

**EXAMINATION OF A PROPOSAL
TO DE-AMALGAMATE INNER WEST LOCAL
GOVERNMENT AREA**

**Report by the Local Government
Boundaries Commission to the Minister
for Local Government**

MARCH 2024

**Local Government
Boundaries Commission**

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Dear Minister

Proposal to De-amalgamate Inner West Local Government Area

On behalf of the Local Government Boundaries Commission, I have pleasure in providing our report on the above proposal under section 263(1) of the *Local Government Act 1993*.

Yours sincerely



Peter Duncan AM
Chairperson
13 March 2024

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Glossary of terms used

Term	Meaning
“Act”	the New South Wales <i>Local Government Act 1993</i>
“area”	a local government area constituted under the Act
“Boundaries Commission” or “Commission”	the Local Government Boundaries Commission established under section 260 of the Act
“Delegate”	the person appointed by the Chief Executive of the Office of Local Government to examine the Government’s proposal that ultimately led to the May 2016 merger.
“economies of scale”	the concept in economics that larger organisations can produce goods or services at a lower unit cost due to their ability to spread fixed costs over a greater number of units
“diseconomies of scale”	the concept that economies of scale cease to operate after a certain point as additional costs (such as co-ordination) arise
“demerger” or “de-amalgamation”	the reversal of a previous amalgamation of two or more local government areas (see also note below)
“factor(s)”	the matter(s) that the Commission must, under section 263(3) of the Act, have regard to in examining a proposal
“IPART”	Independent Pricing and Regulatory Tribunal
“IP&R”	Integrated Planning and Reporting
“IWC”	Inner West Council
“LGA”	local government area
“LTFP”	Long-Term Financial Plan
“merger” or “amalgamation”	the May 2016 amalgamation of the then Ashfield, Leichhardt and Marrickville local government areas
“Minister”	the NSW Minister for Local Government
“OLG”	the Office of Local Government within the Department of Planning Housing and Infrastructure
“Proposal” or “demerger Proposal”	the business case submitted by Inner West Council pursuant to section 218CC of the Act, that seeks to reverse the 2016 merger
“SRV”	Special Rate Variation

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1. Background to the Proposal and the Commission's Examination

The current Inner West local government area was created by Proclamation published in the NSW Government Gazette on 12 May 2016 from the amalgamation of the former Ashfield, Leichhardt and Marrickville local government areas. The amalgamation followed a proposal by the then Minister for Local Government which was part of a suite of proposals involving amalgamations of local government areas across metropolitan, regional, and rural New South Wales.

From the time the amalgamation proposal was announced there was dissatisfaction expressed by sections the community. This opposition to the amalgamation continued after the amalgamation was proclaimed. The first meeting of the newly merged council was abandoned after it was taken over by protestors to the amalgamation.

Community members and groups such as Save Our Councils and Residents for De-amalgamation have continued campaigning for the de-amalgamation of the IWC, supported by a number of local and state politicians, as well as other groups like the Demerger NSW Alliance.

In May 2021 the Council resolved to undertake a cost benefit assessment, investigate staff sentiment and develop a de-amalgamation poll question for the next council election.

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, 2.55% were informal, 62.49% voted yes and 37.51% voted no.

On 8 May 2022, the newly elected council resolved that council would prepare a business case for demerger. On 16 January 2023, the Minister referred the business case proposal to the Boundaries Commission. A copy of the Minister's letter is included as Attachment 2.

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It is important to understand that, in accordance with the Act, the Commission’s role is to examine the merits of the Proposal. Its role is not to review the decision to amalgamate the former local government areas.

The following map shows the boundaries of the former shires before their 2016 amalgamation. Together they form the current Inner West local government area.



Area	Area (sq km)	Population 2016 (a)	Population 2031 (b)
Former Leichhardt	16.5	55,147	67,550
Former Ashfield	8.3	43,062	53,400
Former Marrickville	10.3	91,699	102,300

(a) Inner West Council business case, page 4

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

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2. Summary and Recommendation

The Commission has had regard to all submissions put to it and all oral presentations made at the various public inquiry sessions including later review of the transcripts of those sessions. It has commissioned its own research and has had regard to all the factors in the Act that apply to this Proposal.

The Commission has also had regard to the conditional nature of the business case before it. In its correspondence submitting the business case, Council makes it clear that the business case is submitted on the basis that, should a de-amalgamation occur:

1. The full costs of the de-amalgamation, being between \$178 million - \$190 million, be paid in full by the NSW Government, with no costs to be borne by the Inner West ratepayers, and
2. That the duly democratically elected representatives of Council remain in office for the duration of this term and the NSW Government does not install an interim unelected administrator.

Whilst it is open to Council to make a conditional resolution¹, those conditions are not binding on the Commission or the Minister.

The Commission is cognisant that issues have been raised concerning section 218CC of the Act, including the suggestion that there is an absence of power to make a proclamation to give effect to the de-amalgamation. This is not a matter that the Commission is required to determine.

In undertaking its examination of the business case, the Commission has been very aware that it took place in an atmosphere that was reflective of the opposition to the then Minister's 2016 merger proposal, the continued dissatisfaction with the amalgamation's implementation, and the results of the December 2021 poll indicating a 62.49% majority of voters wanted to de-amalgamate.

Indeed, a substantial proportion of the arguments presented to the Commission dealt with either why the 2016 proposal should not have been implemented, rather than why the current Proposal should be, or alternately that the business case should be recommended because of the majority result of the December 2021 poll.

¹ See s.371 of the Act.

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The Commission was conscious that its role was not to review the 2016 merger. It specifically made this clear at the beginning of every public inquiry session held. However, the view of many residents continued to be that implementation of this business case was the appropriate ‘solution’ to whatever objections they had to the 2016 merger. Regardless of the merits of the 2016 proposal, and the ultimate decision taken by the then Minister, the Commission notes that the 2016 proposal reflected a lawful option available to the then Minister under the Act. The proclamation to make IWC has not been challenged. It is lawful.

The Commission was also conscious that its role was to review the business case submitted by Council, giving consideration to all factors in section 263 of the Act, not just the attitudes of the residents and ratepayers. The Commission notes that the December 2021 poll was a non-binding poll.

It is clear from the submissions made to the Commission that there is a not insignificant portion of the community that feel there are benefits flowing from the amalgamation and some of them have submitted their opposition to the proposal to demerge. Of the 204 submissions received, 155 submissions were in favour of the proposal, 2 submissions did not support the business case but supported de-amalgamation generally, whilst 47 did not support the proposal.

Noting that the number of households in the IWC area is 74,087,² the number of submissions received by the Commission in 2024 represents only a small fraction (less than 1%) of the households in the community. That may indicate an overall low level of interest in, or engagement with, the proposal in the community. It may also reflect that many felt that they had already ‘spoken’ in the plebiscite.

In 2024, Residents in the former area of Ashfield were less supportive of the proposal, whilst residents of the former Ashfield and Marrickville LGAs were generally less engaged with the proposal. Far fewer submissions were received from these former areas than that of Leichhardt.

² 2021 Census data, Australian Bureau of Statistics.

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Submissions Received	Ashfield	Leichhardt	Marrickville	Not a resident/unknown
In favour	2	116	23	15
Against	15	12	10	11
Total	17	128	33	26

It is legitimate and proper for the Commission to have regard to the submissions of those residents expressing the view that they ‘want their council back’. However, this is but one of the factors the Act requires the Commission to take into account. For the Commission, the ‘democracy issue’ that arises is whether a non-binding plebiscite outcome in which some 37% of voters did not support the proposition is sufficient, by itself, to effectively dismantle the council?

Within the context of ‘local democracy,’ a concept frequently raised by supporters of this process, the Commission believes that there also resides the concept of local accountability. The task for the Commission under the Act is to assess whether the resultant outcome of such a dismantling process will be new financially sustainable councils which can effectively and efficiently provide for their communities. Absent that outcome being demonstrated, there is a risk that a bare ‘democracy’ approach could be unfair to the community, taken as a whole.

Taking the above into account (and based on its consideration of all the legislative factors as covered in the body of this Report), the Commission believes that the best outcome for the residents and ratepayers of the current LGA is for the proposal not to be implemented.

Recommendation: The Commission recommends that the proposal not be implemented.

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3. Role of the Local Government Boundaries Commission

The Boundaries Commission is an independent statutory authority constituted under section 260 of the Act.

The Commission consists of four Commissioners appointed by the NSW Governor for a fixed five-year term. The Chairperson is nominated by the Minister for Local Government, one Commissioner is nominated by the Chief Executive of the Office of Local Government, and two Commissioners are appointed from a panel of councillors nominated by Local Government NSW, a non-government organisation that represents and supports its member local government councils.

The Commission has several functions, set out in section 263 of the Act.

Its principal function is to examine and report on any matter referred to it by the Minister in relation to the boundaries of local government areas and the areas of operation of county councils. That is the function it has undertaken in respect of the current proposal.

The Commission also has a function if the Minister elects to refer any matter to the Chief Executive of the Office of Local Government, rather than to the Boundaries Commission, for examination and report. This was the process adopted for the 2016 amalgamation proposals by the then Minister for Local Government.

In that case, the Chief Executive (or a person appointed by the Chief Executive as a delegate) must then furnish their report to the Commission for review and comment. However, the Commission's review relates only to the report itself; it does not extend to re-examining the merits of the proposal. After completing its review of the report, the Commission sends its comments to the Minister.

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4. The Examination Process

The Act requires the Commission to have regard to the views of residents and ratepayers in examining a proposal and, in forwarding the Proposal to the Commission, the Minister had directed the Commission under section 218CC(2) to hold an inquiry. Such an inquiry involves holding public meetings to allow residents and ratepayers to present their views.

Public meetings were held at the following times and venue, with attendance numbers as shown –

St Peters Townhall				
6 December 2023	Session Time	No. of Attendees (a)		
		Speakers	Observers	Total
	9:30am – 11:00am	7	5	12
	12:30pm – 2:00pm	12	5	17
	3:30pm – 5:00pm	8	6	14
TOTAL		27	16	43

(a) A small number of individuals attended more than one session.

Submissions to Boundaries Commission		
By Residence (Previous LGA)	Total Submissions Received	Separate individuals (a)
Leichhardt	128	130
Marrickville	33	36
Ashfield	17	19
Non-resident/former resident/unknown	26	26
TOTAL	204	211

(a) Some individuals made more than one submission to the Boundaries Commission, or made a joint submission

The Commission was cognisant of ensuring that submissions made by residents and ratepayers were treated confidentially and they have been de-identified in this Report.

The examination of this Proposal by the Boundaries Commission was undertaken by the following Commissioners – Mr Peter Duncan AM (Chairperson), Cr Ruth Fagan, Cr Rick

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Firman OAM and Mr Grant Gleeson. As part of that examination, all Commissioners attended the inquiry sessions at St Peters Townhall and read and considered all submissions. The Commission met on 12 occasions.

In examining the Proposal and preparing this Report, the Commission wishes to acknowledge the contribution made by its Executive Officer, Ms Alice Beasley, assisted by a small group of OLG staff who assisted in organising the Inquiry sessions.

5. The Commission's Approach in Considering the Proposal

Under section 263(3) of the Act, the Commission is required to have regard to a number of factors when examining a proposal referred to it by the Minister. An extract of the relevant provisions of the Act is included as Attachment 4.

The Commission undertook this responsibility *inter alia* by –

- considering the views put forward in each written submission made by residents and ratepayers (and others);
- taking account of tabulations of those submissions according to whether the Proposal was supported or not, and which factor(s) were commented on;
- taking note of the oral presentations made at the public meetings by the proponent, the Inner West Council, residents and ratepayers, including where appropriate later reviewing the transcripts and/or audio-visual recordings;
- engaging an external party (Deloitte Touche Tohmatsu) to assist the Commission in its understanding of the financial impact of the Proposal;
- taking account of the Micromex Research telephone survey commissioned by Council, the results of which are included in the business case,
- taking account of the results of the 4 December 2021 poll which questioned whether electors supported the Inner West LGA being de-amalgamated.
- noting comments made by the Delegate in his report on the 2016 merger proposal; and
- taking account of relevant research available, including on the issue of economies of scale in local government.

The Commission was very conscious that its examination of the business case was not a review of the then Government's May 2016 decision to merge the then Ashfield, Marrickville and Leichhardt Councils. That is not the Commission's role nor the purpose of this examination. Despite this, many submissions and presentations to the Commission were focussed on why they believed the 2016 decision was wrong, or that they wanted their former council 'back' because it is the will of the people, and these submissions provided little in the way of comment on the merits of the business case.

Even if the 2016 decision was wrong as a matter of policy (and the Commission makes no judgement to that effect), that does not necessarily mean that the demerger being sought is the appropriate solution to that problem.

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Accordingly, and consistent with its understanding of the intent of the Act, the Commission has adopted the position that any recommendation arising from its examination of the business case should be based on its judgement, formed after reviewing the proposal against the relevant statutory factors, as to the better outcome for the residents and ratepayers of the existing local government area. That is, would residents and ratepayers as a whole be “better off” remaining under the one existing area (acknowledging that this cannot be a purely objective judgement), or would they be better off under three demerged areas? Clearly, neither option can necessarily guarantee that every individual will be better off.

6. The Commission’s Observations Relating to each Factor

6.1 Financial Advantages or Disadvantages

Section 263(3)(a) of Act requires the Commission to have regard to:

“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”.

6.1.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor -

Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	59	28.92%

This was one of the most consistently addressed factors in the written submissions received and presentations made at the public meetings. The arguments in favour of demerger that were made addressing this factor approached the matter from differing angles, including:

Why the original merger was wrong from a financial perspective -

“The idea that the amalgamation of our councils would achieve savings is demonstrably flawed. The reality is that costs have gone through the roof.”³

“Amalgamation has not created economies of scale, as the State government claimed it would. Inner West Council has sustained a deficit since it was created in 2016. The past two 2 years has seen Inner West Council in deficit with a third deficit predicted for 2024. The simple reason for this is that combined Council operations cost more than combined Council revenue. Liabilities have increased while assets, in particular income generating assets, have decreased.”⁴

“From my point of view, the amalgamation of Ashfield, Leichhardt and Marrickville Councils in 2016 is a failed experiment which was based on financial projections which have not, and cannot, be realised... In 2016, the amalgamation was not supported by our local communities.

³ Written submission #037.

⁴ Written submission #052.

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After a “Fit for the Future” enquiry, Leichhardt was found to be “Fit” in all areas except size. There was, a (now discredited and abandoned) theory that there would be savings if Councils were larger. Estimated savings have not materialised.”⁵

The current and future position of the Council –

“In their report to the Boundaries Commission, Deloitte’s said that “having operated years of harmonised service delivery it appears that Inner West Council has not realised significant levels of economies of scale or net cost savings as a result of the merger.” This is something the community has been saying for years... Public debate about the demerger has focused only on the cost of a demerger, as if there will be no cost if Council stays merged. Council will require significant additional funding if the merger continues.”⁶

“Financially, Inner West Council has not delivered any relief from increasing rates year on year. The claimed efficiency gains have not been met.”⁷

Concerns about the figures, projected cost of demerger and modelling in the Business Case -

“ML claim that their 2015 report information has been validated and used to inform their 2022 report. (ML p10) It is evident that if indeed the older data informs the current report, the report is incorrect. The 2015 ML report projections were grossly inaccurate compared to the actual performance of IWC. One could allow for some variation in the covid affected years, however the projections for the years prior to and after the covid years are no more accurate. Given the poor projected KPIs after amalgamation made by ML in their 2015 report compared to IWC actual outcomes, it is inadvisable to accept their current LTFP projections as reasonable.”⁸

“The IWC’s highly contentious submission contains data with unsupportable assumptions and substantial errors. The business case finds that the benefits of de-amalgamation are largely unquantifiable and subjective.”⁹

“The ML proposal has some glaring omissions, such as the following:

- it does not explore how a demerged council with shared services could operate at the present time; and*
- it does not consider a model featuring shared services, better representation and transparency, and alleviation of financial risk”¹⁰*

⁵ Written submission #133.

⁶ Written submission #138.

⁷ Written submission #054.

⁸ Written submission #066.

⁹ Written submission #037.

¹⁰ Written submission #052.

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“The methodology used in the Inner West Council (IWC) Business Case by Morrison Low (ML) is flawed as it is not a plan to demerge from the present situation in 2023 but a theoretical cost analysis of recreating three councils and projecting forward from a 2015 base. The figures for costs projected by this model are not credible.”¹¹

A number of submissions opposing the demerger also addressed this factor –

“The unified Inner West Council has achieved economic benefits that would be compromised by de-amalgamation. There is a clear risk of increased financial burdens falling on residents due to the likely administrative duplication and resultant inefficiencies.”¹²

“I really hope this deamalgamation does not go ahead. It would be a ridiculous waste of money for all involved. And it has taken until recently to finally have sorted out the teething issues of amalgamating (harmonising various practices across the former council areas).”¹³

“Inner West Council is a rare success story amongst council amalgamations, which was independently recognised when Inner West Council won the 2023 AR Bluett Memorial Award in the Metro category... Deamalgamation will have significant financial disadvantages for Inner West residents. It will be costly and is projected to cost between \$178 million–\$190 million over 10 years. Even reducing council service levels to pre-merger levels will result in increased rates for residents of between \$87 and \$217 per assessment in the middle of a cost-of-living crisis.”¹⁴

“Deamalgamation will come at significant cost with no clear corresponding benefits. Inner West Council is in a strong financial position. Deamalgamated councils would be financially worse off, without significant rate increases for residents and charges to maintain existing service levels... Deamalgamation will not reduce rates when all evidence points to further increases given ongoing costs and increased cost shifting to local councils; for example, the recent end of the subsidy for the Emergency Services Levy.⁸ As rate capping limits the ability to raise rates to cover shortfalls, it is vital that a local council with a strong financial base like Inner West Council to continues to provide the services we depend on.”¹⁵

“I am also especially concerned about de-amalgamation leading to a 30% increase in rates for the same or worse levels of service. These step rate increases which residents including myself do not want to incur or cannot afford...It feels so wasteful for little gain.”¹⁶

¹¹ Written submission #101.

¹² Written submission #001.

¹³ Written submission #011.

¹⁴ Written submission #016.

¹⁵ Written submission #140.

¹⁶ Written submission #181.

6.1.2 Discussion

6.1.2.1 IWC Financial Overview: 2017-2023

IWC's financial performance has been negatively impacted by the costs associated with the harmonisation of services, and worsened by low-rate pegs and COVID-19 restrictions. FY23 marks the first stabilised year for IWC's financial performance, with conventional rises in revenue from rates and fees/charges, new investment income and completion of integration activities.

This has salience when considering a de-amalgamation because if it occurs 'now', that will trigger the community foregoing the now sunk costs as well as the potential to start to generating additional financial benefits from past decisions, while rolling into a further period of transactional costs imposed through the de-amalgamation. This will include a new period of protected labour costs due to operation of the relevant provisions in the Act.

Deloitte has observed that *'the seven-year integration post-merger period has created a singular different business model which will be complex to unwind.'* The Deloitte analysis - as summarised in the following table - shows that IWC recorded a \$217.7 million aggregate surplus over the seven years to 2022-23, but an aggregate operating surplus of only \$6.4 million if excluding capital grants (the more normal measure).

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IWC Operating Result Summary 2016-17 to 2020-21

\$m	FY17	FY18	FY19	FY20	FY21	FY22	FY23	7 Yr
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Total
Rates and annual charges	152.9	153.5	159.3	162.6	164.7	162.2	166.3	1,121.4
User fees and charges	46.3	41.7	42.9	32.7	43.1	41.4	55.9	303.9
Interest and investment income	7.4	6.1	6.5	5.2	3.2	3.0	11.0	42.4
Other Revenue	29.0	24.5	27.6	25.2	22.7	15.4	22.1	166.5
Operating grants	30.9	11.5	11.7	17.1	14.3	15.4	13.8	114.7
Capital grants	49.0	16.8	23.4	35.5	26.7	30.8	29.2	211.4
Net gains/(losses) from the disposal of assets	(3.6)	(1.2)	(8.3)	45.2	(5.1)	(2.5)	(4.9)	19.8
Revenue	311.9	252.8	263.2	323.5	269.8	265.5	293.4	1,980.1
Merger grants (operating)	10.0							10.0
Merger grants (capital)	10.0							10.0
Revenue excluding merger grants	291.9	252.8	263.2	323.5	269.8	265.5	293.4	1,951.1
Employees	(119.6)	(109.)	(119.5)	(115.7)	(113.1)	(112.1)	(124.)	(814.1)
Materials & services and other	(74.0)	(62.2)	(65.1)	(63.9)	(76.5)	(86.2)	(100.)	(527.)
Borrowing costs	(1.3)	(0.9)	(0.6)	(0.4)	(0.8)	(1.0)	(0.9)	(5.9)
Depreciation	(30.8)	(28.3)	(26.6)	(29.3)	(36.8)	(34.1)	(33.2)	(219.1)
Other	(50.8)	(37.4)	(34.4)	(32.3)	(16.3)	(12.2)	(11.8)	(195.2)
Expenses	(276.6)	(238.1)	(246.3)	(241.6)	(243.6)	(245.5)	(270.7)	(1,762.3)
Net operating result	35.4	14.8	16.9	82.0	26.1	20.0	22.7	217.9
Net operating result excluding capital grants	(13.6)	(2.1)	(6.6)	46.5	(0.5)	(10.7)	(6.5)	6.4
Net operating result excluding capital grants & Tempe Land Sale	(13.6)	(2.1)	(6.6)	(2.9)	(0.5)	(10.7)	(6.5)	(42.9)
Operating performance ratio (%)	(5.1%)	(0.9%)	(2.6%)	19.1%	(0.2%)	(4.5%)	(2.4%)	(0.4%)
Own source revenue (%)	74.7%	88.9%	87.0%	81.1%	85.1%	82.8%	85.6%	95.6%

Note:

(a) FY17 reflects a 13½ month period from 13 May 2016 to 30 June 2017.

(b) Operating Performance Ratio measures how well local councils contain expenses within revenue. The benchmark set by the Office of Local Government (OLG) for the ratio is greater than 0%.

(c) Own Source Revenue measures a council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG for the ratio is greater than 60%.

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Excluding capital grants and the sale of Tempe Land (\$49.4m) to the State Government, IWC has reported deficits across the seven-year period post merger.

The deficits sustained through the post-merger period were incurred in the initial years post-merger (FY17 to FY20 aggregate net loss of \$22.3 million), due to (i) \$26.3 million in merger costs, partially funded by grants (\$10 million), and (ii) the rate freeze, where IWC could not pass on these higher costs.

Over this period IWC invested in establishing an integrated and cohesive Council increasing the cost base by 27% relative to the former Councils since merger (equivalent to 12% when adjusting for inflation). This is driven by the following:

- COVID-19 restrictions which initially appeared to improve performance as services running at a deficit were shutdown, however, has since been quantified by Management as having a \$3.3 million net cost;
- Delivery of new / expanded services which contributed c.\$3.3 million net cost p.a. to IWC (majority relating to Ashfield Aquatic Centre at c.\$1.2 million and Marrickville Library at \$2.2 million in addition to three other smaller sites);
- Service uplift within certain council areas (e.g. verge mowing, provision of small bins and animal companion services) to provide consistently across the three former Councils;
- Rate revenue increases totalling 10% since merging (from both annual rate pegs and changes to general income factors) that were lower than the rising cost base;
- Decision to absorb costs relating to the Emergency Services Levy (ESL) of \$4.3 million annually from FY18 and Domestic Waste Management (DWM) charges of \$829k annually over seven years from FY22 to FY28, rather than to pass on these costs to the community; and
- Higher employment costs

The Council has also delivered a range of community projects as well as c.\$388 million of capital expenditure (FY17-FY23), funded by both grants and cash reserves. This investment in the asset base has resulted in higher depreciation expenses (increased by \$9.2 million from FY16 to FY23) and a reduction in infrastructure backlog from \$31.3 million at merge to \$25.3 million as at 30 June 2023.

IWC's cost base has increased by 27% relative to the former councils since merger. Despite three years of operating at a new baseline of harmonised service delivery (FY21 to FY23), it appears that IWC has not yet realised significant levels of economies of scale or net cost savings as a result of the merger.

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After incurring higher costs in FY17 to FY19 due to the merger process, IWC cost base in FY20 (excluding depreciation) has grown to be approximately 18% higher than the aggregate cost base of the former three Councils in FY16 (equivalent to 12% when adjusting for inflation). Factors contributing to this cost growth include:

- The implementation of integration activities which were largely completed by FY21, and the delivery of new services/functions, outlined in the previous section, increasing Materials and Services and other costs by 32% (based on normalised FY16 values);
- A 23% increase in employee costs (based on normalised FY16 values) which reflects higher wage per full-time equivalent (FTE) employee from the harmonisation of salary structures to further integrate, promote equity and streamline back-office processing. Also, any executive-level consolidation savings realised on merger were reinvested into other new roles or offset by other employee cost increases (e.g. award rates and progression of salary structures).

6.1.2.2 IWC Employment Overview: Current

IWC employed 1,128 FTE as at November 2023 which is a 28 FTE (net) decrease (-2.4%) on pre-merger staffing levels. However, this excludes 120 FTE vacant positions looking to be filled (6% higher than pre-merger) for roles relating largely to service transformation and community service.

IWC effectively operates teams in each former Council for logistic purposes, however the operating structure has significantly changed since merging, resulting in:

- Consolidation of the three organisation structures, which reduced FTE by 156 FTE from June 2016 to June 2023, primarily due to consolidation of back-office functions and implementation of shared services (e.g. reduction of depots from three to two);
- Voluntary redundancy program, of which c.13.4% of employees partook resulting in \$14.2 million of payouts across FY17 to FY24;
- Temporary high vacancies due to COVID-19, requiring temporary backfill from consultants or contractors at a higher price point; and
- Uplift in new service functions and heightened service levels requiring additional staffing (e.g. service transformation function, additional staff for aquatic centres, childcare and operational services).

The average cost per FTE has increased since merger from \$105k to \$122k per FTE, due to:

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- Annual award increases under the Act; and
- Progression of in salary and harmonisation of wages across the three former Councils, increasing cost per FTE by 5% (excluding award / CPI increases).

6.1.2.3 Continuing IWC Financial Outlook

The examination of this Proposal by the Boundaries Commission is not simply about the advantages or disadvantages to a proposed demerged Leichhardt, Ashfield and Marrickville Council and its residents. The examination must encompass a comparison with the existing IWC LGA continuing as a merged area.

In respect of the financial advantages and disadvantages of the Proposal, the Commission therefore engaged Deloitte to compare the financial positions of each council under a demerger scenario with forecasts for IWC. This section outlines the projected financial position of a continuing IWC, ie. the 'base case' against which the proposed demerged councils can be assessed.

The starting point for Deloitte's review of a continuing IWC's financial outlook was the Council's Long Term Financial Plan ("LTFP"), most recently adopted in June 2023. This LTFP forecasts Councils financial performance from FY24 to FY33, largely based on the FY23 service levels. For the purposes of comparing the demerger modelling performed by Deloitte, they have focused on the FY24 to FY28 period.

The LTFP forecasts an operating surplus (excluding capital grants) of \$3.3 million in FY28, representing an improvement from the \$6.5 million operating deficit (excluding capital grants) achieved in FY23, driven by:

- An improved FY24 result attributable to:
 - A reduction of 15% in Materials and Services costs through reduction of reliance on agency staff to be filled by full time employees, resulting in employee costs increasing by 11% in the same year. Further, optimisation of spend across Council is forecast to decrease overall costs; and
 - An increase in rates and annual charges of 4%;
 - IPART has recently updated the rate peg for FY25 to 4.9%, which if instituted by Council could mitigate the required cost reduction and improve IWC financial sustainability by c.\$9.5 million across FY25 to FY28.
- Steady improvement from FY24 to FY28 expected to be achieved via:
 - An increase in rates and annual charges of 12%, primarily related to increases to the rate peg;
 - An increase in user fees and annual charges of 14%, resulting from CPI increases;

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- A comparatively smaller increase in Materials & Services costs of 1%, relying on optimisation of budget spend; and
- A partial offset by a 13% increase in employee expenses, in accordance with forecast award increases.

Council is forecasting a decline in net cash and investments over the forecast related to purchase of an additional investment property in Warrawong for \$21.2 million in July 2023 (already secured), and the amortisation of the \$40 million Ashfield Aquatic Centre Redevelopment loan facility and investment in asset renewals (\$392 million). A portion of this asset expenditure is connected with externally funded projects where cash is currently held in Council's restricted funds (c.\$64 million developer contributions).

Since the LTFP was developed in June 2023, FY24 Q1 actuals have been finalised. Council performed above budget, largely driven by a) increased investment income related to increased interest rates, and b) continuing vacant staff positions reducing salaries and wages costs partially backfilled by agency costs. Management notes this will have minimal impact to the remaining FY24 forecast.

In terms of financial impact, noting the sunk costs and decisions taken by the council in the years post the merger, there is therefore an immediate saving to the community in the existing council continuing as the costs of the de-amalgamation are not incurred. The existing council continuing scenario option is a superior position for the community.

6.1.2.4 The Approach to Demerger Scenarios

In order to assess the financial viability of demerged Leichhardt, Ashfield and Marrickville LGAs, Deloitte modelled individual forecasts based on an allocation of the IWC 'base case' forecast (see above) and specific demerger impacts. The methodology is briefly described as follows.

- **Starting Point** – the Long Term Financial Plan (LTFP) adopted by Council in June 2023 forecast two scenarios: 1) Business as usual; 2) Addressing the infrastructure asset renewal backlog. The modelling assumes scenario 1 as the basis for the analysis, therefore being based on the continuation of existing services at their current level, continuation of existing levels of investment in infrastructure renewal, and continuation of existing income sources.
- **Demerger Allocations** - IWC has integrated the back-office functions post-merger and thus financial information is fully integrated.

Deloitte noted that some activities and projects can be directly attributed to either Leichhardt, Ashfield or Marrickville. Where activities related to all three LGAs,

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other allocation methods were used, such as reviewing the underlying financial workings/calculations, or applying relevant revenue, cost or asset drivers to apportion the amount.

- **Demerger Assumptions** – Deloitte estimated potential one-off and incremental costs of separating one organisation into three based on discussions with IWC management and Morrison Low, and estimated the ongoing costs associated with three Councils (including Councillors) and administrative roles.
- **Demerged Leichhardt, Ashfield and Marrickville Forecasts** - Deloitte modelled individual profit and loss and cash flow forecasts to determine sustainability gaps (if any); (ii) compared ratepayer impacts within each of the three demerged councils to a continuing IWC to determine whether ratepayers are better or worse off; and (iii) considered factors that may affect financial sustainability within the three councils (as compared with IWC).

6.1.2.5 Demerger Costs

If the Proposal is implemented, it is clear that costs and disbenefits will be incurred in demerging the current IWC.

Under section 218CC of the Act (ie the section under which this Proposal is being dealt with), 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*”.

Given the section 218CC provision, Deloitte’s analysis assumes that one-off costs (ie the costs of the demerger itself) will be met by the NSW Government, while any ongoing incremental costs (eg the cost to each council of having its own Mayor and other councillors) are met by the respective councils.

What that analysis identifies is that whilst some costs may be recoverable (or payable directly) by Government, a substantial proportion of the costs and disbenefits will be incurred by the community.

One-off costs:

One-off costs included by Deloitte include establishment costs (eg. rebranding), IT system implementation costs, and transition costs including financial and legal advisor costs.

A provision for staff retraining and redundancy costs was also assumed based on the 13.4% rate of redundancy observed post-merger, and the increase in services compared to pre-merger levels.

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The Morrison Low report submitted by IWC estimates the one-off demerger costs to be \$31.2 Million. Based on its analysis of available benchmarks, Deloitte estimated that one-off demerger costs could be in the range of \$31.3 – \$39.1 million (for the three councils in total). This cost could be higher or lower depending on the level of cooperation between the new councils and their ability to achieve commercial agreement on key separation matters, and implementation of any shared services.

The lower end of the range identified by Deloitte (\$31.3 million) is consistent with IWC's own estimates.

Incremental costs:

Deloitte have forecast total ongoing costs equating to \$114.1 million over the four-year forecast period (assuming demerger occurs 1 July 2024), including additional costs of:

- Replicating Councillor structures, estimated at \$0.3 million per annum per council;
- Additional FTE to maintain current services and back office functions. IWC estimated a likely additional requirement of 163 FTE at a total cost of \$26.5 million p.a.;
- Elections scheduled for FY25 (now required across three councils), estimated to be a \$0.6 million in FY25 per Council; and
- Replicating the internal audit function, now required by legislation, estimated to be \$0.2 million per annum per Council.

These costs are shown in the following figure -

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Demerger cost estimates and ratepayer impacts

		FY25 Fct.	FY26 Fct.	FY27 Fct.	FY28 Fct.	4 Year Total
Ashfield	Incremental costs p.a. per region (\$m)	6.1	5.5	5.5	5.5	22.6
	Rateable Assessments (#)	17,233	17,233	17,233	17,233	17,233
	Average incremental cost p.a on rateable assessment	(354)	(318)	(318)	(318)	(1,309)
Leichhardt	Incremental costs p.a. per region (\$m)	11.0	10.3	10.3	10.3	42.0
	Rateable Assessments (#)	25,380	25,280	25,380	25,380	25,380
	Average incremental cost p.a on rateable assessment	(432)	(407)	(407)	(407)	(1,653)
Marrickville	Incremental costs p.a. per region (\$m)	12.9	12.2	12.2	12.2	49.6
	Rateable Assessments (#)	36,849	36,849	36,849	36,849	36,849
	Average incremental cost p.a on rateable assessment	(349)	(332)	(332)	(332)	(1,347)
Total	Incremental costs p.a. per region (\$m)	29.9	28.1	28.1	28.1	114.1
	Rateable Assessments (#)	79,462	79,462	79,462	79,462	79,462
	Average incremental cost p.a on rateable assessment	(1,136)	(1,058)	(1,058)	(1,058)	(4,309)

The demerger cost range as presented above is a high-level estimate and indicative only. The actual costs could be somewhat higher or lower depending on a range of factors including the ability of the demerged councils to reach consensus on legal, financial and commercial separation matters, including the allocation of its cash reserves, and the financial capacity of the new councils and/or its community to fund such costs.

It is important to note that the projections shown in the demerger scenarios below are on the basis of existing council policies and practices. They do not make any allowance for any changes that a demerged council might make in revenue and rating, use of volunteerism, service levels, etc.

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6.1.2.6 Demerger Scenario – Ashfield

The following table shows Deloitte’s projected operating results for a demerged Ashfield Council -

Profit & loss \$'m	FY14 Act.	FY15 Act.	FY16 Act.	FY25 Fct.	FY26 Fct.	FY27 Fct.	FY28 Fct.	Total Fct.
Rates and annual charges	26.7	26.6	27.1	39.4	40.6	41.7	42.7	164.4
User charges & fees	3.7	4.3	4.7	10.9	11.4	11.7	12.0	46.1
Interest & investment income	1.1	0.9	0.9	1.3	1.4	1.4	1.2	5.3
Other income	2.1	2.4	2.5	3.2	3.2	3.2	3.2	12.7
Grants & contributions – operating	1.9	2.4	2.3	2.2	2.0	2.0	2.0	8.3
Grants & contributions – capital	1.0	4.5	5.6	5.3	2.7	2.3	2.3	12.6
Disposal of assets	-	(1.6)	(1.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)
Total revenue	36.5	39.5	41.6	62.1	61.0	62.1	63.3	248.5
Employee costs	(14.8)	(15.6)	(14.4)	(27.1)	(28.0)	(28.5)	(29.3)	(113.0)
Materials & Services	-	(12.4)	(11.1)	(19.1)	(18.8)	(19.0)	(19.0)	(75.9)
Borrowing expenses	(0.8)	(2.0)	(0.4)	(0.7)	(0.7)	(0.6)	(0.6)	(2.6)
Depreciation	(5.0)	(4.6)	(3.7)	(7.7)	(7.9)	(8.0)	(8.1)	(31.7)
Other expenses	(15.2)	(4.4)	(4.0)	(3.1)	(3.2)	(3.3)	(3.4)	(13.0)
Ongoing demerger costs	-	-	-	(6.1)	(5.5)	(5.5)	(5.5)	(22.6)
Total expenses	(35.9)	(39.0)	(33.6)	(63.9)	(64.0)	(64.9)	(65.9)	(258.7)
Net op. result	0.6	0.5	8.0	(1.7)	(3.0)	(2.9)	(2.6)	(10.2)
Net op result (ex CG)	(0.4)	(4.0)	2.5	(7.1)	(5.7)	(5.2)	(4.8)	(22.8)

Forecast key performance indicators									
KPI's	<i>Bench.</i>	FY14	FY15	FY16	FY25	FY26	FY27	FY28	Total
Op. performance ratio	> 0%	(1.2%)	(10.8%)	6.7%	(12.4%)	(9.7%)	(8.6%)	(7.9%)	(9.6%)
Own source rev. ratio	> 60%	92.0%	83.1%	81.7%	88.0%	92.3%	93.1%	93.2%	91.7%
FTE	N/A	173	178	190	264	264	264	264	264
Employee costs/FTE (\$000s)	N/A	85.4	87.6	76.0	102.9	106.1	108.1	111.2	107.1

The Ashfield forecast indicates operating deficits improving year on year, resulting in a \$4.8m deficit (ex CG) in FY28. This includes recurring demerger costs of \$5.5m annually related to additional FTE to deliver current service levels in line with the IWC service model. An additional \$0.6m demerger cost is forecast in FY25 for election costs.

As a standalone council, Ashfield will need to review the financial position of its unrestricted funds to ensure it has sufficient reserves to deliver service levels to the community, capex spend and meet debt service obligations of the Ashfield Aquatic Centre Redevelopment loan and related covenants.

In this forecast, Ashfield would breach its debt service cover ratio covenant in FY25, FY26 and FY27, and its interest cover ratio covenant in FY25, however, would not breach its cash expense ratio covenant.

In order to maintain the current service delivery model, rates may need to be increased or Ashfield may need to apply for an SRV to ensure its financial position is sustainable. On the other hand, the council may make commercial decisions to reduce FTE and services

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delivered to the community to maintain the rate base albeit staff protections will initially apply. These cost reductions could then lead to a more sustainable position.

The financial sustainability 'gap' of \$4.8 million in FY28 is equivalent to an 8.5% reduction of FY28 controllable costs base or a 16.6% increase to rate base. Ashfield has a greater level of forecast population growth (9% from FY23 to FY28) in comparison to Leichhardt and may see revenue growth which could assist in bridging the sustainability gap (net of higher population driven costs).

Deloitte has suggested the following ways in which Ashfield could bridge the sustainability gap, for example, if Ashfield receives additional external funding of \$2.0 million it would need to achieve \$2.8 million of additional cost savings in order to achieve a breakeven result (excluding capital grants) in FY28.

		Additional rate revenue or external funding				
\$'m		-	1.0	2.0	3.0	4.0
Additional cost savings	-	(4.8)	(3.8)	(2.8)	(1.8)	(0.8)
	1.0	(3.8)	(2.8)	(1.8)	(0.8)	0.2
	2.0	(2.8)	(1.8)	(0.8)	0.2	1.2
	3.0	(1.8)	(0.8)	0.2	1.2	2.2
	4.0	(0.8)	0.2	1.2	2.2	3.2

Ashfield's Resulting Operating Surplus excluding capital grants (\$m)

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6.1.2.7 Demerger Scenario – Leichhardt

The following table shows Deloitte’s projected operating results for a demerged Leichhardt Council -

Profit & loss \$'m	FY14 Act.	FY15 Act.	FY16 Act.	FY25 Fct.	FY26 Fct.	FY27 Fct.	FY28 Fct.	Total Fct.
Rates and annual charges	49.1	50.7	50.1	62.2	64.0	65.7	67.4	259.3
User charges & fees	17.4	17.4	17.9	21.5	22.4	23.0	23.6	90.5
Interest & investment income	2.6	2.7	2.3	1.7	1.9	1.8	1.7	7.1
Other income	5.5	5.6	5.6	7.6	7.6	7.7	7.7	30.7
Grants & contributions – operating	4.3	6.7	4.2	3.0	2.8	2.8	2.8	11.4
Grants & contributions – capital	8.5	2.7	13.3	6.5	2.8	2.3	2.3	13.8
Disposal of assets	(0.1)	0.1	0.2	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)
Total revenue	87.3	86.0	93.5	102.2	101.1	103.0	105.1	411.5
Employee costs	(36.7)	(37.8)	(34.1)	(53.7)	(55.4)	(56.5)	(58.1)	(223.7)
Materials & Services	-	(20.1)	(18.9)	(28.5)	(28.2)	(28.6)	(28.6)	(113.9)
Borrowing expenses	(0.4)	(0.5)	(0.4)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Depreciation	(12.0)	(12.4)	(10.7)	(11.9)	(12.1)	(12.3)	(12.5)	(48.7)
Other expenses	(25.1)	(6.4)	(5.6)	(5.1)	(5.2)	(5.3)	(5.4)	(21.0)
Ongoing demerger costs	-	-	-	(11.0)	(10.3)	(10.3)	(10.3)	(42.0)
Total expenses	(74.3)	(77.1)	(69.6)	(110.1)	(111.3)	(113.0)	(114.9)	(449.4)
Net op. result	13.0	8.9	23.8	(7.9)	(10.2)	(10.0)	(9.8)	(37.9)
Net op result (ex CG)	4.5	6.2	10.6	(14.4)	(13.0)	(12.3)	(12.0)	(51.6)

Forecast key performance indicators

KPI's	Bench.	FY14	FY15	FY16	FY25	FY26	FY27	FY28	Total
Op. performance ratio	> 0%	5.7%	7.4%	13.2%	(15.0%)	(13.1%)	(12.2%)	(11.7%)	(12.9%)
Own source rev. ratio	> 60%	85.3%	89.1%	81.3%	90.8%	94.5%	95.1%	95.2%	93.9%
FTE	N/A	466	437	439	522	522	522	522	522
Employee costs/FTE (\$000s)	N/A	78.7	86.4	77.7	102.9	106.1	108.1	111.2	107.1

The Leichhardt forecast indicates operating deficits improving year on year, resulting in a \$12.0m deficit (ex CG) in FY28. This includes recurring demerger costs of \$10.3m annually related to additional FTE to deliver current service levels in line with IWC service model. An additional \$0.6m demerger cost is forecast in FY25 for election costs.

The large amounts of capital expenditure forecast (\$125.0 million over the forecast period, c.90% is expected to be unfunded) in comparison to the other councils, relates to upgrades for the Leichhardt Park Aquatic Centre, the Greenway Program and upgrades to park & property buildings.

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As a standalone council, Leichhardt will need to review the financial position of its unrestricted funds to ensure it has sufficient reserves to deliver service levels to the community and ensure assets meet renewal requirements. •

To increase operating surplus, rates may need to be increased or Leichhardt may need to apply for an SRV to ensure financial position is sustainable. Alternatively, the standalone council could also make commercial decisions to reduce FTE and services delivered to the community in order to maintain the rate base, albeit staff protections will initially apply. •

Further, to maintain cash reserves, Leichhardt could reduce the capital expenditure forecast, noting that over 90% is forecast to be unfunded by grants revenue. However, the council will need to consider whether this has impacts to asset renewal benchmarks.

The financial sustainability 'gap' of \$12.0 million in FY28 is equivalent to an 11.8% reduction of FY28 controllable costs base or a 25.8% increase to rate base.

Leichhardt has a forecast population growth of 6% from FY23 to FY28, indicating the council could see revenue growth which could assist in bridging the sustainability gap (net of higher population driven costs).

Deloitte have provided the following ways in which Leichhardt could bridge the sustainability gap, for example, if Leichhardt receives additional external funding of \$5.0 million it would need to achieve \$7.0 million of additional cost savings in order to achieve a breakeven result (excluding capital grants) in FY28.

		Additional rate revenue or external funding				
\$'m		-	2.5	5.0	7.5	10.0
Additional cost savings	-	(12.0)	(9.5)	(7.0)	(4.5)	(2.0)
	2.5	(9.5)	(7.0)	(4.5)	(2.0)	0.5
	5.0	(7.0)	(4.5)	(2.0)	0.5	3.0
	7.5	(4.5)	(2.0)	0.5	3.0	5.5
	10.0	(2.0)	0.5	3.0	5.5	8.0

Leichhardt's Resulting Operating Surplus excluding capital grants (\$m)

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6.1.2.8 Demerger Scenario – Marrickville

The following table shows Deloitte’s projected operating results for a demerged Marrickville Council -

Profit & loss \$'m	FY14 Act.	FY15 Act.	FY16 Act.	FY25 Fct.	FY26 Fct.	FY27 Fct.	FY28 Fct.	Total Fct.
Rates and annual charges	58.5	60.8	61.3	77.4	79.7	82.0	84.1	323.2
User charges & fees	14.7	15.1	16.0	25.1	26.2	26.9	27.6	105.9
Interest & investment income	2.7	2.3	1.4	2.6	2.8	2.7	2.5	10.6
Other income	11.4	13.6	17.9	16.5	16.2	16.4	16.6	65.6
Grants & contributions – operating	5.2	6.8	6.2	4.8	4.5	4.5	4.5	18.3
Grants & contributions – capital	5.7	8.0	13.8	14.8	9.4	8.6	8.6	41.4
Disposal of assets	0.0	(0.8)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)	(1.7)
Total revenue	98.2	105.9	116.5	140.8	138.3	140.7	143.5	563.3
Employee costs	(46.7)	(46.3)	(41.1)	(64.3)	(66.3)	(67.5)	(69.4)	(267.5)
Materials & Services	-	(29.3)	(21.3)	(37.1)	(37.0)	(37.5)	(37.5)	(149.1)
Borrowing expenses	(1.3)	(1.1)	(0.8)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Depreciation	(8.6)	(10.2)	(9.6)	(14.8)	(15.1)	(15.3)	(15.5)	(60.6)
Other expenses	(38.0)	(12.7)	(11.0)	(7.5)	(7.7)	(7.9)	(8.0)	(31.0)
Ongoing demerger costs	-	-	-	(12.9)	(12.2)	(12.2)	(12.2)	(49.6)
Total expenses	(94.5)	(99.7)	(83.8)	(136.5)	(138.3)	(140.4)	(142.7)	(557.9)
Net op. result	3.7	6.2	32.7	4.3	0.1	0.3	0.8	5.4
Net op result (ex CG)	(2.0)	(1.8)	18.9	(10.5)	(9.3)	(8.3)	(7.8)	(36.0)

Forecast key performance indicators

KPI's	Bench.	FY14	FY15	FY16	FY25	FY26	FY27	FY28	Total
Op. performance ratio	> 0%	(2.1%)	(1.9%)	18.4%	(8.3%)	(7.2%)	(6.3%)	(5.8%)	(6.9%)
Own source rev. ratio	> 60%	88.9%	86.1%	82.8%	86.1%	90.0%	90.7%	90.9%	89.4%
FTE	N/A	536	520	546	624	624	624	624	624
Employee costs/FTE (\$000s)	N/A	87.1	89.0	75.2	102.9	106.1	108.1	111.2	107.1

The Marrickville forecast indicates operating deficits improving year on year, resulting in a \$7.9m deficit (ex CG) in FY28. This includes recurring demerger costs of \$12.2m annually related to additional FTE to deliver current services levels in line with IWC service model. An additional \$0.6m demerger cost is forecast in FY25 for election costs.

As a standalone council, Marrickville closes FY28 with a positive cash and investments position, although a portion of this would be externally restricted. Net cash flow remains negative, indicating this position may not be sufficient in the future. To increase operating surplus, Marrickville could make commercial decisions to reduce FTE and services

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delivered to the community in order to maintain the rate base, albeit staff protections will initially apply.

To maintain cash reserves, Marrickville could reduce the capital expenditure forecast, noting that over 87% is forecast to be unfunded by grants revenue. However, the council will need to consider whether this has impacts to asset renewal benchmarks.

The financial sustainability ‘gap’ of \$7.9 million in FY28 is equivalent to a 6.2% reduction of FY28 controllable costs base or a 14.9% increase to rate base. Marrickville has the greatest levels of forecast population growth (12% from FY23 to FY28) and may see rate revenue grow which could assist in bridging the sustainability gap (net of higher population driven costs).

Marrickville performance would be sensitive to (i) financial market fluctuations, affecting returns from property and other investments, and (ii) changing community needs, including use of the redeveloped library which is a key contributor to usage charges.

Deloitte have provided ways in which Marrickville could bridge the sustainability gap, for example, if Marrickville receives additional external funding of \$3.0 million it would need to achieve \$4.9 million of additional cost savings in order to achieve a breakeven result (excluding CG) in FY28. Marrickville’s capacity as a standalone council to achieve incremental income or cost savings over this period has not been tested.

\$'m	Additional rate revenue or external funding					
	-	1.5	3.0	4.5	6.0	
Additional cost savings	(7.9)	(6.4)	(4.9)	(3.4)	(1.9)	
1.5	(6.4)	(4.9)	(3.4)	(1.9)	(0.4)	
3.0	(4.9)	(3.4)	(1.9)	(0.4)	1.1	
4.5	(3.4)	(1.9)	(0.4)	1.1	2.6	
6.0	(1.9)	(0.4)	1.1	2.6	4.1	

Marrickville’s Resulting Operating Surplus excluding capital grants (\$m)

6.1.2.9 IWC Proposal and Submission

The IWC Proposal

A de-amalgamation proposal under section 218CC of the Act must be in the form of, or at least include, a “business case” setting out the reasons in support of the proposal.

The business case submitted by IWC to the Minister in December 2022 consisted of a covering letter and a report prepared by Morrison Low.

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This report (hereafter referred to as “ML Report”), dated August 2022, presents two options for a de-amalgamation, the preferred method being option A, a return to pre-merger service levels, and option B maintaining current IWC service levels. The business case indicates that a third option investigating shared services was not considered “after a review of the literature indicated there was no significant or demonstrated benefit in shared services in NSW local government.”¹⁷

The ML Report substantially focuses on a cost benefit analysis and financial and commercial analysis, with findings that there is a net financial cost to a de-amalgamation and the benefits of de-amalgamation are “largely unquantifiable and subjective”.¹⁸

On the basis of option A, the ML Report projects all three demerged councils to make deficits (excluding capital items) that slowly reduce over a ten year period, the increased costs being for new facilities in each council area, as well as increased cost burden for some services. The ML report provides that as Leichhardt reported surpluses prior to amalgamation, it is projected to return to surpluses faster, whilst Marrickville is projected to experience the highest deficits, which is partly due to the expiry of their special rate variation in the amalgamation period.¹⁹

Similarly, in relation to option B, the ML Report has all three councils projected to make deficits that slowly reduce over a ten year period. However, the ML report expects these deficits to be greater than those in option A as a result of IWC harmonising service delivery across some services to the higher level of the three councils.²⁰

On the matter of shared services, the ML Report does not provide any modelling for this option. The ML Report notes that 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” but that these would need to be considered on a service-by-service basis. The ML Report does not give further consideration to how shared services may impact on the costs associated with the maintenance of the three demerged councils.

The ML Report does not contain an implementation plan identifying how a de-amalgamation might be undertaken. It is not the role of the Commission to determine how a merged council could be disaggregated, nor to suggest how to

¹⁷ ML Report, p2.

¹⁸ ML Report, p3.

¹⁹ ML Report, p27.

²⁰ ML Report, p34.

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divide up the council's assets and liabilities, While this is not a requirement of the Act, the benefit of such a plan being provided is that the analysis would assist the Commission in forming a view about the viability of a proposal.

The Commission has therefore had regard to the ML Report, as submitted, in its examination of the demerger proposal.

6.1.2.10 *Economies and diseconomies of scale*

- ***Introduction***

The concept of economies (and diseconomies) of scale is well known to economists. The concept has its origin in micro-economics, in particular the study of how manufacturing plants and firms operate.

Economies of scale reflect that costs of production can be classified (broadly) as fixed or variable. In a manufacturing plant (for example) variable costs are those that correlate to the amount of output produced. The cost of raw materials, power and utilities, transport, and wages staff would tend to be closely aligned with the units of output produced. Costs such as management, marketing, regulatory, accounting, and legal would be largely fixed.

Clearly, if a business can increase its quantity of production, those fixed costs would be spread over that larger production and would reduce on a per unit of output basis. Businesses that have large fixed costs require a large market in order to keep unit costs (ie sale price) at a competitive level. Economic theory also recognises that the benefit of spreading fixed costs over a larger output diminishes at the margin and, at some point, further increases in size can lead to increasing costs (eg additional management, co-ordination, increased costs of obtaining materials or other inputs) and hence diseconomies of scale.

While the theory is straightforward, its application is fraught with difficulties.

There are various approaches for attempting to measure the impact of economies and diseconomies of scale on cost structures. However, to be meaningful, most techniques require identification of the outputs that are being produced.

Where an organisation produces multiple outputs, some reliable method of apportioning the costs of the organisation across these outputs is generally also needed. Defining outputs and apportioning costs may be relatively straightforward where a business or factory produces a small range of physical goods (light bulbs, soap powder, packaged food). It is much more difficult in respect of entities (such as local authorities) that provide

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multiple, disparate services. How to delineate services, define what constitutes a unit of service, and attribute costs across the range of services provided is far more problematic in these instances.

- ***The IWC Business Case***

The ML report submitted by Council provides that it is not possible to draw specific inference for Inner West Council as to the applicability of the concept of economies of scale. The ML report does note that IWC is better positioned to absorb amalgamation costs given its greater population density and homogeneity as compared with its rural and regional counterparts.²¹

Analysis completed by Deloitte indicates that IWC's cost base has increased by 27% relative to the former councils since amalgamation. Despite approximately three years of operating at a new baseline of harmonised service delivery (FY21 – FY23) it appears that IWC has not yet realised significant levels of economies of scale or net cost savings as a result of the amalgamation.

6.1.2.11 The Commission's Analysis

The material reviewed by the Commission does suggest that IWC has derived scale capacity. If it is accepted that FY23 is the first 'stabilized' year, then the prospect for additional benefits arises. Achieving them will be dependent on the council making good financial decisions into the future.

As noted in the Key Findings,²² Morrison Low and Council undertook an exercise in August 2021 to explore the merger impacts to Council, separate to the Business Case. They reported a \$22 million net benefit to the community resulting from the merger per annum since FY21. The savings were made up as follows:

- \$3.3 million of synergies as a direct result from merging (e.g., from consolidation of functions, in-sourcing services and closure of surplus facilities) reducing Council's cost base offset by costs incurred by Council that have not been passed on to community, including:

²¹ ML Report, page 45.

²² Key Findings p2.

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- \$6.3 million of merger-related cost increases from harmonisation of services, ICT upgrades and consolidation provided at no additional cost to the community;
- \$15.9 million unrelated to the merger consisting of discounts and subsidies on rates and reduction in income from finalisation of SRVs; and
- \$3.3 million loss related to COVID-19.
- Since the merger, IWC operating performance has been supported by capital funding. Council has also successfully undertaken initiatives to generate cash and expand services without seeking additional rates from the community.

This is to be contrasted to the identified financial costs and disbenefits associated with the de-amalgamation.

The 2021 poll and submissions suggest that there is a significant desire in the community to ‘undo’ the 2016 merger ‘regardless of the cost.’ Many submissions express this desire in terms of democratic principles. However, the attitude of the residents and ratepayers of the area, is only one of the statutory factors listed in section 263 of the LG Act. If this proposal is recommended, the on-going costs of this de-amalgamation process will be borne by the whole community in the current LGA, one way or another. Two of the statutory factors ((3)(a) and (e1)) necessitate this ‘democracy’ desire to be balanced against the financial disadvantages and, as well, against the ability of the new councils, and each of them, to provide adequate, equitable and appropriate services and facilities.

Scenario modelling indicates that following de-amalgamation all three new councils are forecast to generate an operating deficit (ex Capital Grants) up to FY28. So each new council has a FY28 sustainability gap of between \$4.8m-\$12.0m. Decisions will need to be taken by each new council immediately noting Deloitte’s view that: ‘The operating positions are largely unsustainable for the level of capital expenditure forecast.’

If this proposal were to be recommended, the on-going costs of this de-amalgamation process will be borne by the community in the current LGA, one way or another. Accepting that some 62% of those who cast a vote in favour of de-amalgamation in the non-binding plebiscite, the other 37% of the community will still be impacted. This is an important consideration in the context of a proposal which suggests that the total on-costs to the community of de-amalgamation, assessed over the next four years, are in the order of between \$145M and \$200M. In the absence of the Government signalling it is prepared to fully fund those costs, then identifying that cost, and where possible, who will bear it, is very relevant to the Commission’s consideration.

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Every council in NSW has an obligation under Local Government Act to have in place sound financial management principles. These are detailed in Chapter 3, in particular, in s.8B – Principles of sound financial management. Under the LG Act, councils are enjoined by the Guiding Principles to not only to provide strong and effective representation, leadership, planning and decision-making, but also to carry out their functions in a way that provides the best possible value for residents and ratepayers. On and from the date of incorporation, the three Councils would need a strategy to deliver an appropriate level of services for each new council and that strategy needs to show that each has a reliable and consistent recurrent funding stream to facilitate robust long-term planning and investment in the services and assets to be delivered to the community. There is no implementation plan to show how this can be achieved.

Regardless of the democracy aspect, it is important for the Commission to be satisfied that each of the new councils would be able to generate sufficient own-source revenue to deliver a reasonable level of services to the catchment communities, and for them to be financially sustainable into the future without being dependent on recurrent grant funding from government.

That there is a cost to this proposal, both in terms of implementation costs and on-going costs, seems not to be denied by the community. The implementation costs are estimated by Deloitte at \$41.3m, in terms of the impact on the council's current cost base.

That highlights a difficulty with this proposal. The Business Case does not have an implementation plan suggesting the way forward to achieve a financially acceptable outcome where any of the new councils, let alone all, of the new councils, will be financially sustainable. However, on the information available, there does appear to be a path forward to sustainability for the existing council, building on the decisions and strategies it has in place.

For the existing council to achieve the starting cost base identified in the financial analysis difficult decisions had to be taken. Following the merger there was an organisational restructure which reduced FTE by 28 positions. There were also delayed opportunity costs, caused by the inability to uniformly align rates due to the statutory rate freeze. The merger nonetheless did allow the new council to reinvest significant capital into the assets, reducing the infrastructure backlog such that 95% of assets are now rated as satisfactory or above. All of those structural matters reflect a sunk cost.

In terms of capacity to continue to provide for its community, the continuation of the new council therefore has advantages. The existing council will benefit in a number of areas including the potential for population growth, which feeds into the rate peg settings. IWC

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has invested in commercial properties returning rental income to the council, which will increase to reflect cpi increases. That will enable the council to meet the growing employee expenses.

The new council has also derived scale capacity. As Deloitte notes: 'Post-merger, \$444m was re-invested in asset renewal exceeding depreciation by \$257m.' This scale of investment is predicted to continue, based on the LTFP. It has allowed the new council to redevelop the Ashfield Aquatic Centre via debt financing.

Having a larger rate base also allows the new council to benefit from scale, for example, the IPART announcement to update the rate peg to 4.9%. This has allowed the council to absorb, instead of pass on, the ESL levy. It is also arguable that the larger council is better placed to carry the structural burden of local government operations. This is described by Deloitte as being the shortfall in income that arises because council generated income 'continues to grow at a slower pace than salaries, State Government levies and other costs.'

De-amalgamation would occur just at the time IWC could look to reap the gains, as FY23 is its first 'stabilised year'. As Deloitte observe: 'the seven-year integration post-merger period has created a singular different business model which will be complex to unwind.'

A number of submissions have identified that the de-amalgamation will waste public resources, both in terms of the sunk costs, and in terms of the cost of the de-amalgamation. Estimates vary but in addition to the one-off de-amalgamation costs which could be as high as \$39m, there are the on-going costs. These are estimated to be an additional \$114.1m out to FY28.

As each new council will be operating in deficit, there could be additional waste as 'any additional cost in a de-merger scenario will likely adversely affect net operating performance.' Even with those costs 'covered,' there remains an expectation that each of the new councils will 'rely on ongoing operating and capital contributions to fund performance,' meaning a period of mendicancy extending for an uncertain term will arise for each new council, varying only to the extent of the mendicancy.

Further, the absence of a detailed, and costed, implementation plan inhibits the Commission from confidently predicting outcomes. As Deloitte notes, the allocation of cash reserves, both to restricted and unrestricted funds, will be a critical consideration in a demerger scenario. As well, the allocation of moveable assets and the cost of wage protections will all impact the short-term liquidity position for the new councils.

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What is clear, from the matters considered by the Commission, is that it is not possible to 'return' to 2016. De-amalgamation would create a need to constitute three very different councils to the ones that existed in 2016. Just how different is difficult to say, noting the absence of the implementation plan.

It is noted that Deloitte observes that: 'The operating positions [for Leichardt] are largely unsustainable for the level of capital expenditure forecast.' Each new council will need to immediately review the financial position of its unrestricted funds on inception to ensure it has sufficient reserves to meet its expenses, including employment and on-costs, the cost to deliver service levels to the community, to meet necessary and desirable capex spend, and to meet any on-going debt service obligations. That review will presage any decision to cut services (and FTE levels), increase rates (following a successful SRV).

Scenario modelling indicates that on and following de-amalgamation all three new councils are forecast to generate an operating deficit (ex CG) up to FY28. So each new council has a FY28 sustainability gap of between \$4.8m-\$12.0m. Decisions will need to be taken noting Deloitte's view that 'The operating positions are largely unsustainable for the level of capital expenditure forecast.'

While it is not for the Commission to formulate an implementation plan, it is noted that for any new council the implementation plan objectives to achieve financial sustainability should include:

- A positive operating performance and operating surplus.
- Adequate cash and cash reserves.
- Fully funded capital works program.
- An asset base that is 'fit for purpose'.
- Having adequate resources to meet ongoing compliance obligations.

In the case of this de-amalgamation proposal, the achievement of a positive financial outcome cannot be assumed. Further, at inception, each new council will ideally need to have in place a set of IP&R documents as required by s. 8C of the Local Government Act. As the IP&R guidelines note: 'IP&R is designed to cover all of a council's activities and all plans and strategies must be connected in some way to the framework.' The Commission cannot assume that the IP&R documents for the former councils created before 2016 are material, noting the changes that have occurred in the succeeding 8 years.

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Key requirements of the IP&R documentation are the integrated Resourcing Strategy and Delivery Program. These documents provide the strategy to ensure the provision of all of the council's functions, as identified in other of its strategic documents, in particular, the LTFP.

In this instance, the Business Case document does not address these matters. Having even draft IP&R documents available to the Commission would enable the Commission to have greater confidence to see that each new council will have a strategy which identifies the path to deliver on the LTFP, which is a forecast for financial sustainability over a 10-year period supported by the IP&R documents. In the absence of these planning documents, it is difficult to be satisfied of the new councils' financial sustainability.

The responsibilities and requirements of local government have changed over the eight years since the merger. As both ML and Deloitte have found, each of the new Councils will require more resources than they once had, if only to meet the rising costs of labour and the fact that since 2016 wages across the three former areas were harmonised. The implementation plan to give effect to the de-amalgamation would have modelling to identify the resources each new council required to deliver these services sustainably. That is, to deliver the services at a standard that can be maintained over an indefinite period without detrimental or degrading effects on assets or personnel.

In terms of asset management, the sustainable scenario would need to also identify the cost to maintain and manage the asset portfolio identified for each new council by reference to the local government infrastructure ratios as follows:

- Asset renewals ratio of 100 per cent.
- Asset maintenance ratio of 100 per cent.
- Infrastructure backlog ratio of 2 per cent.

As a minimum requirement, each new council should be in a position to have adequate resources to deliver the current services and to maintain current assets at a 'Fit for Purpose' standard. The sustainable scenario would achieve this over the longer term, because the identified income base for each new council would demonstrate how this can be achieved.

The Morrison Low Business Case, reviewed by Deloitte, suggests that these matters are satisfactorily addressed in IWC's IP&R documents. So, there is a path to financial sustainability if IWC continues. But that is not the case for each new council to be created.

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Conclusion

Having assessed the proposal against this statutory factor, the Commission is of the view that the financial disadvantage associated with a de-amalgamation significantly outweigh any potential financial benefits from a de-amalgamation. The Commission is not confident that all three new councils will be financially viable into the near future.

At this point in time the community will be better served financially by continuing the existing council.

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6.2 Community of Interest and Geographical Cohesion

Section 263(3)(b) of the Act requires the Commission to have regard to:

“the community of interest and geographic cohesion in the existing areas and in any proposed new area”.

6.2.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor -

Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	28	13.72%

The view that residents of the IWC area have little in the way of “community of interest” is one that that was put forward in only a few submissions made to the commission and presentations at the Inquiry sessions. This view was articulated by persons in favour of de-amalgamation as follows –

“The notion of a coherent Inner West Council is a fabrication. There is no geographical, historical, social or identifiable trait that unifies the IWC as a community... The former Leichhardt Council, was on the other hand, a more cohesive community because of its 100 years of shared geography, history, politics, community, transport, shared infrastructure and size and above all a sense of place and community “as a whole community”. It is in the community interest to have a Local Council that reflects the reality and not some motherhood statement that no resident can relate too.”²³

“There is a lack of transport connections that enable residents to easily get around the LGA, so that people tend to stay in their own locations for shopping and services. Transport is a State government service, but as the Inner West LGA falls under 5 different State MPs (see paragraph (e)), this means that no MP has full responsibility for the LGA. Council must make

²³ Written submission #27.

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representations not only to Transport for NSW but must look for support from all 5 MPs, not an easy task.”²⁴

“The current merged councils do not reflect the diversity of the various LGA's- Marrickville with the Greek, Vietnamese, Portuguese, and Arabic communities ; Ashfield with the Asian communities and Leichhardt with its Italian origins. This makes each LGA unique and diverse but under the current system, hardly a voice can be heard and the responsiveness to community needs is chaotic at best, or lacking.”²⁵

“There are few public transport connections between the 3 former local government areas and there seems to be little reason for residents to interest themselves in matters outside of their own neighbourhoods. The only positive seems to be access to more library books.”²⁶

“Suggesting that the proposed changes are related to the demographics of the community... is ... unfounded ...It is crucial that we do not allow our community's future to be influenced by such divisive arguments. The Inner West Council should continue to be inclusive and welcoming to all residents, regardless of their background.”²⁷

But those against de-amalgamation framed it differently:

“Our community is defined by shared interests, concerns, and activities that are supported by the cohesive governance of the Inner West Council. De-amalgamation would disrupt this unity, possibly diluting services that currently benefit the diverse but interconnected neighbourhoods within our area.”²⁸

“People across the IWC area need essentially the same things from local government, and this is what makes a single council over this area appropriate. There are differences in character between the suburbs within the IWC area, but LGAs are not obliged to be homogeneous. Indeed, the IWC should strive to be a hub of diverse thought where ideas can hybridise and culture can evolve.”²⁹

“Inner West Council represents a cohesive community of interest that is primarily represented in the same division at a federal level. The three former local government areas were not that radically different socio-economically”³⁰

“Inner West Council represents clear and defined communities of interest which largely map on to state and federal electoral boundaries and for which communities of interest is a

²⁴ Written submission #052.

²⁵ Written submission #115.

²⁶ Written submission #017.

²⁷ Written submission #002.

²⁸ Written Submission #001.

²⁹ Written Submission #007.

³⁰ Written submission #016.

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consideration. There is also a fairly commonly understood region referred to as “the Inner West” in socio-cultural, media and other discourse.”³¹

“I have lived in Ashfield for one year and have seen firsthand the positive impact that the Inner West Council has had on our community. The council has worked hard to create a strong sense of community and identity within the Inner West, and I believe that the demerger would be a terrible idea.”³²

Discussion

Views expressed in relation to this factor were minimal, being addressed in only about 13% of the submissions received.

The Commission notes that it is a common feature of metropolitan NSW that local government areas cover neighbouring suburbs, which are geographically close.

In relation to submissions that the various suburbs making up IWC have distinct communities of interest, the Commission does not believe that having two or more distinct communities of interest in the one council area is, in itself, a barrier to the council operating efficiently and effectively, and in the best interests of all its residents. The Commission accepts that having different communities of interest will present a council with challenges in planning and delivering services, but this is a common feature. Most councils will be faced with the need to take into account different communities – whether based on location, or differences in residential/commercial/industrial/rural mixes, or differences in socio-economic factors such as ethnic and cultural backgrounds.

The Commission considers that concerns relating to the continuation of IWC resulting in a loss of community of interest, or concerns that there is no geographic cohesion between the three areas are not strong arguments in favour of de-amalgamation. As Soul and Dollery noted in 1999: *‘Notions of community of interest are difficult, if not impossible, to define.’³³*

However, the Commission recognises that a sense of place and community identity is important for residents and ratepayers and that councils can provide a pivotal role in fostering this relationship through a range of strategies.

³¹ Written submission #046.

³² Written submission #137.

³³ Soul S and Dollery B, *An Analysis of the Criteria Used by Australian Local Government Amalgamation Inquiries*, UNE Working Paper Series in Economics, No. 99-4 – October 1999, p4.

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The three former areas do share a number of social and demographic characteristics. In his report on the 2016 merger proposal, the Delegate noted that the communities “share a lot in common, they demonstrate a very high level of similarities between who they are, how they live, work and recreate and the values which drive them and shape their local environment”.³⁴ It was the Delegate’s view that the communities were well connected across the 35 square kilometres of the proposed area, people were able to move easily and readily across the three communities, via heavy and light rail, bus networks, cycling networks and working. The Delegate was also satisfied that the communities fit together cohesive both geographically and through a shared sense of identity and behaviour.

Data from the 2011 Census (the last available census data for the three pre-amalgamated LGAs) and 2016 census (for IWC LGA) also show similarities in population and household attributes such as:³⁵

- A similar population of persons born overseas (Ashfield – 44.27%, Marrickville – 34.11%, Leichhardt – 28.62%)
- A similar average household size (Ashfield – 2.5, Marrickville – 2.3 and Leichhardt – 2.3)
- Similarities between two areas in percentage of persons not speaking English or at all – (Ashfield – 7.63%, Marrickville – 6.18%, Leichhardt – 1.58%)
- Similar median age – (Ashfield – 37, Marrickville – 36, Leichhardt – 37)

Conclusion

The Commission accepts that the particular communities of interest have not altered with the merger. If the Proposal were to be implemented, those communities would continue to exist, and each demerged Council would need to consider them in its planning decisions.

That being noted, this factor does not warrant the proposal being recommended for implementation.

³⁴ LGBC report on the Delegates Report 2016 – Page 4

³⁵ The ABS does not tabulate Census data on the basis of the former LGA boundaries. See [Search Census data | Australian Bureau of Statistics \(abs.gov.au\)](#) for further information.

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6.3 Historical and Traditional Values

Section 263(3)(c) of the Act requires the Commission to have regard to:

“the existing historical and traditional values in the existing areas and the impact of change on them”.

6.3.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor -

Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	10	4.90%

Relative to most other factors, a much smaller proportion of submissions and presentations addressed this factor. Those that did made the point that:

“Stanmore and the Inner West have a shared historical narrative and cultural landscape. The unity of the council aids in protecting these values, while division would risk inconsistent heritage conservation efforts.”³⁶

“Any claims of extremely divergent historic or traditional values across the local government area are tenuous. All three former council areas were formerly working-class inner-city localities that experienced waves of migration and have since gentrified, with similar voting patterns across all five wards at the 2021 Local Council Elections.”³⁷

“The issue comes down to community and its connection to a “place” not community and a collection of unconnected ‘disparate places’. There is no place called or known as the Inner West. Its is faceless, place-less and the opposite of authentic community identity.”³⁸

“The historical and traditional values of the area have been eroded. Each area struggles to maintain its identity and culture within the former council areas.”³⁹

³⁶ Written Submission #001.

³⁷ Written Submission #140.

³⁸ Written Submission #027.

³⁹ Written Submission #113.

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6.3.2 Discussion

The Commission understands that every city, town, village and region has its own historical and cultural features. No two will be completely identical and in that sense every location is unique. The question for the Commission is whether the differences across the existing IWC area are of such magnitude to suggest (in conjunction with other factors) that the Proposal would give a better outcome for the area's residents.

The history of the local government in the area of IWC suggests that there have been many changes experienced by the community over the decades. Prior the 2016 merger, all three former LGA's had existed for many decades, although undergoing a number of boundary changes.

The Borough of Ashfield was proclaimed in 1871, but it became the Municipality of Ashfield in 1906. The Municipality of Marrickville was declared in 1861. Leichhardt was proclaimed a municipality in 1871.

All three former areas have experienced changes in boundaries over time. In particular, Leichhardt has previously gone through many boundary alterations having previously also been amalgamated in 1949 with Annandale and Balmain, in 1967 to include Glebe and in 2003 to remove Glebe and parts of Annandale.

Marrickville too has experienced boundary alterations, with the area being amalgamated with St Peters and Petersham in 1949, and then experiencing a readjustment to its boundaries adding parts of Camperdown and Newtown (from City of Sydney) in 1968.

Taking an historical view, the above demonstrates that local government areas are not static, they change over time as circumstances change. It has been so since 1924 when the Sydney Morning Herald observed: -

*All over the State there is a continual movement towards alteration and adjustment of the boundaries of councils and of their wards or ridings ... It is, of course, essential that there should be machinery for adjusting the municipal areas as towns and districts develop or decline. Adjustments of this nature will always be a feature of local government in a growing country.*⁴⁰

While local government boundaries may change, the reality is that the stories of Leichhardt, Marrickville and Ashfield LGAs are told through the history of their various suburbs – Annandale (part), Ashbury (part), Ashfield, Balmain, Balmain East, Birchgrove,

⁴⁰ Sydney Morning Herald, 14 February 1924, page 6.

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Camperdown (part), Croydon (part), Croydon Park (part), Dulwich Hill, Enmore, Haberfield, Hurlstone Park (part), Leichhardt, Lewisham, Lilyfield, Marrickville, Mascot (part), Newtown (part), Petersham, Rozelle, St Peters (part), Stanmore, Summer Hill, Sydenham and Tempe.

If, however, a wider lens is applied to historical and traditional values in the existing area, being IWC overall, then a number of commonalities emerge.

The suburbs that make up the IWC area are all located on the ancestral land of the Gadigal and Wangal people of the Eora Nation.

Land grants in the inner west area began in the late 18th century. Stage coaches operating between Sydney and Parramatta encouraged development along the route, now known as Parramatta Road. The eventual construction of the railway line in 1855 increased development and, as a result of population growth, local governments voluntarily formed in the area during the 1860s-70s. During this time the area became home to politicians, judges, industrialists and businessmen who were able to build grand homes in the outer parts of the inner west.

Following the end of World War II a large number of migrants relocated to the areas of inner west, primarily from European countries. Many migrants were attracted to the area because of the availability of industrial jobs and closeness to the city. The change in population introduced a wide array of culturally diverse cafes, shops and restaurants.

Conclusion

In having regard to this factor, the Commission questions the extent to which history – or historical values – attach to local government bodies rather than to towns, villages, buildings, individuals, geographical features (river systems, mountain ranges), etc. The rich histories of individual suburbs are not changed by the alteration of council (or State or Federal electorate) boundaries. That is not to deny the responsibility of local government in preserving, interpreting, honouring and promoting local history and historical features, but the Commission is not convinced that these histories and historical features are inherently impacted by boundary alterations.

The Commission therefore believes that proposed changes in LGA boundaries have little impact - positive or negative - on historical and traditional values of the suburbs that now comprise the IWC LGA.

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6.4 Attitudes of Residents and Ratepayers

Section 263(3)(d) of the Act requires the Commission to have regard to:

“the attitude of the residents and ratepayers of the areas concerned”.

6.4.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor -

Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	193	94.61%

Of the 204 submissions received, 155 submissions were in favour of the proposal, 2 submissions did not support the business case but supported de-amalgamation generally, whilst 47 did not support the proposal.

Noting that the number of households in the IWC area is 74,087⁴¹ the number of submissions received by the Commission may indicate a low level of interest in, or engagement with, the proposal overall.

Residents in the former area of Ashfield were less supportive of the proposal, whilst residents of the former Ashfield and Marrickville LGA were generally less engaged with the proposal. Far fewer submissions were received from these former areas than that of Leichhardt.

Submissions Received	Ashfield	Leichhardt	Marrickville	Not a resident/unknown
In favour	2	116	23	15
Against	15	12	10	11
Total	17	128	33	26

⁴¹ 2021 Census data, Australian Bureau of Statistics.

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Typical arguments against raised were –

“I am writing to express my strong opposition to the proposed de-merger of the Inner West Council into three smaller council areas. As a long-time resident of Sydney, particularly the Inner West area, I believe that such a move would be detrimental to our community”⁴²

“we are concerned at the move to de-amalgamate Inner West Council. We believe the amalgamation seven years ago was not a beneficial move, but reversing that merger will not correct the initial error”⁴³

“I am vehemently opposed to the proposed demerger of the Inner West Council and my concerns mainly relate to the lack of any demonstrable financial advantage to the government, or the councils concerned, should the proposal proceed - section 263(3)(a) of the Local Government Act 1993.”⁴⁴

“I can see no genuine reason for the de-amalgamation of the IWC. As the IWC’s own report found, it would be financially ruinous and require either sharp increases in rates or sharp increases in spending on services”⁴⁵

“De-amalgamation would result in a waste of money and resources that were invested in the amalgamation in the first place...the use of public money, whether NSW Government or ratepayers, to fund the proposed de-amalgamation...represents a gross misuse of funds that should be spent of servicing the community’...’I further note the IWC won the A R Bluett Memorial Award for 2022/23 recognising them as the best metropolitan Council in NSW”⁴⁶

“The IWC has worked hard to create a strong sense of community and identity within the Inner West, and I believe the demerger would be a terrible idea”⁴⁷

And in favour -

“Inner West Council management and Councillors continue to ignore the will of the people in this local government area. We the people of this LGA voted overwhelmingly in support for the de-amalgamation of the IWC; ie 62.5% out of an 80.7% turnout voted YES to de-

⁴² Written submission #002.

⁴³ Written Submission #005.

⁴⁴ Written Submission #019.

⁴⁵ Written submission #193.

⁴⁶ Written Submissions #102.

⁴⁷ Written Submission #137.

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amalgamation. A survey carried out last year by the Labor IWC Councillors and was framed in such a way that the questions were clearly designed to garner support to stay merged. This survey was biased and the questions were framed so that the result would give the impression that the respondents did not favour a demerger and was an attempt to undermine the strong 62.5% YES vote in the December 2021 poll on demerging IWC.”⁴⁸

“We were forcibly merged and our plea to return to the original Councils appears to be being ignored even though the majority of residents voted for de-amalgamation.”⁴⁹

“All Wards in the former Council areas voted in favour of de-amalgamation. That 62-5% vote represents all 3 former Council areas. The Boundaries Commission can now address this incompatible merger by recommending a demerger.”⁵⁰

“I am furious that the majority 62%+ vote for Leichhardt council to stay independent has not been adhered to. What is happening to our democratic rights of Australian citizens? This behaviour of ignoring what tax payers voted for is scandalous and makes a mockery of our democratic rights.”⁵¹

“The Inner West Council is not an effective advocate on important local issues. It is too big, staff are too stretched and most of the Councillors are not local....Leichhardt Council gave me a sense of place”⁵²

“Rates have increased, increase in fees for use of ovals, pools and sports grounds, decline in services...Council meeting agendas are overloaded...an increased geographical region of Council means local issues may not be properly considered or are voted on by Councillors unfamiliar with the issues”⁵³

“we voted overwhelmingly to de-amalgamate. Refusing to recognise and obey this is a flagrant disregard of the democratic process for party political ends”⁵⁴

⁴⁸ Written Submission #018.

⁴⁹ Written Submission #024.

⁵⁰ Written Submission #133.

⁵¹ Written submission #003.

⁵² Written Submission #169.

⁵³ Written Submission #118.

⁵⁴ Written Submission #063.

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6.4.2 Discussion

Many submissions, both written and at the hearing sessions, addressed the non-binding plebiscite held in December 2021. Electors were 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”.⁵⁵

In submissions in favour of the proposal, a common theme was that the proposal should be implemented because ‘residents had voted for it’ in reference to the non-binding plebiscite. The Commission accepts that the plebiscite evidences that as at December 2021, the majority of residents and ratepayers supported a de-amalgamation. However, such a plebiscite is non-binding, in that there is no requirement to implement the de-amalgamation as a result of the majority outcome. This has implications noting that more than a third of the people who voted rejected the proposal.

The business case submitted by Council also provides evidence of a community survey conducted by Micromex in 2022 in relation to the business case. Of the 601 persons surveyed 87% of respondents indicated they were at least somewhat satisfied with the performance of Inner West Council in the last 12 months. 53% of persons surveyed indicated they would prefer for Council to remain as Inner West Council, although it is noted the margin of error is +/-4%.

In that survey, 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

⁵⁵ 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.

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management, services and facilities and that the amalgamated council has not provided any improved services or services have declined.⁵⁶

On balance, the attitudes expressed by the community support de-amalgamation. The Commission does note though that the submissions received against the proposal made up approximately a quarter of submissions, and many of those submissions presented equally strong views opposing the proposal.

Conclusion

For the Commission, the challenge is how to balance the ‘democracy issue’ noting some 37% of voters did not support the proposition. Is the dominant attitude sufficient, by itself, to effectively dismantle the council?

Within the context of ‘local democracy,’ a concept frequently raised by supporters in favour of de-amalgamation, lies the concept of local accountability. The task for the Commission under the Act includes assessing whether the resultant outcome of such a dismantling process will be new, financially sustainable, councils. Absent that outcome being demonstrated, there is a risk that such a bare democracy process could be unfair to the community, taken as a whole.

The Commission is not persuaded that this factor alone is sufficient to justify the making of a recommendation to implement the proposal.

⁵⁶ ML report page16-17.

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6.5 Elected Representation

Section 263(3)(e) of the Act requires the Commission to have regard to:

“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”.

6.5.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor

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Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	57	27.94%

Typical arguments raised were –

“the decline in services and reduced democratic representation have been noticeable trends under the current amalgamated system. A deamalgamated council promises a return to local governance, fostering a stronger connection between the community and decision-makers. By having a local council, we can ensure greater accountability as decisions are made by representatives who are directly invested in the well-being of our specific community. This closer proximity allows for more tailored and responsive solutions to local issues.”⁵⁷

“The Inner West Council is not an effective advocate on important local issues. It is too big, staff are too stretched and most of the Councillors are not local. Leichhardt Council was strong and effective advocate for its local community. I am better represented in a smaller council with fewer residents per Councillor and Councillors who all live locally.”⁵⁸

“I sincerely believe that de-amalgamation of the Inner West Council into three smaller, representative councils is imperative. This will enable councillors and council staff to be familiar with and receive

⁵⁷ Written submission #203.

⁵⁸ Written submission #169.

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feedback about local issues needing attention and action. This would effectively put the local back into local government, allowing for greater transparency and accountability and, from my perspective as a longstanding resident, it would give the community back its voice.”⁵⁹

But there were people who took a contrary view:

“The impact on local democracy has been cited as a reason for demerging the council. While there are fewer local councillors for a larger area, it is not radically different to other similarly sized urban councils in Sydney with better ratios of representation than most.”⁶⁰

“I do not support bringing back the additional councillors. I do not believe that this will actually contribute to better representation. I believe it will be quite the opposite, with more councillors meaning small fiefs, resulting in more fighting over the small things that matter to a few people, and not the bigger things that benefit the community as a whole.”⁶¹

“While there are fewer local councillors than in the previous three councils combined, it is still a better councillor to population ratio than most neighbouring councils in greater Sydney. Other strategies should be sought to address any concerns about representation, not deamalgamation.”⁶²

6.5.2 Discussion

Since municipalisation was forced on communities in 1906 there have been moves to reduce the total number of councils. It is always contentious. As Larcombe noted in 1978, “the Government’s apparent enthusiasm for larger units stirred up considerable opposition in areas desirous of retaining independence”. While this comment dates back to mergers occurring in the 1940s and 1950s, it seems that little has changed. The main arguments in favour of small areas put to the Barnett Committee, established in 1972 , “were the desire to keep local government ‘local’, and to facilitate the maintenance of

⁵⁹ Written Submission #132.

⁶⁰ Written Submission #140.

⁶¹ Written Submission #041.

⁶² Written Submission #016.

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public interest and participation”. These are still the arguments put forward to this Commission.

The Your Council website,⁶³ provides data as to the ‘population per councillor’ across all councils in NSW. The below table shows that data for a number of Group 3 councils (Metropolitan Medium) and LGAs neighbouring IWC.

Council	Council group	Councillors	Group Average	Population	Population per Councillor
Inner West	3	15	13	183,772	12,251
Blacktown	3	15	13	399,711	26,647
Canterbury Bankstown	3	15	13	372,322	24,821
City of Sydney	1	10	10	214,851	21,485
Liverpool	3	10	13	234,373	23,437
Parramatta	3	15	13	258,315	17,221
Bayside	3	15	13	176,061	11,737
Georges River	3	15	13	152,703	10,180

The average population per councillor for a group 3 council area is 14,031, putting IWC below the average (ie. having less population per councillor) and also generally in line with or having greater councillor representation than a number of other group 3 councils.

It is noted that Council’s structure does maintain a level of specific ‘local representation’ with five wards covering Ashfield, Balmain, Leichhardt, Marrickville and Stanmore. It was an inevitable consequence of the 2016 merger that electors residing in the former areas would no longer have council representatives exclusively selected from within the former area. While acknowledging these feelings, it is also true to say that there are now 15 councillors whose responsibility it is to serve the collective interests of the whole community, not just the suburb they happen to live in.⁶⁴ It should be observed that this

⁶³ www.yourcouncil.nsw.gov.au.

⁶⁴ See section 232(1)(d) of the LG Act.

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was also the position for the councillors elected to the former area. They too had an obligation to serve the interests of the community as a whole.

Conclusion

That a proportion of the community feels impacted by a perceived loss of representation does not mean that the current requirements for elected representation are inadequate. The governing body is still democratically elected. Having an equality of vote but a smaller voice in a larger council is not undemocratic. The Commission is not satisfied that the change in representation following the merger in 2016 is an adequate reason for supporting the implementation of the proposal.

6.6 Service Delivery and Facilities

Section 263(3)(e1) of the Act requires the Commission to have regard to:

“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”.

6.6.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor -

Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	103	50.49%

In favour of de-amalgamation, submissions argued:

“I wish to state my displeasure at the lack of focus by the Inner West Council (IWC) to local matters and services in Marrickville, in particular the constant inability of Council to collect rubbish & refuse from laneways that gives rise disgusting odours and to rodent activities in adjoining and nearby properties.”⁶⁵

⁶⁵ Written Submission #020.

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“Since the amalgamation we have seen basic services decline even with substantial rate increases.eg. waste collection service out of control and unreliable. Commercial bins overflowing in the streets with blow flies swarming around them. Not even emptied in Darling Street after New Years Eve. Hardly ever see a parking inspector in our area to police the two hour parking limit for non residents. Gutters not cleaned on a regular basis so litter just sits there. General maintenance of roads and footpaths not happening and our parks are falling into disrepair.”⁶⁶

“Additionally, the service decline and accountability (our famous garbage & recycling debacle, heritage conservation delays, relentless planning issues, strategic planning delays, aquatic centres delays) are all huge and again part of the large unwieldy Council being removed from the community, out of touch with them, unaccountable to them, and not listening to them.”⁶⁷

“Ongoing high staff turnover since the merger has resulted in major loss of skills and experience, as well as major costs to ratepayers and disruption to Council services. Service standards in the Inner West have fallen since the merger. In particular, approval of development applications is slow, cumbersome and expensive to applicants. This impacts the ability of residents to renovate or develop properties cost effectively.”⁶⁸

“Since the merger I have noticed a significant drop in services under the Inner West Council. Council is not attending to basic maintenance & multiple calls to council or community outrage on social media is often need to result in action by the council. Rates have increased & fees for use of council facilities i.e pools ovals etc have increased and democratic representation has decreased”.⁶⁹

“Adequate, equitable and appropriate services and facilities” are difficult for council to achieve given the disparate requirements across the LGA and the limited resources (staff and funds) to address them. Some areas of council have formed priority lists of work which have in effect dispensed with the notion of equity. Some staff also seem to be overly rule bound in their approach to dealing with residents' discontent with new policies imposed by council onto the community. A prime example is the new FOGO recycling system recently introduced by council. Residents dislike the equipment council supplied because it has caused the weekly appearance of maggots, flies and cockroaches into their kitchens and the rancid smell of rotting food.”⁷⁰

And those opposing a de-amalgamation countered with:

⁶⁶ Written Submission #022.

⁶⁷ Written Submission #184.

⁶⁸ Written Submission #052.

⁶⁹ Written Submission #188.

⁷⁰ Written Submission #017.

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“Scale has enabled the Council to pursue policies and projects on behalf of residents that would otherwise have been more expensive, piecemeal or been more complex to design and implement. Some of these include the Greenway project, FOGO rollout and infrastructure investment, which would otherwise have been pursued by individual councils or required negotiation between individual councils with added cost and complexity.”⁷¹

“over the past 18 months or so, I have seen a real effort by the council trying to create an area that is appealing. New playgrounds outstanding efforts towards landscaping throughout Leichhardt area. We’re still waiting for more new restaurants, shops and a nightlife for the area - hopefully that’s not far behind. I actually believe that part of this new focus is a result of the council amalgamation. I could also add things like getting Development Approvals has also improved significantly.”⁷²

“I am convinced that if the 3 Councils had not been amalgamated, we would not have seen the creation of iconic buildings such as the award-winning Marrickville Library, pioneering environmental initiatives such as the FOGO service, and customer service improvements recognised in the 22/23 AR Bluett Memorial Award.”⁷³

“I can speak best re sections 263 (3) (a) and (e1), about the Inner West library system, which fused the libraries of three councils. The new fused library system is vastly superior to the old smaller Leichhardt library system. I can now borrow a range of books massively greater than the range I had previously available to me, from collections that previously belonged to different councils. The unified borrowing system works seamlessly.”⁷⁴

“The argument that the IWC is not as responsive to local concerns as the previous constituent councils is a furphy. Public services have improved in quality since amalgamation (I have been particularly impressed by the Ashfield Aquatic Centre and the integration of the Inner West’s council libraries into a single network). I have found council very easy to deal with in my interactions.”⁷⁵

“Over the past 7 years, Inner West Council has gone from strength to strength....The council is reaching out to residents to ask how they can do better and are responding with better facilities and better services. The Ashfield Aquatic Centre, the Pedestrian Access and Mobility Plan, World Pride program, Mental Health Summit, Disability Inclusion Festival, Perfect Match art, all the work on inclusive playgrounds, Matildas live sites, nappy rebate, local festivals,

⁷¹ Written Submission #042.

⁷² Written Submission #006.

⁷³ Written Submission #031.

⁷⁴ Written Submission #021.

⁷⁵ Written Submission #193.

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increased lighting in parks, puppy training program, Gender Diverse Swim Night, are just some of the fantastic works and services the Inner West Council has achieved in just 7 years.”⁷⁶

Discussion

The Act does not provide guidance as to what is adequate, equitable and appropriate recognizing that this is a matter for the Commission.

However, NSW councils are required to use the Integrated Planning and Reporting (IPR) framework introduced by the NSW State Government to help improve the way they plan for the future, and to ensure council planning is reflective of communities’ needs. While this approach does not guarantee that every community need will be met, it does ensure a substantial degree of community involvement and regular reporting against the main deliverables. The IPR requirements apply to the current IWC and would apply to the three demerged councils if this Proposal were implemented.

What is immediately apparent is that if the Proposal is implemented then the ability of the existing council to function will be lost. However, the ability of each new council to function will be immediately impaired.

Scenario modelling indicates that following de-amalgamation all three new councils are forecast to generate an operating deficit (ex Capital Grants) up to FY28. With each new council having a FY28 sustainability gap of between \$4.8m-\$12.0m decisions will need to be taken by each new council immediately noting Deloitte’s view that ‘The operating positions are largely unsustainable for the level of capital expenditure forecast.’

So, the reality then is that from the get go, the new councils will be impaired in their ability to provide adequate, equitable and appropriate services and facilities.

Conversely, the ML Business Case discloses that 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. IWC is one of the few merged councils in this position.⁷⁷

The Commission is also aware of the recent awarding of the A.R. Bluett award to IWC for outstanding achievement in local government. The award recognises the most progressive metropolitan and rural councils from 128 across NSW. Of IWC, the Chairperson of the judging panel said of the recipient “Inner West Council had forged three previous inner west councils into a vibrant, responsive and community focused

⁷⁶ Written Submission #167.

⁷⁷ ML Report, page 20.

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organisation...Customer experiences have outperformed against other like sized councils.”⁷⁸

Conclusion

In terms of capacity to continue to provide for its community, the continuation of the new council has advantages. The council will benefit in a number of areas, including from the potential for population growth, which feeds into the rate peg settings and the ability of the council to derive own source income. In essence, to derive economies of scale.

In contrast, each of the new councils will be impaired in their ability to provide the same suite of local government goods and service. This suggests that, on balance, this factor does not support a recommendation to implement the proposal.

⁷⁸ LGNSW media statement, 12 November 2023 <https://lgnsw.org.au/Public/Public/Media-Releases/2023/1112-Singleton-and-Inner-West-councils-win-prestigious-awards.aspx>

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6.7 Employment Impacts on Staff

Section 263(3)(e2) of the Act requires the Commission to have regard to:

“the impact of any relevant proposal on the employment of the staff by the councils of the areas concerned”.

6.7.1 Submissions and presentations made

The following table shows the number of written submissions that addressed this factor -

Written submissions addressing this factor		
Submitted to Commission	Submissions addressing this factor	As a percentage of total submissions
204	18	8.82%

Submissions in favour of de-amalgamation noted the following:

“On amalgamation, Council staff were guaranteed to keep their jobs for a period of 3 – 5 years post amalgamation. However, in recent years, Council has actively encouraged job shedding, which resulted in a smaller workforce, lowering of services to LGA residents and difficulty in retaining professional staff. By returning the LGA to the former council areas of Marrickville, Ashfield and Leichhardt, staff would have less stress and more control over their work as they would be required to manage smaller geographical areas, and therefore retention rates would be higher than they are now.”⁷⁹

“There has been a high turnover of council staff and an increase in the wages budget for council. The relationships that locals relied on to have information and enquiries managed have suffered from this turn over. Clearly the ongoing exit of staff has left the inner west council with a lack of local and organisational knowledge. There has also been a steady decline of frontline council employees or contracting out with unsatisfactory results.”⁸⁰

“In the report Deloitte’s say: “Additional FTE to maintain current services and back office functions. IWC estimated a likely additional requirement of 163 FTE at a total cost of \$26.5 million pa. This amount of staff needed is plainly ridiculous. The average staff cost at Council is currently \$122K. So, who are these 163 people receiving \$163K per year? At this cost, they cannot be back office and services staff, they must be executive level staff.”⁸¹

⁷⁹ Written Submission #052.

⁸⁰ Written Submission #115.

⁸¹ Written Submission #138.

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Submissions opposing de-amalgamation noted the following:

“The job security of council staff, who are instrumental in delivering local services, could be severely affected. The uncertainty and disruption caused by de-amalgamation could have far-reaching impacts on employee morale and the quality of services.”⁸²

“council staff do not support the deamalgamation which should be noted. They understand that the community will be worse off overall.”⁸³

“The Bluett Award acknowledged the achievement of forging the 3 separate Councils into the new Inner West Council. Having worked for over 30 years in local government, including during the amalgamation period, I know the amalgamation task would have been a mammoth one, and de-amalgamation would be an even more herculean task taking a heavy toll on staff.”⁸⁴

“Frontline Inner West Council staff who deliver services have a good sense of whether the merged council is functioning effectively. When asked, only 29% of staff were supportive of Inner West Council demerging with 71% wanting it to remain as is.”⁸⁵

6.7.2 Discussion

The Act contains a number of provisions dealing with staff and staff numbers where LGA boundaries change.

Firstly, section 354C provides that there can be no forced redundancies (other than of a senior staff member) by a council during a boundary change “proposal period”.⁸⁶

In the case of the merger of Marrickville, Leichhardt and Ashfield, section 354F of the Act prohibited the use of forced redundancies for a period of three years after the date of staff transfer. This period would have taken effect on 12 May 2016 (the date of the Governor’s Proclamation) and would have concluded in May 2019.

If the Proposal is implemented, then a fresh 3-year period of statutory protection will apply to staff transferred from IWC to the three new councils.⁸⁷

⁸² Written submission #001.

⁸³ Written Submission #016.

⁸⁴ Written Submission #031.

⁸⁵ Written Submission #140.

⁸⁶ That is, a period commencing from the date the proposal is submitted to the Minister and ending either (i) on the date the Minister decides not to recommend its implementation or (ii) if the Minister recommends to the Governor that the proposal be implemented, immediately before the date specified in the Proclamation implementing the proposal.

⁸⁷ See section 354F of the Act – no forced redundancies.

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A number of submissions were critical of both the ML Report and Deloitte analysis, specifically relating to the assumption that 163 additional staff would be required across the three new councils. These proponents may not be aware of the statutory protections but views such as this appear to misunderstand that in any de-amalgamation process, it is simply not possible to 'return' to 2016.

So, it cannot be assumed that a new Leichhardt, Ashfield or Marrickville Council would come into existence with the number of employees that existed at the date of amalgamation. In the absence of any specific proclamation by the Governor on this matter, but noting the statutory protections, the allocation of staff and staff numbers between the three new councils would be one of the issues the three councils would need to negotiate. It is recognised that services have increased over time, and that additional staff would be required to manage the three separate councils (and therefore a triplication of roles) in order for current IWC service levels to be achieved.

Conclusion

Noting the ML report comment that FY23 will be the first 'stabilized' year, suggesting greater financial benefits are in prospect for the community, for the new councils to be required to enter into a new round of staff protections in circumstances where the financial forecasts suggest the new councils will start 'in deficit' is a factor which militates against recommending the proposal be implemented.

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6.8 Rural Impacts

Section 263(3)(e3) of the Act requires the Commission to have regard to:

“the impact of any relevant proposal on rural communities in the areas concerned”.

This factor does not apply to the Commission’s examination as the Proposal as the LGA is a metropolitan area.

6.9 Wards

Section 263(3)(e4) of the Act requires the Commission to have regard to:

“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”.

This factor does not apply to the Commission’s examination as the Proposal does not relate to an amalgamation of two or more areas.

6.10 Opinions of Diverse Communities

Section 263(3)(e5) of the Act requires the Commission to have regard to:

“in the case of a proposal for the amalgamation of two or more areas, the need to ensure that the opinions of each of the diverse communities of the resulting area or areas are effectively represented”.

This factor does not apply to the Commission’s examination as the Proposal does not relate to an amalgamation of two or more areas.

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6.11 Other Issues

Section 263(3)(f) of the Act requires the Commission to have regard to:

“such other factors as it considers relevant to the provision of efficient and effective local government in the existing and proposed new areas”.

6.11.1 Discussion

As the Key Findings notes,⁸⁸ IWC has operated as a standalone Council for seven years, its current operations reflect a series of integration activities and other changes since merger. IWC services a population of 183,105 people which is comparable to Parramatta (256,729) and Penrith (217,664). While the council effectively operates teams in each former Council for logistic purposes, the operating structure has significantly changed since 2016.

The non-binding plebiscite outcome and many submissions to the Commission suggest that there is a significant desire in the community to ‘undo’ the 2016 merger ‘regardless of the cost.’ Many submissions express this desire in terms of democratic principles. However, the attitude of the residents and ratepayers of the area (3(d)) is only one of the statutory factors listed in s263 of the Act. Against this desire for local democracy is the requirement in two other of the statutory factors ((3)(a) and (e1)) for the Commission to assess this desire against the financial disadvantages and, as well, against the ability of the new councils, and each of them, to provide adequate, equitable and appropriate services and facilities.

Since the merger a number of difficult decisions were taken by the new council including: Rate Harmonisation (resulting in an increase in revenue of 10%);⁸⁹ Service Harmonisation, which has resulted in higher services and costs overall;⁹⁰ and Wage Harmonisation, which has also resulted in higher costs overall.⁹¹ This represents an investment by the community, and also a sunk cost. IWC currently manages \$2.4b of infrastructure assets including road bulk earthworks \$512.2m, buildings \$378m and roads \$324.7m.⁹² Council

⁸⁸ Key Findings, p6.

⁸⁹ From 1 Jul-23 Inner West Council's rates have been 100% harmonised with a single rating structure in place.

⁹⁰ Harmonisation of services was provided across the three LGAs to the highest level of provision at no additional cost to the community.

⁹¹ A voluntary redundancy program was held post-merger resulting in \$14.2m of pay outs across FY17 and FY21.

⁹² Key Finding p2.

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has transformed the service delivery model that applied in the three former councils, itself a point of contention.

Whilst the decisions taken can be said to be ‘deficit producing’, they reflect decisions taken in the public interest, noting also that the cost of the provision of the services to council is declining. It is unlikely the AR Bluett Award would have been given to the council if it had shirked taking those hard decisions.

In contrast, as the Morrison Low report identifies, de-amalgamation triggers financial disbenefits which the community will ultimately incur. While ‘the number’ may be challenged, that new and additional costs will be incurred is not in question. Listening to and reading the submissions it is clear that many in the community don’t ‘care’ about this cost, asking the Commission to honour the outcome of the non-binding plebiscite. But that raises the question: what price local democracy? Is the inevitable wastage of scarce public resources, in terms of the monies already sunk into the creation of IWC, as well the cost of incurring those new and additional costs identified in the analysis, an appropriate expenditure of scarce public financial resources? In reality, this cost will now likely be incurred (in part) by new ratepayers and residents who did not participate in the poll.

The situation the Commission finds itself in is that there has been no analysis or valuation work undertaken to cost and value the democracy ‘intangibles.’ The ML report suggests that it is not possible to do so. If that is correct, then the asserted benefits to the community are un-costed. In the balancing exercise the Commission must undertake, how do we value the ‘Democracy’ benefits? In terms of the disaggregation of this council into new self-governing units, where the ‘cost’ for each new council to deliver the same basket of local government goods and services that the new councils will be called upon to supply can be estimated, is democracy ‘at any price’ acceptable?

That question is not posed for the Commission under the s263 statutory factors. But balancing the financial impacts against the other statutory factors, measured against the likely cost of the exercise, is the task of the Commission. In that analysis, on the basis of the information available to the Commission, it is questionable that the business case for de-amalgamation is compelling, assessed against the cost for each of the new councils to provide adequate, equitable and appropriate services and facilities.

The Council’s letter accompanying the proposal submitted to the Minister makes it clear that the Council does not support de-amalgamation unless its conditions are met. It is clear from the analysis in this report that the community will have to shoulder a significant proportion of the total cost of de-amalgamation. So that condition cannot be met.

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The consideration of these matters under this statutory factor forms part of the assessment of the intangible elements of the business case. That being noted, on balance, they do not support a recommendation for the proposal to be implemented.

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Attachment 1

Copy of the Inner West Council covering letter to the Business Case



12 December 2022

The Hon Wendy Tuckerman MP
Minister for Local Government
NSW Office of Local Government
GPO Box 5341
SYDNEY NSW 2001

Dear Minister

Inner West Council de-amalgamation Business Case Submission

Council at its Ordinary Council meeting held on 6 December 2022, resolved to submit the Inner West Council de-amalgamation Business Case, in accordance with Section 218CC of the *Local Government Act 1993*, for your consideration.

Council's de-amalgamation business case is submitted on the basis that should a de-amalgamation occur, that it only take place on the following terms:

1. That the full costs of the de-amalgamation, being between \$178 million - \$190 million, be paid in full by the NSW Government, prior to the commencement of the de-amalgamation, with no costs to be borne by Inner West ratepayers; and
2. That the duly democratically elected representatives of Council remain in office for the duration of this term and the NSW Government does not install an interim unelected administrator.

I note that we have not received assurances from you in response to letters dated 4 March, 30 June and 20 September 2022 in relation to the commitments sought by Council on the above points.

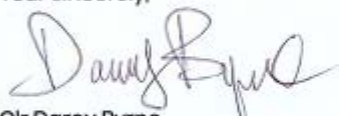
If a de-amalgamation is to occur it is of the upmost importance that our residents are protected and do not incur the substantial costs associated with the de-amalgamation process and that they maintain their democratically elected representatives to ensure their interests are represented throughout this process.

Local Government Boundaries Commission

Please find attached the Inner West Council de-amalgamation Business Case Report by Morrison Low and the Inner West Council Demerger Risk Identification Project Summary by Ernst & Young.

Should you wish to discuss this matter please do not hesitate to contact Council's General Manager, Peter Gainsford on 9392 5200.

Your sincerely,



Clr Darcy Byrne
Inner West Mayor

Local Government Boundaries Commission

Attachment 2



The Hon. Wendy Tuckerman MP
Minister for Local Government

Our Ref: A847080

The Chairperson
Local Government Boundaries Commission
Locked Bag 3015
NOWRA NSW 2541

By email: EO@lgbc.nsw.gov.au

Dear Commissioner

On 19 December 2022 I received the attached business case from Inner West Council under section 218CC of the *Local Government Act 1993* setting out a proposal for the de-amalgamation of Council by reconstituting its former areas of Ashfield, Leichhardt and Marrickville.

As required by section 218CC(2) of the Act, I hereby refer the proposal to the Local Government Boundaries Commission. Further, as required by that section, I direct the Commission to conduct an inquiry and report on the proposal.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wendy Tuckerman', with a flourish at the end.

The Hon. Wendy Tuckerman MP
Minister for Local Government

16 JAN 2023

Encl: Business Case containing de-amalgamation proposal with covering letter.

Local Government Boundaries Commission

Attachment 3



Local Government Act 1993

NOTICE OF LOCAL GOVERNMENT BOUNDARIES COMMISSION EXAMINATION AND REPORT INTO A PROPOSAL TO DE-AMALGAMATE THE INNER WEST COUNCIL AREA

Pursuant to section 218CC of the *Local Government Act 1993* (Act), the Minister for Local Government has referred to the Local Government Boundaries Commission (LGBC) a business case proposing the de-amalgamation of the Inner West local government area. The effect of the proposal, if implemented, would be to re-establish the former Ashfield, Marrickville, and Leichhardt Council areas.

Call for written submissions

Written submissions are invited from members of the public. Submissions should preferably address one or more of the factors listed in section 263(3) of the Act and should identify if the submitter is a resident and/or ratepayer of the affected local government area.

Submissions can be made by email to eo@lgbc.nsw.gov.au or by mail to LGBC Executive Officer Locked Bag 3015, Nowra NSW 2541 must be received by COB 31 January 2024.

Public Inquiry

A public inquiry in relation to the proposal will be held under section 263 of the *Local Government Act 1993* at the following times:

6 December 2023

Venue: St Peters Town Hall, 39 Unwins
Bridge Rd Sydenham NSW 2044

Session 1: 9:30am – 11:00am

Session 2: 12:30pm – 2:00pm

Session 3: 3:30pm – 5:00pm

Registration Requirements

All members of the public wanting to attend the public inquiry should register, nominating the session they want to attend. Speakers will be allotted three (3) minutes to address the Commission. Attendees wanting to address the inquiry should indicate this when registering.

A failure to register may mean you may be unable to attend the session of your choice. Registrations for each session will close if the maximum number of attendees is reached. Priority will be given to

Local Government Boundaries Commission

those addressing the public inquiry. Registrations will open from 13 November 2023 and can be made at www.olg.nsw.gov.au/lgbc or by contacting the Executive Officer on (02) 4428 4160.

The inquiry proceedings will be webcast live for those unable to attend the venue. The webcast will be accessible through the Boundaries Commission webpage.

For more information contact the Executive Officer or visit www.olg.nsw.gov.au/lgbc

Attachment 4

Section 263(3) of the *Local Government Act 1993*

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