and confusing organisational structure, lack of accountability
- absence of project and operational plans to guide the implementation of business cases.

Taking into account the lack of evidence of quantifiable benefits of shared services, we have decided not to model this option.

This doesn't discount that there may be benefits for the de-amalgamated councils around entering into particular shared services to reduce costs or improve outcomes. These would need to be considered on a service-by-service basis. Business cases should be developed to assess viable options against alternate delivery models as well as weighing quantifiable costs and benefits against the non-financial benefits and disbenefits.

To further illustrate the potential benefits, costs and risks of shared services, we have provided a short case study below, looking at a single shared function - information technology.

#### **4.5.1 Shared services case study – shared information and communication technology**

When considering shared services, the IT function has potential to be a success. All three de-amalgamated councils are starting from the same base technology solutions and currently have a single IT function across the de-amalgamated council, under the banner of the current Inner West Council.

It would be feasible to establish a council-owned company, jointly owned by all three de-amalgamated councils, that would deliver IT development and support services to the three de-amalgamated councils. This company could operate in a similar way as many current 'managed service' private providers, but with a cost optimisation rather than a profit motive.

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<sup>19</sup> Audit Office of New South Wales, 2018. *Shared Services in Local Government*. Sydney, p19.



This would not escape the need to create three separate instances of the councils' software solutions, to ensure privacy and security of information, nor would it avoid the estimated capital investment of approximately \$17 million on IT transition costs, as outlined in section 5.1 below. The shared services solution does have the potential of saving the expected three FTE (one FTE per council) in additional IT personnel, the equivalent of approximately \$450,000 per annum.

Additional costs would be incurred in establishing and maintaining appropriate governance for the council-owned company. As the NSW and Victorian Audit Office reviews state, it is critical to invest sufficient time and cost into the establishment of the shared service function, to clearly agree and outline service expectations, revenue models, cost contribution models and conflict management processes. If it is assumed that the board of directors for the council-owned company consists of a mix of councillors and independent experts, similar to an audit and risk committee, meeting bi-monthly, ongoing governance costs would be in the vicinity of \$75,000 per annum.

While the IT shared services model doesn't save the transition costs, and there is a cost to establishing the entity. There is a potential ongoing net saving of \$375,000 per annum.

The key risk with this model, however, is that each of the three de-amalgamated councils needs to commit to staying aligned in their selection of IT solutions and levels of expected IT support. Ongoing costs to the council-owned company will increase where it needs to support different solutions in different councils, or when one or more councils require a different level of service support. With increasing reliance on technology as the backbone of service provision by councils, the estimated savings can easily be eroded into an overall net cost.

## 4.6 Strategic analysis

In addition to the quantitative analysis above, we have also re-examined the stated strategic objectives and the identified costs and benefits that underpinned the determination to proceed with the amalgamation in 2015. Further, there now exists empirical evidence on the performance of the merged councils that can be considered.

### 4.6.1 Strategic drivers for Fit for the Future reform

The broad objectives of NSW local government reform implemented in 2014 was to:

*“Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the NSW Independent Local Government Review Panel (ILGRP)’s recommendations.”<sup>20</sup>*

The four ‘fit for the future’ criteria developed by the ILGRP were:

- financial sustainability
- effective infrastructure and service management
- efficiency
- scale and capacity.

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<sup>20</sup> NSW Independent Local Government Review Panel, 2013. *Revitalising Local Government - Final Report*. p.72.

In conducting its 2014 review requested by government, IPART reviewed the above criteria and confirmed that the criteria, with recommended amendments, would contribute to meeting the NSW Government's stated objectives of local government reform.

In its 2015 report 'Assessment of Council Fit for the Future Proposals', IPART provided assessment of whether local councils are fit or not fit for the future based on the proposals submitted, based on the ILGRP initial reform options and the evaluation criteria as amended. Specifically, the IPART review made the following findings on the ILGRP's preferred option, where the Inner West was an amalgamation between Ashfield, Burwood, Canada Bay, Leichhardt, Marrickville and Strathfield:

- Burwood and Canada Bay are fit for the future as part of the Auburn, Burwood and Canada Bay merger proposal
- Ashfield, Leichhardt, Marrickville and Strathfield are not fit for the future as they did not meet the scale and capacity criterion although each council met the financial criteria overall.

So for the latter group, IPART determined that only a merged council, but not the individual councils, has the scale and capacity to deliver the desired financial savings. IPART estimated an Inner West amalgamation could produce NPV benefits of \$396 million over 20 years, compared to an estimated NPV of \$194 million by Ernst & Young.

A key assumption of the above conclusion is that the merging of councils was the only method available to achieve the desired scale and capacity in carrying out required council functions. As scale and capacity was a central strategic driver in the decision to amalgamate Inner West Council, it is pertinent to assess this proposal in relation to scale and capacity.

#### 4.6.2 Scale

There exists a growing body of empirical analysis that outlines how scale doesn't create better efficiencies or financial sustainability. Central to the argument of scale is the economic concept of economies of scale. This concept asserts that increasing levels of production decreases the marginal cost, that is that the more you produce something the less the average cost of producing each unit. While this holds true, there also comes a threshold point where the reverse is true, referred to as diseconomies of scale. Moreover, the threshold for moving from economies to diseconomies of scale varies on the good, service or function being produced. As local councils produce a wide range of services, increasing scale may create economies for some services and increase diseconomies for others.

Adding to a growing body of research on amalgamations, Drew, McQuestin and Dollery's (2021) analysis of four years of post-amalgamation data on NSW amalgamated councils indicated "significant and persistent increases in unit costs", which in fact made those councils less 'fit for the future'.<sup>21</sup>

It is not possible to draw specific inference for Inner West Council from this analysis, which in some respects is better positioned to absorb amalgamation costs, with a greater population density and homogeneity than many of its rural and regional counterparts. In fact, the financial analysis of Inner West as the base case above seems to indicate that it has absorbed the amalgamation costs, saved approximately \$22.4 million per annum, improved services, and developed a financially sustainable LTFP without the need for a special rate variation.

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<sup>21</sup> Drew, J., McQuestin, D. and Dollery, B., 2021. 'Did amalgamation make local government more fit for the future? [Article: Early Access]' *Australian Journal of Public Administration*. 16. Retrieved from: <https://doi.org/10.1111/1467-8500.12530>.

### 4.6.3 Capacity

The other half of the strategic driver for amalgamations was capacity. A definition of this was provided in the Independent Panel for Local Government Revitalisation report in 2013.<sup>22</sup> Key elements of strategic capacity include:

- more robust revenue base and increased discretionary spending
- scope to undertake new functions and major projects
- ability to employ wider range of skilled staff
- knowledge, creativity and innovation
- advanced skills in strategic planning and policy development
- effective regional collaboration
- credibility for more effective advocacy
- capable partner for state and federal agencies
- resources to cope with complex and unexpected change
- high quality political and managerial leadership.

These criteria are somewhat subjective in their nature. However, there is some evidence to indicate that Inner West Council has a more robust revenue base or increased discretionary spending as a result of the amalgamation. Some revenue uplift has been achieved through the development of new functions and major projects, such as the Ashfield swimming pool expansion and new childcare centres at Leichhardt and Marrickville.

COVID-19 has demonstrated councils' abilities, both amalgamated and not, to cope with complex and unexpected change. But it has also tightened the labour market, making it difficult to assert any ability to employ a wider range of skilled staff.

On the aspects of improved strategic planning, regional collaboration and partnering with state and federal agencies, there is also some evidence that this has improved from pre-merger times. There has been an alignment of strategies across the Inner West as well as the development of a transport plan and the recruitment of a new senior development officer.

Knowledge, creativity and innovation is a somewhat subjective criterion. As is credibility for more effective advocacy, although some of the analysis on community representation below would indicate that this is not the case if advocacy is related to representation.

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<sup>22</sup> NSW Independent Local Government Review Panel, 2013. *Revitalising Local Government - Final Report*. p.32.

#### 4.6.4 Financial benefit and cost

Several assumptions on financial savings were prepared by KPMG in early 2016 which were subsequently used in various studies assessing the benefits and costs associated with proposed council mergers. The assumptions and estimates in the KPMG report have been criticized in both the academic literature<sup>23</sup> and in the public arena.

We have not undertaken analysis on whether the estimated benefits were achieved. Despite this, the approach undertaken in the quantitative assessment and the NPV results do indicate that some financial benefit for amalgamation has been achieved. However, this doesn't include the qualitative assessment of benefits of de-amalgamation which focuses on those benefits perceived by the community that cannot be quantified.

#### 4.7 Qualitative community benefits

There are unquantifiable potential costs and benefits that could accrue from a de-amalgamation of the Inner West Council, although they will depend on the de-amalgamation legislation, guidelines and process adopted. These need to be considered in conjunction with the quantitative cost benefit analysis above.

Potential benefits sited from de-amalgamations include:

- better servicing of local communities of interest
- improved access by residents to elected representation
- expectation of improved service levels or return to pre-merger services
- an uplift in community satisfaction
- improved community strategic planning that comes from the ability to work more closely with established community groups to develop a better understanding of community challenges.

This section investigates further some of the sited qualitative benefits of de-amalgamation and provides some analysis of how they relate to the case of the Inner West Council de-amalgamation. Among other things, this section includes consideration of the following factors that they LGBC are required to consider under S263(3) of the Local Government Act:

- b. the community of interest and geographic cohesion in the existing areas and in any proposed new area*
- c. the existing historical and traditional values in the existing areas and the impact of change on them*
- e. the requirements of the area concerned in relation to elected representation for residents and ratepayers at the local level, the desirable and appropriate relationship between elected representatives and ratepayers and residents and such other matters as it considers relevant in relation to the past and future patterns of elected representation for that area*
- f. such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas.*

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<sup>23</sup> Dollery, 2018. 'Policy-based evidence making in local government: the New South Wales municipal merger program, 2011 to 2017'. *Economics Papers*. 37(4).

#### 4.7.1 Communities of interest

In the Micromex telephone survey, 33% of the respondents who supported de-amalgamation stated that one of the reasons was that the three areas are very diverse and have different local priorities. Only 12% of the online survey responded supportive of de-amalgamation and stated that this was a reason.

Several open comments from survey respondents mentioned their suburb or former LGA's unique history, community or needs. Comments included:

- *“Balmain Leichardt and Rozelle have a unique story in Australian history and different needs than other suburbs such as Marrickville and Ashfield”*
- *“The larger council ... has ruined the special nature of Marrickville LGA.”*
- *“I preferred the way Council managed the Ashfield Council Area. The amalgamation seemed to ignore the local issues”*

Morrison Low undertook a desktop review<sup>24</sup> of the communities of Marrickville, Ashfield and Leichhardt Council areas in 2015 to advise the then Marrickville Council on community similarities and differences for a potential amalgamation 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 Environment<sup>25</sup>, 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.<sup>26</sup>

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.

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

- The forecast population growth rate for Ashfield and Leichhardt 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 Leichhardt 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.

<sup>24</sup> Morrison Low, 2015. *Communities of Interest: Marrickville, Leichhardt and Ashfield*, Sydney.

<sup>25</sup> NSW Government, Department of Planning Industry and Environment, 2019. Projects. Retrieved from <http://www.planning.nsw.gov.au/en-au/deliveringhomes/populationandhouseholdprojections/data.aspx>.

<sup>26</sup> 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.

- 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.
- Leichhardt 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.

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.

The people of the Inner West have similar socio-economic metrics for disadvantage. The data is no longer available for each of the former council areas; however, the table below provides the suburb relative disadvantage rankings for the Inner West and show the consistency across the three de-amalgamated council areas.

**Table 22 Inner West suburbs index of relative socio-economic disadvantage**

Suburb	Score	Ranking within Australia	Ranking within NSW
Marrickville	1007	1068	303
Petersham - Stanmore	1070	1802	452
Sydenham - Tempe - St Peters	1038	1408	384
Balmain	1099	2038	509
Leichhardt - Annandale	1083	1910	477
Lilyfield - Rozelle	1092	1994	493
Ashfield	1006	1058	300

#### 4.7.2 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 amalgamation.

The current elected representation per resident for Inner West Council is a little over 14,000 people per elected member. Under a de-amalgamated model this number would be between approximately 4,000 and 8,500 depending on the council and final number of elected members.

The following is the population representation per councillor based on the 2021 estimated population.

**Table 23 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

In the Micromex telephone survey, 10% of those that supported de-amalgamation stated that one of their reasons was that the amalgamation has removed governance and/or decision making from the community, a more localised response is needed. In the online survey, 33% of those that supported de-amalgamation gave this as their reason. Some of the comments in the open-ended questions included:

- *“Amalgamation has increased rates reduced council accountability”*
- *“councillors not being able to deal with local problems”*
- *“I feel that council is far too large to be representative of community interests”*
- *“Smaller councils provided “better access to councils, a stronger voice”*
- *“the council is far too large for residents to participate”.*

#### 4.7.3 Expectation of improved or returned services

Of those that supported the de-amalgamation in the Micromex telephone survey, 27% stated the amalgamated Council has not provided any improvement in service delivery and/or that facilities and/or services have declined. Additionally, 12% also stated that the smaller/individual council areas were easier to manage/provided better services/facilities. In the online survey, responses were 37% and 21% respectively.

While many commented in general terms on service decline since amalgamation or stated that all services have declined, some pointed to specific service reductions, including:

- Waste management and garbage collection, particularly the removal of Council Cleanup, the difficulty in booking household rubbish collection, the reduction in bins and collection of waste in public spaces.
- Street cleaning and general maintenance
- The speed of graffiti removal
- Park and open space facilities and maintenance.

It should also be noted that 28% of telephone survey respondents and 22% of online survey respondents that did not support de-amalgamation because the amalgamated Council has better managed and/or provided improved services in the area.

#### 4.7.4 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.<sup>27</sup> This survey has been undertaken since the establishment of the Inner West Council in 2016.

General satisfaction with Inner West Council has improved since the formation of the Council and is shown below. 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 17 2021 Community satisfaction survey results**



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.
- 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.

<sup>27</sup> Micromex Research, 2021, *Inner West Council Community Research*.



- 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.

In 2017, Inner West Council undertook its first community satisfaction survey and compared these results to the 2016 results for the former councils. While exact comparison was not possible, comparison of the mean results showed that:

- There was no significant difference between Inner West and Leichhardt's overall satisfaction scores, which are comparable with the Micromex Sydney metro council benchmark.
- Marrickville Council's overall satisfaction was significantly higher than the Micromex Sydney metro council benchmark.
- Ashfield Council's mean was slightly lower than the Sydney metro benchmark (with the caveat that the question was not directly comparable).

As part of the community engagement survey undertaken on this business case, questions on community satisfaction with Council were also asked.

The responses from the telephone survey show that overall satisfaction has declined from 92% in 2021 to 87% in 2022. Additionally, the reduction in satisfaction is predominantly from those supportive of de-amalgamation.

**Figure 18 2021 Community satisfaction survey results**

Q3. Overall, for the last 12 months, how satisfied are you with the performance of Council, not just on one or two issues but across all responsibility areas?

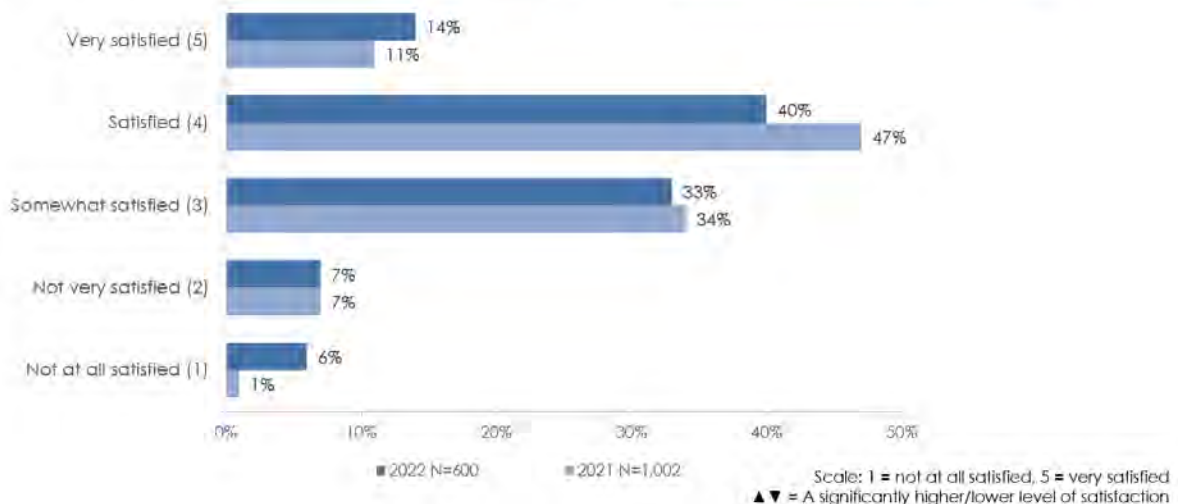


Of Inner West residents are at least somewhat satisfied with the **performance of Council** over the last 12 months

	Overall	18-34	35-49	50-64	65+	CALD Background (Yes)	Ratepayer	Non-ratepayer
Mean rating	3.49	3.71▲	3.39	3.30▼	3.47	3.47	3.35	3.80▲
Top 3 Box	87%	94%▲	84%	80%▼	85%	85%	83%	97%▲
Base	600	196	175	128	101	176	420	179

	Previous LGA			Time lived in the LGA		
	Marrickville Council	Leichhardt Council	Ashfield Council	<5 years	6-10 years	10+ years
Mean rating	3.56	3.39	3.45	3.83▲	3.70▲	3.37
Top 3 Box	88%	84%	88%	97%▲	91%	84%
Base	273	182	145	68	117	415

	Overall	Submit business case for a de-amalgamation	Remain as Inner West Council	Inner West Council Community Research 2021	Micromex LGA Benchmark - Metro
Mean rating	3.49	3.25	3.70▲	3.58	3.59
T3 Box	87%	81%	92%▲	92%	90%
Base	600	281	315	1,002	45,633



#### 4.7.5 Other consideration

We also reviewed the strategic plans and environmental management plans of the proposed de-amalgamated councils and the current Inner West Council. The detailed comparative analysis of council strategic plans and environmental management is provided in Appendix E.

## 5 Financial and commercial analysis

This section analyses the direct financial impacts of a de-amalgamation and estimates the one-off transition costs. It is assumed that the one-off de-amalgamation costs will be funded by the NSW Government in accordance with section 218CC, clause 6 of the Local Government Act.

### 5.1 Transition costs

We have estimated the one-off costs of transition for a de-amalgamation of Inner West Council to be approximately \$31.2 million over two years. Detailed assumptions of what is included in this estimate are provided in Appendix C.

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

**Table 24 Transition one-off costs summary**

(\$'000s)	One-off cost and benefits summary			
Expenses	Ashfield	Leichhardt	Marrickville	Total
Redundancy costs	1,316	3,174	3,920	8,410
Technology costs	3,535	6,004	7,684	17,223
All other costs	1,528	1,826	2,230	5,584
<b>Total costs</b>	<b>6,379</b>	<b>11,004</b>	<b>13,834</b>	<b>31,217</b>

The key components of these transition costs include:

- redundancies and recruitment costs
- establishment of a de-amalgamation transition committee
- IT costs to ensure sufficient hardware and software for each council
- costs associated with administration and operational property for each council.

While no forced redundancies are assumed, a level of voluntary redundancies is expected commensurate with past de-amalgamations and with the merger of Inner West Council. A redundancy rate of 9.8% has been assumed (or 98 FTE), which based on equal proportions of manager and other staff equates to \$8.4 million. As discussed in section 6.2.1 on staff risk, this may be considered conservative given the current staff sentiment in relation to a de-amalgamation.

Technology transition costs represent, by far, the bulk of the one-off transition costs. The cost estimate here assumes that the current technology environment for Inner West Council is replicated across each of the three proposed de-amalgamated councils. If these councils choose to adopt different technology platforms the costs would be higher, however the current environment of Inner West Council is akin to other comparable councils across NSW and, with its Software as a Service (SaaS or cloud) backbone, it is considered up to date.

However, the capital costs for hardware as well as the one-off implementation costs are not insignificant. For the following estimates we consulted with both the IT staff within Inner West Council, for their deep understanding of the current infrastructure at the council, and several industry experts, consultants, system providers and other council IT professionals. We also compared estimates against that of amalgamation and de-amalgamation experience. The table below outlines the one-off costs of technology for de-amalgamation.

**Table 25 One-off transition costs – Information and communication technology**

(\$000)	Ashfield	Leichhardt	Marrickville	Total
Capital – networks, switches, wireless controllers, data management etc. Noting there is a \$4.7 million legacy from Inner West Council IT capital that can be used by the new councils.	2,249	3,474	4,500	10,223
Services for implementation for systems – data migration, security and infrastructure design, and implementation.	660	1,020	1,320	3,000
Services for implementation for other systems – data migration, security and infrastructure design, and implementation.	626	1,510	1,864	4,000
<b>Total</b>	<b>3,535</b>	<b>6,004</b>	<b>7,684</b>	<b>17,223</b>

Discussion of relevant technology risks are outlined in section 6.2.2.

Other transition costs totalling \$5.6 million were estimated as follows:

- \$1.2 million on recruitment, as reconstituting the former council would increase total staff levels by 115 positions, it has been assumed recruitment costs are 15% of salary cost for these positions.
- \$1.8 million for the establishment of a transition committee, including program and functional support to execute de-amalgamation.
- \$2.6 million to re-establish or replicate council elections and other governance mechanisms, facilities, and salary systems.

### 5.1.1 How does this compare to other de-amalgamations?

A research paper titled ‘De-amalgamation in action: The Queensland Experience’ published in 2014<sup>28</sup> estimated the cost of de-amalgamation per ratepayer. The report indicates the cost of de-amalgamation 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 a range in today’s dollars of \$23.8 million to \$39.2 million and an annual cost ranging from \$13.0 million to \$17.5 million per year.

The Stimpson & Co report<sup>29</sup> 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.

<sup>28</sup> Queensland Audit Office, 2015. *Results of audit: Local government entities 2013–14, Report 16: 2014–15*, Brisbane.

<sup>29</sup> Stimpson & Co, 2014. *Report to Local Government Commission on Wellington Reorganisation Transition Costs*, p.3.

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, IT 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. These secondments and support costs were at the expense 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 amalgamation 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 secondments and support, from existing councils to the transition body, is not included in the cost estimate.

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

## 5.2 Evaluation of selected de-amalgamation options

This section provides a high-level cost and benefit analysis of two options for demerging the Inner West Council into the former councils of Ashfield, Leichhardt and Marrickville. There are two Inner West Council de-amalgamation options considered in this evaluation:

- option A - pre-merger service levels - service levels of the councils prior to the amalgamation, where feasible
- option B - current Inner West Council service levels.

Financial projections for the base case for the period 2022-2032 were derived from Inner West Council's Long Term Financial Plan.<sup>30</sup>

Morrison Low has prepared higher forecasts of income and revenues for the de-amalgamation options compared to the base case as shown below. This is mainly due to:

- Higher revenue from several sources, including waste management charges which reduced by 4.5 per cent following the establishment of the Inner West Council.
- The operating grants and financial assistance grants currently received by the Inner West Council (i.e. at around \$6 million in 2022/23, though this increases to \$7.5 million in later years) are substantially less than the levels received by the three individual councils pre-merger (at around \$15 million annually).

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<sup>30</sup> Projections provided by Inner West Council - LTFP FY23 Scenario-1 V20220331 V4.

As in previous assessments, the evaluation needs to assess the differences in the costs of operation between the de-amalgamation options and the base case:

- a. Changes in expenditure associated with continuing operations, of which the following two categories are most impacted by the de-amalgamation:
  - employee benefits and oncosts
  - materials and contracts and other expenses.
- b. One-off de-amalgamation costs – a total cost of \$31.2 million was estimated to be incurred in the first two years of the de-amalgamation. It is noted that while this cost was included in the economic evaluation, the NSW Government will likely provide financial assistance of equivalent value to councils to meet de-amalgamation costs under the Local Government Amendment Act 2021.

As shown below, while both options show a net present cost, the lower cost option is Option A. This was also the preferred option identified in the 2022 community telephone survey, with 47% of telephone respondents preferring Option A.

### 5.2.1 NPV over the ten-year period

The net present value of revenues and costs over the next ten-year period were compared for the base case and options A and B in the table below.

**Table 26 NPV across options over ten-year period\* (\$'000s)**

Accounts (\$'000s)	Net present value	
	Option A	Option B
NPV of demerging Inner West Council	-150,811	-162,860
One-off transition cost	-27,257	-27,257
<b>NPV of demerging Inner West Council (including transition costs)</b>	<b>-178,068</b>	<b>-190,118</b>

\*NPV was calculated using a real discount rate of seven percent per annum.

The evaluation over the ten-year period showed that:

- Excluding the one-off costs, the net cost of de-merging Inner West Council is \$150.8 million under option A and \$162.9 million under option B.
- When the one-off transition cost of \$27.2 million (NPV) was included, the net cost of demerging Inner West Council was \$178.1 million and \$190.1 million for options A and B respectively.
- It is noted that the disbenefit or benefit associated with changes in service levels assumed in option A has not been evaluated.

### 5.2.2 NPV over the 20-year period

The NPV of revenue and cost over the next 20-year period were compared for the base case and options A and B in the table below.

**Table 27 NPV across options over 20-year period\* (\$'000)**

Accounts (\$'000s)	Net present value	
	Option A	Option B
NPV of demerging Inner West Council	-200,675	-232,819
One-off transition cost	-27,257	-27,257
NPV of demerging Inner West Council (including transition costs)	-227,932	-260,076

\*NPV was calculated using a real discount rate of seven percent per annum

The evaluation over the 20-year period showed that:

- Excluding the one-off costs, the net cost of de-merging Inner West Council is \$200.7 million under option A and \$232.8 million under option B.
- When the one-off transition cost of \$27.2 million (NPV) was included, the net cost of demerging Inner West Council was \$227.9 million and \$260.1 million for options A and B respectively.
- It is noted that the disbenefit or benefit associated with changes in service levels assumed in option A has not been evaluated.

### 5.2.3 Capacity to pay

The analysis indicates that there is a financial cost to de-amalgamation, which will in part be borne by the community.

Inner West Council was required to harmonise the three former councils' rating structures that it had in place, by 30 June 2021. Council resolved to gradually transition towards harmonised rates over an eight-year period, commencing from 1 July 2021. This means that the pre-amalgamation rating structure will mostly continue for the next seven years.

As part of informing this process, Morrison Low undertook community analysis<sup>31</sup> to feed into 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 provided 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 below.

<sup>31</sup> Morrison Low, 2020. *Revised Capacity to Pay Report - Inner West Council*, Sydney.

**Table 28 Ward characteristics**

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



## 6 Management analysis

### 6.1 Establishment and transition

For the orderly creation and transition to 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 can make the necessary decisions for the new councils to be fully operational on day one. It is noted for the Inner West amalgamation, an administrator was in place for some 16 months.

Broadly the responsibilities would include recruiting the new general managers, IT systems scope and procurement and, in conjunction with the new general managers, 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.

In the transition to the de-amalgamated entities there are a number of tasks that need to be undertaken to ensure that the new entities are 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.

**Table 29 Transition considerations**

<b>Governance</b>	<ul style="list-style-type: none"> <li>• Developing democratic structures (council committees)</li> <li>• Establishing the systems and processes to service and support the democratic structures</li> <li>• Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations</li> <li>• Developing the organisational structures of the new organisations</li> </ul>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>• Developing the workforce-related change management process including new employment contracts, location and salary systems</li> <li>• Establishing the human resource capacity for the new entities and ensuring all policies, processes and systems are in place for day one</li> <li>• Ensuring that positions required are filled</li> </ul>
<b>Finance and treasury</b>	<ul style="list-style-type: none"> <li>• Ensuring that the new entities are able to generate the revenue it needs to operate</li> <li>• Ensuring that the new entities are able to satisfy any borrowing requirements</li> <li>• Ensuring the new entities are able to procure goods and services</li> <li>• Developing a methodology for interim rates billing</li> <li>• Developing a plan for continued statutory and management reporting requirements</li> <li>• Developing a financial framework that complies with legislative requirements</li> </ul>

<b>Business process</b>	<ul style="list-style-type: none"> <li>• Planning and managing business processes and systems for day one, including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc</li> <li>• Developing an initial IT strategy to support the day one operating environments that includes the identification of those processes and systems that require change</li> <li>• Developing a longer-term IT strategy that provides a roadmap for the future business processes and systems beyond day one</li> </ul>
<b>Communications</b>	<ul style="list-style-type: none"> <li>• Ensuring that appropriate communication strategies and processes are in place for the new entities</li> <li>• 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</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>• Ensuring any legal risks are identified and managed for the new entities</li> <li>• Ensuring that existing assets, contracts etc are transferred to the new entities</li> <li>• Ensuring all litigation, claims and liabilities relevant to the new entities are identified and managed</li> </ul>
<b>Property and assets</b>	<ul style="list-style-type: none"> <li>• Ensuring that all property, assets and facilities are retained by the new entities and are appropriately managed and maintained</li> <li>• Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation</li> <li>• Facilitating the relocation of staff accommodation requirements as required for day one</li> </ul>
<b>Planning services</b>	<ul style="list-style-type: none"> <li>• Ensuring the new entities are able to meet their statutory planning obligations from day one and beyond</li> <li>• Ensuring that the entities are able to operate efficiently, and staff and customers understand the planning environment from day one</li> <li>• Developing a plan to address the statutory planning requirements beyond day one</li> </ul>
<b>Regulatory services</b>	<ul style="list-style-type: none"> <li>• Ensuring that day one regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place</li> <li>• Ensuring that business as usual is able to continue with minimum impact to customers from day one and beyond</li> </ul>
<b>Customer services</b>	<ul style="list-style-type: none"> <li>• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from day one and beyond</li> <li>• Ensuring no customer service system failures on day one and beyond</li> <li>• Ensuring that staff and customers are well informed for day one and beyond</li> </ul>
<b>Community services</b>	<ul style="list-style-type: none"> <li>• Ensuring that the new entities continue to provide community services and facilities</li> <li>• Ensuring that current community service grant and funding recipients have certainty of funding during the short term</li> </ul>

**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.

## 6.2 Risk assessment

There are a number of significant potential financial and non-financial risks arising from this 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 the NSW Government.
- The efficiencies generated by Inner West Council and projected in this analysis may not be able to be delivered by the new councils meaning costs increase more than is modelled.
- 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 amalgamation, 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.

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.

One Queensland chief executive that we spoke to, identified the opportunity to reset by shedding some assets and processes to create a new organisation from scratch as a benefit. For example, moving IT into the cloud rather than setting up new infrastructure.

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.

### 6.2.1 Staff risk

This section covers the following factors for LGBC consideration under S263(3) of the Local Government Act:

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

In June 2021, Inner West Council partnered with Insync, an independent specialist employee survey provider to carry out a Performance and Engagement Survey. The survey is based on Insync's academically and statistically validated performance and engagement framework.

A total of 1,336 employees were invited to undertake the survey and 782 completed responses were received, which translates to a response rate of 59%.

The survey was made available to employees through email as well as via an open link. Every effort was taken to make the survey available to all cohorts of employees.

Inner West Council wished to better understand employee sentiment regarding council amalgamation and to check if employees supported the current set up. The following questions and answer options were presented to employees as a part of the survey.

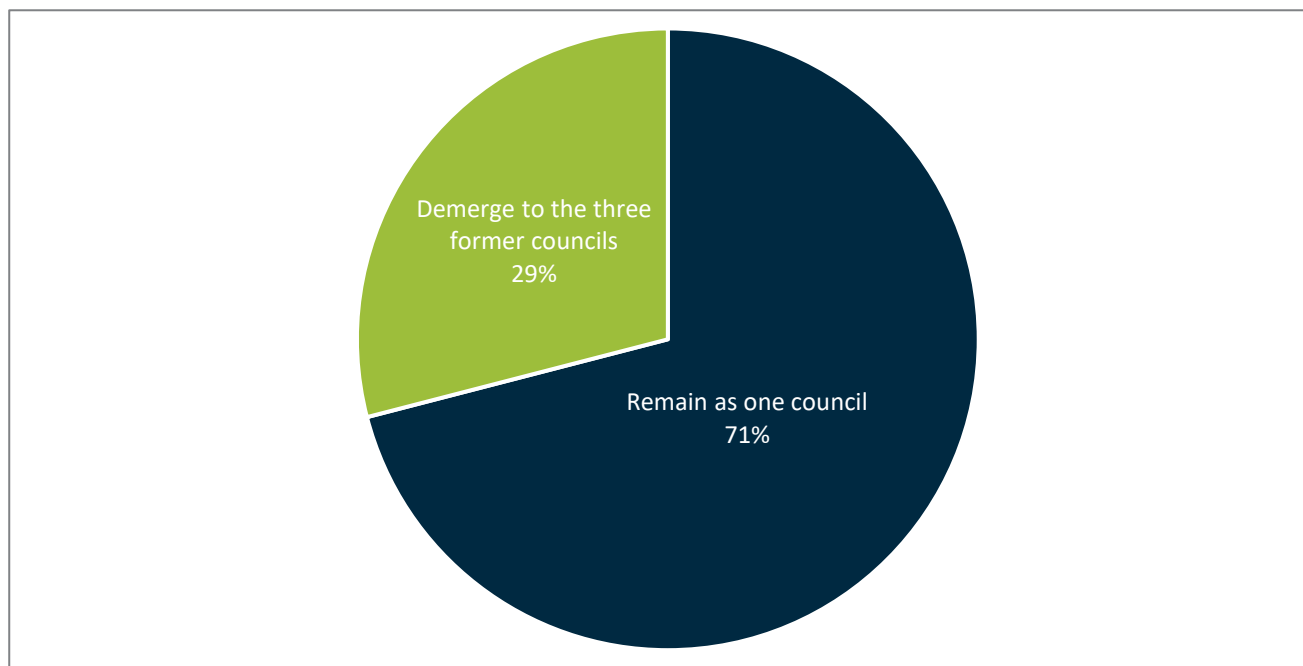
Question: Which of the following do you support?

Answer options:

1. Inner West Council should remain as one council.
2. Inner West Council should demerge to the three former councils.

The following figure shows that seven out of ten respondents would like the Council to remain as a single entity.

Figure 19 2021 staff survey results on the question of de-amalgamation<sup>32</sup>



Further to this, Council’s Joint Consultative Committee representing staff, resolved that:

*“The Inner West Council Consultative Committee notes with concern the motion discussed at the extraordinary meeting on Monday 24/5/2021 for Council to investigate the de-amalgamation of the Inner West Council.*

*The Inner West Consultative Committee has worked hard through the last 5 years since amalgamation to constructively deal with huge changes brought about by the amalgamation of the former council areas, systems and staff.*

*Staff are suffering from change fatigue associated with the many changes over the last 5 years associated with the amalgamation including changes to the leadership team and introduction of new systems and processes and have worked closely to create the significant cultural change and cohesiveness required to ensure that the community is serviced. Any proposed changes or consultation in relation to any de-amalgamation or consultation should also include the views of staff through either formal or informal consultation or through the staff survey.*

*The Consultative Committee forms a sub-committee to deal with the issues arising from the resolution for the report and the plebiscite to be undertaken on the election day.*

*That the consultative committee write to the unions to express the concerns of the consultative committee and staff. Support be offered to all staff and clear communication to staff.”*

A de-amalgamation comes with significant risks of loss of key personnel and overall increase in staff turnover. In addition to this, its central metropolitan location makes it more exposed to staff mobility, as there is a plethora of other employment opportunities nearby in local government, other tiers of government and the private sector.

<sup>32</sup> Insync, 2021. *Inner West Council performance and engagement survey 2021 – Employee sentiment regarding council amalgamation.* Sydney.

These risks can be managed but not fully mitigated, through providing staff with clarity early on of the impact to them and the path for transitioning to their roles in the de-amalgamated entities.

### 6.2.2 Other risks

The 2020 *Report on Local Government*<sup>33</sup> highlighted a number of high-risk IT issues, including cyber security, controls and gaps in user access management processes and system capacity for remote working. The main risks for demerging IT systems are:

- extended transition period of two to three years
- unpacking and allocating data, information, processes and systems
- IT specifications, procurement and implementation
- allocation of current IT staff and recruitment of new IT staff.

A strong de-amalgamation program and project management capability can assist in managing, but not mitigating, these risks.

There is very little impact on procurement or current contracts. The assumptions made in this business case are that contracts pertaining to individual former LGAs will be transitioned to the relevant proposed council.

Contracts and procurement of Inner West-wide goods and services will need to be apportioned to each of the proposed council areas.

It is also assumed that the current IT systems will be utilised by the three proposed councils, with separate instances of the software and applications being created for each council. This will require negotiation with current software providers.

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<sup>33</sup> Audit Office of NSW, *Report on Local Government*.