Attachment 9.4

REVIEW OF MARRICKVILLE/ ROCKDALE MERGER OPTION

City of **Botany Bay**

Airport Councils

Fit for the Future - Shared Modelling

March 2015

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Approving Director:	D R Bonifant	Date:	March 2015

1.   INTRODUCTION

1.1   Fit for the Future

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However, there were various views as to how this could be achieved and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Marrickville Council, Rockdale City Council and City of Botany Bay have approached Morrison Low to undertake shared modelling across a broad range of factors (financial, social, environmental) in order for each council to understand the implications of an alternative local government merger to that proposed by the Independent Local Government Review Panel for councils that border Sydney airport. Although not a participant in the exercise, data for the City of Botany Bay has been included where possible from publicly available sources.

The government has a position based on the independent review panel recommendation for three different mergers for the airport councils. As has become clear to each of the councils affected by this recommendation there is little information about the benefits and dis-benefits of the proposed merger, nor any ready information about whether and why a large scale merger is the best option.

1.2   Shared modelling

The modelling is prepared on the basis of the information publicly available and augmented by the councils. The exception to this is the data in relation to City of Botany Bay which is comprised only of that information that is publicly available. The modelling is provided identically to all of the councils in the project.

Where the data is inconsistent or unclear it has not been included and will be recorded as either 'no data' or 'no result'.

1.2.1 Providing information to enable councils to individually make their decisions

The modelling is intended to allow the councils to individually and collectively understand what the benefits and dis-benefits of the merger of the airport councils and a series of other options might be. It has involved analysing historic, current and forecast performance as well as drawing in information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The project is not intended to advise each council of the best option for them (although it may naturally fall out of the modelling) or to form the framework of any submission for Fit for the Future. The project simply provides the information that will enable each council to determine its individual course of action, undertake informed consultation with its community, and ultimately form the basis of the council's submission.

1.3 Tight timeframes

The timeframes for this project have been challenging but we appreciate that the work has been required in haste to allow plenty of time for each council to work through issues with the community or potential merger partners and prepare submissions for 30 June 2015.

Notwithstanding that we fully understand the need for those tight timeframes, that understanding is tempered with a recognition that the data available for modelling has some limitations as a result. The standardisation of the data across the three councils has been conducted on a best efforts basis under those particular timing constraints.

The data provided within the model is drawn from a variety of sources (including the councils directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail. For consistency across the group of councils, publicly available information has formed the basis of the analysis. This has been refined and modified through discussions and workshops with the councils, except in the case of City of Botany Bay where only publically available information was used.

Notwithstanding these constraints, we have had great support from the staff of each council, providing quick responses to our requests for information and active and knowledgeable participation in the workshops. We thank the executives and staff of the councils for their input and cooperation.

2. SCOPE

2.1 Multiple scenarios

The shared modelling project was undertaken on the basis of evaluating the following options.

1. Status Quo

The baseline is measured against what each council has reported the current and future financial position to be. The analysis is based on the published Financial Statements and Long Term Financial Plans of the councils. Marrickville has submitted an application for a Special Rate Variation and an alternative scenario has been modelled which recognises the impacts of the Special Rate Variation. Equally a Rockdale modified scenario has also been modelled to take into account changes being implemented in the calculation and treatment of depreciation.

2. Modified Status Quo

This scenario answers the question as to what each council would need to do to meet the Fit for the Future benchmarks. It does not address the question of scale and capacity and concentrates on the seven government benchmarks.

The scenario is built up by separately considering the operating result, asset renewal, asset maintenance, and the infrastructure backlog. It identifies what, if any, funding gap exists but it does not identify how the gap is to be resolved as that is a question for each individual council. In some cases this has required a standardised approach to be used to provide comparability.

We acknowledge the work each council has done to understand its assets and community priorities and our analysis and assessment should be understood as applying to the context.

3. Merged Council

This scenario models a merger of the three councils and assesses the advantages and disadvantages of this against a series of criteria. The agreed criteria include financial and non-financial indicators and go beyond the government's Fit for the Future benchmarks to incorporate communities of interest and the alignment between the council organisations.

4. Other Potential Mergers

Other possible merger combinations were dealt with by providing the councils with a working model that allows each to individually assess the cost, benefits and implications of a merger of any combination of the three councils.

5. Shared Services

Under this scenario a theoretical design for shared services based on the concept originally developed by SSROC was developed. That concept was refined based on our experience and using other examples of successful shared services models operating elsewhere.

The scenarios assess the advantages and disadvantages of this approach including the financial costs and benefits.

2.2 Reporting

This report is intended to provide a collective body of information that each council will then use to determine what is in the best interests of the council and community. As such it does not seek to recommend any one option over another option for a particular council.

The report compares options and highlights advantages and dis-advantages. The relative weighting that each council then applies will be a matter for each individual council.

A report has been prepared for each council using the same information. The differences arise in the form of presenting the information. For example, section 4.1 of the report sets out the assessment of the status quo against the Fit for the Future benchmarks. This section of each report presents the relevant council results in the body of the report. The results of all councils are set out in the Appendix. We believe that this ensures that all councils receive the same information but tailored to that which is of most relevance to them.

2.3 Modelling

During the project we have built a model that enables the comparison of a range of both qualitative and quantitative variables across a set of standard indicators (which were agreed) including key data from each council about their assets, financial sustainability, community profile and services/service levels.

A working copy of the model has been provided to each of the councils and it has the functionality to enable each individual council to compare the full range of scenarios to the status quo, understand what drives the assessment and drill down into the comparison. This will be particularly valuable for assessing the multiple combinations identified in the quotation request based on what is important to each council.

This report, and the associated modelling, is intended to provide the capability to compare and assess the variety of options. The report is not intended to provide any recommendation or recommendations for any council or councils to select.

3. SUMMARY OF CONCLUSIONS

The Government has made it clear that the starting point for every council is scale and capacity. The Independent Panel position was that scale and capacity for each of the three councils arises through a merger with other councils. The City of Botany Bay with the eastern beaches and the city, Marrickville with the inner west and Rockdale with St George Councils and Canterbury. While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

The table below provides a summary of the Council's performance against the benchmarks.

Table 1   City of Botany Bay (status quo) performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	Does not meet the benchmark
Own Source Revenue	Meets the benchmark
Debt Service Cover	Meets the benchmark
Asset Maintenance	Initially meets the benchmark but then falls below
Asset Renewal	Does not meet the benchmark
Infrastructure Backlog[1]	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark

3.1   Modified status quo

In order to meet the Fit for the Future benchmarks each of the councils require an increase in revenue and/or a decrease in costs to address both an operating deficit (as judged against the operating performance ratio criteria) and short and longer term infrastructure issues.

Marrickville has begun this process by submitting a Special Rate Variation while Rockdale has undertaken an internal review including importantly for the purposes of this project valuation of assets and depreciation.

The table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset maintenance ratio[2], renewal ratio and bringing the infrastructure backlog[3] to the benchmark of 2% within five years. After that the funding gap diminishes for each council in order

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[1]   The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory
[2]   Based on Morrison Low's assessment of required maintenance
[3]   Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology

to satisfy only the renewals and maintenance ratios. The analysis is against each council's base case and does not include the Marrickville SRV or modified Rockdale reporting scenarios.

Table 2   Summary of infrastructure funding gap

Council[4]	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
City of Botany Bay	-$ 2,678	-$ 1,055
Marrickville	-$ 8,439	-$ 4,921
Rockdale	-$ 5,691	-$ 4,987

The table below identifies the average annual gap between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each council's LTFP. Each council will also need to address this in order to meet the benchmark. As Marrickville attains a positive Operating Performance ratio over the period being modelled there is not considered to be a funding gap.

Table 3   Operating performance funding gap

Council	Average gap ($000)
City of Botany Bay	-1,300
Marrickville	N/A
Rockdale	-4,900

The process undertaken during this project identified a range of areas in which the councils can work together either through a shared services model as set out in this report or through some other collaborative working or procurement arrangement.

Even if the additional expenditure requirements set out above are achieved and a council meets all the Fit for the Future benchmarks, which logic would dictate means that scale and capacity has therefore been met, a council will still need to address the government's starting point of scale and capacity first. Interestingly in the case of each of these councils the Independent Panel position was that scale and capacity for each was achieved by a merger with different councils.

While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

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4   Infrastructure funding gap does not take into account any potential SRV applications

3.2 Airport council

3.2.1 Scale and capacity

The independent panel recommendation proposed different merger options for each of the airport councils. Under the Fit for the Future reforms this means each of these models would satisfy the scale and capacity test.

Only a merger of the three councils appears to satisfy what appears to be the scale and capacity requirement of a population of 250,000 (based on the average size of council's not proposed for merger) by 2031. A merger of Marrickville and Rockdale will come close to satisfying this test but any other two council option amongst the airport councils will not.

3.2.2 Fit for the Future benchmarks

The merged council is the sum of its parts. This means that the asset and financial positon of each council directly contributes to the overall asset and financial position of the merged council.

The asset focus of the Fit for the Future benchmarks means that like the individual councils, the merged council does not meet the asset related benchmarks. A funding gap in order to address the asset maintenance, asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 4   Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	-18,198	-12,352

The NPV of the financial costs of the investment required to meet all the infrastructure benchmarks[5] is set out below (a negative number indicates a cost).

Table 5 NPV of the merged council asset funding gap

NPV at 4%	NPV at 7%	NPV at 10%
-$130 million	-$115 million	-$103 million

The significant transitional costs identified throughout this report mean the operating performance ratio is negative from day one and while some efficiency benefits have been modelled in arising through the merger these are not sufficient to improve the financial performance of the council. The trend over the period modelled is for the operating result (excluding grants and contributions for capital purposes) to improve through until 2021 before declining again, but the merged council never satisfies the operating performance ratio.

The debt service and own source revenue ratios are exceeded by the merged council from day one and remain above the benchmarks throughout the period being modelled.

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[5]   Asset maintenance and renewals are satisfied from year 1 and the infrastructure backlog within five years

The table below summarised the merged council performance against the benchmarks.

Table 6   Merged council performance against Fit for the Future benchmarks

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Not applicable	Meets the benchmark

3.2.3   Debt

The debt levels across the councils are low (total debt is $22.3M) and, in the case of the City of Botany Bay, non-existent. All councils are well below the debt service ratio and the same is true for the merged council. Typically, the consolidation of debt in a merger can be a community issue as a community with little or no debt may perceive as unfair having to repay debt that 'belongs' to other communities and other community's assets. In the case of the airport councils this may arise for the City of Botany Bay residents who currently carry no debt.

3.2.4   Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property. The key examples are the different minimum rates across the three councils as well as large variations in the proportion of rates borne by business and residential rate payers. For example, in Rockdale businesses bear 12% of the rates whereas in Marrickville that proportion rises to 40%.

Currently Rockdale has the highest average residential rate ($913) and the City of Botany Bay the highest average business rates ($9,108). In comparison the City of Botany Bay has the lowest average residential rate ($674) and Rockdale the lowest average business rate ($2,674).

A merged council would ultimately set a single rating system across the three councils and regardless of the approach there would be some properties where rates would rise and others where rates would reduce. A key driver for this would be land value and residents with comparatively high value properties would bear a higher proportion of the rates.

Changes to the average business and average residential rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected.

Under a merger of the three councils the average residential rate would increase in the City of Botany Bay under an entirely ad valorem system where land value is the sole determinant. Average residential rates would reduce in both Rockdale and Marrickville. The introduction of a base rate at the maximum level sees similar affects.

Under both scenarios the average business rate would significantly increase in Rockdale and decrease in both the City of Botany Bay and Marrickville.

3.2.5   Environmental

The comparison of the community strategic plans highlighted the community as a common theme across all the councils. While the review of the LEPs of the councils identified some different approaches and differing levels of relative importance for the natural and built environment they were only small. Each council is targeting different types of growth, however only Botany Bay's growth strategies are dominated by the economic significance of the airport (and Port Botany).

The focus of metropolitan planning is different for the areas. Botany and Marrickville are part of the Global Economic Corridor with specific priorities relating to structure planning for the Airport and Port precincts as "transport gateways". The major economic drivers for the Subregion, in which Rockdale is grouped, are largely seen as external (Global Economic Corridor, Sydney Airport, Port Botany and the Illawarra).

3.2.6   Representation

One of the biggest negative impacts from a merger of the airport councils is on representation. The number of people represented by each councillor will increase significantly making it more difficult for residents to access their councillors and the council. Based on the current maximum of 15 councillors, each of those would represent over 15,000 residents which is more than double the current level of approximately 6,000 residents per councillor.

While measures can be put in place to address a loss of representation through local or community boards, at present the government has not set out in detail any proposal that the community could consider.

3.2.7   Community profile and communities of interest

The airport councils have come together to consider what merger options might look like based on their common relationship of having part of Sydney Airport within their boundaries. This gives the communities commonality around transport corridors, economic focus, and social and environmental impact.

There are a number of commonalities between the areas, including the dependence on, and movements to, the City of Sydney for employment, entertainment, retail and other services (as with all inner and middle ring suburbs). There are also higher education levels than Greater Sydney, low employment containment within each council area, and all areas anticipate significant population growth to 2031 (as with Greater Metropolitan Sydney general).

There are a range of *differences* between the areas, including Marrickville being more academically inclined, and Marrickville and Rockdale having lower portions of children and elderly in their populations. Botany's population density is significantly lower than the other councils and has the largest economy, both in gross terms and on a per capita basis reflecting its share of industrial land.

The areas are not a natural grouping in a regional planning sense, with Rockdale generally forming part of the St George region, City of Botany Bay tending towards the eastern suburbs, and Marrickville within the inner west or inner Sydney. This is borne out in cross-border movements and migration and also by the different planning sub-regions that the councils are in the Metropolitan Strategy. Rockdale is Central Region and Marrickville and City of Botany Bay in the Southern Region.

Ultimately the question is whether a merged council could adequately represent the different communities of interest surrounding the airport and at this time the question needs to be considered alongside the significant reduction in representation.

3.2.8   Costs and savings of the merger

The costs and savings of the merger arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition from three councils into one there are costs associated with creating the single entity (structure, process, policies, systems and branding), costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the merger continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations, outsourcing waste collection to a single regional contract and the rationalisation of buildings and plant (one off).

The operating performance of the merged council (excluding grants and contributions for capital purposes) is negative in every year of the period being modelled except the year in which asset and plant rationalisation occur. The NPV of the costs and savings over the period being modelled (2023[6]) has been calculated and set out below.

Table 7   Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
$102 million	$83 million	$67 million

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[6]   2023 is the period being modelled to match the time covered by all Council LTFPs

3.2.9   Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger in the case of the airport council the poor financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit. The different communities of interest across the area and the number of service delivery and metropolitan planning boundaries crossed by the new council also present a risk to being able to deliver effective governance.

4. DETAILED ANALYSIS

4.1 Status quo

Marrickville, Rockdale and City of Botany Bay ('airport councils') cover a geographic area in metropolitan Sydney with the Botany Bay to the east and bordered by City of Sydney and six other councils. A map of the area is set out below in Figure 1 and shows each council area.

Figure 1   Map of airport councils
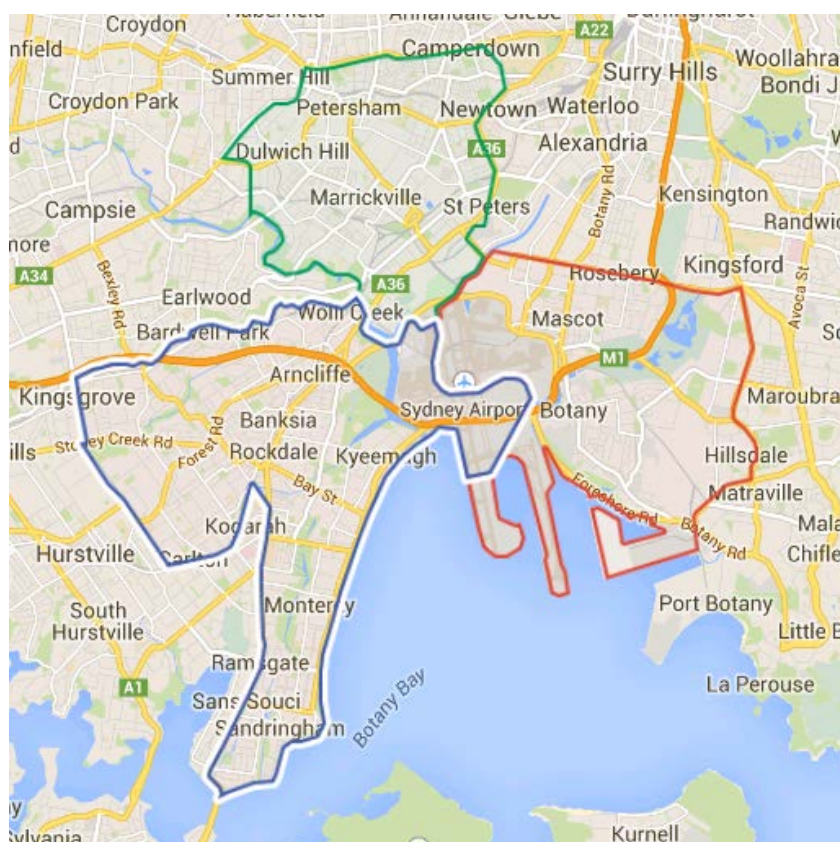
As a starting point, the councils' current performance against the Fit for the Future benchmarks[7] has been considered and set out in Table 6 below. We believe it is important to understand the respective position of each council as it is today and the results are those reported in the 2014 Financial Statements of each council. Figures in red are those where the Council does not meet the benchmark. We note that previously councils have not been required to report on the real operating expenditure ratio so these results were not published in the 2014 Financial Statements.

An explanation of each indicator and the basis of the calculation are set out in Appendix A. Each has been calculated in accordance with the requirements set down by the Office of Local Government. The ratios are a reduced set of benchmarks drawn from those used by TCorp in its 2013 analysis of the Financial Sustainability of the New South Wales Local Government Sector. The Debt Service and Own Source Revenue ratios are both exceeded by all of the councils and do not present an issue for any council. In contrast all councils are below the benchmark for the renewals ratio and maintenance ratio.

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[7]   Reported in the 2013/14 Financial Statements for the respective councils

Table 8   Fit for the Future benchmarks 2014

Council	Operating Performance	Own Source Revenue (%)	Debt Service (%)	Asset Maintenance (%)	Infrastructure Backlog (%)	Asset Renewal (%)
City of Botany Bay	Not reported	Not reported	Not reported	81	7	74.8
Marrickville	-2.53	88.87	1.66	58	1	52.5
Rockdale	-10.51	78.60	6.29	42	3	52.9

4.1.1   Fit for the Future indicators[8]

Of the Fit for the Future benchmarks, the City of Botany Bay meets three benchmarks at present but one (asset maintenance) falls below the benchmark over the modelling period based on maintaining the status quo.

TCorp has rated the City of Botany Bay with a Moderate rating for financial sustainability with a Neutral outlook. The Office of Local Government considers its infrastructure management to be Moderate.

The Operating Performance improves over the modelling period but remains below the benchmark. Renewals expenditure also improves and nearly meets the benchmark (98%) but remains below. Debt service and own source revenue remains well above the benchmarks throughout.

Table 9   City of Botany Bay (status quo) performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	Does not meet the benchmark
Own Source Revenue	Meets the benchmark
Debt Service Cover	Meets the benchmark
Asset Maintenance	Initially meets the benchmark but then falls below
Asset Renewal	Does not meet the benchmark
Infrastructure Backlog[9]	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark

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[8]   A standardised approach to the calculation of all infrastructure ratios has been used to provide consistency and comparability for the purposes of this assessment. The explanation for each is set out in section 4.2

[9]   The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Figure 2   Operating performance ratio

Operating Performance Ratio

Own Source Revenue Ratio
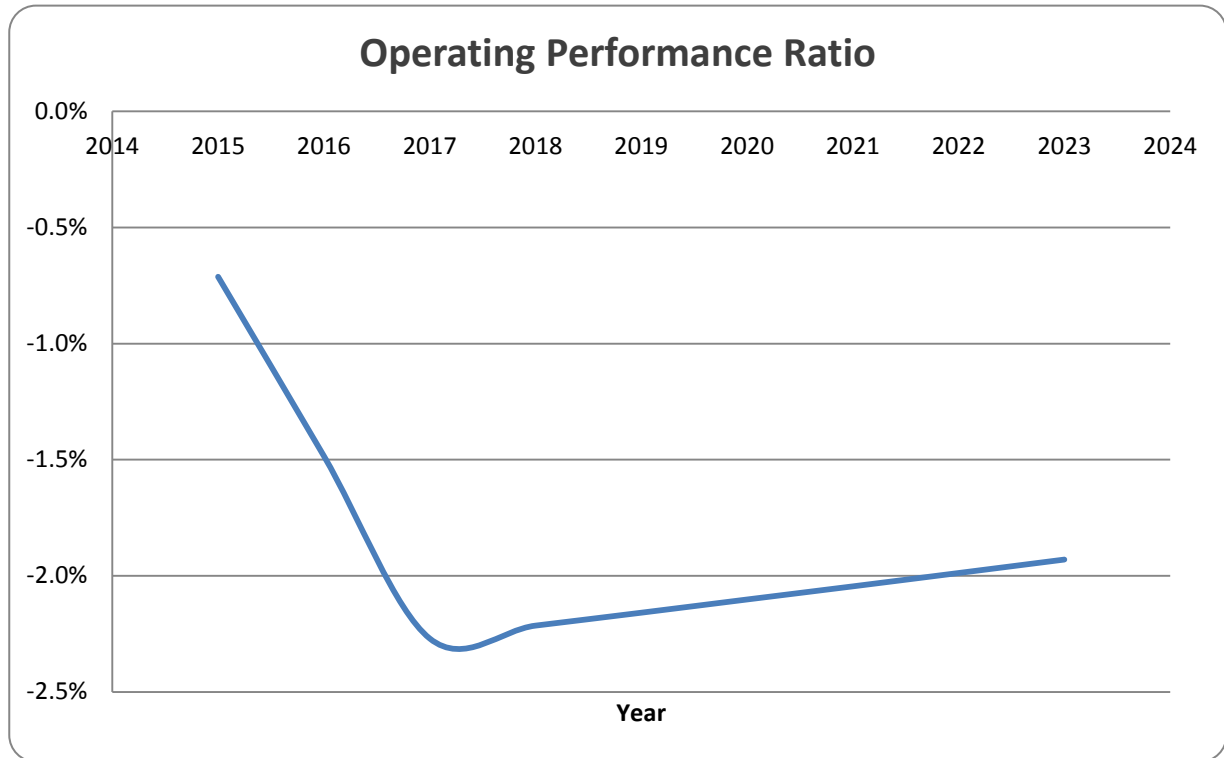
Figure 3   Own source revenue
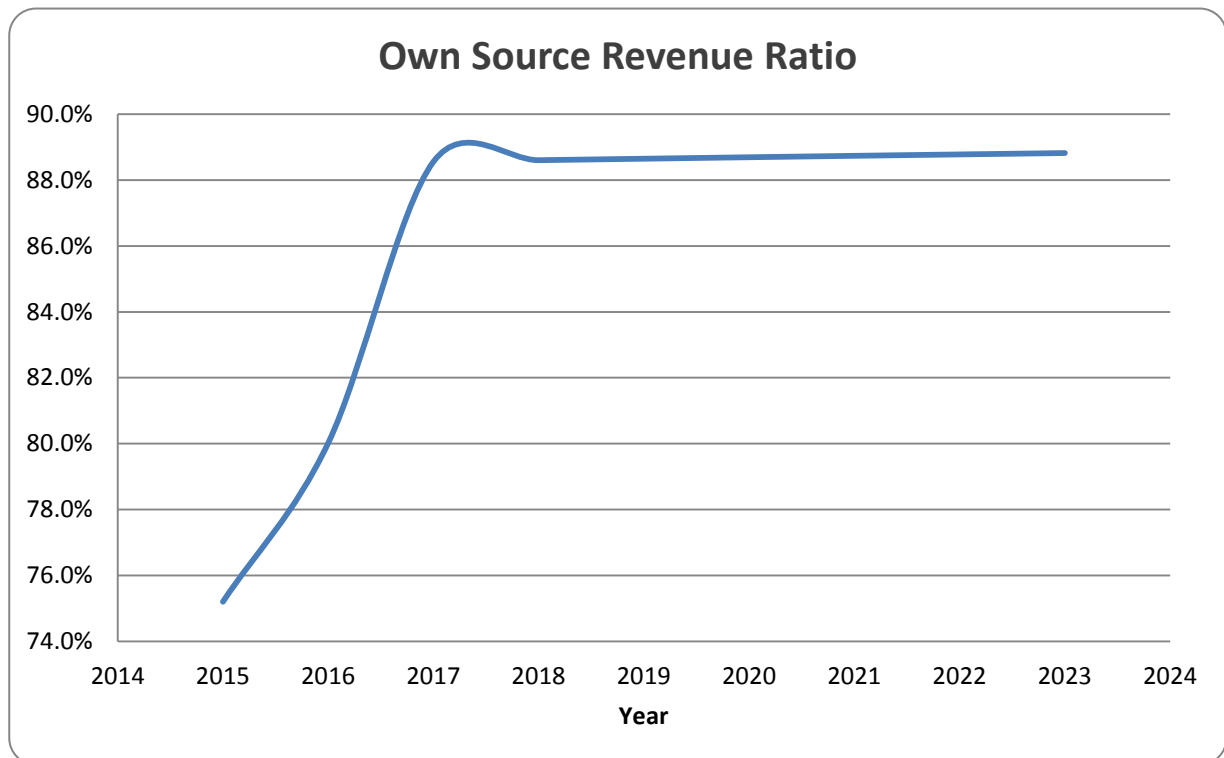
Figure 4   **Debt service ratio**

Debt Services Ratio
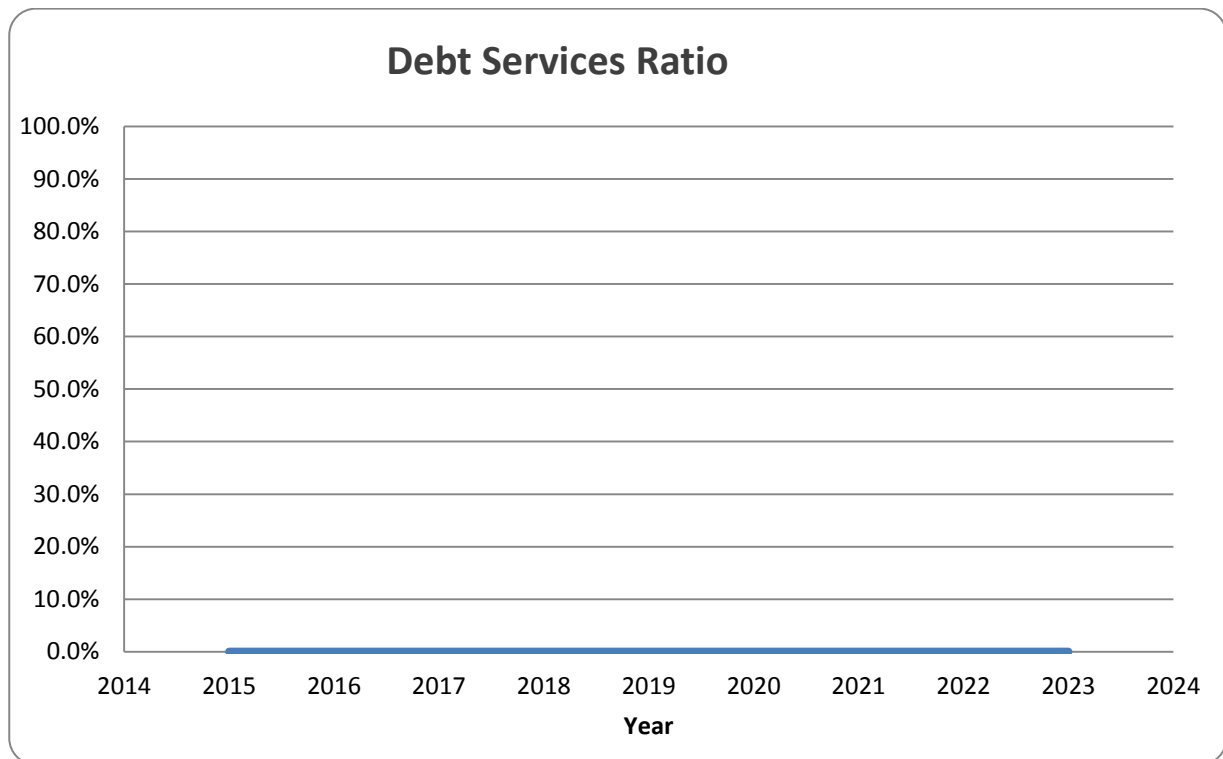
Figure 5   **Asset renewals ratio**

Asset Renewals Ratio
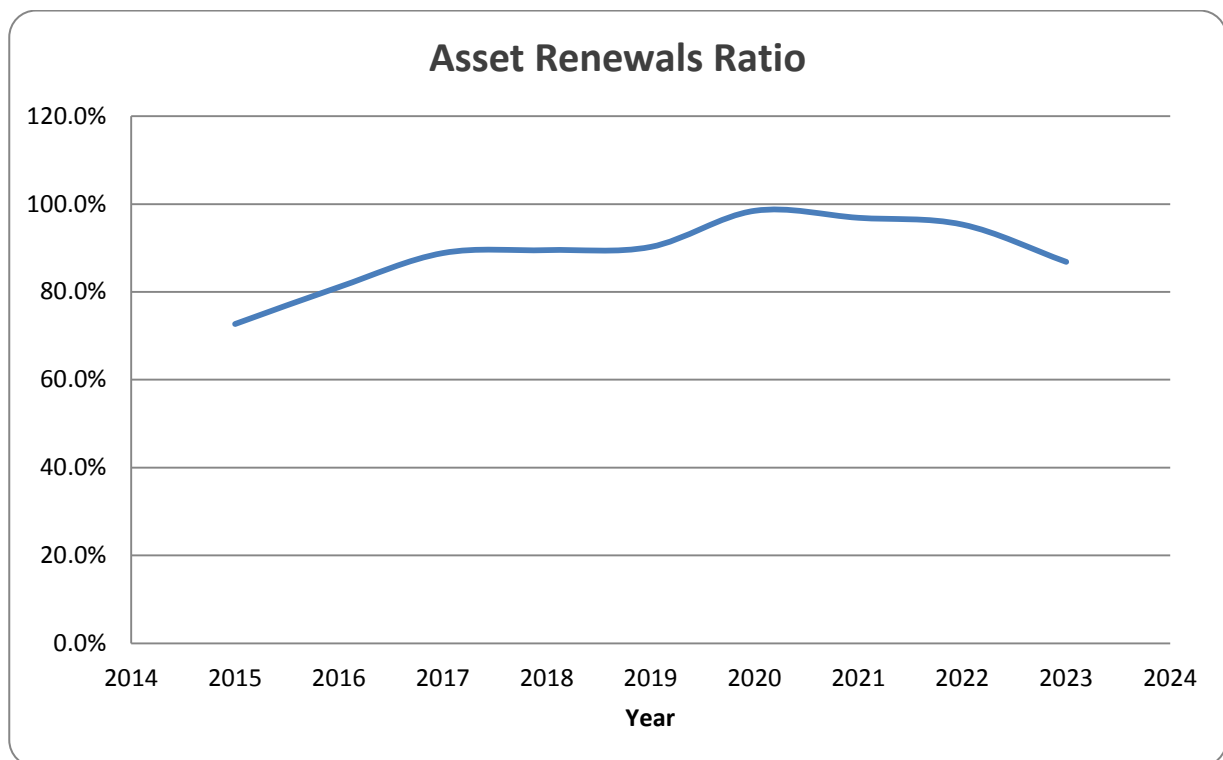
Figure 6   Infrastructure backlog ratio
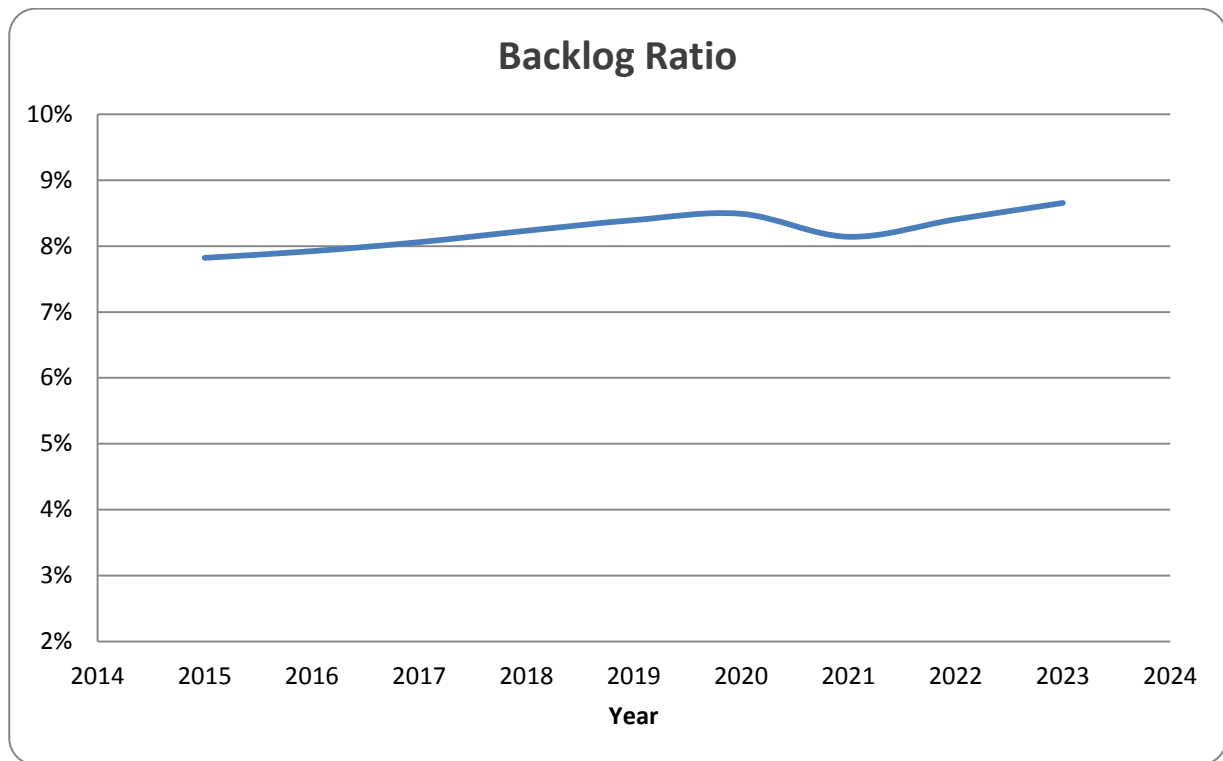
Figure 7   Asset maintenance ratio
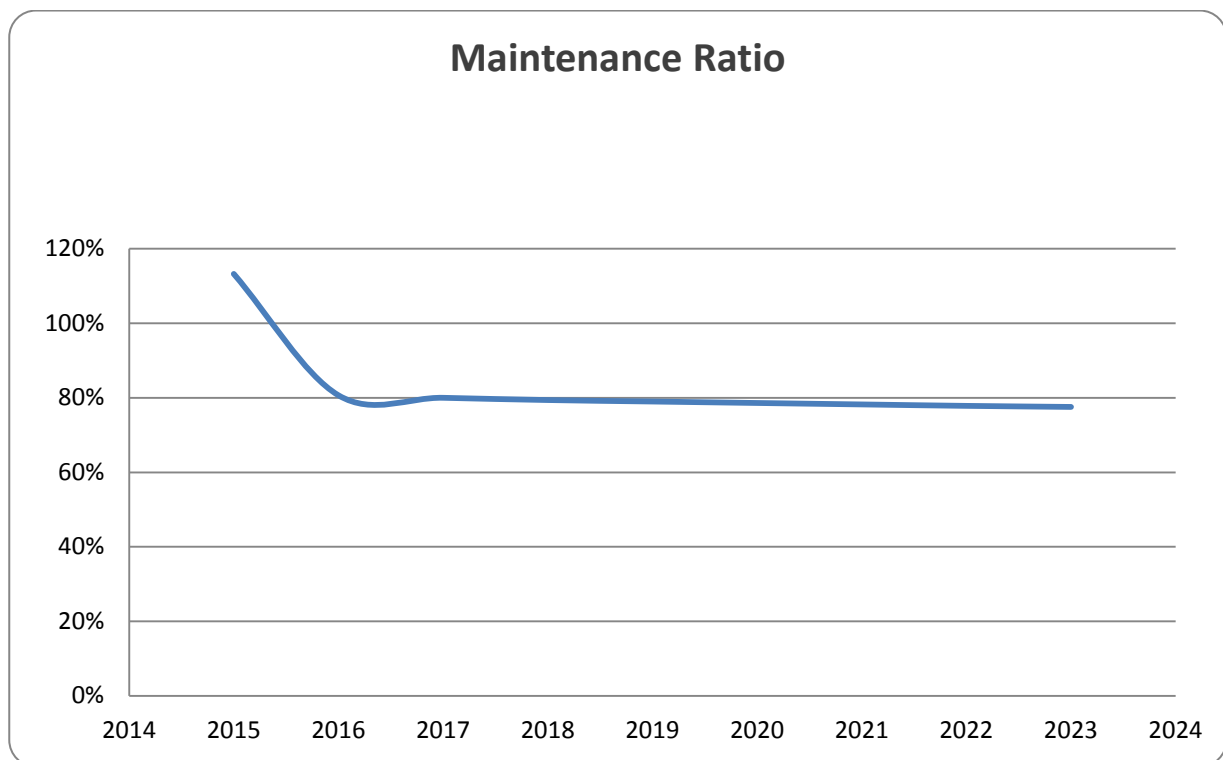
Figure 8   Real operating expenditure per capita
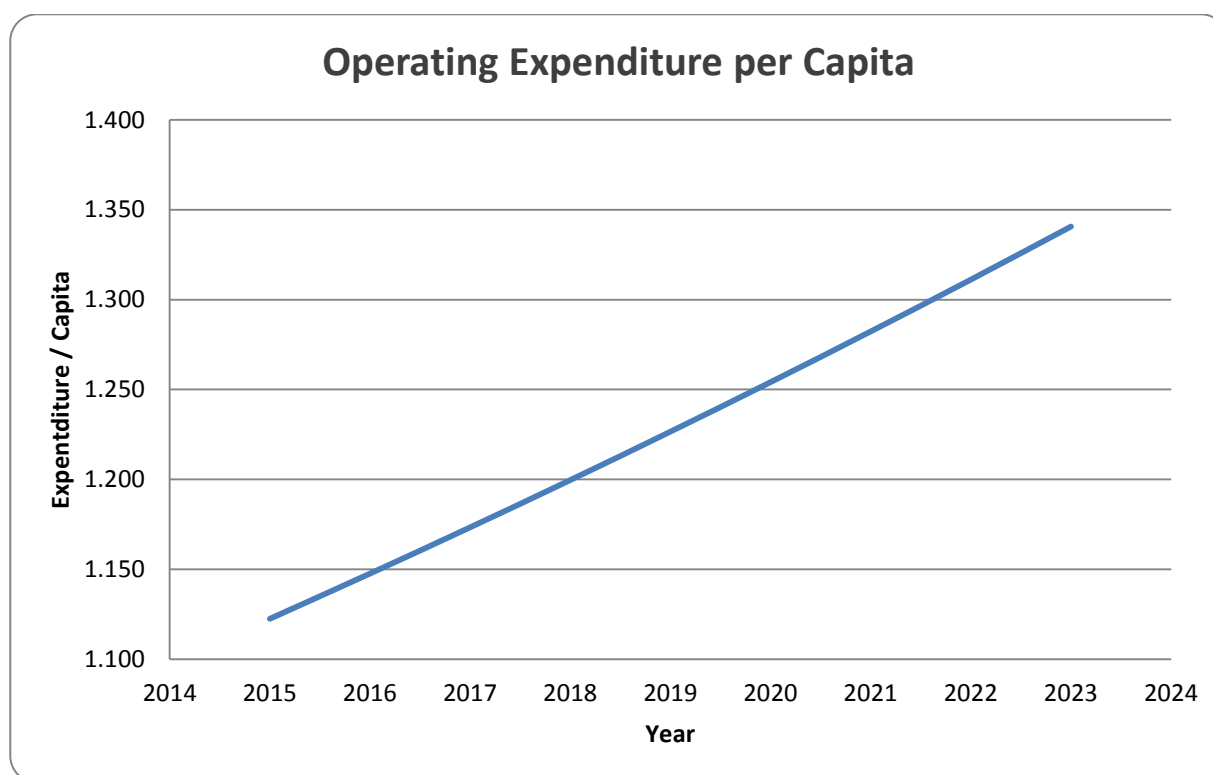
4.2   Each council optimum

An analysis of what would need to be done in order for each council to satisfy the Fit for the Future benchmarks has been undertaken. The analysis is against each council's base case scenario. The asset based ratios (asset maintenance, asset renewal and infrastructure backlog) have been considered as has the operating performance ratio. Each aspect has been separated out in the following sections before being combined into an overall figure which identifies what, if any, funding gap exists that if satisfied would enable the council to meet the Fit for the Future benchmarks.

Where such a gap has been identified and should a council choose to pursue a standalone response to Fit for the Future, then the council will then need to determine how they best address that gap. We would expect that this would be either through additional revenue, a reduction in operating expenses or a combination of both.

4.2.1   Operating performance

The operating result of each council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP. As Marrickville attains a positive Operating Performance ratio over the period being modelled there is not considered to be a funding gap.

Table 10   Operating performance funding gap

Council	Gap ($000)
City of Botany Bay	-1,300
Marrickville	N/A
Rockdale	-4,900

4.2.2   Asset maintenance

The maintenance ratio is based in part on the number each council reports as 'required maintenance'. However there are no guidelines on how required maintenance is to be calculated and when the required maintenance figures from across the councils were considered some significant variations were identified.

A standardised approach was adopted for the purposes of this project in order to provide a relative comparison of the three councils and for use when estimating the required annual maintenance for the airport council.

The approach uses a percentage of the current replacement cost as the basis for required maintenance. The rates for the different asset classes are based on our knowledge and expertise as well as consideration of ratios of a large number of Sydney based councils as benchmark comparisons. In the roads asset class it was clear that there was considerable variation in how the assets were valued. Working in conjunction with the councils, the required maintenance for roads was calculated on a per kilometre basis instead. This is considered to provide a realistic comparison across the councils.

The table below sets out the gap between the required annual maintenance and projected maintenance. Negative figures are highlighted in red and show the annual additional amount a council, based on our standardised approach, would need to spend on maintenance to satisfy the asset maintenance ratio.

Table 11   Asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
City of Botany Bay	$3,299	$ 4,057	-$ 758
Marrickville	$ 8,242	$ 9,580	-$ 1,338
Rockdale	$ 1,778	$ 4,234	-$ 2,456

4.2.3   Asset renewal

The asset renewal ratio is based on each council's assessment of annual depreciation on buildings and infrastructure and their actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

While the calculation of depreciation varies quite significantly across the three councils it is not possible to simply standardise depreciation in the same way that the required maintenance number can be. The assessment of depreciation is integral to the financial management of each council and their LTFP. Any change requires a proper assessment of the assets, condition, lives and values. The assessment of required asset renewals is therefore based on each council's own assessment of depreciation and required renewals.

The table below sets out the gap between the required annual renewals and projected renewals expenditure. Negative figures are highlighted in red and show the annual additional amount a council (based on our standardised approach) would need to spend on renewal to satisfy the asset renewal ratio. Positive figures show the amount by which a council will exceed the required renewal expenditure leading to a ratio of greater than 100%.

We note that Marrickville has applied for a special rate variation which is intended to address the renewal funding gap.

Table 12   Asset renewal gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
City of Botany Bay	$ 3,137	$ 3,434	-$ 297
Marrickville	$ 3,988	$ 7,570	-$ 3,583
Rockdale	$ 12,102	$ 14,633	-$ 2,531

4.2.4   Calculating the estimated cost to satisfactory

The estimated cost to satisfactory is the key driver of the infrastructure backlog ratio. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and as such the approach varies significantly across NSW. Across the three councils there are different methodologies for determining the cost to satisfactory.

Given the variation in methodologies it was considered appropriate that for comparative purposes and for the assessment of the infrastructure backlog of a merged council a standardised approach should be adopted.

All councils have adopted a similar condition rating system based on a 1 – 5 condition rating where condition 1 is considered to be excellent and condition 5 being poor or very poor condition. The standardised approach adopts condition 3 as satisfactory. We do acknowledge that some councils have considered adopting a lower standard as satisfactory and have engaged with their communities on this. Our approach looks at the value of asset (Current Replacement Cost) in condition 4 and 5, and what could be done to ensure these assets are brought up to condition 3 (satisfactory). It should be noted the cost to satisfactory is an indicator of asset condition, and as such the reality of asset renewals is that those assets in condition 4 and 5 when renewed would be brought up to condition 1 or 2.
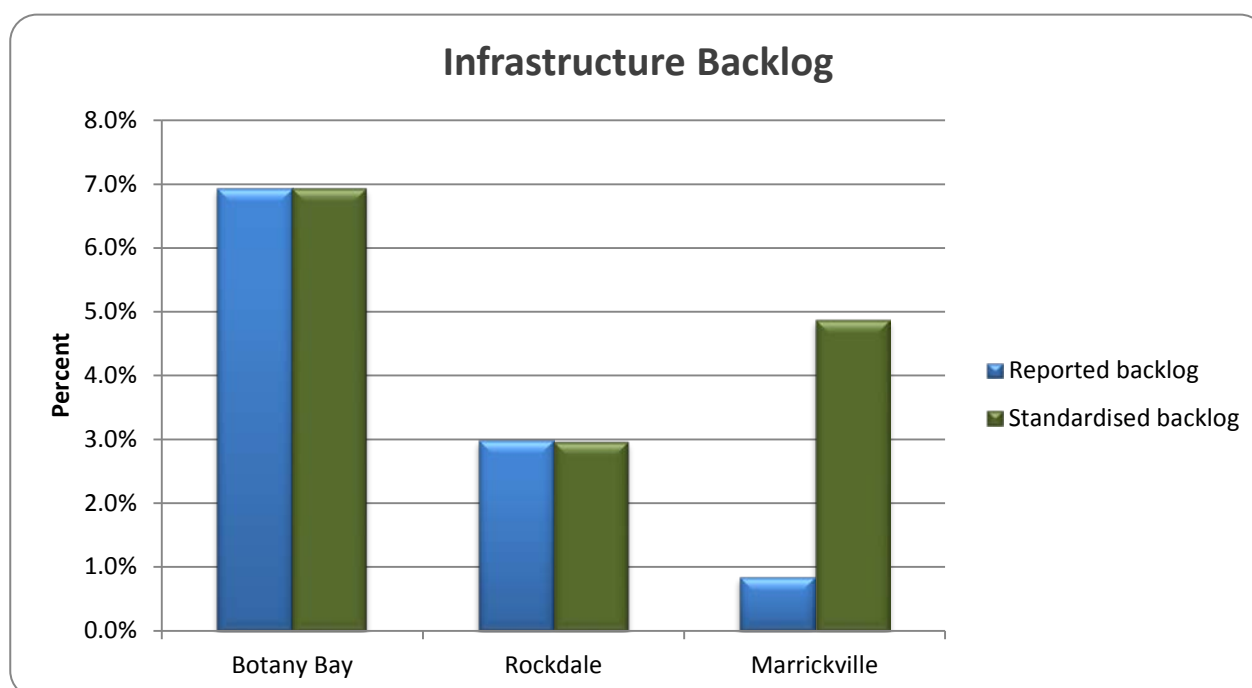
The table below sets out what each council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years.

Table 13 Cost to bring assets to satisfactory

Council	Total value of assets[10] ($000)	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
City of Botany Bay	$ 259,740	$ 11,407	$ 3,289	-$ 8,118	-$ 1,623
Marrickville	$ 839,079	$ 29,689	$ 12,097	-$ 17,591	- $ 3,518
Rockdale	$ 688,267	$ 10,713	$ 7,194	-$ 3,519	-$ 704

4.2.5   Annual funding gap

The table below summarises the expenditure required by each council, based on our standardised approach, in order to meet all three asset based ratios within five years. Once the infrastructure backlog is brought to the benchmark then the required expenditure in all councils falls.

We have not included the funding gap related to the operating performance ratio in this table as that would not present a realistic picture of the required expenditure. Any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of the Council and therefore the Operating Performance Ratio. Additionally, a council may choose to

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[10]   Current replacement costs (2014)

address the funding gaps identified in Tables 9 – 12 by increasing revenue, shifting funding from another service or activity, reducing overall costs or a combination of all the above. This will all affect the other ratio. It is not therefore considered possible to simply add the Operational Funding Gap identified in Table 9 and Asset Funding Gap identified in Table 14 below together into a single figure.

Table 14   Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)	Average funding required per annum (5 years+)
City of Botany Bay	-$ 758	-$ 297	-$ 1,623	**-$ 2,678**	**-$ 1,055**
Marrickville	-$ 1,338	-$ 3,583	-$ 3,518	**-$ 8,439**	**-$ 4,921**
Rockdale	-$ 2,456	-$ 2,531	-$ 704	**-$ 5,691**	**-$ 4,987**

4.3   Merged council

4.3.1   Description

The merging of the three councils into one airport council will create an entity that is unfamiliar in scale and size to most individuals associated with the current councils.

To give some scale to the proposed council organisation, set out below are some broad indicators of the attributes of a new airport council and a comparison to Sutherland Council[11].

Table 15   Comparison of proposed airport council and Sutherland Council

	Airport Council	Sutherland Council
Full time equivalent staff	1,192	1,090
Geographic area	66 km^2	334 km^2
Population	229,233	221,147
Annual expenditure	$232 million	$197 million

The new council would be home to almost 6% of the population of the entire greater Sydney metropolitan area and would represent a significant proportion of the inner metropolitan population. Its population would be represented by five state parliamentary electorates/members and three federal electorates/members.

The combined population would have a better educational profile and lower unemployment, when compared with the rest of Sydney.

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[11]   OLG Comparative Performance Data 2012-13

4.3.2 Services

The range of services and facilities provided by any council to its community varies significantly from place to place. Not only do the types of services vary, but the levels of service will often be quite different from council to council.

The reasons for these variations are numerous. For many councils the suite of services that they offer in the present day is a reflection of decisions made by councils past. Those decisions are generally based on community desires and needs, funding availability or strategic business choices. Figure 10 highlights the locations of some key council services including council offices, libraries, depots, swimming pools and recreation centres.

Figure 10   Key services and facilities of the airport councils

Regardless of the original rationale for service types, levels and delivery decisions, councils need to continue to make regular and structured revisions to their service portfolios in order to meet emerging or changing community needs, capacity to pay issues or regulatory change.

The airport councils are reflective of the broader local government industry and exhibit many variations on the types and levels of service that they offer to their communities despite their relative proximity. There are obviously cost implications for the councils providing different services and levels of service.

There are a range of examples where services vary across council borders and those variations can be in the form of:

- providing a particular service or not doing so
- differing methods of delivering services (in house, outsourced, collaborative)
- variety in the levels of service delivered (frequency, standard)
- pricing.

The issue of the provision of children's services is a case in point. Each council offers a different mix of children's services opportunities. Marrickville and City of Botany Bay provide a family day care service and child care centres. Marrickville also offers a preschool service. Rockdale allows the market to provide child care services and focuses on linking individuals to services.

In these cases, the differences are not simply in the type of delivery of the services to the community, but in the policy positions adopted around direct provision or the facilitation of delivery through other mechanisms.

All three councils deliver the bulk of their services using day labour for service delivery rather than outsourcing service delivery although Marrickville appear to make more use a mix of internal resources and external contractors for most asset management functions. All councils are more likely to contract out major construction activities while undertaking most maintenance activities using their day labour workforce.

Rockdale and Marrickville have both outsourced components to their solid waste services. Rockdale outsources all solid waste collection as part of a regional approach and City of Botany Bay contracts the collection of recycling. Collection frequencies for green waste and recycling also differ with City of Botany Bay having the highest service level of weekly collections.

Non-commercial street sweeping frequencies vary between councils from two (Rockdale) to five weekly (Marrickville) cycles. Graffiti removal service levels also vary between Rockdale and Marrickville while City of Botany Bay undertakes street sweeping and graffiti removal to unspecified "service standards".

Another example of different service levels arises from the fact that most of the councils offer a verge mowing service of some description. Variation is demonstrated in the service standards, such as frequency of mowing, but most significantly in the eligibility of property owners to access the service. Marrickville and City of Botany Bay mow road verges, while Rockdale only mows verges for pensioners. In addition to mowing verges City of Botany Bay also offers a pensioner mowing service. Mowing cycles for verges vary.

All councils have similar standards for parks and sports field maintenance although levels of service provision are much higher in Rockdale than anywhere else particularly for sports fields where Rockdale has more sport fields than Marrickville and City of Botany Bay combined. All councils have at least one golf course but only City of Botany Bay is managed 'in-house'.

Foreshore services are another area where the airport councils differ. Rockdale spends considerably more managing 8 km of beach, a boat ramp, two pontoons and 6 swimming enclosures than its counter parts. Marrickville manages a jetty at Tempe has shared responsibility for the management of about 3.5km of river frontage along the Cooks River. The City of Botany Bay has no areas of care and control of foreshore assets.

The location of the libraries and swimming pools of the airport councils are set out in Figures 11 and 12 below. Each facility has a representative catchment drawn around the location of facility. The size and nature of the facilities varies and the catchments are not scaled to demonstrate an

oversupply or identify a facility or facilities for rationalisation. The purpose is to highlight the different challenge that a council of the airport councils will be faced with in regards to the provision and the location of services and facilities. Having responsibility for a larger area without the existing internal boundaries will require a different approach and likely lead to changes in services and service delivery.

Figure 11   Location of the libraries of the airport councils
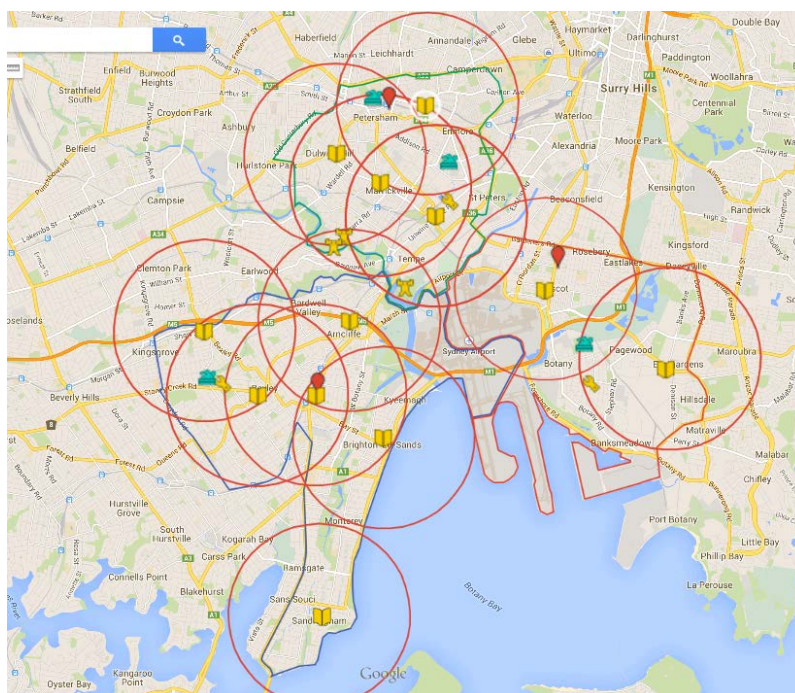

Figure 12   Location of the swimming pools of the airport councils
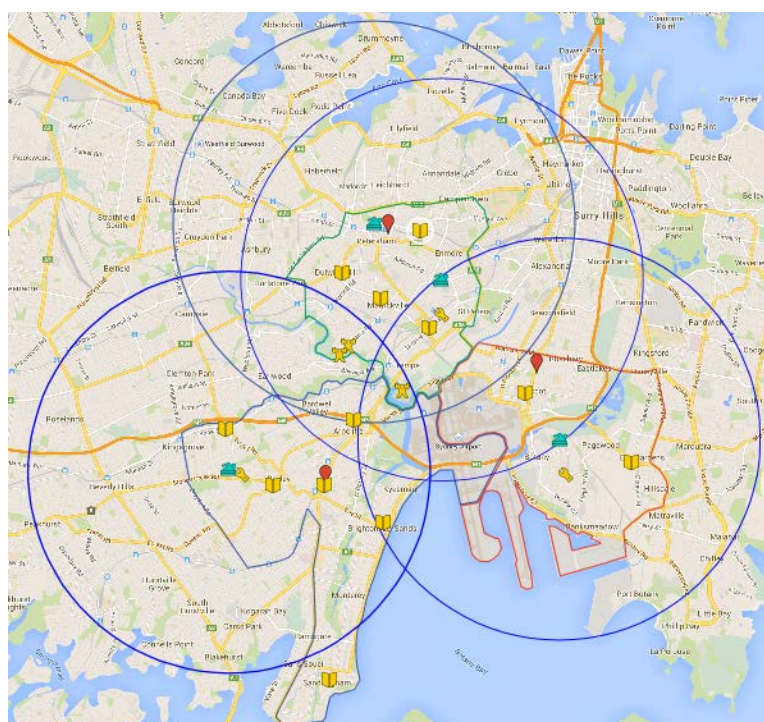
Set out in Appendix D is a table containing a high level review of a range of council service and the variations in those among the airport councils.

Establishing a uniform, or at least consistent, service offering through the mechanisms of service standard setting, pricing and delivery will be a challenging exercise for any merged council however it does provide opportunities for service review and re-evaluation. Often in a merged council the desire to ensure an equitable and fair service across the entire local government area can result in an immediate and sometimes dramatic increase in services, services levels and therefore costs. In assessing the advantages and disadvantages of a merger of the airport councils the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise.

4.3.3   Social, environmental and economic

The following is a summary of a detailed communities profile and communities of interest study that is set out in Appendix H.

This desktop review of the communities of the airport has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The two key reference points for this review is ABS Census Data taken from the Councils' Profile ID websites, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report [12].

The airport councils have come together to consider what merger options might look like based on their common relationship of having part of Sydney Airport within their boundaries. The areas are not a traditional grouping in a regional sense, with Rockdale generally forming part of the St George region, City of Botany Bay tending towards the eastern suburbs, and Marrickville within the inner west or inner Sydney.

There are a range of *similarities and differences* between the areas, including:

Similarities

- The dependence on and movements to the City of Sydney for employment, entertainment, retail and other services
- Higher education levels than Greater Sydney
- Low employment containment within each council area
- All areas anticipate significant population growth to 2031

Differences

- Rockdale and Marrickville are in the most academically inclined cluster of council areas
- There is a low ratio of children to adults of parenting age associated with a low proportion of children in the population overall and a low proportion of elderly people in Marrickville and Rockdale
- City of Botany Bay's population density is significantly lower than the other areas

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[12]   National Institute of Economic and Industry Research, March 2013

- Rockdale is noted in a cluster indicating its strong multiculturalism
- There are more residents of City of Botany Bay and Rockdale in the generally lower earning occupations (trades, labouring)
- City of Botany Bay has the largest economy in gross terms, and on a per capita basis, reflecting its large share of both Sydney Airport and Port Botany and the industrial and employment lands surrounding these
- English is the predominant language spoken at home in Marrickville, while Rockdale and City of Botany Bay show a greater proportion of homes speaking other languages

The three areas all fall in different clusters for their cross-border relationships, as follows:
- Rockdale is in a cluster of areas that are unambiguously close to their neighbours, relying on them for employment and showing high rates of cross-border migration. These areas also have in common less jobs than are necessary to employ their own population and are therefore responsible for net outbound commuting
- City of Botany Bay is a cluster that relies on their neighbours for employment and short-distance migration and attract net inbound commuting and shoppers
- Marrickville is in a cluster of areas that are sources of outbound commuting and outbound shoppers

Currently the three council areas are grouped in different regions under a number of federal and state government planning and service delivery regions, with City of Botany Bay tending to be grouped with the eastern suburbs, Rockdale with the southern suburbs and Marrickville with the inner city and inner west.

4.3.4 Environment

4.3.4.1 Natural and built

A summary assessment of the council's LEPs has been considered with the emphasis on:
- protection of the natural environment
- protection of the built environment/heritage and character of the existing urban area
- the overall (policy) approach to growth and development.

In respect to growth, the high level review identified that both Rockdale and Marrickville Councils promote a transport oriented approach to growth, development and economic activity. The two councils also promote growth in housing diversity and accessibility. City of Botany Bay's LEP recognises the two ports as significant influences on growth and is the only LEP that specifically references the airport. The State Environmental Planning Policy (Three Ports) also impacts City of Botany Bay and is designed to facilitate future development and operation of Port Botany in context of the future operation of Sydney Airport.

The relative emphasis on natural environment and built heritage of all the areas reflects the developed natures of the LGAs
- Botany Bay emphasises the significant natural and recreational assets, with references to built heritage reflective of period in which major development occurred and desire for future high quality development.
- Marrickville's approach to built heritage reflects a period of major development and desire for future high quality development

- Rockdale reflects location on shores of Botany Bay and immediate tributaries, but the importance of built heritage is not reflected in aims of LEP (despite over 200 items in Heritage Schedule).

A summary of the comparisons of the approach to growth and protection of the natural and built environment is set out in Appendix F.

City of Botany Bay and Marrickville Councils have been located in the Central Subregion as part of the latest State Government Strategic Plan for Sydney (A Plan for Growing Sydney; December 2014). Rockdale Council has been located in the South Subregion under the same plan.

Both City of Botany Bay and Marrickville Councils are shown as part of the Global Economic Corridor. However, the Plan does not set out any specific priorities relating to the two Council areas beyond "[preparing and delivering] a Structure Plan for the Sydney Airport and Port Botany precincts to support their growth" This aim is supported by designation of the two precincts as "Transport Gateways" in the plan.

FIGURE 27: Central Subregion
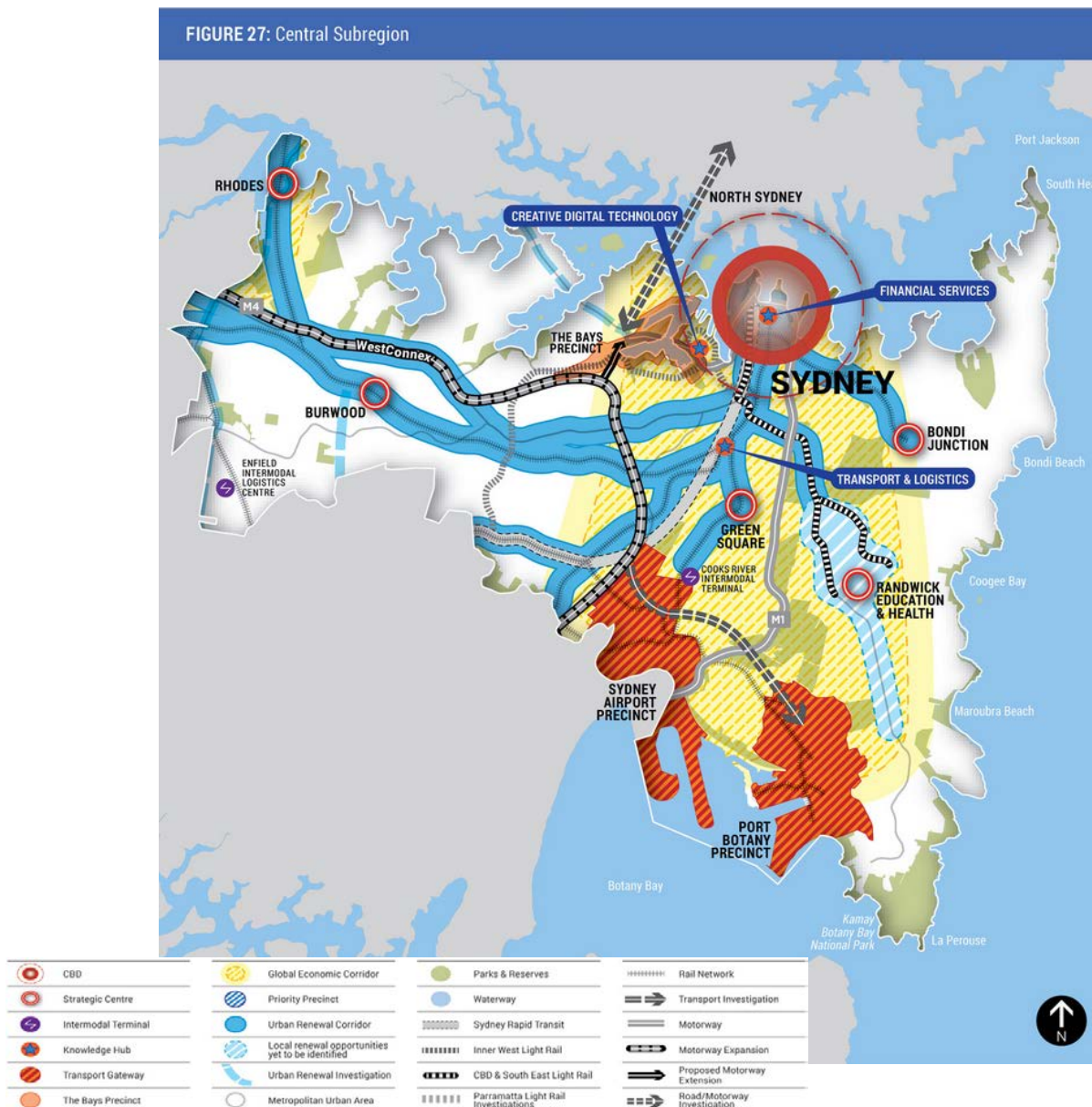
4.3.4.2 Indicators

Council	Waste diverted (%)	Open Space (Ha/'000 population)	Tree Canopy (% of LGA)
City of Botany Bay	38	2.27	12.1
Marrickville	41	1.43	16.3
Rockdale	24	3.49	12.4
Combined	**32**	**2.53**	**13.3**

4.3.5   Representation

Council	Representation (population / Councillor)
City of Botany Bay	6045
Marrickville	6807
Rockdale	7015
Combined	**15,282**[13]

4.3.6   Organisation alignment

4.3.6.1 Policy alignment

A comparison of each council's community strategic plan was undertaken to identify at a high level whether there was consistency or inconsistency between the organisations in a policy sense.

Each of the three communities has, through their future plans identified strong visions for their community. While expressed differently, each council's vision and high level themes for delivery are in many ways aligned with a focus on: its people, leadership and accountability, and access to quality services.

A principle of effective and accountable government features across all councils, with the Councils of City of Botany Bay and Marrickville specifically noting it in their vision for the future.

A desire to expand the local economy is a feature of all plans, with a strong emphasis on development of small business within the communities.

Creating usable and sustainable environments also feature across the communities. City of Botany Bay devotes considerable time to this, noting the large industrial operations in the area. Marrickville reflects specifically on its multicultural heritage, and Rockdale also notes the role of valuing the heritage of their residents and city more generally.

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[13]   Assuming 15 Councillors

While there is, at a high level comparison between the three councils, we acknowledge that the differences where they arise will become more apparent at a more detailed level of analysis (e.g. delivery programs, operational plans).

The comparison is presented visually below through Word Clouds in the figures below.

Figure 13   Summary of City of Botany Bay Community Strategic Plan

Figure 14   Summary of Marrickville Community Strategic Plan

Figure 15   Summary of Rockdale Community Strategic Plan

4.3.6.2 Cultural Alignment

It is difficult to compare the internal cultures of the council organisations in this exercise, however there are some simple measures that may provide appropriate indicators.

Communities

There are a number of indicators of cultural alignment of local government areas including the community's governance aspirations and values and how the community views its relationship with Council.

While we have noted in the previous section the common themes that emerge from a comparison of the communities as expressed by the councils there are several elements of these visions that are reflected into how culturally aligned the organisations are, or should be.

The common elements that emerge among the councils' community values are:

- People and places – valuing cultures, learning and strong innovative communities
- Leadership, governance and democracy – being open, ethical, effective, collaborative and customer focused

All of these elements imply that the council organisations will be customer centric and transparent in their actions.

The most recent community satisfaction surveys for Marrickville and Rockdale report overall community satisfaction rates of 95% and 86% respectively suggesting Councils relationships with their communities are positive.

Corporate Management and Culture

It is difficult to compare the internal cultures of the council organisations in this exercise, as organisational culture is often a combination of many different things, most of which are driven from leadership whether it be political or management. A leadership style or philosophy leads to organisational behaviours which become the organisational norm helping define the culture. We know from past mergers and amalgamations that most organisations bring a unique culture often dominated by one or two characteristics (for example: pro-development, pro-environment, customer driven, continuous improvement, learning, team based, cost conscious, highly delegated etc) that drive outward behaviours.

Each airport council has taken a different approach to developing their own corporate culture but generally propose a similar set of values as to how the organisation will operate. These values flow on from the each communities own values.

The common elements are:

- Commitment to the customer
- Responsiveness
- Transparency and openness
- Excellence, innovation and collaboration
- Accountability

It would be fair to say that these are relatively common corporate values in any case and that there are no unique or potentially conflicting organisational visions or values amongst the airport councils.

If we measure training and development expenditure against both total expenditure and full time equivalent staff numbers we can test if each of the councils has a similar approach to staff development and if this is likely to support or enable the values it articulates.

Each council spends considerably less on training and development than industry bench marks. From 0.13% (City of Botany Bay) of total expenditure to 0.54% (Marrickville) all councils are well below the 1% of total expenditure that is considered the industry benchmark. The annual employee costs, per employee, while not too dissimilar, range from the highest cost per staff member in Rockdale and the lowest in City of Botany Bay. A crude indicator of staff productivity can be the portion of the operating costs spend per staff member and when comparing this, Rockdale has the highest spend per FTE while City of Botany Bay and Marrickville are very similar

We have not reported actual productivity performance data by council because as a note of caution that these figures as they can be influenced by factors such as the maturity of the workforce and the fluctuating nature of total expenditure year on year and capital projects which ideally, should be compared over time.

Both Marrickville and Rockdale publish workforce plans and while each council's plan is different they identify common strategic issues; ageing workforces, sustaining high performance and recruitment and retention as major challenges for which they are developing strategies. Rockdale's workforce is much older with 60% over 45 while of 47% of Marrickville's is in the same age bracket.

Rockdale report voluntary turnover while Marrickville report overall turnover which during period of reform tends to be inflated. Looking at years that excluded reform, both organisations have very similar turnover (5-7%) well under the industry average of around 9% turnover annually.

Again, while this is as much dependent upon the profile of the workforce as it is on corporate culture however it does identify some common ground.

Organisational size can impact on culture in a range of ways, such as diversity of skills and workforce characteristics, level of specialisation vs multifunctional roles, capacity to undertake a greater range of functions and services, and partnership and advocacy capacity with other levels of government.

City of Botany Bay and Rockdale have similar size workforces despite Rockdale being more than twice population. Marrickville's workforce is around 60% larger than the other two local governments. All councils are 'day labour' councils with services largely undertaken in-house and with large outdoor workforces. The provision of the waste service under contract by Rockdale is the exception to this.

Corporate Policies

A desktop review of the policy registers of the councils highlights some interesting philosophical differences and issues that have been given priorities (at some point in time) by the different councils.

Rockdale has by far the most extensive policy register indicating a very prescriptive albeit very transparent approach to operational service delivery. It had developed a comprehensive range of policies that appear to cover all services and key functions to guide how council does businesses.

Marrickville has a smaller range of formal policies and a number govern social or cultural activity in the community. City of Botany Bay's policies are generally focused on Council's more traditional functions and responsibilities.

While we recognise policies change and reflect a positon at a particular time they also reflect the organisational culture which is tasked with implementing them.

4.3.7 Financials

The estimated costs and savings of a merger of the three councils have been modelled with the results set out below.

Tables 18 and 19 provide a summary, narrative and financials of the costs and savings of the merger with the detailed assumptions set out in Appendix C. The NPV of the costs and savings is set out in Table 20. The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils. The NPV of the financial investment required to meet all infrastructure benchmarks is set out in Table 21.

The merged council is modelled on the basis of a combined base year where all council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs. Overlaid are the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

Table 22 then summarises the overall financial performance of the merged Council with the Fit for the Future Indicators set out later in section 4.3.9.

Table 18   High level description of financial costs and savings arising from merger

Item	Short Term (1 – 3 years) Cost	Short Term (1 – 3 years) Benefit	Medium term (4 – 5 years) Cost	Medium term (4 – 5 years) Benefit	Long Term (6-10 years) Cost	Long Term (6-10 years) Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with Senior Staff Harmonisation	Reduction in total costs of Senior Staff	Redundancy costs associated with any reduction in staff numbers Increase in staff costs associated with typical increase in services and service levels from merger	Reduction in staff numbers in areas of greatest duplication	Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts	Savings from Procurement and network level decisions over asset expenditure		Savings from Procurement and network level decisions over asset expenditure Savings from moving to large regional waste contract		Savings from Procurement and network level decisions over asset expenditure	Savings from Procurement and network level decisions over asset expenditure
- IT	Significant costs to move to single IT system across entire council					Benefits arise from single IT system and decrease in staff
- Operational						
Assets		Rationalisation of plant and fleet		Rationalisation of some buildings Further rationalisation of plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 19　　　Summary of financial costs and savings [14][15]

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Governance	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M	$0.3M
Staff – Redundancies – Natural attrition – Staff increase	$6.5M	$11.2M	$16M	$10.9M	$14.3M	$12.2M	$10.1M	$7.8M	$5.9M
IT – Transition costs – Long term benefits	$-33M	$-16M	$-5.5M			$8M	$8M	$8M	$8M
Materials and Contracts	$1.3M	$1.3M	$1.3M	$2.2M	$2.7M	$3.4M	$3.4M	$3.4M	$3.4M
Assets – Plant and fleet – Buildings				$23.6M					
Grants and Government Contributions	$10.5M								
Transitional Costs – Transitional body – Rebranding	$-15.1								
Total	$-29.5	$-3.2M	$12.1M	$37M	$17.3M	$23.9M	$21.8M	$19.5M	$17.6M

The NPV of the costs and benefits over the period being modelled (2023[16]) has been calculated and set out below (a positive number indicates a saving).

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[14] The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationary adjustments
[15] Costs are shown as negative figures, benefits as positive
[16] 2023 is the period being modelled to match the time covered by all Council LTFPs

Table 20   Summary of financial costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
$102 million	$83 million	$67 million

While the merged council has a number efficiencies modelled in over the short, medium and longer term the significant short term costs arising from the merger and the redundancy costs that arise in the medium term mean that the financial performance remains poor throughout the period being modelled.

Additionally it should be noted (and is demonstrated) in section 4.3.9 that the merged council has an asset related funding gap which will need to be addressed. The modelling of the merged council does not include an increase in revenue through any Special Rate Variation like is the case with Marrickville nor for a revised reporting of depreciation as in the case for Rockdale. The NPV of the financial costs of the investment required to meet all the infrastructure benchmarks[17] is set out below (a negative number indicates a cost).

Table 21   Financial investment required to satisfy infrastructure benchmarks

NPV at 4%	NPV at 7%	NPV at 10%
-$130 million	-$115 million	-$103 million

The financial performance improves over the medium and longer term but the impact of rising costs from staff increases associated with services and service levels begins to also take effect in the longer term. The merged council only produces a positive operating result (excluding grants and contributions for capital purposes) in the year when the model accounts for rationalisation of buildings and plant.

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[17]   Asset maintenance and renewals are satisfied from year 1 and the infrastructure backlog within five years

Table 22   Summary of financial impacts of merger

Selected Councils Combined LTFP - 2014/15 Extrapolated	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Source: Council Financial Statements and Long Term Financial Plan											
Rates & Annual Charges	138,647	146,705	150,937	155,465	160,129	164,933	171,491	176,636	181,935	187,393	193,015
User Fees & Charges	33,801	35,704	34,717	35,840	36,998	38,195	39,430	40,704	42,021	43,379	44,782
Grants & Contributions - Operations	20,466	16,213	18,314	18,017	18,432	18,855	19,289	19,733	20,187	20,651	21,126
Grants & Contributions for Capital	22,413	38,857	14,018	13,791	14,108	14,432	14,764	15,104	15,451	15,807	16,170
Interest and Investment Income	8,583	8,210	7,240	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150
Gains from disposal assets	40	378	149	147	150	153	23,757	703	720	736	753
Other Income	15,065	18,140	21,932	21,576	22,073	22,580	23,100	23,631	24,175	24,731	25,299
Total Income	**239,015**	**264,207**	**247,307**	**247,985**	**255,039**	**262,299**	**294,980**	**279,661**	**287,637**	**295,846**	**304,295**
Income excl Gains\losses	238,975	263,829	247,158	247,839	254,889	262,145	271,223	278,958	286,917	295,110	303,542
Income excl Gains\losses & Capital Grants	216,562	224,972	233,140	234,048	240,781	247,713	256,459	263,854	271,466	279,303	287,371
Expenses											
Borrowing Costs	1,691	1,704	1,504	1,498	1,464	1,427	1,390	1,346	1,308	1,260	1,209
Employee Benefits	99,983	104,915	110,350	107,432	106,357	105,294	106,742	112,613	118,807	125,341	132,235
Gains & losses on disposal	192	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	36,605	31,986	35,191	37,026	38,506	39,790	41,073	42,398	43,768	45,183	46,643
All other Expenses	93,782	96,052	98,874	137,781	120,837	113,462	114,364	111,809	106,618	109,817	113,111
Total Expenses	**232,253**	**234,657**	**245,919**	**283,737**	**267,165**	**259,973**	**263,569**	**268,166**	**270,502**	**281,601**	**293,199**
Operating Result	6,762	29,550	1,388	- 35,752	- 12,125	2,326	31,411	11,495	17,135	14,245	11,096
Operating Result before grants & contributions for capital purposes	- 15,651	- 9,307	- 12,630	- 49,543	- 26,233	- 12,106	16,647	- 3,609	1,684	- 1,562	- 5,075

Rates

Given the differing rating structures among the councils it is difficult to model the impact of a merger on rate revenue and in particular the impacts on individual land owners. As a starting point the current rates for the three councils are set out below highlighting the existing differences as well as the different approaches.

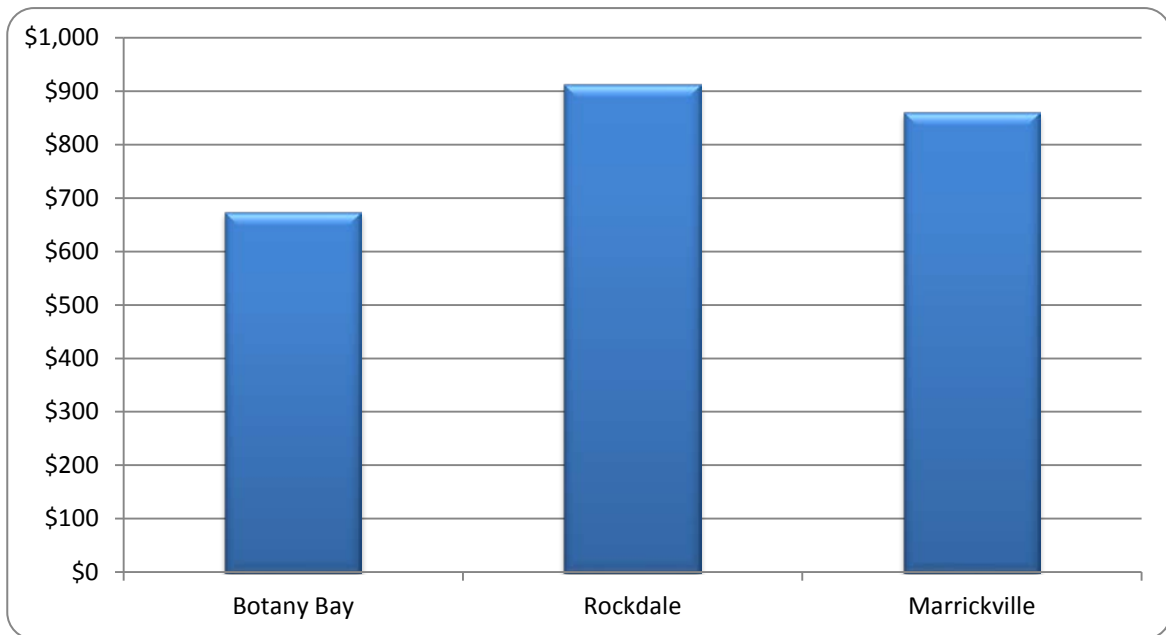**Figure 16   Average residential rate (2014)**

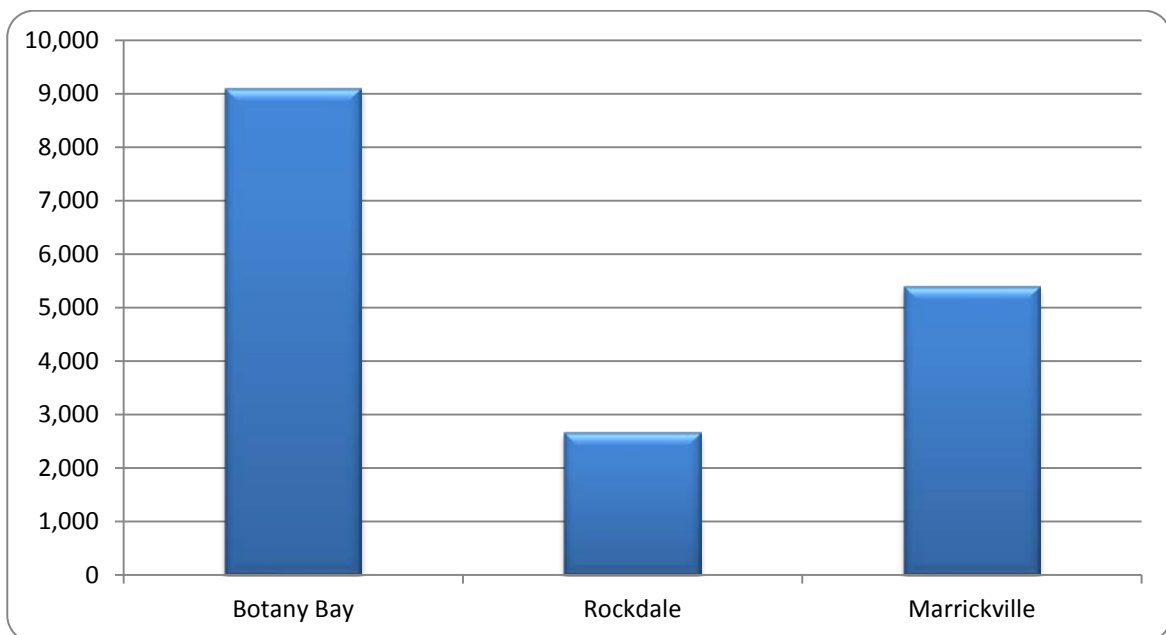**Figure 17   Average business rate (2014)**
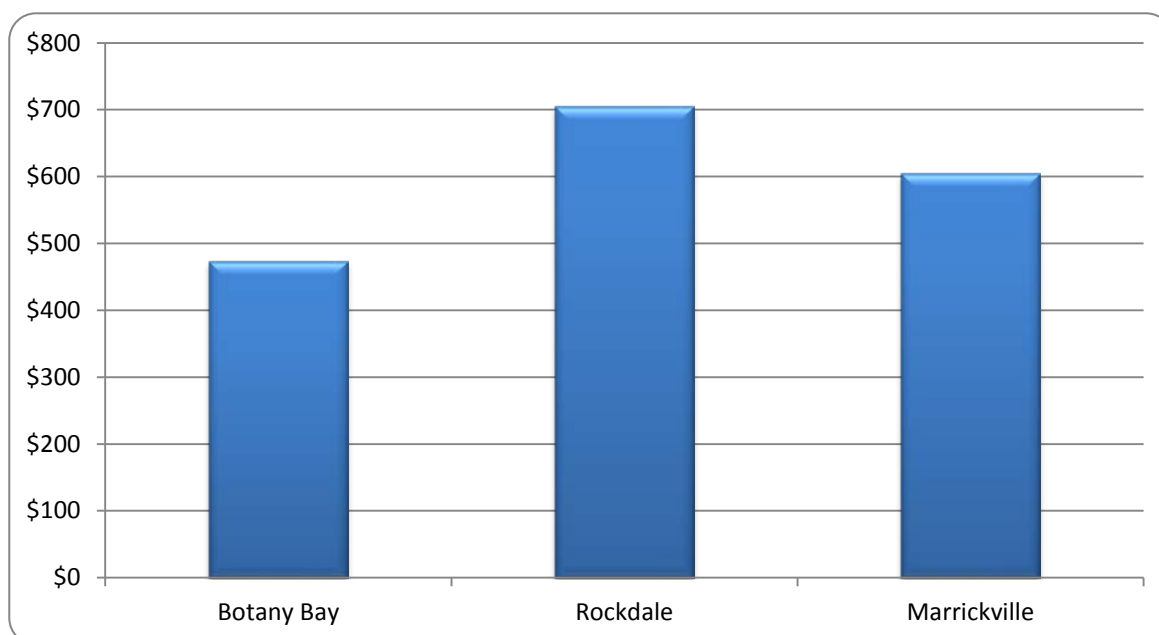
Figure 18   Comparison of minimum rates (2014)

Table 23   Comparison of proportion of residential and business rates

Proportion of rates	City of Botany Bay	Marrickville	Rockdale
Residential	63%	60%	88%
Business	37%	40%	12%

In order to provide information on what the potential impact of a merger on rates would be representative examples have been modelled by redistributing the 2014/15 rates without adjusting the rating structures. Two scenarios have been used based on the total rate revenue (residential and business) of the three councils. In each scenario the total rates (residential or business) are apportioned across the three councils consistently. Scenario 1 is entirely ad valorem and Scenario 2 provides for a base charge to be set at the maximum level with the remainder ad valorem.

The key drivers are therefore land values and the differences in the way in which councils currently allocate rates between categories. The actual impact on any property or properties will be the result of the actual rating structure chosen by any new council and how quickly a merged council decided to adopt and then implement a single rating structure. Within each council area there will be individual properties that are affected in different ways by the changes due to categorisation and land valuation issues.

Analysis of potential changes in average rates indicate that in comparison the standard rate peg change in rate (2.3% for 2014) there would be significant changes in rates across the three councils arising from a merger. The changes are described in the figures below by reference to a change from the 2014-15 rate and expressed as a percentage change.

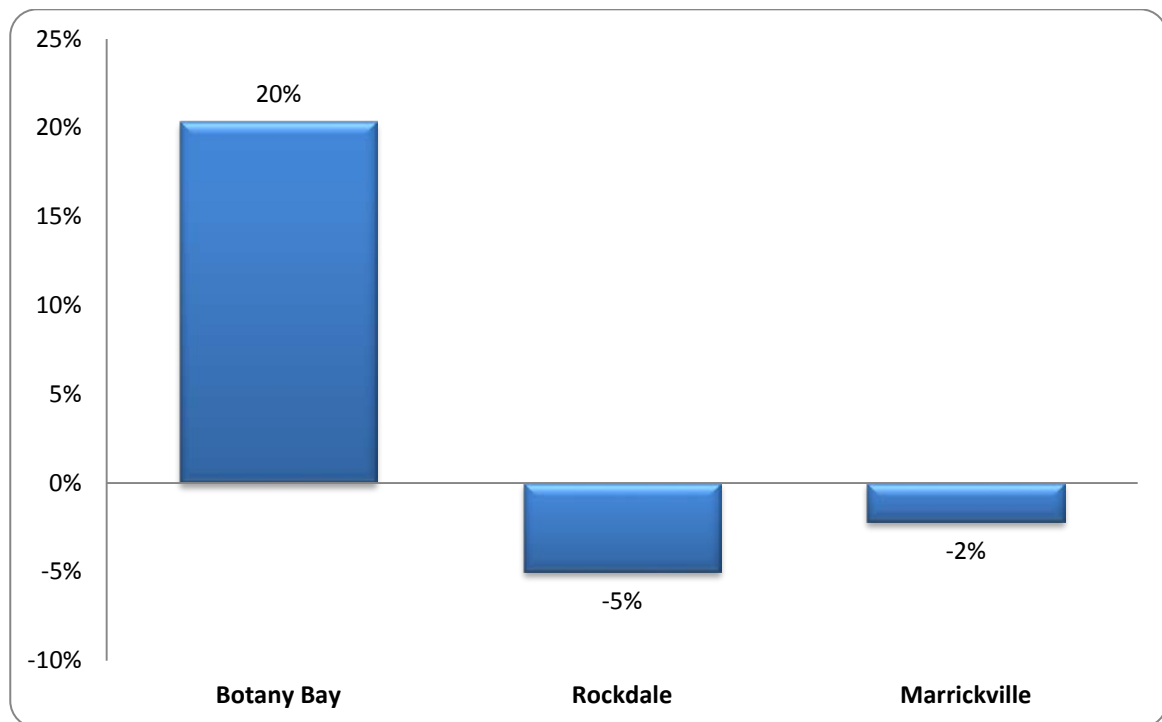**Figure 19   Change in residential rate (ad valorem)**

Figure 20   Change in residential rate (base rate)
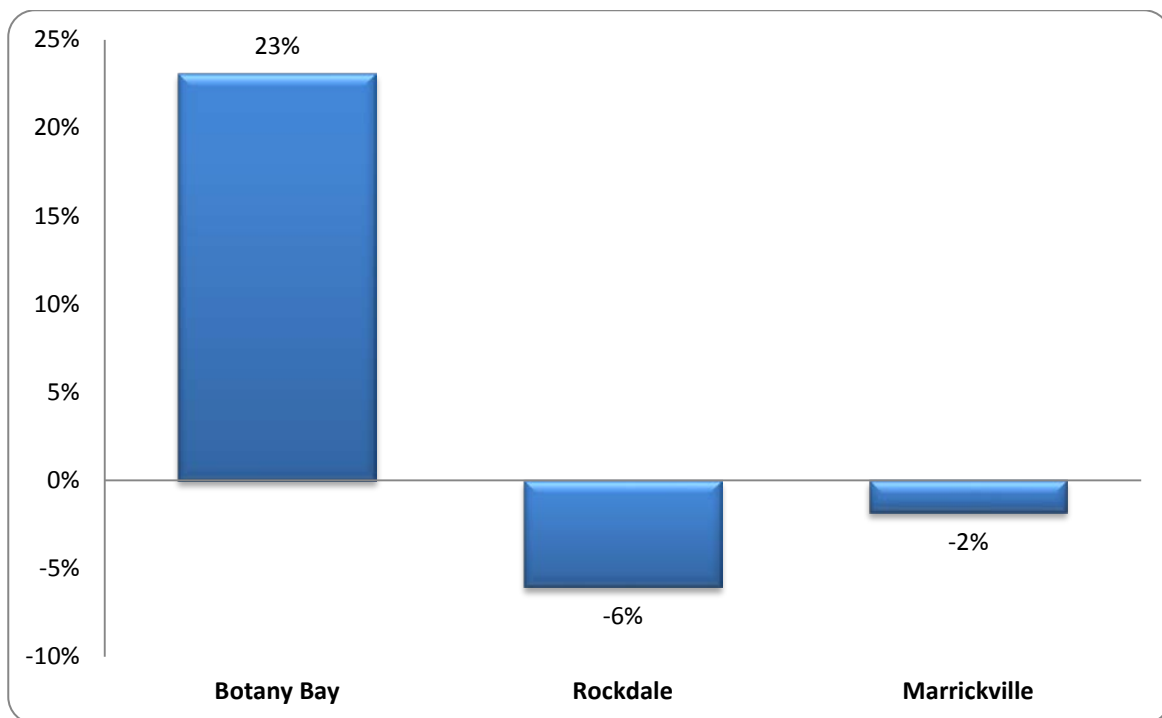
Figure 21   Change in business rate (ad valorem)
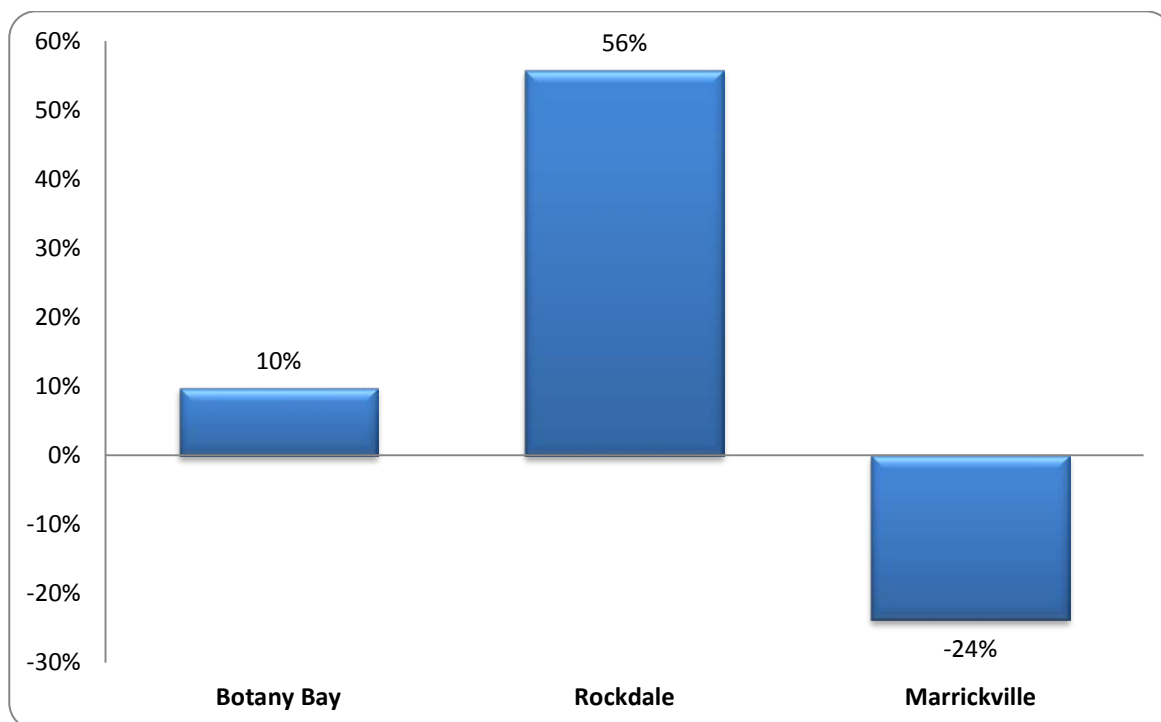
Figure 22   Change in business rate (base rate)
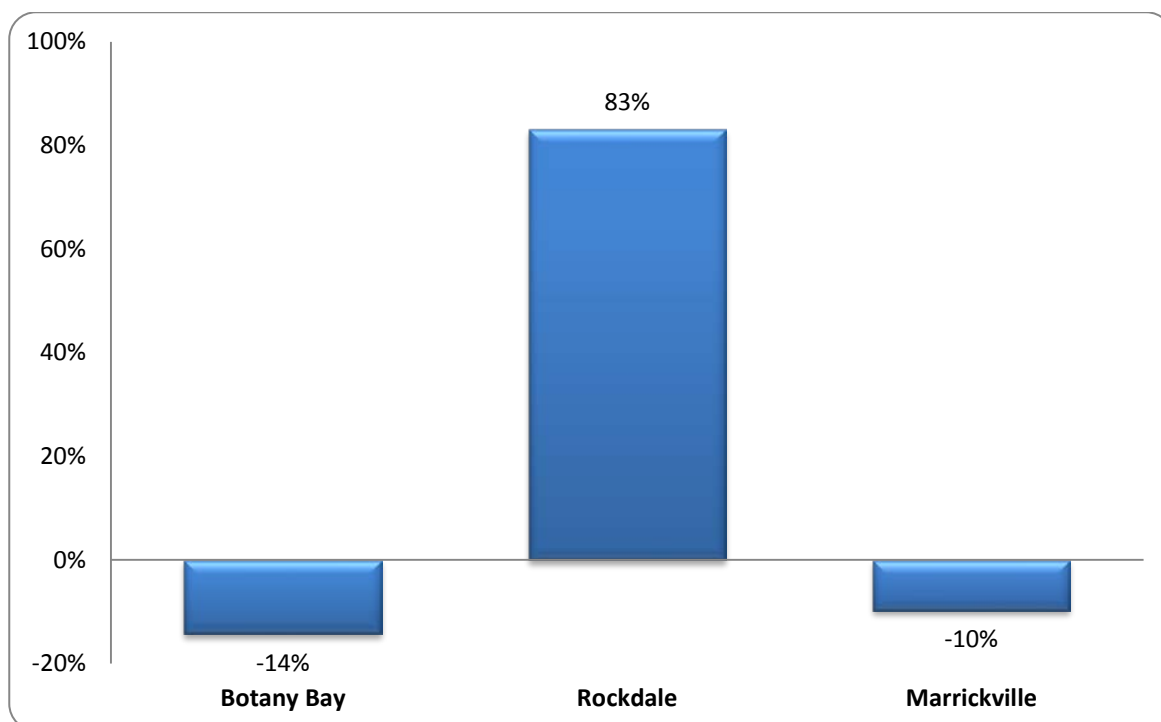
Debt

The airport councils collectively and individually carry little or no debt and all are well within the Fit for the Future benchmark. However, it is recognised that debt is an issue of general concern to communities and that those debt free communities may have a view as to the loss of that debt free status in a merged entity.

Total collective debt for the three councils is currently $22.3 million.

Table 24   Comparison of debt

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
City of Botany Bay	0	N/A	N/A
Marrickville	15,205	1.66	186
Rockdale	7,150	6.29	67
Combined	22,355	N/A	96

4.3.8   Scale and capacity

Scale

Scale has not been defined by the either the Independent Review Panel or the Office of Local Government. However, an analysis of the inner Sydney metropolitan councils not recommended for merger appears to indicate a threshold requiring a population of approximately 250,000[18] by 2031.

On that basis a merger of all three councils satisfies this criterion as does a merger of Rockdale and Marrickville.

Capacity

The panel report articulates the Key Elements of Strategic Capacity.[19]

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[18]   Average population in 2031 of the inner Sydney Metropolitan Councils not recommended for merger
[19]   Box 8, Page 32 of Revitalising Local Government

Figure 23   Scale and capacity

The performance of the merger options against each of the key elements is set out in the following table. The assumption is that a single council on its own does not meet any of the capacity elements because each council was put into a potential merger group by the Independent Review Panel. The assessment is then based on the extent to which a merger creates a change in assessment against the criteria compared to a single council.

A more detailed explanation of the rationale for these assessments is then set out in Appendix E.

Table 25   Scale and capacity in the airport councils

Criteria	2 Councils	Marrickville/Rockdale	3 Councils
More robust revenue base and increased discretionary spending	No (No change)	Yes (Moderate change)	Yes (Significant change)
Scope to undertake new functions and major projects	No (No change)	Yes (Moderate change)	Yes (Significant change)
Ability to employ wider range of skilled staff	No (No change)	Yes (Moderate change)	Yes (Significant change)
Knowledge, creativity and innovation	No (No change)	Yes (No change)	Yes (No change)
Effective regional collaboration	No (No change)	Yes (Moderate change)	Yes (Significant change)
Credibility for more effective advocacy	No (No change)	Yes (Moderate change)	Yes (Significant change)
Capable partner for state and federal agencies	No (No change)	Yes (Moderate change)	Yes (Significant change)
Resources to cope with complex and unexpected change	No (No change)	Yes (Moderate change)	Yes (Significant change)
High quality political and managerial leadership	No (No change)	Yes (Moderate change)	Yes (Moderate change)

4.3.9 Indicators

In common with the individual councils, the merged council meets the Own Source Revenue and Debt Service Cover benchmarks at day one of the merger. Again, consistent with, and as a function of, the individual councils' ratios both of these measures are maintained at well above the benchmarks for the duration of the modelling period.

The Operating Performance ratio improves over the period of the modelling however it does not ever achieve the sustainability level.

The ratio for Asset Maintenance remains static at 40% of the benchmark for the duration of the period modelled. Well below the required benchmark of 100%

The Asset Renewals ratio rises throughout the period to reach a high point of 88%, however it is still below the benchmark. The Infrastructure Backlog rises consistently from 5% towards 8% during the modelling period, remaining well above the 2% benchmark.

Of the Fit for the Future benchmarks, two (Own Source Revenue and Debt Service Cover) are met at the inception of the merged council entity and over the period being modelled one further benchmark (Real Operating Expenditure) is satisfied.

Table 26   Summary of airport council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Not applicable	Meets the benchmark

Operating Performance Ratio (greater or equal to break-even average over 3 years)
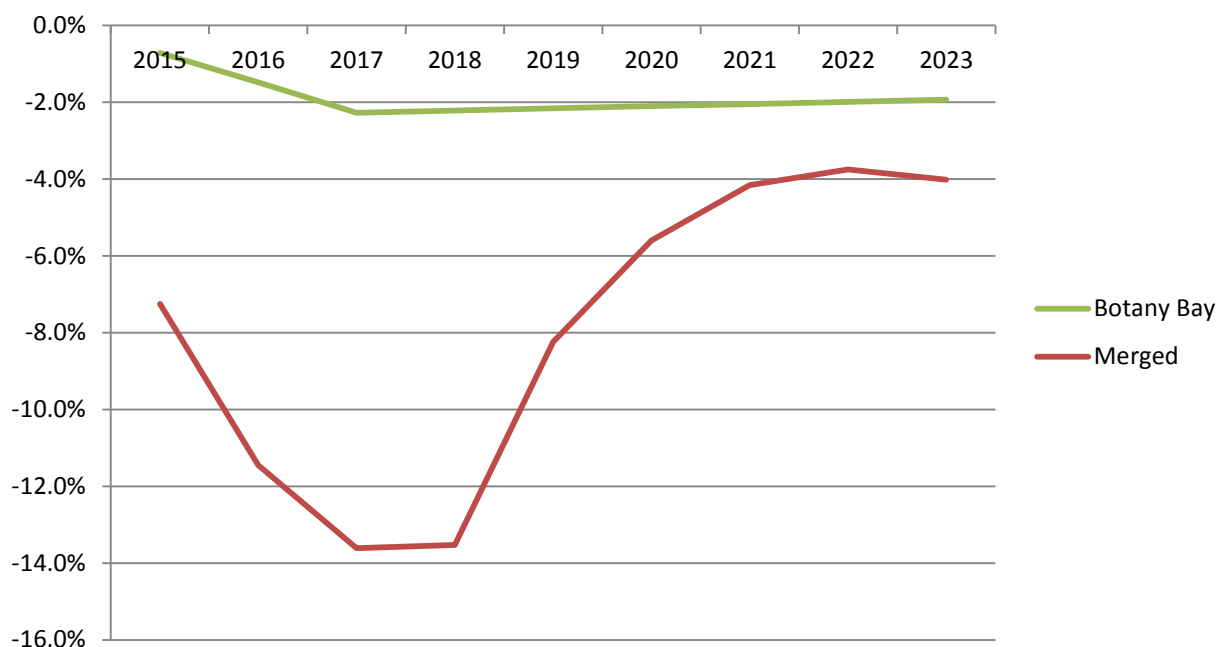
Legend:
- Botany Bay
- Merged

Own Source Revenue Ratio (greater than 60% average over 3 years)

Legend:
- Botany Bay
- Merged
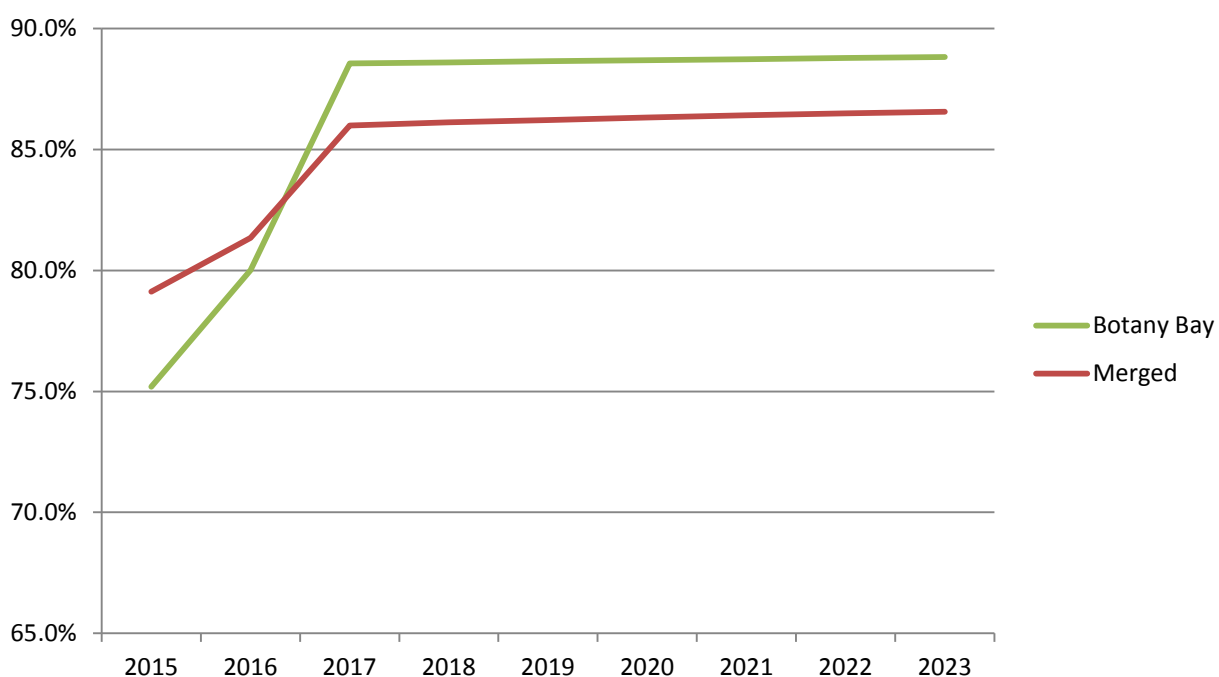
Debt Service Ratio (greater than 0 and less than or equal to 20% average over 3 years)

Building and Infrastructure Asset Renewal Ratio (greater than 100% average over 3 years)

Infrastructure Backlog Ratio (less than 2%)

Legend: Botany Bay, Merged

Asset Maintenance Ratio (greater than 100% average over 3 years)

Legend: Botany Bay, Merged

A decrease in Real Operating Expenditure per capita
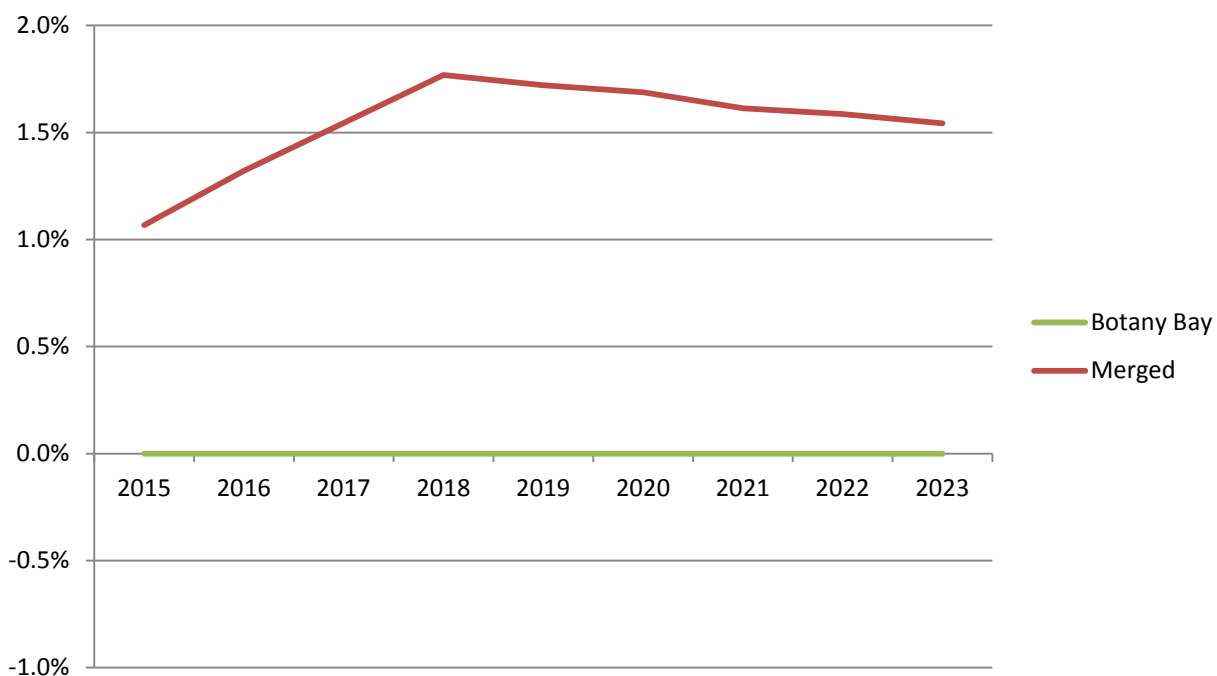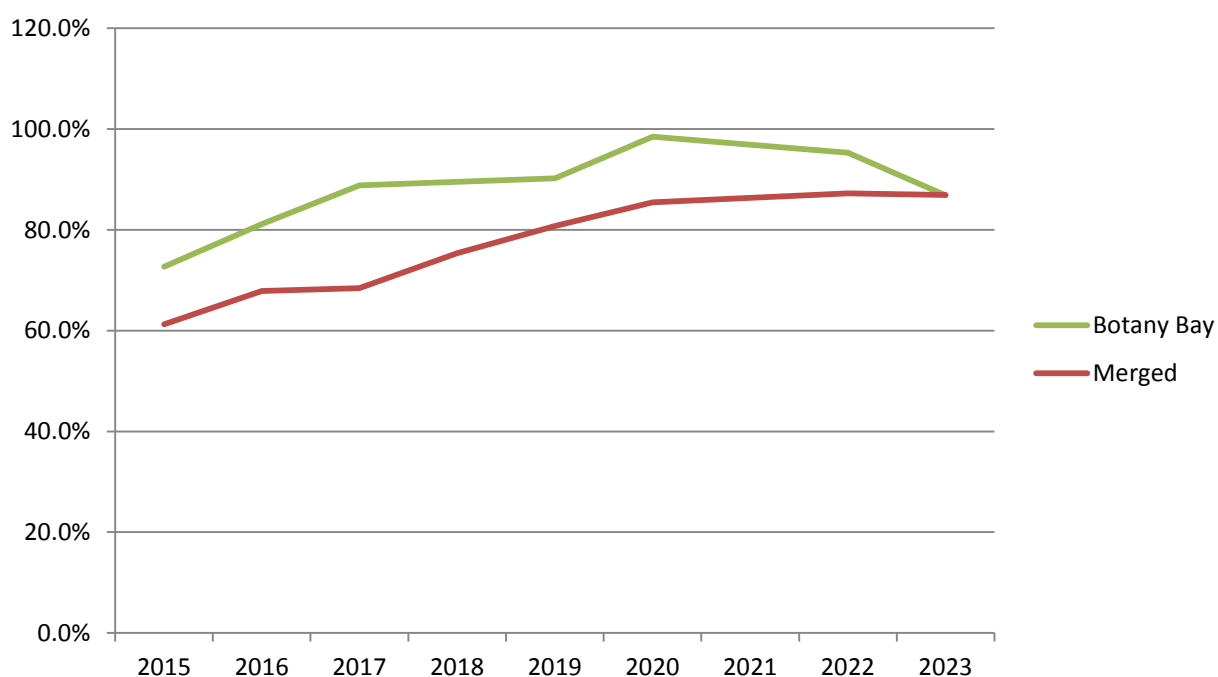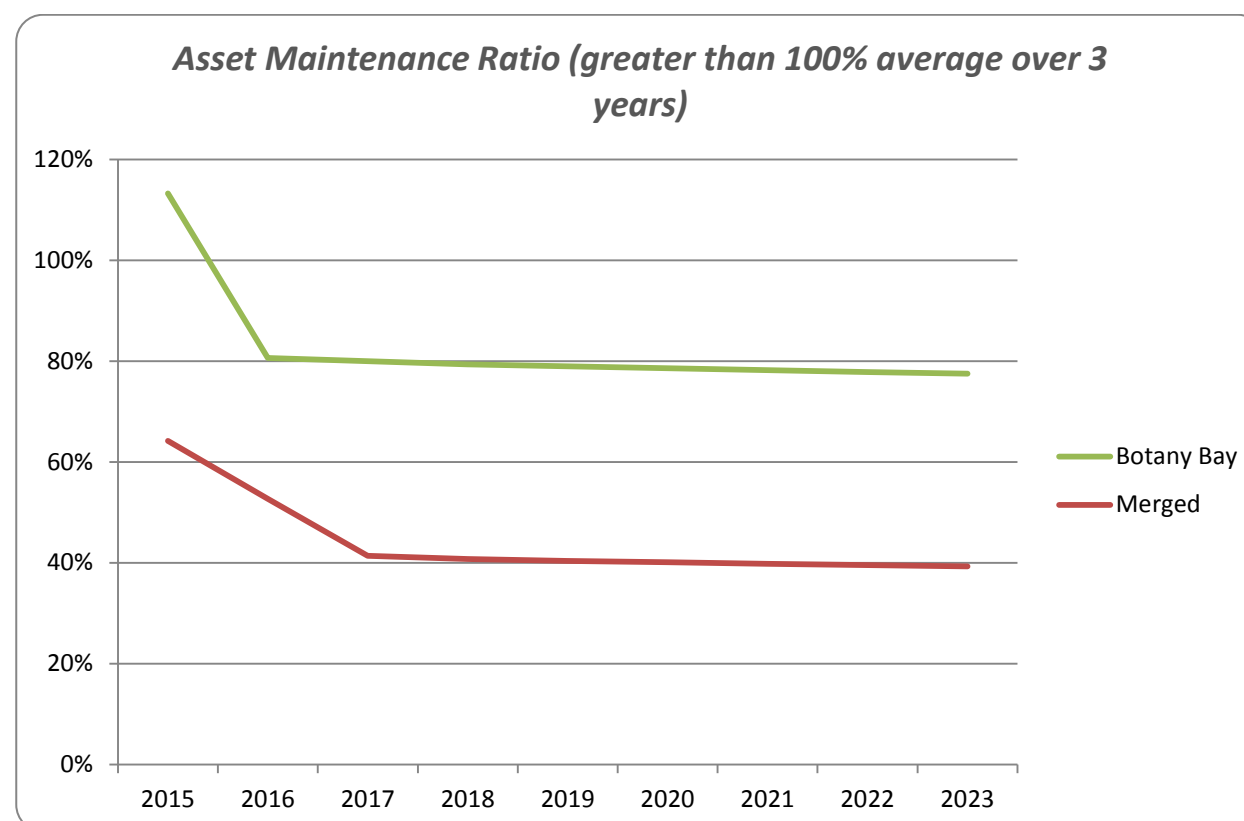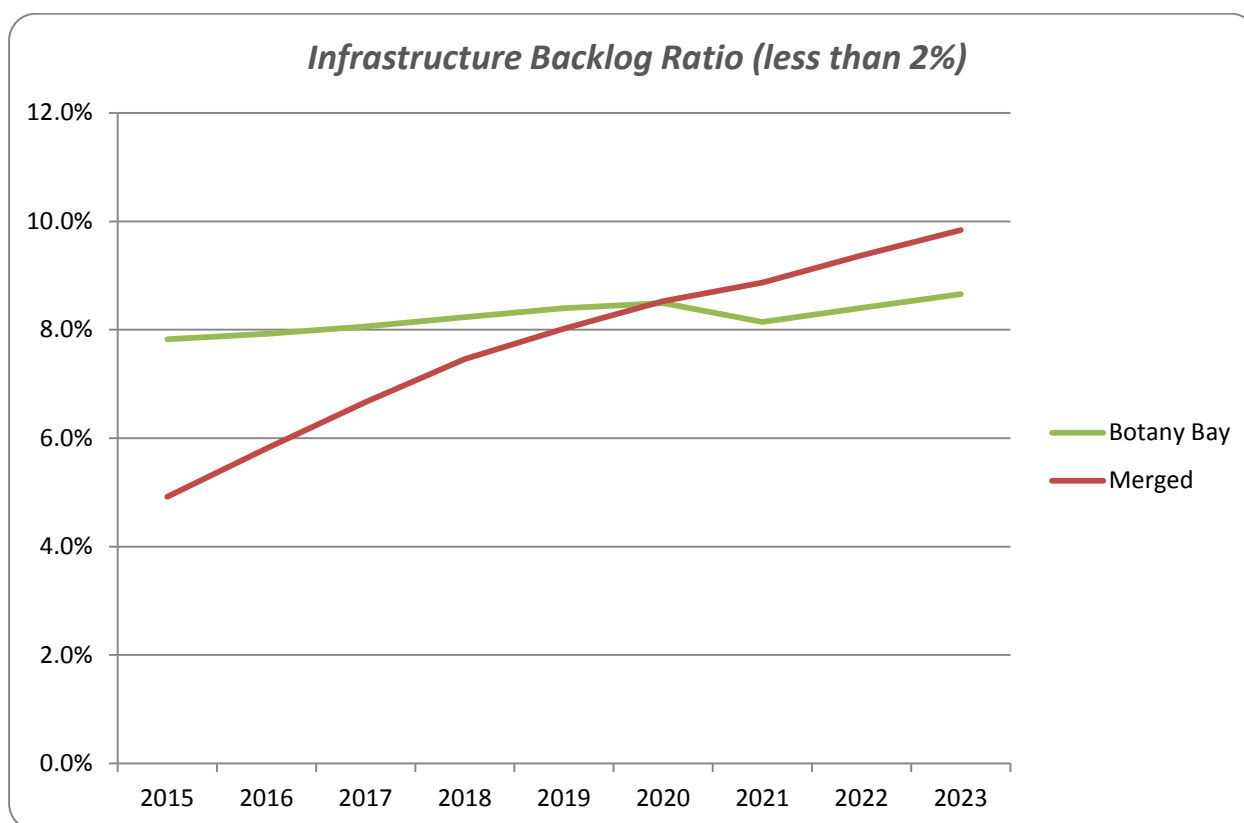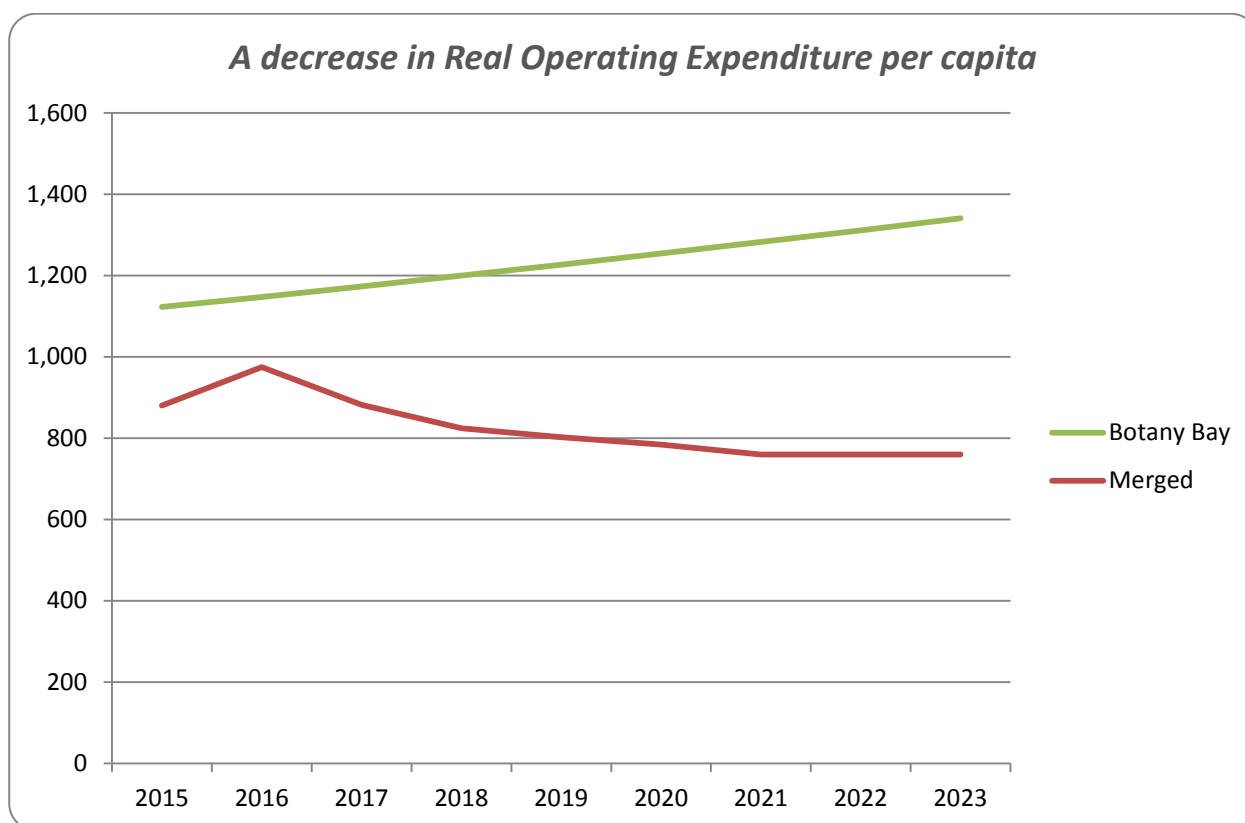
4.3.9.1 Asset Maintenance

The same approach to the calculation of required annual maintenance used for each individual council was applied to a merged airport council to identify what, if any, gap in maintenance expenditure would exist. For the purposes of the modelling it is assumed that the combined expenditure on maintenance for the merged council is the total of the existing/predicted maintenance budgets.

Table 27   Merged council asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Airport Council	13,319	17,871	**-4,552**

4.3.9.2 Asset Renewal

The required annual renewal expenditure for the airport council is based on the combined calculation of the depreciation on building and infrastructure assets. For the purposes of the modelling it is assumed that the combined expenditure on building and infrastructure renewals for the merged council is the total of the existing/predicted renewal budgets for these assets.

Table 28   Merged council asset renewal funding gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
Airport Council	19,327	25,637	**-7,800**

We have then calculated what the merged council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the infrastructure backlog ratio to the benchmark within five years and set that out in the table below.

Table 29   Merged council renewal funding gap

Council	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Airport Council	51,809	22,581	**-29,229**	**-5,846**

4.3.9.3 Funding shortfall

Table 30   Merged council asset funding gap

Council	Asset Maintenance ($000)	Renewals ($000)	Infrastructure Backlog ($000)	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Airport Council	**-4,552**	**-7,800**	**-5,846**	**-18,198**	**-12,352**

4.3.10 Operating Performance

The operating result of the merged council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 31   Operating performance funding gap

Council	Gap ($000)
Airport council	- **9,975**

4.3.11 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the airport councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a "no forced redundancies" position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

5.   SHARED SERVICES

The shared services scenario uses a theoretical design for shared services based on the concept originally put forward in the SSROC submission on Revitalising Local Government in March 2014. Based on our experience and taking into account the geography and nature of the councils the greatest opportunities for shared services exist in the following areas:

- Technical services
- Works
- Support services – HR, IT, Finance

The scale and capacity created in relation to each of these service areas can, under the right circumstances, produce similar levels of efficiency as are available under the merged council scenario.

A number of assumptions have been made in order to model the likely impact of shared services

- All councils will participate and the manner in which the service is established will provide for certainty and longevity of the arrangements. If there is any uncertainty over the continued operation of the shared service this will hamper investment of resources (people, time and funds) in the processes and systems that will generate the efficiencies

- Similar employment protection provisions apply as apply to the merged council

- A shared services provider would be separate from the individual councils and be a service provider to all councils

- The introduction of the shared services is likely to be staged

- Each council retains a 'smart buyer capacity' to ensure that the services purchased from the shared services provider are appropriate and are analysed/tested

- It is acknowledged that more detailed work to review the skills and capability of existing staff (particularly in works and technical services) is required to determine the type and range of services and activities that could actually be delivered

- The shared services provider would be able to provide services beyond the 'parent' councils.

- The governance and management of the shared services unit will be critical to success. As a service provider to the councils it will need both the technical and managerial capability to provide a high quality service to different clients.

- While our view is that the benefits are of a similar scale to that which could be achieved under a merger (within the relevant service areas) achieving the efficiencies is likely to be much more difficult as instead of a single organisation having a shared focus there will be three entities within the arrangement.

- There is also a mixed track record with implementing shared services in particular in NSW and Australia where well known examples at state level have failed to deliver the expected savings (e.g. Business Link). In contrast there are shared services models in other jurisdictions such as New Zealand where shared infrastructure services models operate (e.g. Capacity Infrastructure Services, Nelson/Tasman Regional Sewerage Business Unit and Manawatu/Rangitikei Shared infrastructure Services).

- The table below sets out the likely estimated costs and benefits arising from shared services[20]. We have grouped the technical services and works together and dealt with support services separately. This highlights the impact the significant establishment costs associated with a shared support service has. The costs of establishing a shared service for works and technical services is quickly recovered. In contrast the costs of a support shared service are far more significant and are not recovered over the period being modelled. A more detailed breakdown is set out in Appendix I

Table 32   Estimated costs and benefits from shared services

Shared Services ('$000)	Total Costs/Benefits (1 – 3 years) ($000)	Total Costs/Benefits (4 – 5 years) ($000)	Total Costs/Benefits (5-9 years) ($000)	Total savings/cost 9 years ($000)
Tech Services and Works	1,278	26,212	43,984	71,474
Support Services	-56,850	5,200	41,828	-9,821
Total	-55,572	31,412	85,813	61,653

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[20]   Refer to Appendix C for assumptions regarding costs and benefits of the merger scenario. Appropriate costs and benefits have been scaled as appropriate to the shared services model.

6. CONCLUSIONS

The government has made it clear that the starting point for every council is scale and capacity. The Independent Panel position was that scale and capacity for each of the three councils arises through a merger with other councils. The City of Botany Bay with the eastern beaches and the City, Marrickville with the inner west and Rockdale with the St George and Canterbury. While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

The table below provides a summary of the Council's performance against the benchmarks.

Table 33 City of Botany Bay (status quo) performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	Does not meet the benchmark
Own Source Revenue	Meets the benchmark
Debt Service Cover	Meets the benchmark
Asset Maintenance	Initially meets the benchmark but then falls below
Asset Renewal	Does not meet the benchmark
Infrastructure Backlog[21]	Does not meet the benchmark
Real Operating Expenditure	Does not meet the benchmark

6.1 Modified status quo

In order to meet the Fit for the Future benchmarks each of the councils requires an increase in revenue and/or a decrease in costs to address both an operating deficit (as judged against the Operating Performance Ratio criteria) and short and longer term infrastructure issues.

Marrickville has begun this process through a Special Rate Variation application while others have undertaken internal reviews including reviews of valuation and depreciation.

The table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset maintenance ratio[22], renewal ratio and bringing the infrastructure backlog[23] to the benchmark of 2% within five years. After that the funding gap diminishes for each council in order to satisfy only the renewals and maintenance ratios.

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[21] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

[22] Based on Morrison Low's assessment of required maintenance

[23] Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology

Table 34   Summary of infrastructure funding gap

Council[24]	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
City of Botany Bay	-$ 2,678	-$ 1,055
Marrickville	-$ 8,439	-$ 4,921
Rockdale	-$ 5,691	-$ 4,987

The table below identifies the average annual gap between operating revenue and operating expenditure (as per the operating performance ratio guidelines) over the time period within each council's LTFP. Each council will also need to address this in order to meet the benchmark.

Table 35   Operating performance funding gap

Council	Average gap ($000)
City of Botany Bay	-1,300
Marrickville	N/A
Rockdale	-4,900

The process undertaken during this project identified a range of areas in which the councils can work together either through a shared services model as set out in this report or through some other collaborative working or procurement arrangement.

Even if the additional expenditure requirements set out above are achieved and a council meets all the Fit for the Future benchmarks, which logic would dictate means that scale and capacity has therefore been met, a council will still need to address the government's starting point of scale and capacity first. Interestingly in the case of each of these councils the Independent Panel position was that scale and capacity for each was achieved by a merger with different councils.

While it is entirely possible for a council to make what would be in our view a valid argument that they can meet the scale and capacity tests, councils need to do so recognising the stated government position which runs contrary to that.

6.2   Airport council

6.2.1   Scale and capacity

The independent panel recommendation proposed different merger options for each of the airport councils. Under the Fit for the Future reforms this means each of these models would satisfy the scale and capacity test.

Only a merger of the three councils appears to satisfy what appears to be the scale and capacity requirement of a population of 250,000 (based on the average size of council's not proposed for merger) by 2031. A merger of Marrickville and Rockdale will go close to satisfying this test but any other two council option amongst the airport councils will not.

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[24]   Infrastructure funding gap does not take into account any potential SRV applications

6.2.2 Fit for the Future benchmarks

The merged council is the sum of its parts. This means that the asset and financial positon of each council directly contributes to the overall asset and financial position of the merged council.

The asset focus of the Fit for the Future benchmarks means that like the individual councils, the merged council does not meet the asset related benchmarks. A funding gap in order to address the asset maintenance, asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 36   Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	**-18,198**	**-12,352**

The NPV of the financial costs of the investment required to meet all the infrastructure benchmarks[25] is set out below (a negative number indicates a cost).

Table 37   NPV of the merged council asset funding gap

NPV at 4%	NPV at 7%	NPV at 10%
-$130 million	**-$115 million**	**-$103 million**

The significant transitional costs identified throughout this report mean the operating performance ratio is negative from day one and while some efficiency benefits have been modelled in arising through the merger these are not sufficient to improve the financial performance of the council. The trend over the period modelled is for the operating result (excluding grants and contributions for capital purposes) to improve through until 2021 before declining again but the merged council never satisfies the Operating Performance ratio.

The debt service and own source revenue ratios are exceeded by the merged council from day one and remain above the benchmarks throughout the period being modelled.

The table below summarised the merged council performance against the benchmarks.

Table 38   Merged council performance against Fit for the Future benchmarks

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Does not meet the benchmark	Does not meet the benchmark
Infrastructure Backlog	Does not meet the benchmark	Does not meet the benchmark
Real Operating Expenditure	Not applicable	Meets the benchmark

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[25]   Asset maintenance and renewals are satisfied from year 1 and the infrastructure backlog within five years

6.2.3 Debt

The debt levels across the councils are low (total debt is $22.3M) and in the case of the City of Botany Bay non-existent. All councils are well below the debt service ratio and the same is true for the merged council. Typically, the consolidation of debt in a merger can be a community issue as a community with little or no debt may perceive as unfair having to repay debt that 'belongs' to other communities and other community's assets. In the case of the airport councils this may arise for the City of Botany Bay residents who currently carry no debt.

All councils are well below the debt service ratio and the same is true for the merged council. Typically, the consolidation of debt in a merger can be a community issue as a community with little or no debt may perceive as unfair having to repay debt that 'belongs' to other communities and other community's assets. In the case of the airport councils this may arise for the City of Botany Bay residents who currently carry no debt.

6.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property. The key examples are the different minimum rates across the three councils as well as large variations in the proportion of rates borne by business and residential rate payers. For example in Rockdale businesses bear 12% of the rates whereas in Marrickville that proportion rises to 40%.

Currently Rockdale has the highest average residential rate ($913) and the City of Botany Bay the highest average business rates ($9,108). In comparison the City of Botany Bay has the lowest average residential rate ($674) and Rockdale the lowest average business rate ($2,674).

A merged council would ultimately set a single rating system across the three councils and regardless of the approach there would be some properties where rates would rise and others where rates would reduce. A key driver for this would be land value and residents with comparatively high value properties would bear a higher proportion of the rates.

Changes to the average business and average residential rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected.

Under a merger of the three councils the average residential rate would increase in the City of Botany Bay under an entirely ad valorem system where land value is the sole determinant. Average residential rates would reduce in both Rockdale and Marrickville. The introduction of a base rate at the maximum level sees similar affects.

Under both scenarios the average business rate would significantly increase in Rockdale and decrease in both the City of Botany Bay and Marrickville.

6.2.5 Environmental

The comparison of the community strategic plans highlighted the community as a common theme across all the councils. While the review of the LEPs of the councils identified some different approaches and differing levels of relative importance for the natural and built environment they were only small. Each council is targeting different types of growth, however only Botany Bay's growth strategies are dominated by the economic significance of the airport (and Port Botany).

The focus of metropolitan planning is different for the areas. Botany and Marrickville are part of the Global Economic Corridor with specific priorities relating to structure planning for the Airport and Port precincts as "transport gateways". The major economic drivers for the Subregion, in which Rockdale is grouped, are largely seen as external (Global Economic Corridor, Sydney Airport, Port Botany and the Illawarra).

6.2.6 Representation

One of the biggest negative impacts from a merger of the airport councils is on representation. The number of people represented by each councillor will increase significantly making it more difficult for residents to access their councillors and the council. Based on the current maximum of 15 councillors, each of those would represent over 15,000 residents which is more than double the current level of approximately 6,000 residents per councillor.

While measures can be put in place to address a loss of representation through local or community boards at present the government has not set out in detail any proposal that the community could consider.

6.2.7 Community profile and communities of interest

The Airport Councils have come together to consider what merger options might look like based on their common relationship of having part of Sydney Airport within their boundaries. This gives the communities commonality around transport corridors, economic focus, and social and environmental impact.

There are a number of commonalities between the areas, including the dependence on, and movements to, the City of Sydney for employment, entertainment, retail and other services (as with all inner and middle ring suburbs). There are also higher education levels than Greater Sydney, low employment containment within each council area, and all areas anticipate significant population growth to 2031 (as with Greater Metropolitan Sydney general).

There are a range of *differences* between the areas, including Marrickville being more academically inclined, and Marrickville and Rockdale having lower portions of children and elderly in their populations. City of Botany Bay's population density is significantly lower than the other councils and has the largest economy, both in gross terms and on a per capita basis reflecting its share of industrial land.

The areas are not a natural grouping in a regional planning sense, with Rockdale generally forming part of the St George region, City of Botany Bay tending towards the eastern suburbs, and Marrickville within the inner west or inner Sydney. This is borne out in cross-border movements and migration.

Ultimately the question is whether a merged council could adequately represent the different communities of interest surrounding the airport and at this time the question needs to be considered alongside the significant reduction in representation.

6.2.8 Costs and Savings of the merger

The costs and savings of the merger arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Initially in the transition from three councils into one there are costs associated with creating the single entity (structure, process, policies, systems and branding), costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council which has significant cost implications. Costs of the merger continue to arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils and considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors required in comparison to the councils combined. Natural attrition is initially applied meaning that overall staff numbers fall in the short term. Savings are also projected to arise in relation to procurement and operational expenditure due to the size and increased capacity of the larger council. In the medium and longer term benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations, outsourcing waste collection to a single regional contract and the rationalisation of buildings and plant (one off).

The operating performance of the merged council (excluding grants and contributions for capital purposes) is negative in every year of the period being modelled except the year in which asset and plant rationalisation occur. The NPV of the costs and savings over the period being modelled (2023[26]) has been calculated and set out below.

Table 39   Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
$102 million	$83 million	$67 million

6.2.9   Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it

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[26]   2023 is the period being modelled to match the time covered by all Council LTFPs

does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger in the case of the airport council the poor financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

The different communities of interest across the area and the number of service delivery and metropolitan planning boundaries crossed by the new council also present a risk to being able to deliver effective governance.

APPENDIX A   Fit For The Future Benchmarks[27]

Operating Performance Ratio

Total continuing operating revenue (exc. capital grants and contributions)
less operating expenses

Total continuing operating revenue (exc. capital grants and contributions)

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

Total continuing operating revenue less all grants and contributions

Total continuing operating revenue inclusive of capital grants and contributions

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

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[27]   Office of Local Government Fit for the Futre Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

Cost of debt service (interest expense & principal repayments)

Total continuing operating revenue (exc. capital grants and contributions)

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

Description and Rationale for Criteria:

The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textit{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

Estimated cost to bring assets to a satisfactory condition
Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets

Description and Rationale for Criteria:

The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and

- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B Combined Status Quo Assessment against the Fit for the Future Benchmarks
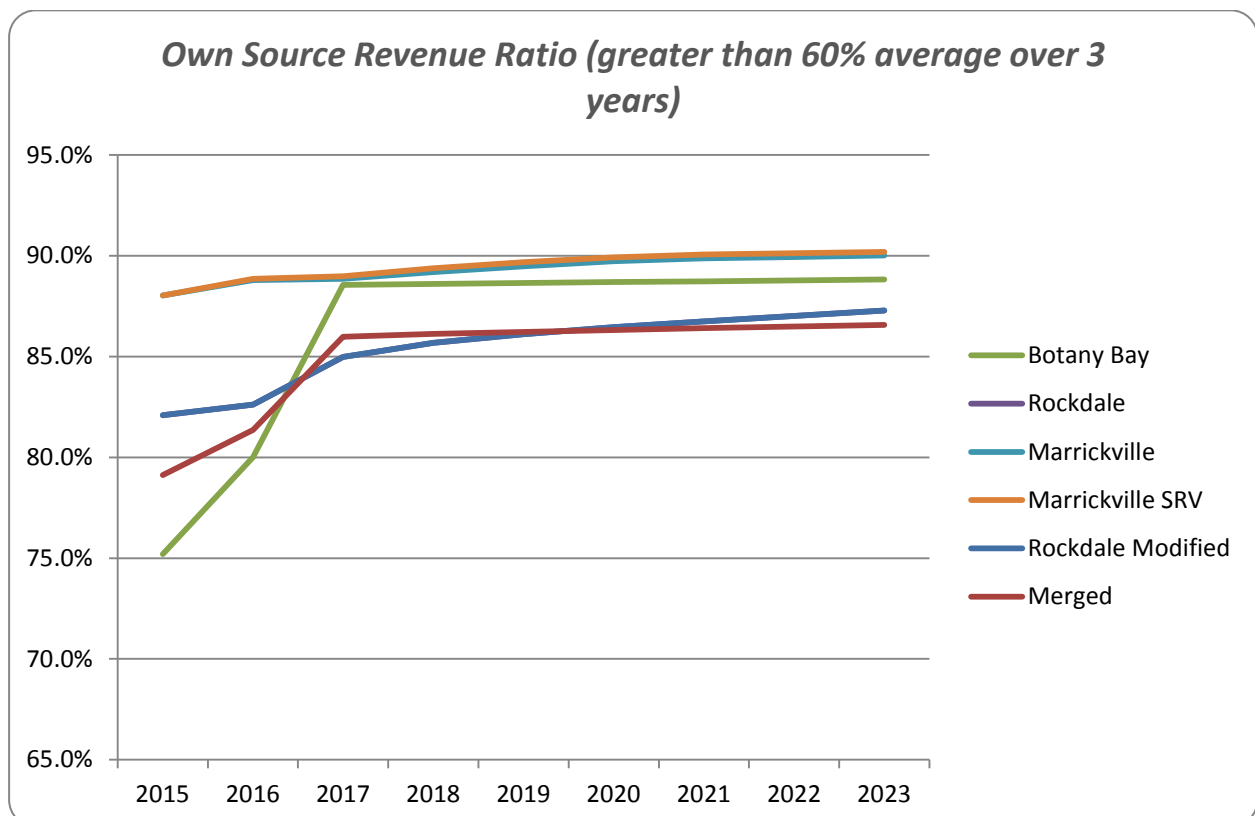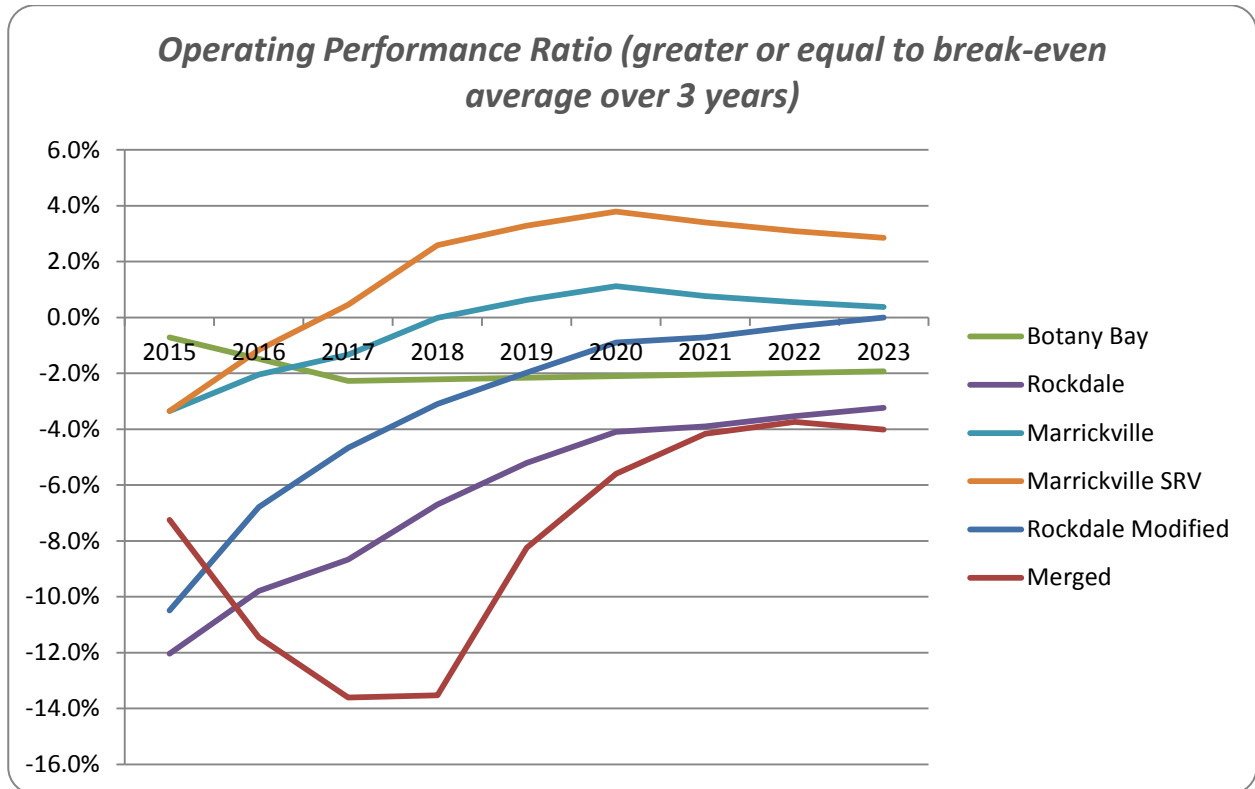
Operating Performance Ratio (greater or equal to break-even average over 3 years)

Legend: Botany Bay, Rockdale, Marrickville, Marrickville SRV, Rockdale Modified, Merged

Own Source Revenue Ratio (greater than 60% average over 3 years)

Legend: Botany Bay, Rockdale, Marrickville, Marrickville SRV, Rockdale Modified, Merged

Building and Infrastructure Asset Renewal Ratio (greater than 100% average over 3 years)

Legend:
- Botany Bay
- Rockdale
- Marrickville
- Marrickville SRV
- Rockdale Modified
- Merged

Infrastructure Backlog Ratio (less than 2%)

Legend:
- Botany Bay
- Rockdale
- Marrickville
- Marrickville SRV
- Rockdale Modified
- Merged
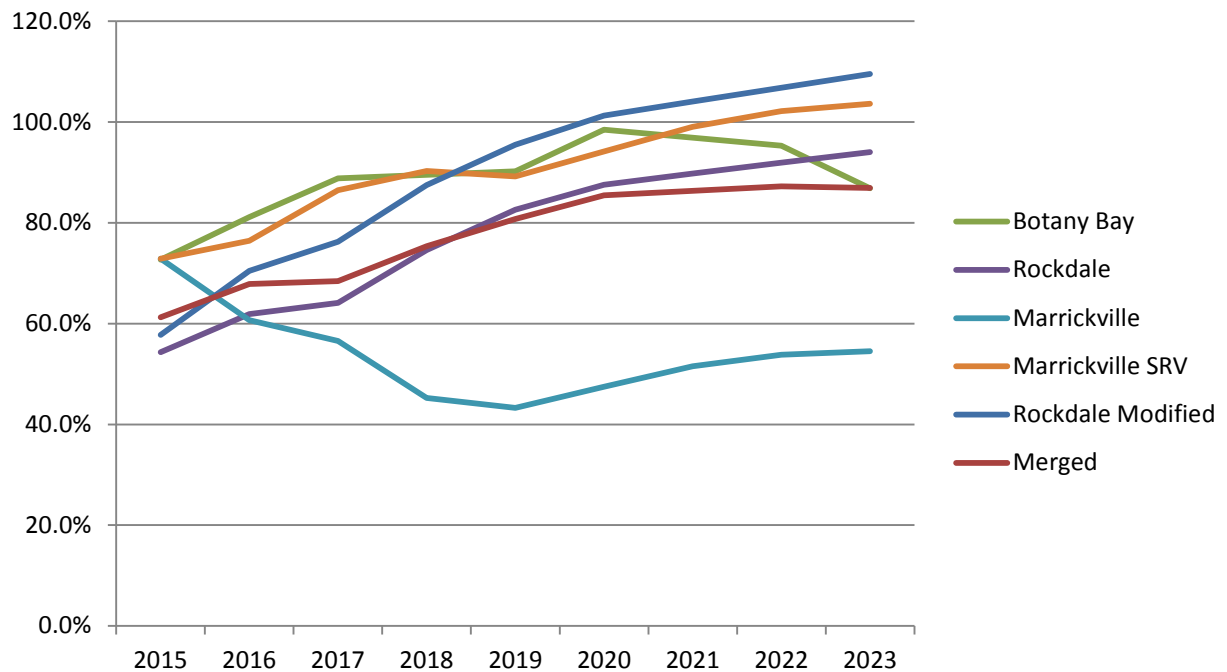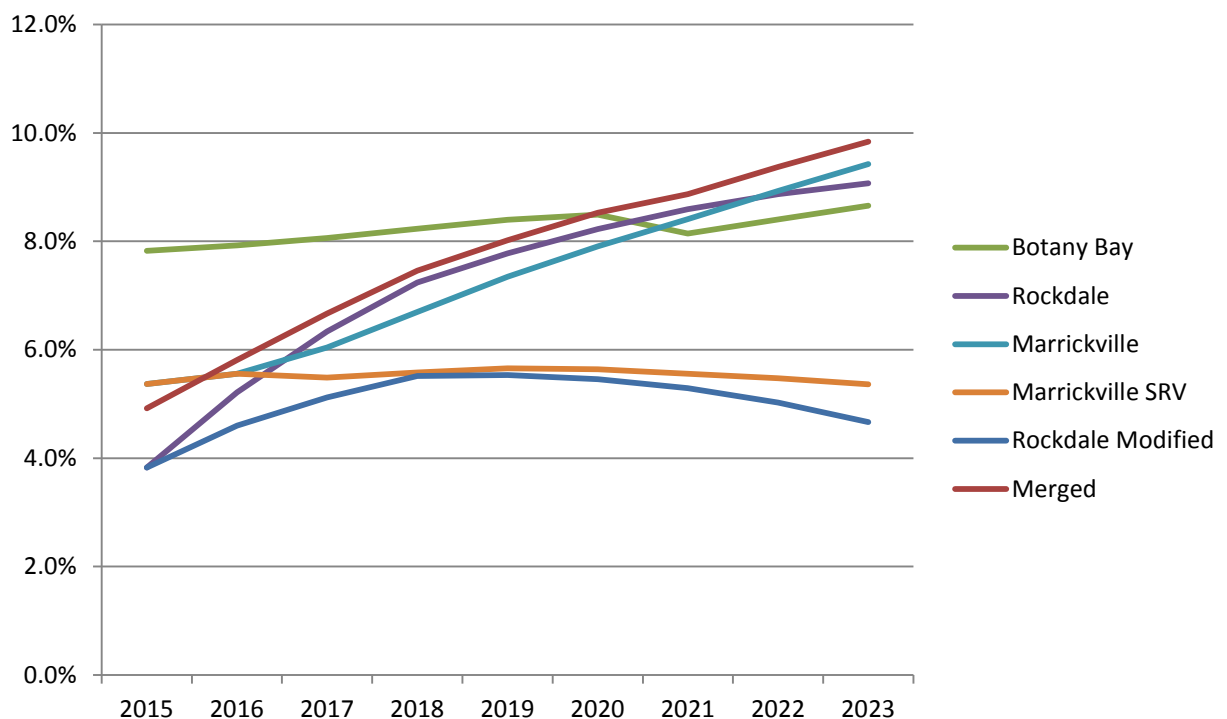
Debt Service Ratio (greater than 0 and less than or equal to 20% average over 3 years)
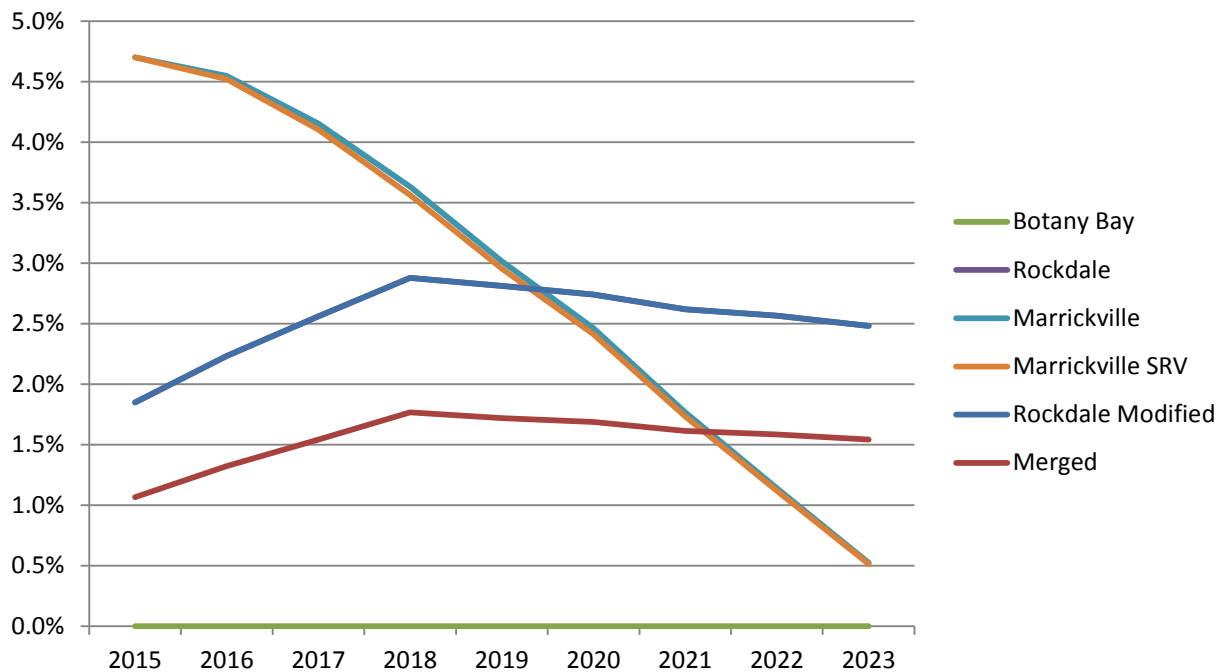
Asset Maintenance Ratio (greater than 100% average over 3 years)

A decrease in Real Operating Expenditure per capita

Legend:
- Botany Bay
- Rockdale
- Marrickville
- Marrickville SRV
- Rockdale Modified
- Merged
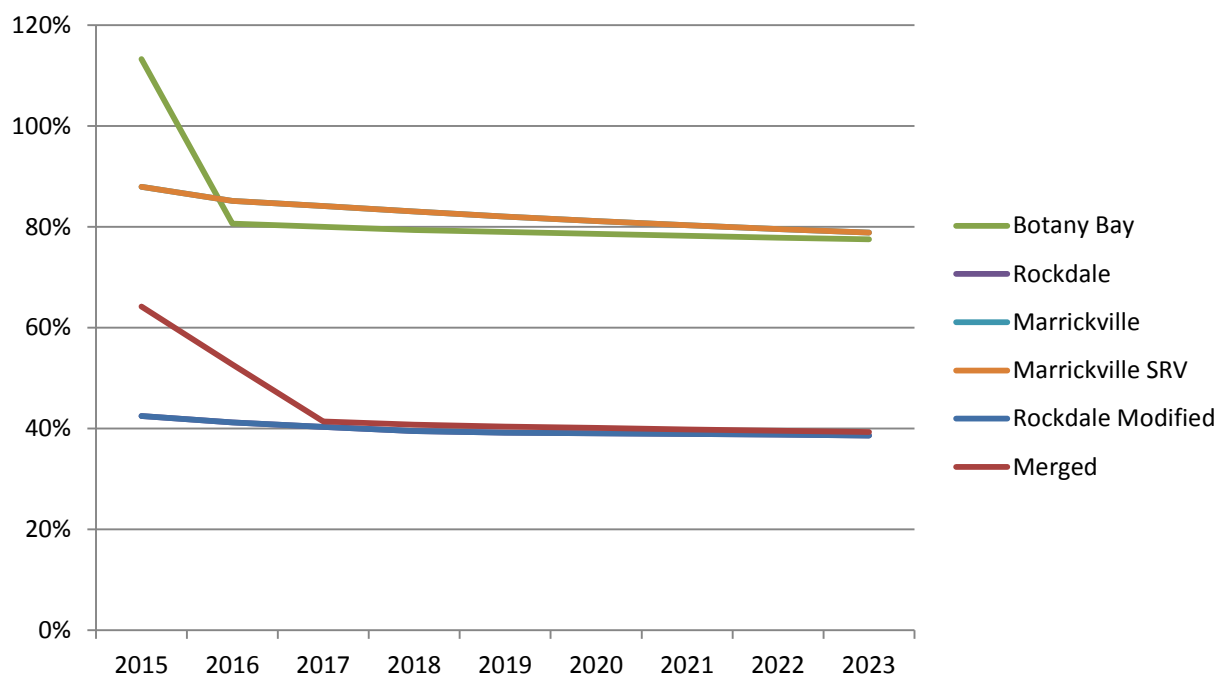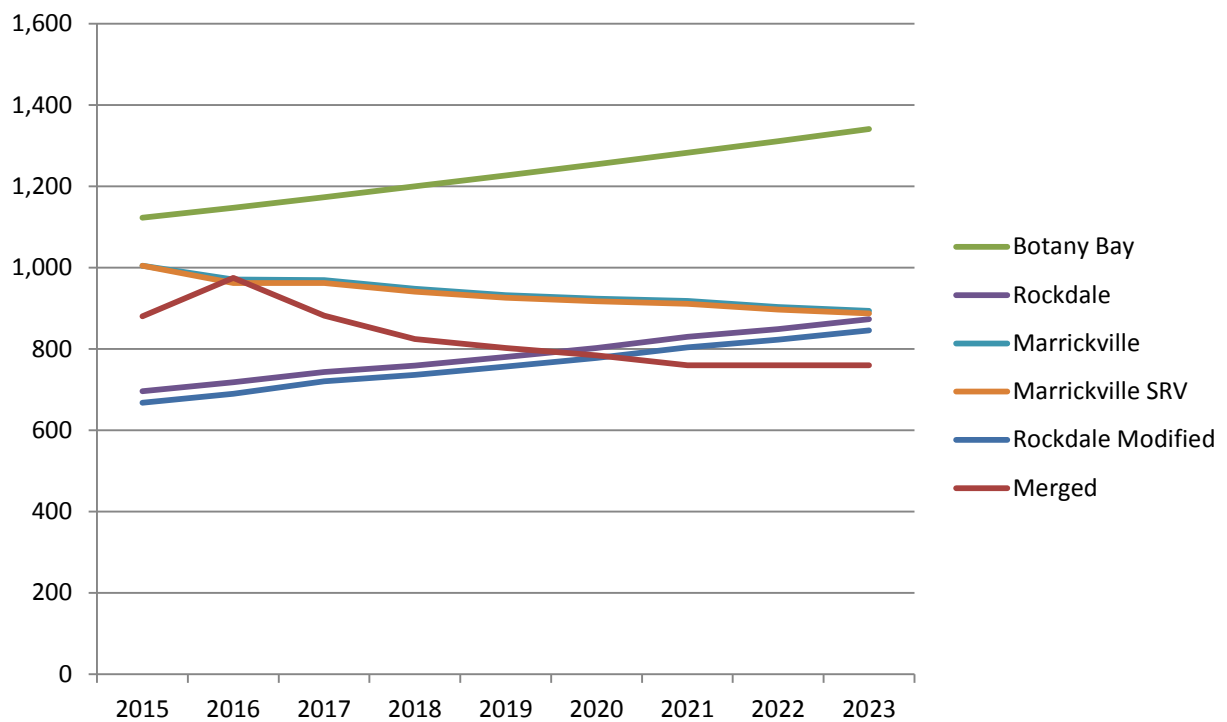
APPENDIX C Costs and benefits arising from a merger of the airport councils – detailed assumptions

Costs and benefits identified below form the basis of the modelling referred to throughout the report.

Assumptions have been made using the best available information including analysis of various reports on and estimates of merger costs in other similar situations. This has been supplement with professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Costs are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, Council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support Council/Committee Secretarial Support	Reduced councillors and remuneration	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)				

1.1 Governance ($260,000)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and Councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on the Lord Mayor and Councillor fees from the City of Sydney as reported in the Annual Report 2014. The Independent Review Panel has envisaged a full time Mayor and there will be higher costs associated with

such a role than the current Mayor and Councillors of the airport councils receive. It is assumed that there would be 14 councillors and a Mayor.

The total governance costs across the councils is approximately $970,000 based on the respective council's annual reports 2013/14 and there is the potential ongoing efficiency of $260,000.

1.2   Executive management ($1.8 million)

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors). Revised remuneration packages for the new General Manager and Directors for the new entity have been informed and assumed to be similar to that of the Sutherland Shire Council executive remuneration packages since Sutherland is of a similar size and scale to that of the proposed new entity.

The General Managers total remuneration for the councils was approximately $900,000, based on the council's respective annual reports 2013/14, and the amalgamation to a single entity with a single General Manager has the potential saving of approximately $545,000.

In addition there would be a rationalisation of the existing director positions, based on the Annual Reports there are ten such positions across the councils with a combined remuneration of $2.27 million based on the annual reports 2013/14. Assuming that the new entity has four director positions, the estimated savings are in the order of $1.27 million.

It is important to note that while ongoing efficiencies of $1.8 million have been identified effective from the short term, there is the one off cost of redundancies of approximately $2.3 million that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3   Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service.

Based on our previous experience one would expect resource efficiencies of between 40 and 60%. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however having said that there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services Section.

2   Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3) Natural attrition (voluntary)				Staff Associated Costs e.g. HR, Accommodation Computers, Vehicles
Long Term (5 years plus)					

2.1   Rationalisation of duplicate services ($900,000)

Consistent with the dis-establishment of three Councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers. A comparison of FTEs per head of population and FTE to service expenditure of NSW Councils also indicates the newly formed council would be higher than the average on both measures which confirms the need to reduce total FTE numbers.

Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than separate Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans , Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.

- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the 'front of house' customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity both in terms of resources and actual cost. However it is expected that ICT would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The starting point for the assumption underpinning the efficiency for corporate services was a 35%[28] reduction in corporate support personnel. A review of the organisational charts of the three councils means that in this case our views is that the opportunity for reductions in corporate is significantly less than the starting point and in the region of 15 – 20%. On costs are considered to be included as the figure used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those outlines above.

In order to achieve the opportunities identified would require detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled on an average of 26 weeks[29]

3   Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

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[28]   Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

[29]   The Local Government (State) Award provides a sliding scale for redundancy pay-outs from 0 for less than 1 year, 19 weeks for 5 years and 34 weeks for 10 years. An average of 26 weeks has therefore been used throughout the modelling.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff Associated Costs e.g. HR, Accommodation, Computers, Vehicles
Long Term (5 years plus)					

3.1 Management tier 3 and 4 ($2.2 million)

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. While Section 1 addresses the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out. On the basis that six councils are being disestablished and a single entity created, the assumption is that there will be at least a 10% reduction across the existing Tier 3 and Tier 4 positions achieving an ongoing efficiency of $2.2 million on remuneration and on costs.

3.2 Staff Turnover ($4.2 million)

The industry average turnover is approximately 9% and on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, there is an estimated annual efficiency of $4.2 million on staff remuneration.

3.3 ICT Benefits ($7.8 million)

Without a full investigation into the current state of the three councils ICT infrastructure and systems, and without an understanding of the future state the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from three councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce by 40%[30] over

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[30] Report to the Local Government Commission on Potential Savings of a Range of Options for the Re-organisation of Local Government in the Wellington Region, Brian Smith Advisory Services Limited, November 2014

time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the three councils, the 40% efficiency is unable to be determined at this time.

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and based on an ICT cost of $90 million have estimated the Net Present Value at $200 million and payback period of 5 years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate however to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of $7.8M per annum.

Sensitivity Analysis

Due to the high level of uncertainty associated with the realisation of IT benefits one additional scenario has been modelled to demonstrate the overall impact on the financial sustainability of the IT benefits being realised.

The impact on the merged council is set out by reference to the Operating Performance Ratio and a summary of the Financial Impacts.

Benefits at 50%

Realising only 50% of the IT benefits affects the merged council's operating performance by further magnifying the poor operating result in the long term. It reduces the annual benefits by approximately $4.2M per annum.

The impact of this is demonstrated by reference to the operating performance ratio, real operating expenditure per capita ratio and summary of the financial performance of the merged council.

Real Operating Expenditure per Capita

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Selected Councils Combined LTFP - 2014/15 Extrapolated	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Source: Council Financial Statements and Long Term Financial Plan											
Rates & Annual Charges	138,647	146,705	150,937	155,465	160,129	164,933	171,491	176,636	181,935	187,393	193,015
User Fees & Charges	33,801	35,704	34,717	35,840	36,998	38,195	39,430	40,704	42,021	43,379	44,782
Grants & Contributions - Operations	20,466	16,213	18,314	18,017	18,432	18,855	19,289	19,733	20,187	20,651	21,126
Grants & Contributions for Capital	22,413	38,857	14,018	13,791	14,108	14,432	14,764	15,104	15,451	15,807	16,170
Interest and Investment Income	8,583	8,210	7,240	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150
Gains from disposal assets	40	378	149	147	150	153	23,757	703	720	736	753
Other Income	15,065	18,140	21,932	21,576	22,073	22,580	23,100	23,631	24,175	24,731	25,299
Total Income	**239,015**	**264,207**	**247,307**	**247,985**	**255,039**	**262,299**	**294,980**	**279,661**	**287,637**	**295,846**	**304,295**
Income excl Gains\losses	238,975	263,829	247,158	247,839	254,889	262,145	271,223	278,958	286,917	295,110	303,542
Income excl Gains\losses & Capital Grants	216,562	224,972	233,140	234,048	240,781	247,713	256,459	263,854	271,466	279,303	287,371
Expenses											
Borrowing Costs	1,691	1,704	1,504	1,498	1,464	1,427	1,390	1,346	1,308	1,260	1,209
Employee Benefits	99,983	104,915	110,350	107,432	106,357	105,294	106,742	112,613	118,807	125,341	132,235
Gains & losses on disposal	192	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	36,605	31,986	35,191	37,026	38,506	39,790	41,073	42,398	43,768	45,183	46,643
All other Expenses	93,782	96,052	98,874	137,781	120,837	113,462	114,364	111,809	110,891	114,218	117,644
Total Expenses	**232,253**	**234,657**	**245,919**	**283,737**	**267,165**	**259,973**	**263,569**	**268,166**	**274,774**	**286,002**	**297,732**
Operating Result	**6,762**	**29,550**	**1,388**	**- 35,752**	**- 12,125**	**2,326**	**31,411**	**11,495**	**12,863**	**9,844**	**6,563**
Operating Result before grants & contributions for capital purposes	**- 15,651**	**- 9,307**	**- 12,630**	**- 49,543**	**- 26,233**	**- 12,106**	**16,647**	**- 3,609**	**- 2,589**	**- 5,963**	**- 9,607**

3.4 Materials and contracts ($1.3 – $2 million)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from six councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement including through SSROC shared and panel contracts but that the process also identified a large number of services contracted out by the councils which are not aligned or co-ordinated.

The increased scale and size of the infrastructure networks managed by the airport council would in our view lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

Based on the analysis during the project and our experience the combined savings have been modelled in the short term at 3% and rising to 5% over the medium and longer term.

3.5 Properties ($19.4 million – one off)

There is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for Council purposes. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (refer to Section 3.7).

The councils have a combined buildings portfolio of over $388M and for the purposes of modelling the merged council it is assumed that the council would dispose of 5% of the building assets in the medium term. In the longer term savings in properties are achievable but should be carried out in a more strategic manner across the combined entity.

3.6 Waste ($2.3 million)

The three councils currently provide their waste collection services through different delivery models. The City of Botany Bay and Marrickville undertake waste collection services in-house whereas Rockdale is part of a regional collection contract with Kogarah and Hurstville councils.

Waste collection is a high profile service and in our experience the service can be delivered at a lower cost under contract. Recent examples in metropolitan Sydney have demonstrated the scale of savings available by moving to collective contracts. The combined St George Council waste and recycling contract has generated savings in the order of $4.6M per annum[31] from a similar population base to the three councils (230,000).

It is assumed that the merged council will move to outsource the waste & recycling function under a single collection contract over time.

Savings have been modelled from moving to a single collection contract noting that there would be no savings arising from the aspect of the service currently delivered to Rockdale residents. Savings arising from moving to outsourcing the waste have, in the absence of detailed analysis of each councils service costs, been modelled using the differences between the respective councils domestic waste charges[32]. In this case the approach is considered reasonable as the

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[31] St George Regional Collection Contract, Presentation to Waste 2014 Conference, Major Projects Guidance for Local Government by Maddocks and Ernst and Young
[32] Financial Statements of each council

councils have a similar level of service (albeit that Botany has a slightly higher service) and the domestic waste charge is considered to reliably include all operational costs. The saving arising from outsourcing the collection services is assumed to be 60% of the difference between the average domestic waste charge of the councils who outsource all waste collection services and the current total domestic waste charge.

Redundancy costs have been modelled in for all works staff identifiable as providing waste services based on an average of 26 weeks with an assumption on the number of affected staff at the City of Botany Bay made based on the relative proportion of staff involved in waste services in the other councils.

Waste services are funded through the waste charge which covers all operational expenditure on waste services. A reduction in the cost of the waste collection services therefore leads to a reduction in the waste charge and reduced income for the councils. It is assumed that 70% of the savings achieved are passed through in a reduced waste charge.

3.7   Works units

Staff ($6.6 million)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 20% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks with an assumption on the number of affected staff at the City of Botany Bay based on proportion of staff affected in the other councils.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet ($4.2 million – one off)

Based on our experience of reviewing a large number of works units across NSW most councils as are have significantly more plant and equipment than reasonably required to undertake it day to day functions. As such it is reasonable to assume that a reduction in plant and fleet in the order of 20% would be achievable should there be an amalgamation of councils.

4   Services and Service Levels ($2 million)

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[33] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition.

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[33] Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

5　Transition costs

The formation of the new entity from the current state of three Councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[34] for the proposed Wellington reorganisation.

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below:

Governance	- Developing democratic structures (council committees) - Establishing the systems and processes to service and support the democratic structure - Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations - Developing the organisational structure of the new organisation
Workforce	- Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages - Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 - Ensuring that positions required
Finance and Treasury	- Ensuring that the new entity is able to generate the revenue it needs to operate - Ensuring that the new entity is able to satisfy any borrowing requirements - Ensuring the new entity is able to procure goods and services - Developing a methodology for interim rates billing and a strategy for rates harmonisation - Developing a plan for continued statutory and management reporting requirements - Developing a financial framework that complies with legislative requirements
Business Process	- Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. - Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change - Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	- Ensuring that appropriate communication strategies and processes are in place for the new entity - Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	- Ensuring any legal risks are identified and managed for the new entity - Ensuring that existing assets, contracts etc. are transferred to the new entity - Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed

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[34] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1
Planning Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond • Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Da1 and beyond
Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

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

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

5.1   Transition body ($10 million)

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

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[35] and on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the airport councils is $10 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

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[35]   Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

5.2   ICT ($45 to $66 million)

The costs associated with ICT for the new entity relate to rationalising the existing councils ICT infrastructure, business applications, security and end user support for the single entity. The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. With the limited time to undertake this report the ICT costs have thus been based on the proposed Wellington reorganisation and tested against other potential merges of different sizes. A number of ICT scenarios were explored by Deloitte[36] for Wellington and the WNTA scenario most closely resembles the airport situation. Scaling these costs based on the size of the airport council mergers provides an estimated ICT cost of between $45 million and $66 million. The estimated cost are spread across the initial years of the councils operations with the majority falling in the first two years.

Given the respective size of the councils and the populations they serve in the context of the studies cited it is considered that the most likely costs are at the lower end of the scale, $55 million.

5.3   Business Process (existing Council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the six existing councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4   Branding ($1.5 million)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace the existing signage of the six councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is $1.5 million based on other amalgamation experience.

5.5   Redundancy Costs ($1.8 million)

Through the transition period the Tier 1 and Tier 2 positions would be made redundant and based on employment contracts with a redundancy period of 38 weeks, the one off cost of redundancies is estimated at $1.8 million based on the Councils' respective Annual Reports 2013/14.

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[36] Wellington Local Government Reorganisation Options – Transition Costs and Benefits for Technology Changes, Deloitte, September 2014

5.6   Remuneration Harmonisation ($1.2 million)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the three councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for Sutherland Shire Council have been compared to that of the Airport Councils combined as well as between the three councils.

5.7   Elections ($0 million)

There is a possibility of proportional savings in existing council budgets as instead of six separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the three councils.

Governance	Rockdale	City of Botany Bay	Marrickville
Number of Councillors	15	7	12
Population per Councillor	7,114	6,185	6,807
Ratepayers			
No. equivalent full time employees	340	329	523
Population per Staff member	309	128	156
Total Cost of Services	**Rockdale**	**City of Botany Bay**	**Marrickville**
Total cost of services **($000)**	$82,867	$56,700	$ 94,496
Cost of services per resident	$788	$1,340	$ 1,157
Solid Waste Management	**Rockdale**	**City of Botany Bay**	**Marrickville**
Average domestic charge	$ 408	$ 448	$ 487.6
Total domestic waste diversion rate	54	38	41
Household clean-ups	4 per annum	4 – 2 scheduled, 2 on demand	On demand
General waste	Weekly	Weekly	Weekly
Delivery model	Outsource (regional)	Day Labour	Day Labour
Green waste	In with general waste – co-mingled AWT	Weekly	Fortnightly
Recycling	Fortnightly (alternate)	Weekly	Fortnightly (alternate)

Public Amenity	Rockdale	City of Botany Bay	Marrickville
Street sweeping frequency	Fortnightly	Service Standards	5 weekly
Town centres	Daily	"on par"	Daily
Graffiti response	72 hours if offensive	Service Standards	2-12 weeks (hierarchy), 2 days for offensive
Verge mowing	Pensioner service only	Yes plus pensioner service	Yes
Frequency	Approx 50-100	6-8 weeks	5 weekly
Parks and Sports Fields	Rockdale	City of Botany Bay	Marrickville
Open space (ha/'000)	3.5	2.2	1.4
Mow – summer	Fortnightly	As per service standards	Fortnightly
Mow - winter	Monthly	"	Monthly
Number of sports grounds	23	7	10
Golf courses	2.5 x 18 holes (0.5 in Kogarah). Managed by club	1 x 9 holes. Managed in-house	1 x 18 holes. Managed by club
Foreshore	Rockdale	City of Botany Bay	Marrickville
Beach	8km	Foreshore Beach, no care and control, most in Ports responsibility	N/A
Marine structures	Boat ramp, 2 pontoons, 6 swimming enclosures	0	1 jetty

Community Services	Rockdale	City of Botany Bay	Marrickville
Community transport	Community bus, can be hired	Community bus, own programs	Community bus, own programs
Services outside LGA	Minor commercial kitchen	Family Day Care	Meals on Wheels

Childrens' Services	Rockdale	City of Botany Bay	Marrickville
Child care centres	7	2	6
Management model	External	In-house	In-house
Other services	1 BASC facility	2 BASC facilities, Family Day Care, Community pre-school (board)	5 BASC facilities, Family Day Care, 1 preschool, mobile playgroup

Library Services	Rockdale	City of Botany Bay	Marrickville
Number of libraries	6	2	4
Circulation	5.56	3.88	5.88
Home Library Services	Yes	Yes	Yes
Notes	• Number of libraries is not reflective of size, which vary across the councils from very small to large central libraries. Two are in planning/development phases that will meet State Library floor size benchmarks		

Community Centres, Halls and Venues	Rockdale	City of Botany Bay	Marrickville
Halls	2	3	5
Venues	10	1	?
Community centres	?	1	?
Museums	1	1	1
Notes	• Each council had a slightly different idea of which facilities are classed as halls, venues and community centres. Whilst some consensus was attempted, this data should be used cautiously for comparison purposes		

Aquatic Centres	Rockdale	City of Botany Bay	Marrickville
Aquatic centres	1	1	2
Management model	Currently closed for renovations. Previously managed externally.	In-house	External

Development Applications	Rockdale	City of Botany Bay	Marrickville
Number of development applications determined	361	138	578
Mean gross days for development applications	98	129	72
DAs per existing dwelling	1.08%	.93%	1.80%
13/14 Data - Determined	No. 394 $343.12m	No. 135 $613.25m	No. 596 $406.74m

Service Delivery Models	Rockdale	City of Botany Bay	Marrickville
Roads Construction	Mostly contract, some in-house	Some outsourced	Rigid pavements in-house
Roads Maintenance	Combination	In-house (not restorations)	Combination
Footpath Construction	Self	Combination	Contract
Footpath Maintenance	Self	In-house	Combination
Drainage	Combination (cleaning in, major jobs contract/ in)	Combination	Combination (cleaning in, major jobs contract)
Buildings Maintenance	Mostly contract	Combination, where in-house trades	Combination, some in-house trades
Parks	Internal, upgrades (softfall, play equipment external)	Internal, upgrades (softfall, play equipment external)	Internal, upgrades (softfall, play equipment external)
Public Toilets	Combination, 90% contract	In-house	In-house, major buildings contract

Fleet	In-house except dealer servicing	In-house except dealer servicing, heavy fleet in	In-house except dealer servicing
Animal Control	In-house collection, outsource pound	In-house collection, outsource pound	In-house collection, outsource pound
Security/CCTV	Security contract, CCTV for council asset protection and public safety	Combination, limited CCTV not monitored	Mostly contract
Internal audit	Combination, 1 in-house resource	In-house	SSROC contract
Legal services	External	External	In-house
IT support	In-house	In-house	In-house
Bus shelters	Combination own maintenance and thru Adshel	In-house	Combination own maintenance and thru Adshel
Bushcare			Combination volunteer and contract

Note

1. The purpose of this matrix is to provide a comparison of those services and activities which are different or only provided by some of the participating councils. Where the services and/or service levels are the same (or essentially the same) they have been excluded.

Key Elements of Strategic Capacity	2 Council Mergers	Rockdale/Marrickville	Airport Council
More robust revenue base and increased discretionary spending	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change	Significant change
Rationale	Revenue base increased to 120,000 - $150,000	Revenue base increased to 180,000 (now)	Revenue base increased to 220,000
Scope to undertake new functions and major projects	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change	Significant change
Rationale	Mergers do not significantly increase a council's financial or human resources	Better able to prioritise and undertake regionally significant projects intellectually, financially and resource wise	Better able to prioritise and undertake regionally significant projects intellectually, financially and resource wise
Ability to employ wider range of skilled staff	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change	Significant change
Rationale		Larger council has capacity to employ (and contract) more specialist staff	Larger council has capacity to employ (and contract) more specialist staff
Knowledge, creativity and innovation	**No**	**Yes**	**Yes**
Degree of Change	No change	No change	No change
Rationale	Knowledge, creativity and innovation are a function of the organisational culture. Particularly in metropolitan Sydney and an increase scale makes little or no difference	Knowledge, creativity and innovation are a function of the organisational culture. Particularly in metropolitan Sydney and an increase scale makes little or no difference	Knowledge, creativity and innovation are a function of the organisational culture. Particularly in metropolitan Sydney and an increase scale makes little or no difference
Effective regional collaboration	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change (positive and negative)	Significant Change
Rationale	Region remains fragmented, responsible for council areas around airport crosses LGA boundaries.	Region remains fragmented and responsibility for airport still crosses LGA boundaries. Council crosses sub-regional planning boundaries and other service delivery boundaries	Single council responsible for council areas around airport. However, lies across sub-regional planning boundaries and other service delivery boundaries

Key Elements of Strategic Capacity	2 Council Mergers	Rockdale/Marrickville	Airport Council
Credibility for more effective advocacy	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change	Significant Change
Rationale	Region remains fragmented with small councils advocating for individual interests	Region remains fragmented, responsibility for airport still crosses LGA boundaries and has differing social and economic interests.	Single council responsible for council areas around airport. However, lies across sub-regional planning boundaries and other service delivery boundaries
Capable Partner for State and Federal Agencies	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change (positive and negative)	Significant Change (positive and negative)
Rationale	Region remains fragmented requiring multiple relationships for state and federal agencies	Region remains fragmented and responsibility for airport still crosses LGA boundaries. Council crosses sub-regional planning boundaries and other service delivery boundaries requiring multiple relationships for state and federal agencies	Single council responsible for council areas around airport. However, lies across sub-regional planning boundaries and other service delivery boundaries requiring multiple relationships for state and federal agencies
Resources to Cope with complex and unexpected change	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change	Significant change
Rationale	No significant financial improvements or changes in resources from mergers	Large council with large financial capacity to meet challenges intellectually, financially and resource wise	Large council with large financial capacity to meet challenges intellectually, financially and resource wise
High Quality political and managerial leadership	**No**	**Yes**	**Yes**
Degree of Change	No change	Moderate change	Moderate change
	The quality of managerial leadership can be influenced by a management structure and remuneration that attracts and retains the highest calibre of executive staff. A merger between 2 councils only is unlikely to change this situation from the status quo The quality of political leadership is in the hands of the electorate and it is arguable that a larger entity or representative focus necessarily equates to "quality".	The quality of managerial leadership can be influenced by a management structure and remuneration that attracts and retains the highest calibre of executive staff. A merger between 2 councils only is unlikely to change this situation from the status quo The quality of political leadership is in the hands of the electorate and it is arguable that a larger entity or representative focus necessarily equates to "quality".	The quality of managerial leadership can be influenced by a management structure and remuneration that attracts and retains the highest calibre of executive staff. A merger of 3 councils increases the management group and remuneration capacity The quality of political leadership is in the hands of the electorate and it is arguable that a larger entity or representative focus necessarily equates to "quality".

APPENDIX F Comparison of the Approach to the Natural and Built Environment of the three airport councils

The following is based on overarching LEP plan aims as an indication of:

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

	Natural	Built	Approach to Growth
Botany Bay **(Botany Bay LEP 2013)**	The particular aims of the LEP which relate to the protection of the natural environment are: • to identify and conserve those items and localities that contribute to the ….. environmental ….. heritage of Botany Bay • to protect and enhance the natural ….. landscapes in Botany Bay Reflects developed nature of LGA but with significant natural and recreational assets	The particular aims of the LEP which relate to the protection of built heritage are: • to identify and conserve those items and localities that contribute to the local built form and the …. cultural heritage of Botany Bay • to create a highly liveable urban place through the promotion of design excellence in all elements of the built environment and public domain Reflects period in which major development occurred in the LGA and the desire to promote future high quality development	Emphasises role of Botany Council in supporting economic significance of Kingsford Smith Airport and Port Botany. Aims include • to recognise the importance of Botany Bay as a gateway to Sydney, given its proximity to Sydney (Kingsford Smith) Airport and Port Botany • to encourage sustainable economic growth and development • to provide direction concerning growth and change in Botany Bay
Botany Bay **(State Environmental Planning Policy [Three Ports])**			Specifically designed to facilitate future development and operation of Port Botany in context of future operation of Sydney Airport. Aims include: • to provide a consistent planning regime for the development and delivery of infrastructure on land in Port Botany • to allow the efficient development, re-development and protection of land at Port Botany… for port purposes • to specify matters to be considered in determining whether to grant consent to development adjacent to development for port purposes • to provide for development at Port Botany that does not, by its nature or scale, constitute an actual or potential obstruction or hazard to aircraft

	Natural	Built	Approach to Growth
Marrickville	The particular aims of the LEP which relate to the protection of the natural environment are to: • to ensure development applies the principles of ecologically sustainable development • to promote sustainable transport, reduce car use and increase use of public transport, walking and cycling	The particular aims of the LEP which relate to the protection of the natural environment are to: • to identify and conserve the environmental and cultural heritage of Marrickville	Emphasis on encouraging transport oriented, quality compact development: • to support the efficient use of land, vitalisation of centres, integration of transport and land use and an appropriate mix of uses • to increase residential and employment densities in appropriate locations near public transport while protecting residential amenity • to protect existing industrial land and facilitate new business and employment • to promote sustainable transport, reduce car use and increase use of public transport, walking and cycling Also some emphasis on housing type and mix and affordability: • to promote accessible and diverse housing types including the provision and retention of affordable housing
Rockdale **(Rockdale LEP 2011)**	The particular aims of the LEP which relate to the protection of the natural environment are: • to conserve the environmental heritage of Rockdale • to promote and enhance Rockdale's foreshores • to minimise impacts on land subject to environmental hazards, particularly flooding Reflects location of LGA on shores of Botany Bay and immediate tributaries	The particular aims of the LEP which relate to the protection of built heritage are: • to maintain and improve residential amenity and encourage a diversity of housing to meet the needs of Rockdale residents Over 200 items in Heritage Schedule but importance not reflected in aims of LEP	Notes importance of Transit Oriented Development but planning for growth is not a key feature of the LEP aims. Aims include: • to maintain and improve residential amenity and encourage a diversity of housing to meet the needs of Rockdale residents • to promote economic activity within Rockdale through the facilitation of commercial, employment-generating and tourism opportunities • to encourage residential and employment densities around transport nodes in order to provide sustainable transport options

A review of the Metropolitan Strategy *A Plan for Growing Sydney; December 2014* was also undertaken to better understand the strategic drivers for each council.

METROPOLITAN PLANNING RELATING TO AIRPORT COUNCILS

Botany Bay and Marrickville Councils have been located in the Central Subregion as part of the latest State Government Strategic Plan for Sydney (*A Plan for Growing Sydney; December 2014*). Rockdale Council has been located in the South Subregion under the same plan.

Structure Plans for those two Subregions are shown below (Figures 27 and 32 extracted from the Plan).

Central Subregion

Both Botany Bay and Marrickville Councils are shown as part of the Global Economic Corridor. However, the Plan does not set out any specific priorities relating to the two Council areas beyond

"[preparing and delivering] a Structure Plan for the Sydney Airport and Port Botany precincts to support their growth" (p108)

This aim is supported by designation of the two precincts as "Transport Gateways" in the plan (see Figure 27)

The Plan sets out the following priorities for the two Transport Gateways (p113):

**PRIORITIES FOR TRANSPORT GATEWAYS**

Sydney Airport Precinct

- Identify and protect strategically important industrial-zoned land in and near Sydney Airport Precinct.
- Protect Sydney Airport's function as an international gateway for passengers and freight, and support airport-related land uses and infrastructure in the area around the Airport.
- Facilitate road planning to connect Sydney Airport to WestConnex.

Port Botany Precinct

- Identify and protect strategically important industrial zoned land in and near Port Botany Precinct.
- Protect Port Botany's function as an international gateway for freight and support port-related land uses and infrastructure in the area around the port.
- Support the land use needs of freight movement to increase the proportion of container freight transported by rail.
- Investigate a corridor for an enhanced road link from Port Botany to WestConnex.

FIGURE 27: Central Subregion
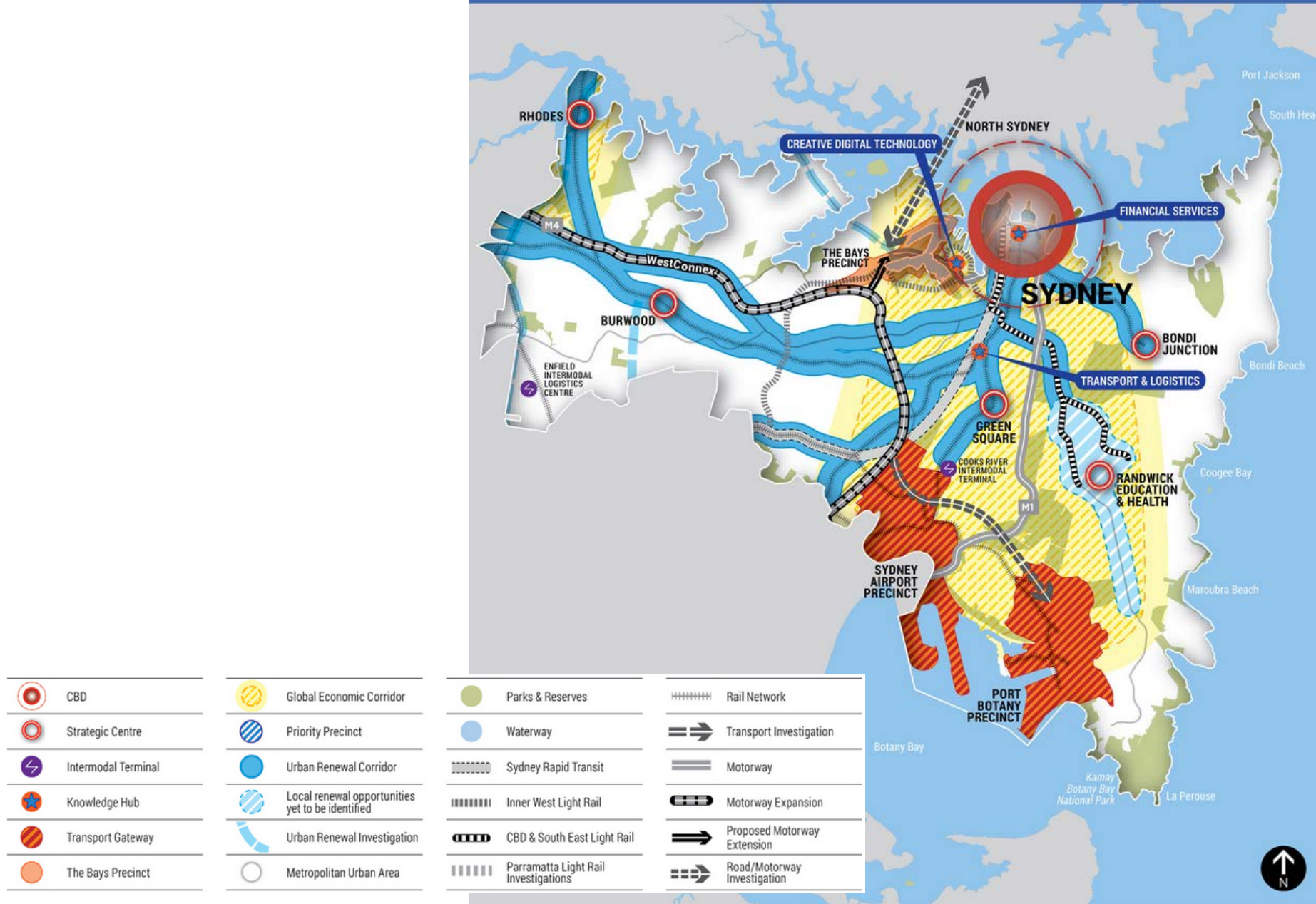
South Subregion

Mapping in the Plan indicates that the Global Economic Corridor does not extend into Rockdale LGA.

Mapping indicates that the Sydney Airport Precinct extends into the north east of the LGA (see Figure 32). As such, it should be assumed that the Structure Planning proposed for the Airport Precinct in the Central Subregion commentary will include this area, despite not being explicitly stated in the Plan.

Major economic drivers for the Subregion are largely seen as external to the Subregion (Global Corridor, Sydney Airport, Port Botany and the Illawarra (p132) with priorities for the Subregional economy including (p132)

- Facilitate good employment and transport connections and an efficient freight network to Sydney Airport and Port Botany

- Investigate pinch-points associated with growth in the vicinity of Sydney Airport and Port Botany

- Identify and protect strategically important industrial-zoned land

The Plan appears to show a "Priority Precinct" for major urban renewal in the Wolli Creek area in Rockdale LGA but no further commentary is offered in the Plan on the potential role of this precinct.

FIGURE 32: South Subregion

TO RHODES & SYDNEY OLYMPIC PARK

TO BURWOOD & MACQUARIE PARK

TO BANKSTOWN & PARRAMATTA

TO SYDNEY CBD & NORTH

SYDNEY AIRPORT PRECINCT

Roselands

WestConnex

KOGARAH

HURSTVILLE

Botany Bay

Sans Souci

Kurnell

Kamay Botany Bay National Park

Sylvania

Taren Point

Georges River

Sutherland

Caringbah

Miranda

Cronulla

Cronulla Beach

Lucas Heights

Holsworthy

Audley Visitors Centre

Port Hacking

Bundeena

Woronora Dam

Heathcote National Park

Royal National Park

Marley Beach

Wattamolla Beach

TO WOLLONGONG & ILLAWARRA

Garie Beach

Burning Palms Beach

N

Legend

Symbol	Description
◎	Strategic Centre
◉	Transport Gateway
●	Urban Renewal Corridor
⌒	Urban Renewal Investigation
○	Metropolitan Urban Area
●	Metropolitan Rural Area
●	Parks & Reserves
●	Waterway
▨	Sydney Rapid Transit
┼	Rail Network
━	Motorway
⊞	Motorway Expansion
⟹	Proposed Motorway Extension
⇢	Road/Motorway Investigation
⚓	Ferry Wharf

Comparison

In this vicinity, Metropolitan Planning proposals concentrate on the future of Sydney Airport and Port Botany.

The most significant implications for broad scale land use impacts are foreshadowed for the Botany Bay and Marrickville LGAs as structure planning proceeds for the future of the two Transport Gateways. Implications for the Rockdale LGA appear to centre around the transport impacts of Gateway expansion, particularly relating to Sydney Airport growth.

Notwithstanding the different emphases in the Plan, the future of the Rockdale LGA appears inextricably linked to broader planning outcomes associated with Transport Gateway development. This would not only imply a need to review local planning in Rockdale to accommodate these influences but also that, in the Metropolitan context, the future of Rockdale LGA has more in common with areas in the Sydney Central Subregion to the north, such as Botany Bay and Marrickville, than the other Councils located in the South Subregion.

APPENDIX G   Comparison of community strategic plans of the three airport councils

Council	Vision	Broader Themes
City of Botany Bay	- An inclusive community - A liveable city - A city of natural beauty - A place to be proud of - A city built on trust and community engagement	- Leadership: We are inspired by a shared vision, lead by example and encourage and support others to do the same - Collaboration: We are committed to working collaboratively across the whole organisation for the common good of the Council and the community we serve - Customer Service: We are committed to understanding and responding to customers' needs - Accountability: We hold ourselves accountable for our actions, celebrate our success and learn from our mistakes - Integrity: We are committed to acting ethically, fairly, selflessly, impartially, honestly and with Integrity in everything we do - Communication: We are committed to communicating openly, transparently and clearly - Excellence: We will strive for excellence in all that we do Innovation We value innovation, initiative, resourcefulness and creativity
Marrickville	Marrickville Council's vision for 2023 is for: - A culturally diverse, forward thinking, inner city communities and neighbourhoods. - A community that remains welcoming, proud of its diversity and its history. - A place where businesses are confident and responsive to the needs of the local community. Is a creative community. - A place that values the people who celebrate, challenge and inspire local identity and sense of place. - The environment is healthy and native plants and animals are thriving. - Local communities work closely with Council, which is ethical, effective and accountable.	- A diverse community that is socially just, educated, safe and healthy - A creative and cultural Marrickville - A vibrant economy and well planned, sustainable urban environment and infrastructure - Effective, consultative and representative council

Council	Vision	Broader Themes
Rockdale	• One Community, Many Cultures, endless Opportunity	• Rockdale is a welcoming and creative City with active, healthy and safe communities. • Rockdale is a City with a high quality natural and built environment and valued heritage in liveable neighbourhoods. A City that is easy to get around and has good links and connections to other parts of Sydney and beyond. • Rockdale is a City with a thriving economy that provides jobs for local people and opportunities for lifelong learning. • Rockdale is a City with engaged communities, effective leadership and access to decision making.

APPENDIX H   Detailed Community Profile

The Communities of the Airport

February 2015

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1. INTRODUCTION

The three councils of City of Botany Bay, Marrickville and Rockdale have agreed to undertake shared modelling of a range of factors to understand the relative benefits and dis-benefits of a possible merger as part of a broader range of considerations that will inform their response to the Local Government Review Panel recommendations. For the purposes of this report, the three councils are termed the 'Airport Councils' for their relationship of bordering Sydney Airport.

A desktop review of the communities of the Airport areas has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The two key reference points for this review is ABS Census Data taken from the Councils' Profile ID websites, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report [37].

2. SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

The Airport Councils have come together to consider what merger options might look like based on their common relationship of having part of Sydney Airport within their boundaries.

The areas are not a natural grouping in a regional planning sense, with Rockdale generally forming part of the St George region, City of Botany Bay tending towards the eastern suburbs, and Marrickville within the inner west or inner Sydney. There are a range of *similarities and differences* between the areas, including:

Similarities

- The dependence on and movements to the City of Sydney for employment, entertainment, retail and other services
- Higher education levels than Greater Sydney
- Low employment containment within each council area
- All areas anticipate significant population growth to 2031

Differences

- Rockdale and Marrickville are in the most academically inclined cluster of council areas
- There is a low ratio of children to adults of parenting age associated with a low proportion of children in the population overall and a low proportion of elderly people in Marrickville and Rockdale
- City of Botany Bay's population density is significantly lower than the other areas
- Rockdale is noted in a cluster indicating its strong multiculturalism

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[37] National Institute of Economic and Industry Research, March 2013

- There are more residents of City of Botany Bay and Rockdale in the generally lower earning occupations (trades, labouring)
- City of Botany Bay has the largest economy in gross terms, and on a per capita basis, reflecting its large share of both Sydney Airport and Port Botany and the industrial and employment lands surrounding these
- English is the predominant language spoken at home in Marrickville, while Rockdale and City of Botany Bay show a greater proportion of homes speaking other languages

The three areas all fall in different clusters for their cross-border relationships, as follows:

- Rockdale is in a cluster of areas that are unambiguously close to their neighbours, relying on them for employment and showing high rates of cross-border migration. These areas also have in common less jobs than are necessary to employ their own population and are therefore responsible for net outbound commuting
- City of Botany Bay is a cluster that relies on their neighbours for employment and short-distance migration and attract net inbound commuting and shoppers
- Marrickville is in a cluster of areas that are sources of outbound commuting and outbound shoppers

Currently the three council areas are grouped in different regions under a number of federal and state government planning and service delivery regions, with City of Botany Bay tending to be grouped with the eastern suburbs, Kogarah with the southern suburbs and Marrickville with the inner city and inner west.

3. POPULATION SUMMARY

3.1 Current Base Information

|	Population (ERP 2013)	No. Households	Land Area (ha)	Population Density
City of Botany Bay	43,292	14,884	2706	16
Marrickville	82,523	32,099	1656	49.84
Rockdale	106,712	36,359	2823	37.8
Total Airport	232,527	83,342	7185	32.36

3.2 Population Growth and Forecasts

Analysis of the census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the Airport region. Overall, the region's population is expected to grow to 292,700 from 2011 to 2031. This represents growth of 29.45%, following growth in the previous reporting period (2001 – 2011) of 9.4%.

All council areas are expected to see strong population growth greater than the 27.84% projection for New South Wales, while contributing strongly to Sydney Metropolitan's expected total increase of 36.76%.

City of Botany Bay, being the least populous, is predicted to take the greatest share of the growth in this region, up by 35% to 2031.

Marrickville's population is expected to increase considerably in future years. In the period 2001 to 2011, the population was expected to grow by 6.1%. For the period 2011 – 2031, this rate is anticipated to be 26.1%. Likewise, accelerated growth is expected in Rockdale, 29.8% growth in the forward projections, up from 11% for the previous ten year period.

Population Growth

Legend: ■ 2001 -2011 ■ 2011 - 2031
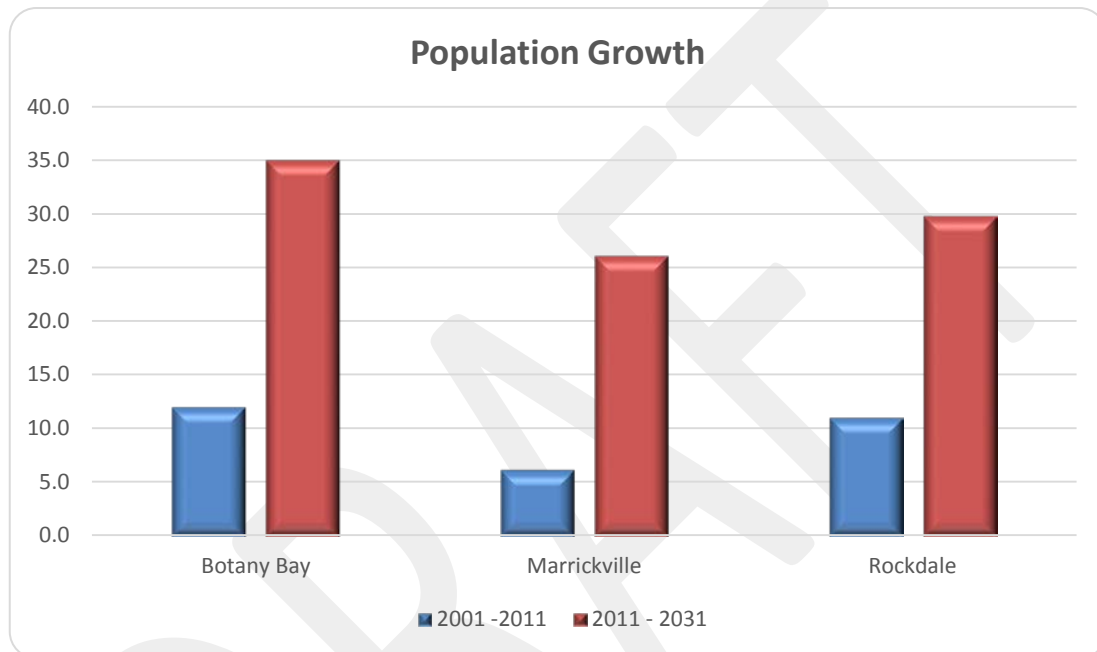
While noting the strong growth in the region, each council's overall population share does not vary considerably in the future.

Share of Total Population

Legend: ■ Botany Bay ■ Marrickville ■ Rockdale
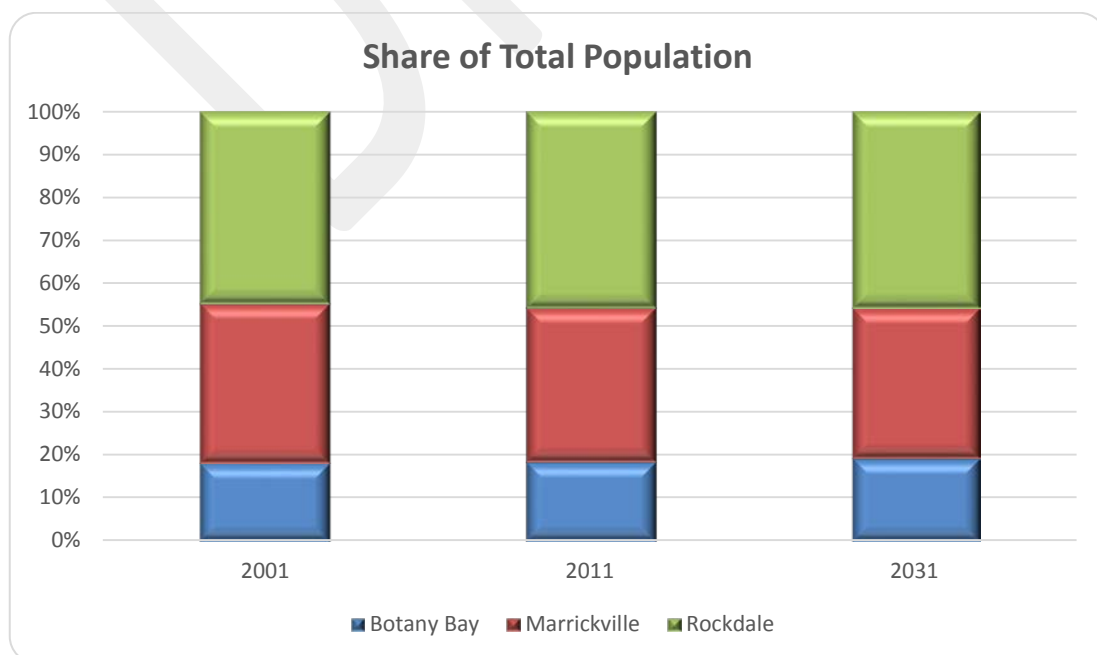
The forecast population growth will increase the density in all council areas, and as a whole from 32 to 40 persons per hectare.

Population Density - Current and Future

Legend: ■ Density 2013 ■ Density 2031
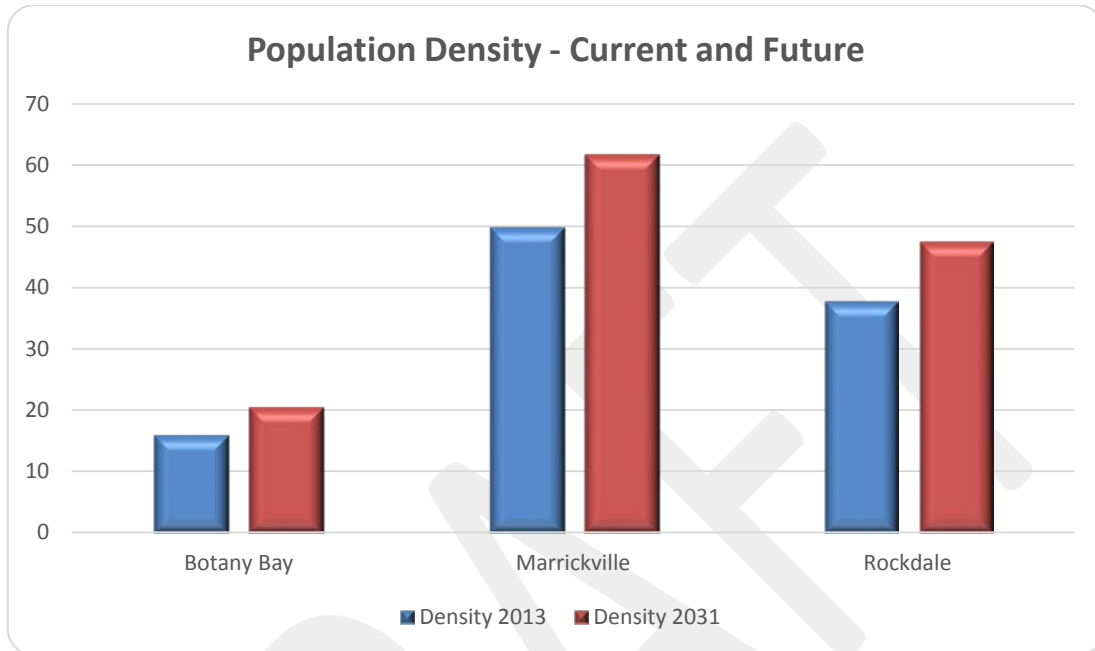
3.3 Dwellings

Overall the three councils are in a cluster of areas with high proportions of flats, greater population mobility than the state average and tenancy distributed across the tenancy types.

Rockdale has the highest proportion of low density dwellings, with City of Botany Bay having the highest proportion of high density dwellings. This is despite its low population density, reflecting the large proportion of its land area that is taken up by industrial and employment lands. Marrickville has greatest proportions of medium density housing as a total.

Dwelling Types

Legend: ■ Low Density ■ Medium density ■ High density
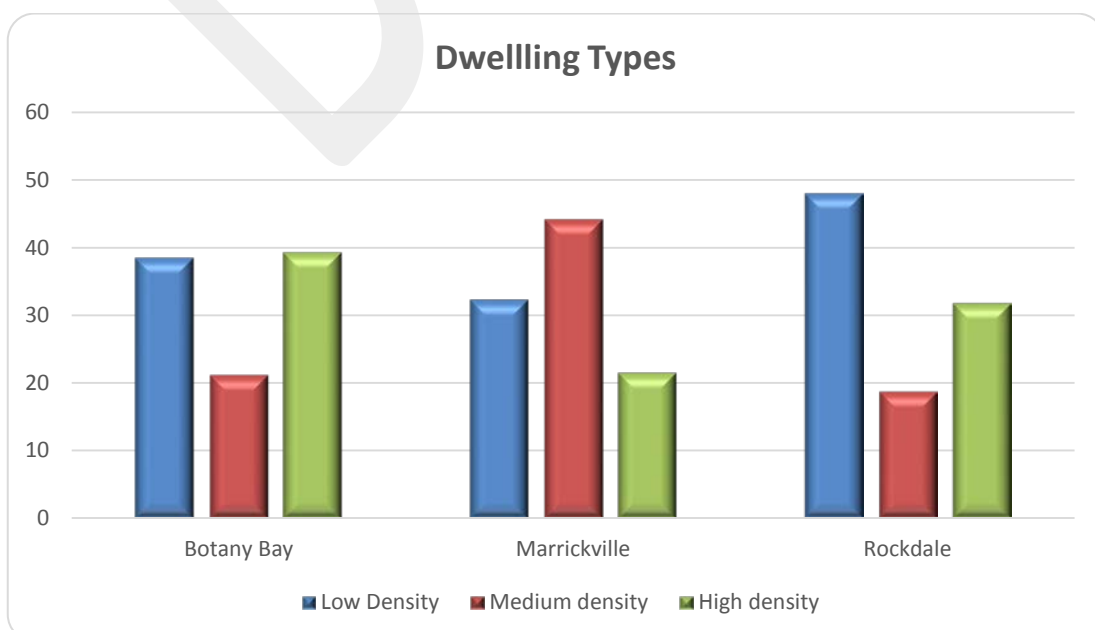
Across the Airport Councils, there is a significant proportion of people living in rental accommodation, particularly in Marrickville. The number of people living in social housing in the City of Botany Bay area is higher than the Greater Sydney average. All areas have a similar proportion of residents with mortgages.



Housing Tenure (%)
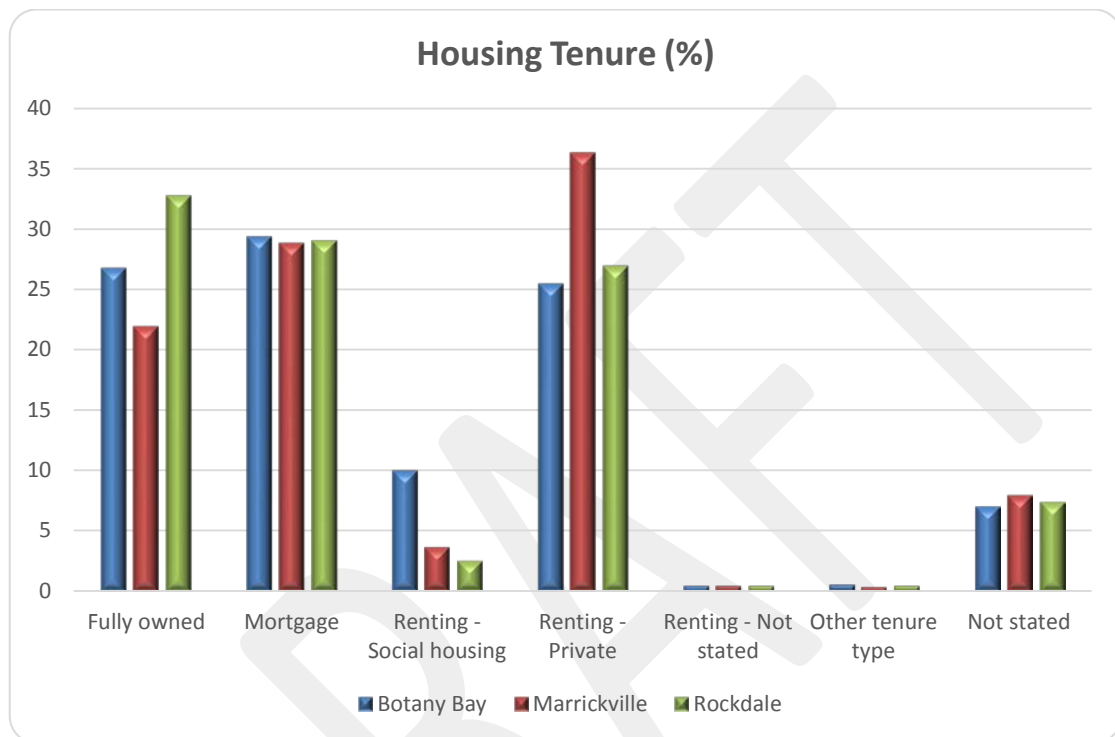
3.4   Age Structure

The age structure of the communities of the Airport Councils shows a strong working age population with the largest proportion of residents between 18 – 49 years of age.

The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

The *Similarities and Differences* analysis split the three areas across two clusters for age structure, with City of Botany Bay showing average proportions of children and elderly people with reasonably high retention rates both for young adults and the very old. Marrickville and Rockdale however fall in a cluster with a low ratio of children to adults of parenting age associated with a low proportion of children in the population overall and a low proportion of elderly people.

The key similarities and differences within the Airport Council's age structure include:

- All areas show a high cluster of people between ages 24 – 49
- City of Botany Bay has a higher proportion of children (0 – 18 years)
- Rockdale shows the greatest proportions of elderly residents

Age Groups (%)
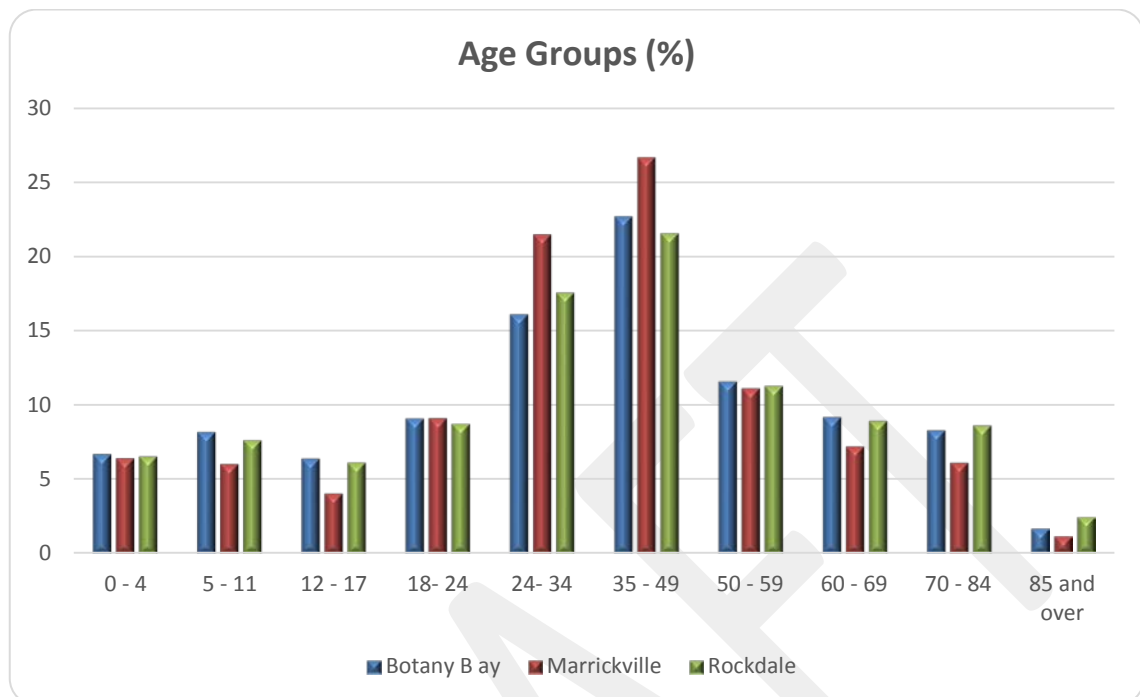
3.5 Household Types

Couples with children and houses with only one resident make up a significant proportion of the councils' household types. This reflects the information found in the Similarities and Differences report.

Household Types (%)
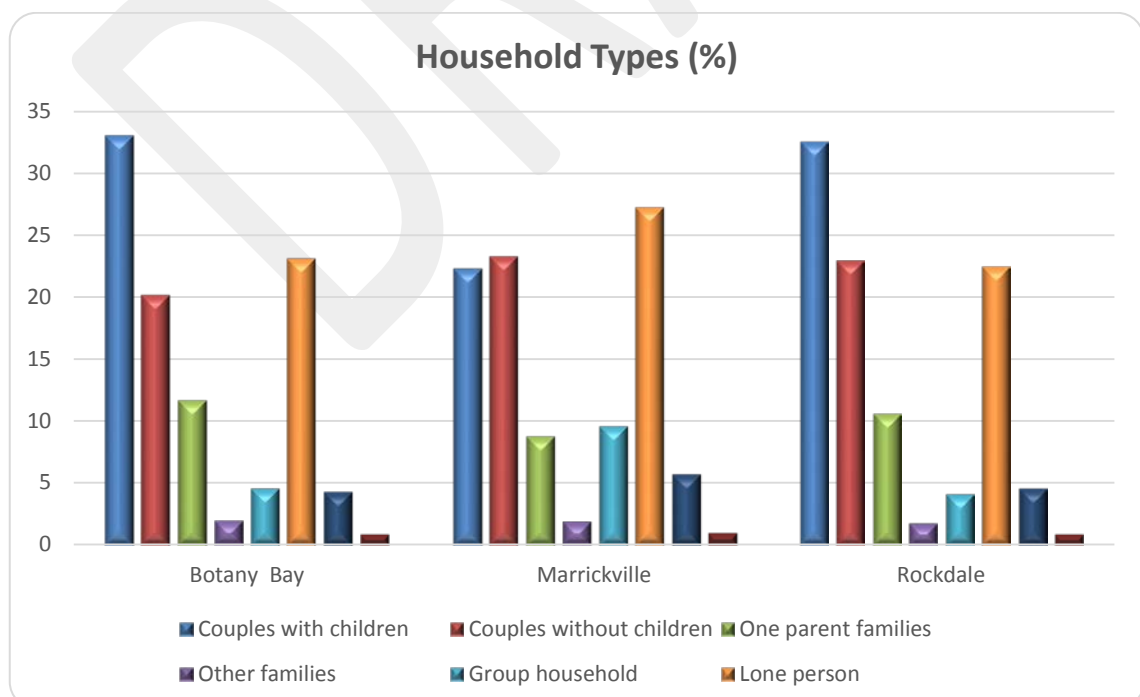
4. CULTURE

4.1 Birthplace

Around 50% of the residents of Rockdale and City of Botany Bay were born in Australia, and 60% of those who live in Marrickville.

All council areas however show significant representation of South East Asia and West Asia for those born elsewhere.

The following table shows the top three countries of birth, after Australia, for each Airport council area:
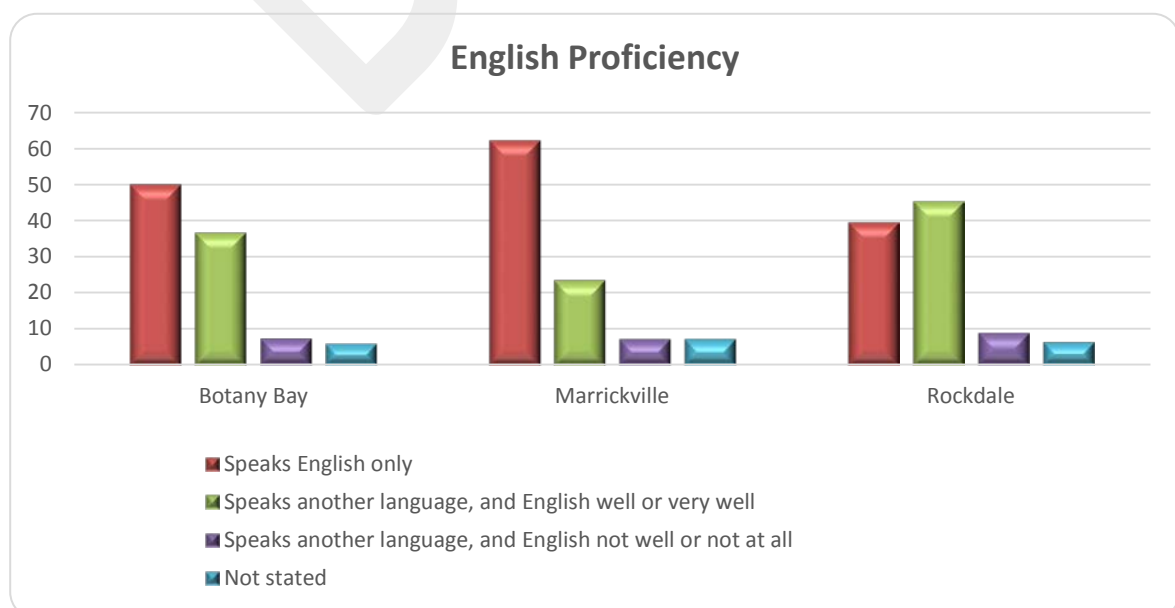
	Born in Australia	1	2	3
City of Botany Bay	51.4%	China 3.3%	Bangladesh 2.9%	Indonesia 2.9%
Marrickville	58.3%	UK 4.5%	Greece 3%	Vietnam 2.9%
Rockdale	49.7%	China 6.3%	Greece 3.2%	Former Yugoslav Republic of Macedonia 3%

4.2 Religion

Marrickville has around a quarter of the population with no religion. Second to this, Catholicism and Protestantism feature. City of Botany Bay and Rockdale show a stronger proportion of residents involved in organised religion. Specifically, Orthodox and Muslim faiths are present. There is a low rate of no religion in this cluster.

4.3 Language

City of Botany Bay and Rockdale both cluster in respect of language spoken at home. In this small cluster English is used at home by less than a third of households. South Asian languages are more prominent than East Asian while South West Asian and East European languages are also widely spoken. Marrickville meanwhile falls in a cluster where English is the predominant language used in the home.

English Proficiency

Legend:
- Speaks English only
- Speaks another language, and English well or very well
- Speaks another language, and English not well or not at all
- Not stated

5. EDUCATION

In the similarities and differences study, Marrickville sits in a cluster of areas characterised by high proportions of overseas-born residents with good English, high educational attendance, high Year 12 completion and high ration of professional to trade qualifications, compromised by moderate proportions of overseas-born and speaking limited English (distinguishing it from the most academically inclined areas in Sydney).

Rockdale and City of Botany Bay are clustered together in a group of areas with less academically inclined areas with moderate Year 12 achievement, fairly high proportions of people born overseas with good English, quite high adolescent educational attendance and fairly low proportions of residents with professional qualifications.

5.1 School Completion

School completion data is a useful indicator of socio-economic status. Combined with educational qualifications it also allows assessment of the skill base of the population.

Overall, the Airport Councils have high rates of Year 12 school completion. Only City of Botany Bay falls below the Greater Sydney average for completion, with 54% of people completing, as compared to an average of 55%.

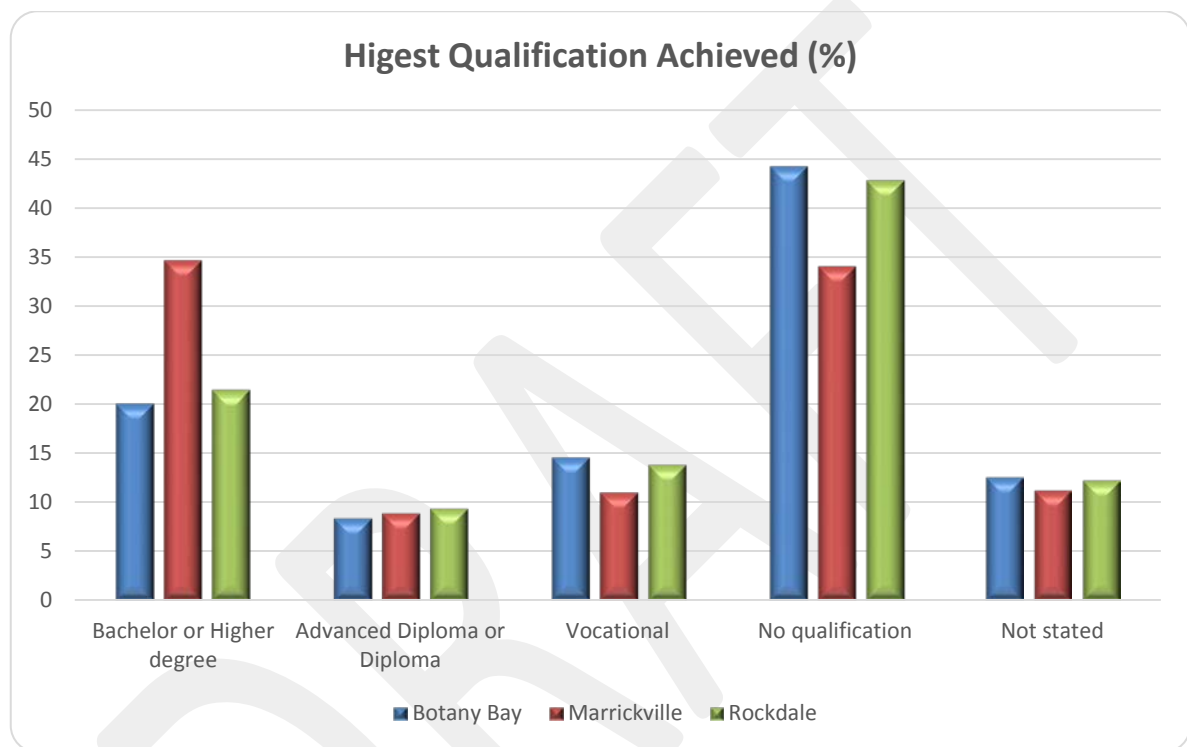Highest level of secondary schooling completed (%)
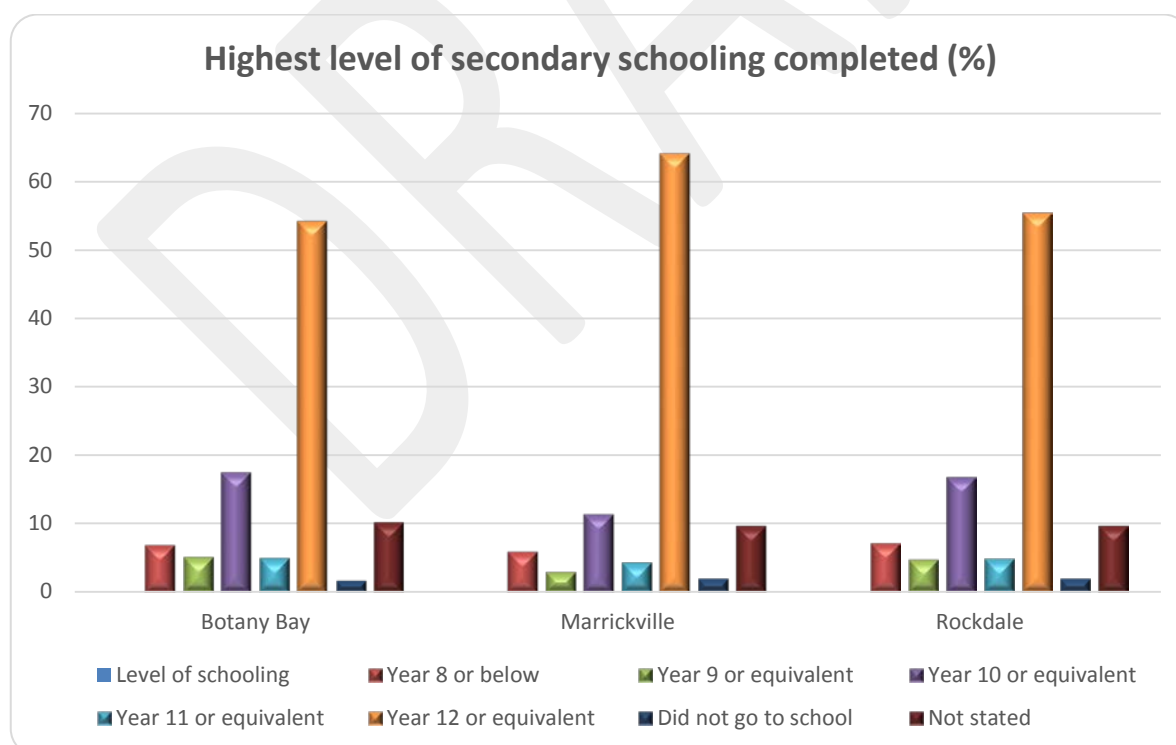
5.2 Post School Qualifications

Educational qualifications relate to education outside of primary and secondary school and are one of the most important indicators of socio-economic status. With other data sources, such as employment status, income and occupation, an area's educational qualifications help to

evaluate the economic opportunities and socio-economic status of the area and identify skill gaps in the labour market.

Marrickville shows the largest number of residents in receipt of Bachelor or higher degree qualifications, and exceeding the Greater Sydney average of 24%. City of Botany Bay and Rockdale however show a higher proportion of residents with no qualifications.

Higest Qualification Achieved (%)

Legend: Botany Bay, Marrickville, Rockdale

Categories: Bachelor or Higher degree, Advanced Diploma or Diploma, Vocational, No qualification, Not stated

6. LABOUR MARKET

The three council areas fall in different clusters in the Similarities and Differences report. City of Botany Bay falls in a cluster with areas typically considered to be more high wealth areas. City of Botany Bay is grouped here due to its low unemployment however measured, low social security take-up, reasonably high work availability and moderate FTE employment participation.

Both Marrickville and Rockdale, while featuring in separate clusters in the Similarities and Differences report, both typically experience moderate rates of unemployment and social security take up. Marrickville however typically has higher FTE job holding and a greater number of hours worked.

6.1 Employment Status
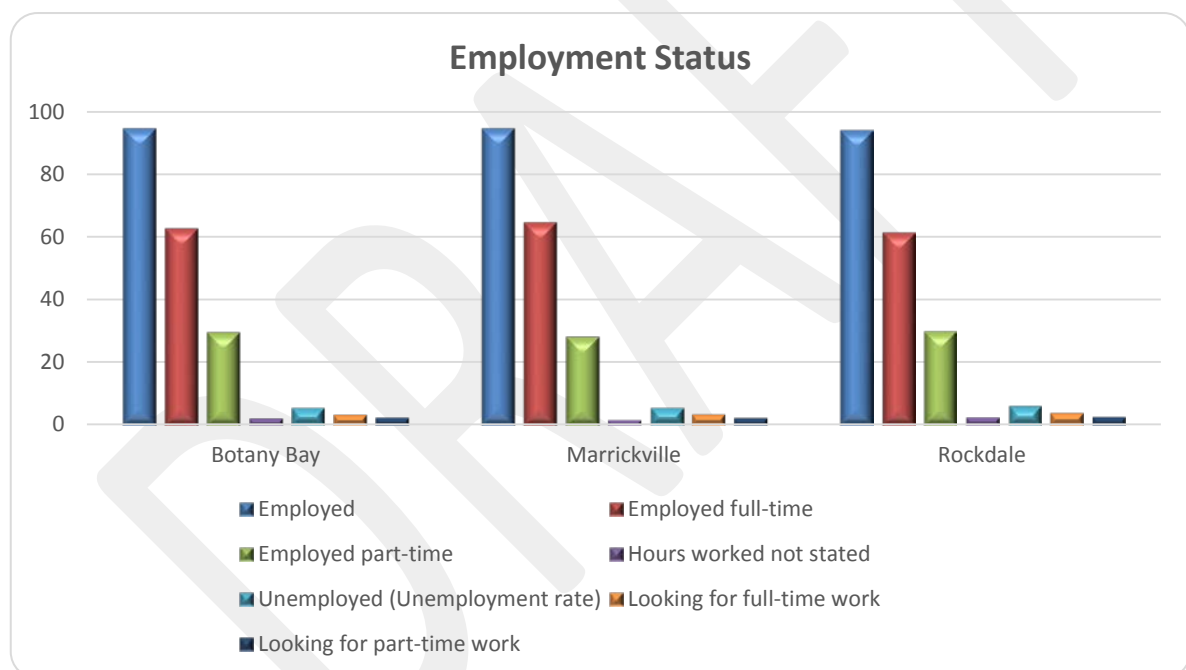
6.2 Industries of Employment

City of Botany Bay and Rockdale share similar industry profiles. Marrickville however shows a different spread of industries, with Healthcare and Social Assistance still featuring in the top three industries.

	1	2	3
City of Botany Bay	Health Care and Social Assistance	Retail Trade	Transport, Postal and Warehousing
Marrickville	Professional, Scientific and Technical Services	Education and Training	Health Care and Social Assistance
Rockdale	Health Care and Social Assistance	Retail Trade	Transport, Postal and Warehousing

6.3   Occupations

The three councils have a predominance of professionals, with Marrickville being highest overall. Managers, and clerical and administrative roles also feature strongly across all regions, however with Marrickville again the largest proportion of people are engaged in these roles. Other positions (trade, retail and labouring roles for example) make up a larger proportion of the total occupation for the other council areas of City of Botany Bay and Rockdale.

7. HOUSEHOLD INCOME AND WEALTH

The three councils sit in cluster of areas with moderately high wealth per household (around $0.85 million each), with much of the wealth in housing. Liabilities and the rate of growth of wealth are moderate.

7.1 Equivalised Household Income

Equivalised Household Income puts all households on an equal footing independent of household size and composition to enable a true comparison between areas and over time. It is an indicator of the income resource available to a household of standard size and is the best measure of the changing economic fortunes of households living in an area.

Marrickville has the highest incomes of the three council areas with the greatest proportion of households in the highest income quartile. Rockdale shows a fairly even distribution of income, with the medium income level being slightly higher than the other ranges.

The greatest proportion of households in City of Botany Bay sit in the lowest income group, which amongst other factors reflects in the index of socioeconomic disadvantage (discussed below).
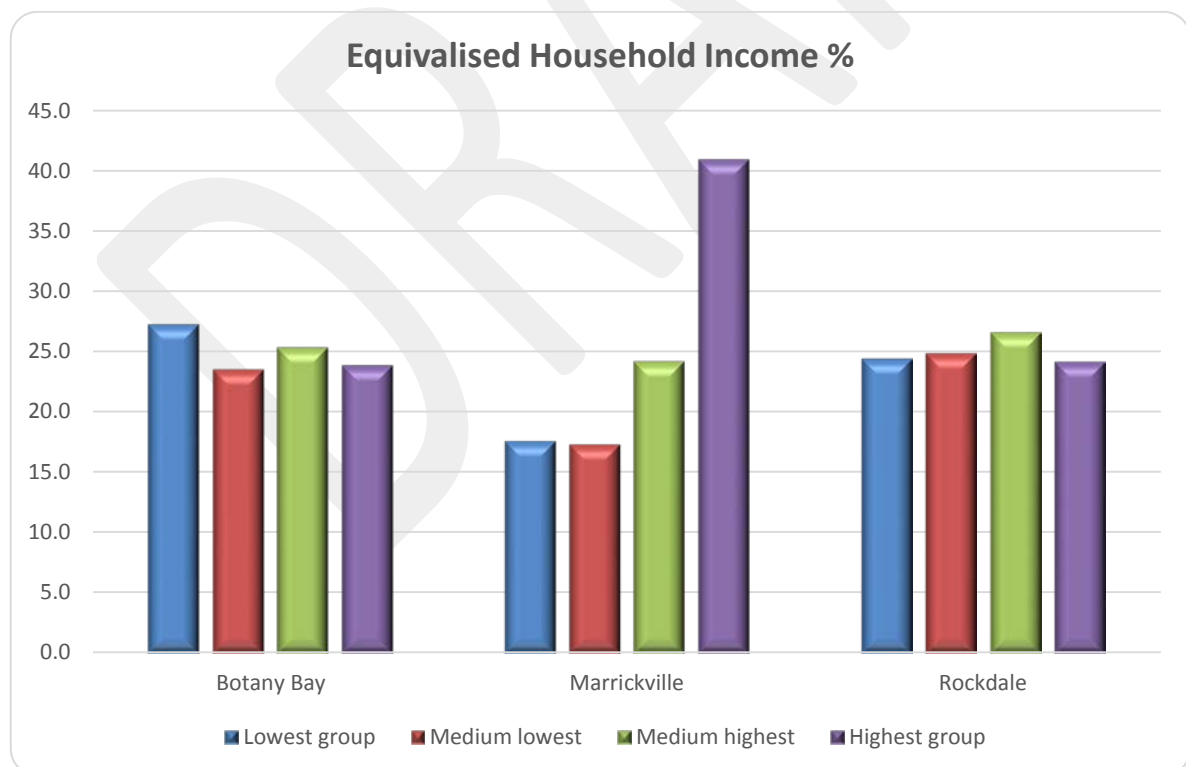
8. SOCIOECONOMIC DISADVANTAGE

The SEIFA Index of Disadvantage measures the relative level of socio-economic disadvantage based on a range of Census characteristics. It is a good place to start to get a general view of the relative level of disadvantage in one area compared to others and is used to advocate for an area based on its level of disadvantage.

The index is derived from attributes that reflect disadvantage such as low income, low educational attainment, high unemployment, and jobs in relatively unskilled occupations. Lower scores on the index reflect higher levels of disadvantage, where higher scores indicate greater advantage.

Both Marrickville and Rockdale's SEIFA scores indicate a higher level of advantage than the average across New South Wales. City of Botany Bay falls below the average score, however is still ranked 62 out of 152 council areas in the State.

SEIFA Rank
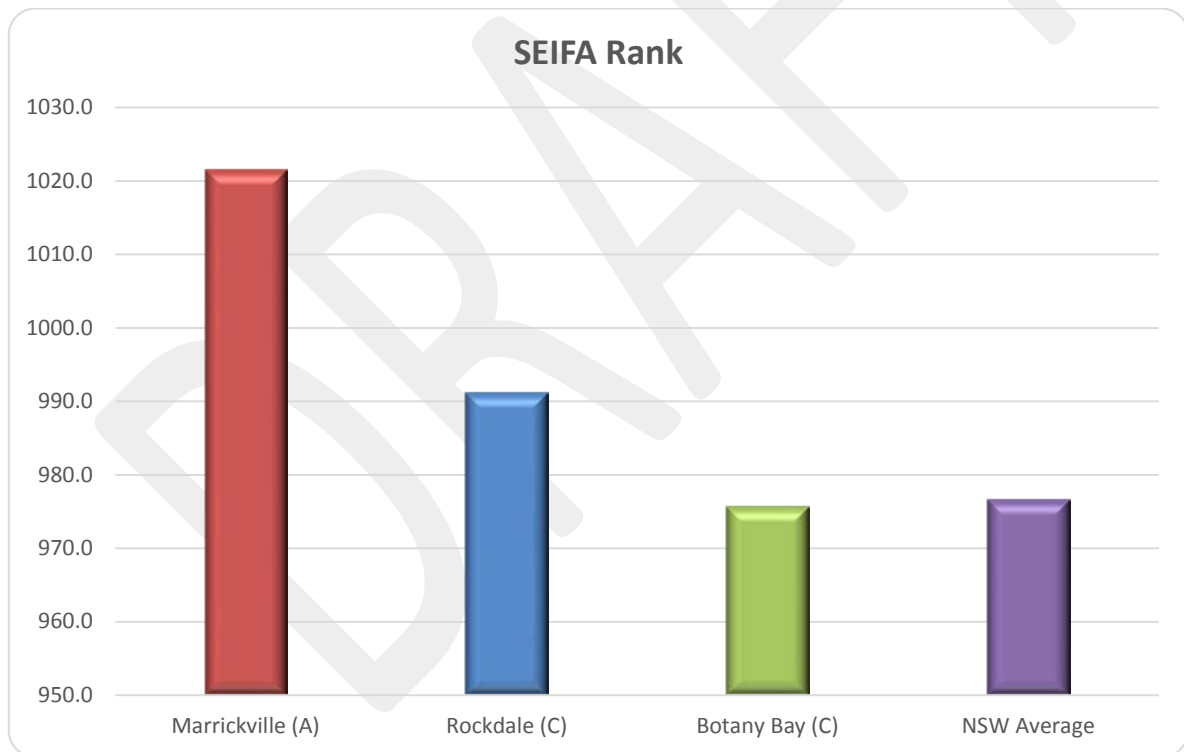
9. POLITICAL PARTY COMPOSITION

9.1 Local Government

The composition of each elected council within the Airport Council's is presented below:

Elected Council Political Party Composition
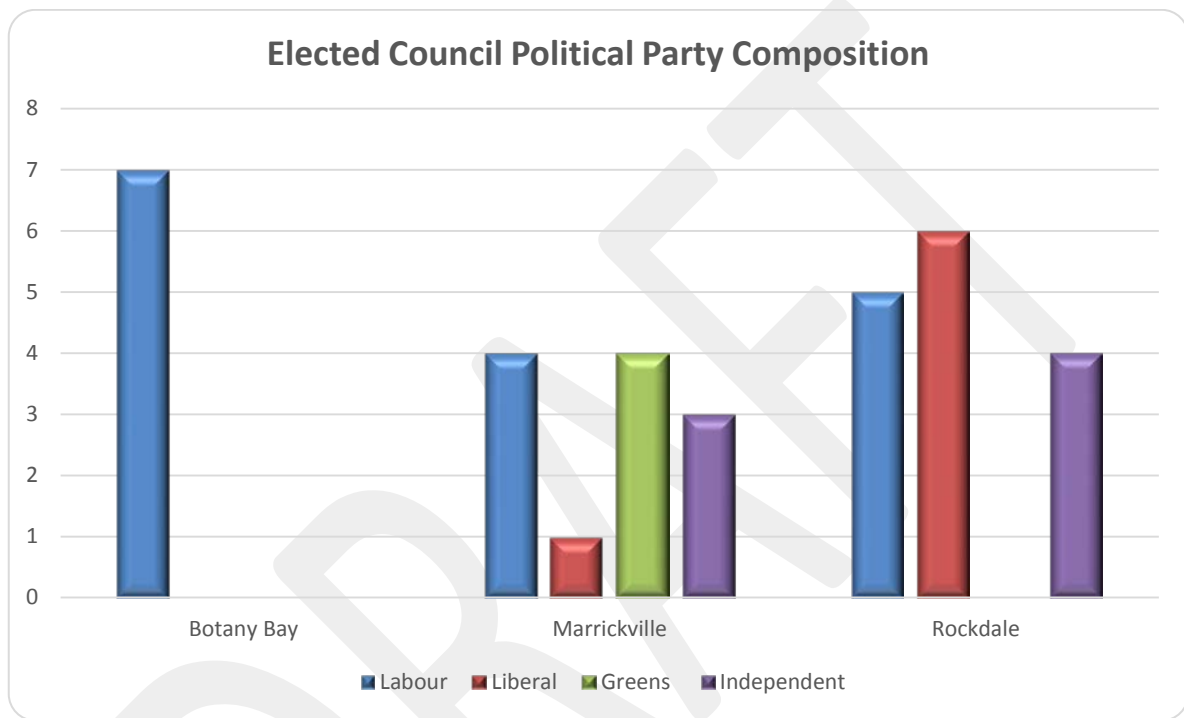
There are some notable differences across the regions:

- City of Botany Bay is represented entirely by the Labour party. The council was elected unopposed in 2008, and in 2012 there were two wards that were unopposed
- Marrickville has both Labour and Greens Councillors. Marrickville is the only area with Greens representation
- Rockdale shows the largest representation of Liberal Councillors across the region, and also has a strong independent presence on the council

9.2 State and Federal Government

	State Electorate	Party	Federal Electorate	Party
City of Botany Bay	Maroubra	Labour	Kingsford Smith	Labour
Marrickville	Heffron, Summer Hill	Labour	Grayndler	Labour
Rockdale	Rockdale	Liberal Party	Barton	Liberal

City of Botany Bay and Marrickville are Labour-dominated at the state and federal levels, where Rockdale has Liberal members at both levels.

10. LOCAL ECONOMIC FEATURES

10.1 Gross Regional Product

The Gross Regional Product for each council area is:

Council Area	Gross Regional Profit
City of Botany Bay	$8,930,000,000
Marrickville	$4,014,000,000
Rockdale	$3,827,000,000

City of Botany Bay has the largest economy in both gross and relative terms, reflective of the economic activity in and around the Airport and Port Botany.
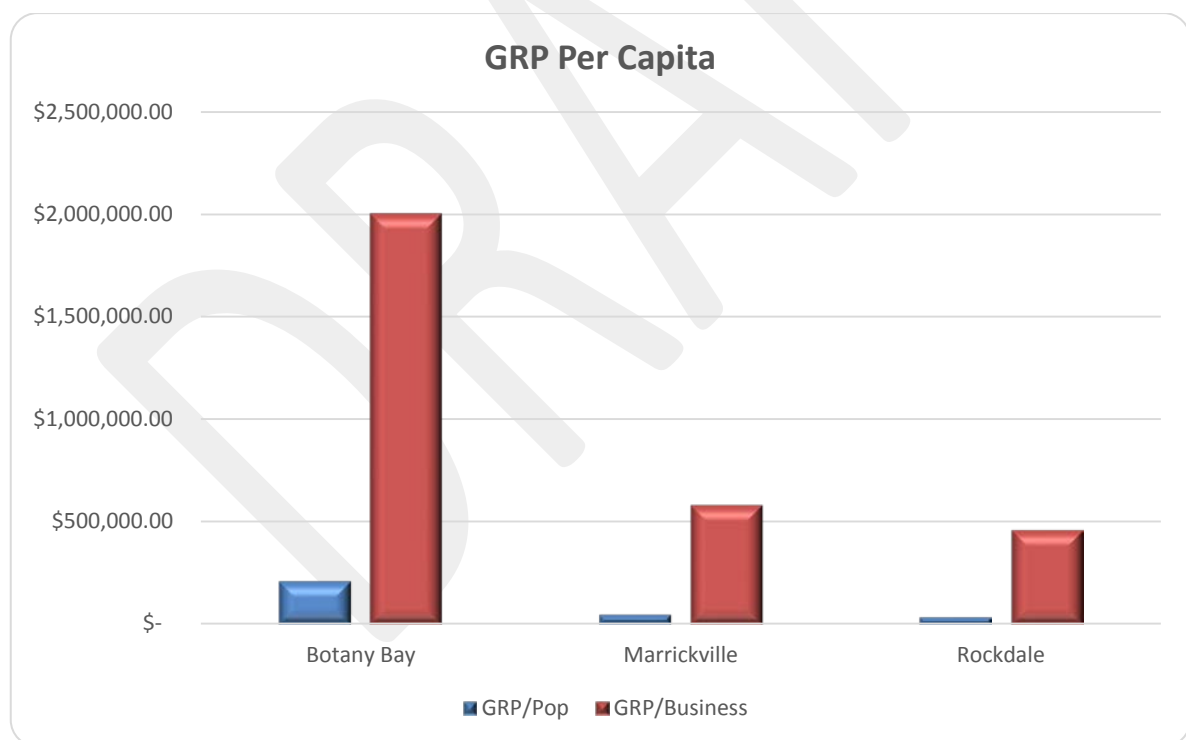
10.2 Size of Workforce

The number of people employed in each council area is show below.

No. people employed
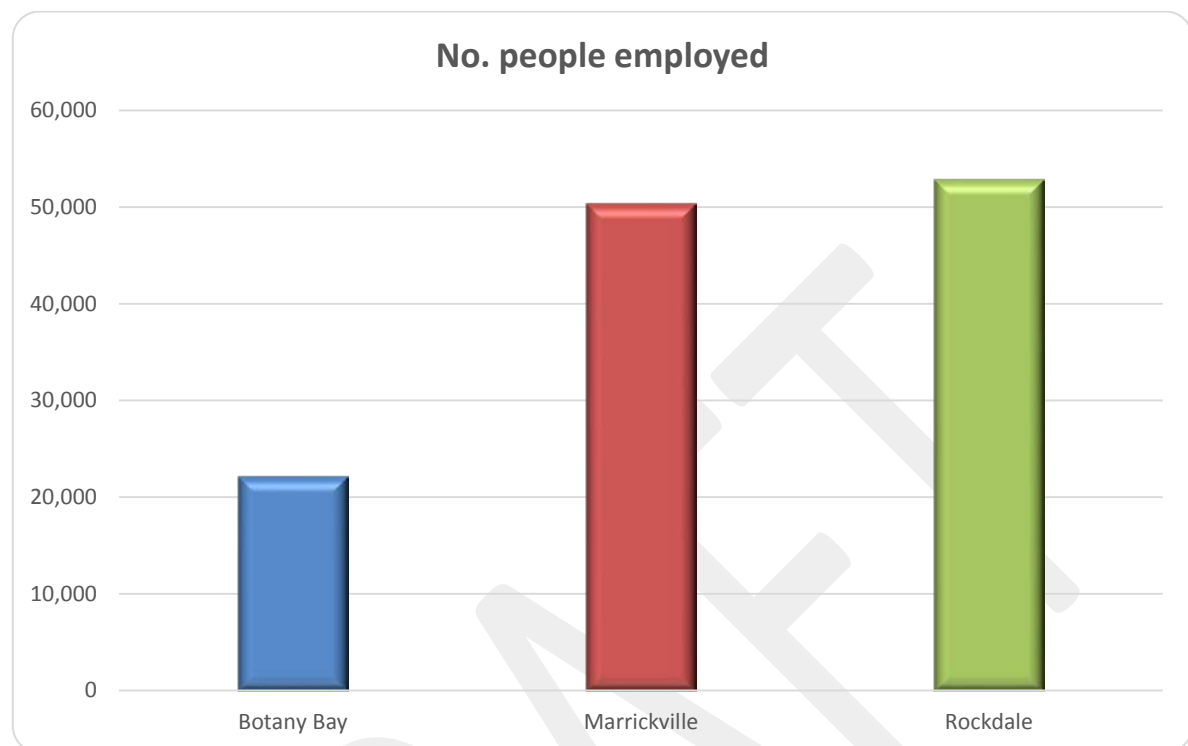
10.3 Knowledge Economy

The knowledge economy is an indicator of areas where there are high levels of innovation, creativity and knowledge based activity. The Similarities and Differences report identifies these areas as characterised by a higher number of patents; employment in the creative arts; post-school qualifications in society, culture or the creative arts; same sex couples; proportion of jobs in professional and scientific services; and post graduate degrees.

Marrickville, Leichhardt and Ashfield are in a cluster of councils notable for their "high arts activity, high professional employment and high level of postgraduate qualifications, a moderately high proportion of same-sex couples and moderate patent application rates. The cluster has no members outside the inner metropolitan area. On the indicators considered, at least, the knowledge economy in New South Wales is synonymous with global Sydney".

The report singles out the Marrickville LGA as containing peak arts employment in NSW, at 1.7%. A report on cultural occupations prepared by Profile ID for Marrickville Council supports this showing that in 2011, 8.2% of Marrickville's resident population work in cultural occupations, compared to Greater Sydney's 5.5%. In terms of local employment, 11.2% of Marrickville's workers are employed in cultural occupations, compared to Greater Sydney's 5.3%, and Marrickville has clear industry specialisations in printing, film and video, music and sound recording, design, photography and creative and performing arts. Marrickville (and Leichhardt and Waverley) was identified as the second highest LGA with a proportion of residents with post school qualifications in society, culture or creative arts, just behind Woollahra's 35%

11. INTERDEPENDENCE AND ECONOMIC RELATIONSHIPS

According to the similarities and differences study, New South Wales is held together by the relationship between each LGA and the City of Sydney as a provider of governmental and financial services, as well as retail, entertainment and other services. Patterns of demand in the inner metropolitan areas converge on the City of Sydney. None of the council areas identified shows status as an independent centre based on the pattern of economic relationships.

City of Botany Bay is a centre for retailing for the surrounding suburbs, particularly Randwick, and also contains the airport precinct.

The three areas all fall in different clusters for their cross-border relationships, as follows:

- Rockdale is in a cluster of areas that are unambiguously close to their neighbours, relying on them for employment and showing high rates of cross-border migration. These areas also have in common less jobs than are necessary to employ their own population and are therefore responsible for net outbound commuting
- City of Botany Bay is a cluster that relies on their neighbours for employment and short-distance migration and attract net inbound commuting and shoppers
- Marrickville is in a cluster of areas that are sources of outbound commuting and outbound shoppers

11.1 Metro Commuter Clusters

The similarities and differences report identified the following clusters in which the Airport council areas are grouped:

- Inner Ring - >35% of resident workforce employed in City of Sydney (Marrickville)
- Middle Ring – 20<35% employed in City of Sydney (Rockdale and City of Botany Bay)

11.2 Workers' Place of Residence

Most residents in the three councils work outside the council area, with Rockdale showing the highest number of residents living and working in the council boundary.
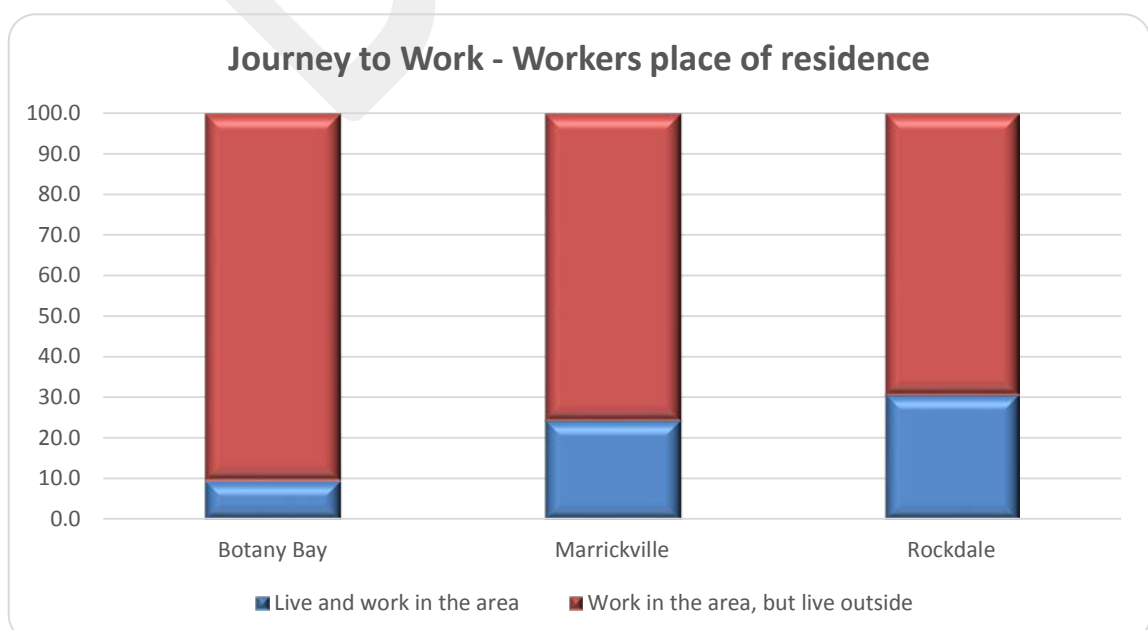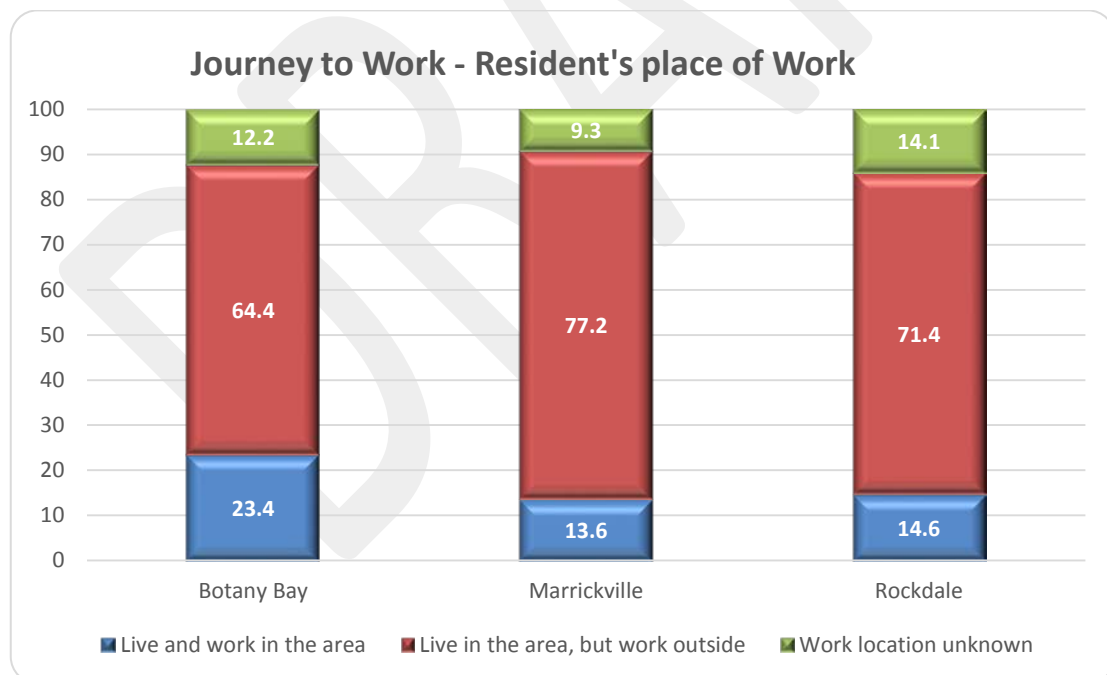
The most prominent places of residence for people employed in the Airport Council areas are:

	First	Second	Third	Airport Total
City of Botany Bay	Randwick 9.8%	City of Botany Bay 9.6%	Rockdale 7.8%	19.8%
Marrickville	Marrickville 24.4%	Canterbury 11%	Rockdale 5.2%	30.6%
Rockdale	Rockdale 30.7%	Sutherland Shire East 7.9%	Kogarah 7.3%	34.1%

The majority of workers in each of the council areas live in areas outside the region. Further, there does not appear to be significant levels of travel between the council regions for employment.

11.3   Residents' Place of Work

Residents' place of work is consistent with the dominance of central Sydney as an employment hub with majority of residents working outside their current council boundary.

Journey to Work - Resident's place of Work

Botany Bay	Marrickville	Rockdale
Work location unknown 12.2	9.3	14.1
Live in the area, but work outside 64.4	77.2	71.4
Live and work in the area 23.4	13.6	14.6

■ Live and work in the area   ■ Live in the area, but work outside   ■ Work location unknown

	Top Place of Work	Live and Work in Area
City of Botany Bay	City of Botany Bay	23.4%
Marrickville	Sydney (Inner)	13.6%
Rockdale	Rockdale	12%

The top place of work for residents of City of Botany Bay and Rockdale are within their council boundaries, however makes up a small proportion of the locations in which residents work. The top location of work for residents of Marrickville is within Sydney, followed by Marrickville.

11.4 Migration Patterns

The following migration patterns occurred within each council area between 2006 and 2011:

	Highest Net Gains	Highest Net Losses
Marrickville	1. Sydney 2. Randwick 3. Leichhardt	1. Canterbury 2. Rockdale 3. Bankstown
City of Botany Bay	1. Randwick 2. Sydney 3. Waverley	1. Rockdale 2. Campbelltown 3. Canterbury
Rockdale	1. Randwick 2. Marrickville 3. Sydney	1. Hurstville 2. Sutherland Shire 3. Kogarah

The following observations can be made:

- All areas benefit from migration from Randwick and Sydney.
- Rockdale benefits from migration from Marrickville, and Botany Bay.

The similarities and differences report highlights:

- City of Botany Bay sits in with the Eastern Suburbs as a group with frequent border crossings
- The border between Marrickville and City of Botany Bay is infrequently crossed
- There is much border crossing between the three St George areas

12. SERVICING

12.1 State and Federal Government Services

There are some differences in the regional groupings of the three areas for the purposes of Federal and State planning and service delivery, for example:

1. Medicare Local

The three Local Government Areas are fragmented across three separate Medicare Local Districts, with City of Botany Bay in the eastern Sydney area, Marrickville in the Inner West, and Rockdale in South Eastern Sydney.

2. NSW Health

City of Botany Bay and Rockdale sit in the Eastern Sydney Local Health District, and Marrickville in the Sydney Local Health District.

3. NSW Metropolitan Strategy, Central Subregion

Marrickville and City of Botany Bay are in the Central Subregion and Rockdale in the South Subregion under the draft Metropolitan Strategy.

		Short	Medium	Long
		years 0 -3	year 4- 5	ongoing
	Works and tech Services			
	Harmonisation	-250,000		
		-350,000		
	Accommodation/Signs/Branding			
	IT	-1,500,000		
	Transitional Body	-750,000		
	Staff Savings		17,864,270	35,728,540
	Plant Rationalisation		4,220,000	
	Asset Rationalisation			
	Contacts	4,128,000	4,128,000	8,256,000
	Sub total	1,278,000	26,212,270	43,984,540
Back of House	Harmonisation	-250,000		
		-350,000		
	Accommodation/Signs/Branding			
	IT	-55,000,000		31,428,572
	Transitional Body	-1,250,000		
	Staff Savings		5,200,000	10,400,000
	Sub Total	-56,850,000	5,200,000	41,828,572
Total	Total	-55,572,000	31,412,270	85,813,112