

Author name: J. Andrew

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## **AUBURN, BURWOOD AND CANADA BAY COUNCILS (PROPOSED SYDNEY OLYMPIC PARK CITY COUNCIL) FIT FOR THE FUTURE SUBMISSION**

31 July 2015

### **Introduction**

The Councils of Auburn, Canada Bay and Burwood Councils have agreed to lodge a merger proposal in regard their Fit for the Future submission to form Sydney Olympic Park City Council (SOPCC). Throughout this submission there are references to Strathfield Council being considered in this merger proposal.

Strathfield Council has resolved to stand alone but seek regional alliances such as a Joint Organisation, which is consistent with the recommendations of the Independent Local Government Panel. Strathfield Council has demonstrated in its submission that it will meet all seven financial indicators in the benchmark period.

Council has conducted substantial community engagement which indicates high levels of community support for Council's position. In a poll with residents conducted in May-June 2015, 81% of residents indicated support for a stand alone option with alliances such as a Joint Organisation to provide increased strategic capacity and improved financial sustainability through:

- A regional entity to oversee broad direction, advocacy and strategic planning
- A shared services arrangement to oversee development of shared services, joint procurement and other operational activities

Council believes that the Joint Organisation model is a more cost effective and less disruptive alternative to amalgamations.

This submission outlines Strathfield Council's primary concerns with the proposed merger.

### **Geographic location and sub-regional planning**

Council notes that there are few shared boundaries between the three merger partners and the proposal is predicated on the inclusion of Strathfield to unite the land areas. The majority boundary linking the eastern located councils with Auburn is through Strathfield Council. City of Canada Bay shares a small boundary with Auburn Council on either side of Homebush Bay Drive. Auburn and Burwood Councils share no borders.

Auburn Council is part of the West Central subregion for state and metropolitan Sydney planning. Auburn has not been identified in the Independent Local Government Panel report as part of recommendations relating to Sydney's Inner West.



The NSW Government strategy 'A plan for growing Sydney', the six Sydney's subregions are set out as follows:

- Auburn Council is located in the West Central with Bankstown, Blacktown, Holroyd, Parramatta and The Hills.
- Strathfield Council is located in Central sub-region with Ashfield, Botany Bay, Burwood, Canada Bay, Leichhardt, Marrickville, Randwick, Sydney (city of), Waverly and Woollahra.

The Central sub-region includes Sydney's Inner West and Eastern Suburbs (with inclusion of City of Sydney).

Auburn Council is affected by Parramatta Road urban growth as are the majority of Inner West Councils but so are Holroyd and Parramatta Councils and there is no suggestion that these would be appropriate merger partners for Councils located in the Inner West.

### **Merger costs**

The cost of the merger appears to be greater than the project cost savings. According to the SOPCC business case, the estimated cost of the merger ranges from \$34.2 to \$48.2 million but could be higher. This estimate did not include an additional \$10 million from IT costs as the three merger partners have similar systems. It is unknown how much analysis was done to estimate the cost of harmonisation of three systems which were tailored to meet the needs to the specific councils nor estimates of upgrading or establishing networks to meet the needs of staff and facilities across a council of 59m<sup>2</sup>, but IT is indisputably one the largest costs of council mergers.

It is estimated that the cost savings would be \$31.5M, which is projected over the period being modelled (2023). The cost savings is the best case scenario as mergers are highly risky based on numerous examples of amalgamations which have not delivered cost savings and faced increased operational costs. Some of the risks identified in the SOPCC business case include:

- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs maybe higher and the anticipated savings may not be achieved
- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the three council organisations may not go well resulting in low morale, increased staff turnover rate etc.,
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated
- New services are introduced that are not currently delivered in one or more of the former council areas



- The financial performance of the merged council is less than that modelled, resulting in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit

According to the SOPCC business case, the merged council is already carrying debts totalling \$23 million.

### **“Willing partners”**

The proposal claims that the merger will succeed as all Council are ‘willing partners’ and no council will dominate the merged organisation. This is difficult to envisage as Burwood Council totals only 20% of population and less than 10% of total land area at the time of merger.

The ‘willing partner’ argument is hard to accept as the proposal puts forward substantial evidence that communities are not supportive of the proposal.

According to the SOPCC report, 74% of the City of Canada Bay community indicated a level of support to stand alone and only 14% supported a merger with Burwood, Strathfield and Auburn Councils.

Auburn Council conducted the Fit for the Future Survey: ‘Awareness and Support’ Report produced by Micromex Research for Auburn City Council in March 2015 found that 64% of Auburn City residents opposed any amalgamation, and only 15% indicated support for the proposal included in the ILGRP Report.

Burwood Council conducted consultation in May 2015, to gauge the community’s views on the Burwood, Canada Bay and Auburn merger, as well as a ‘standalone’ option via telephone survey. The findings indicated that: 68% voted to stand alone. The option merge with Auburn, Canada Bay (and possible inclusion of Strathfield) - 59% indicated a level of support.

### **Councillor Representation**

The SOPCC submission does not estimate the number of councillors, however under the *Local Government Act* the current maximum is 15 councillors. It is likely that the merged council would form wards given the size of the council, however wards in a merged council are not obliged to maintain historic council boundaries as they need to be similar in size. In a Council this size, the council would be dominated by the largest areas. Burwood being the smallest would have minimal councillor representation (as would Strathfield if included), with the majority of the Council area comprising the former Auburn and Canada Bay areas.

Councillor representation would increase to 1 councillor to 16,460 residents and continue to increase with expected population growth

### **Council debts and backlogs**

In the modeling for the Inner West Council proposal, Burwood Council has a reported infrastructure backlog of \$160M, which was partially attributable for the inability of a merged



Inner West Council to meet all financial benchmarks especially asset management renewal and maintenance, yet Burwood is part of the SOPCC proposal and this merger proposal states that all financial benchmarks are met eg asset backlogs, renewals and maintenance are now manageable.

The merger proposal states that all information is taken on 'face value' ie no detailed analysis has been made to verify information such as condition ratings of assets (where a satisfactory rating can adopted on very poor condition assets), future management of SOPA assets (state authority or local government?) and financial arrangements between SOPA and local government especially access to council rates.

### **Community Interest**

Communities of interest are concerned with identifying the characteristics, interests and aspirations that create harmonious and engaged communities. Similarities such as education, employment, shopping, culture and recreation, community values, beliefs and customs and political dimensions indicate similarities and dissimilarities between communities.

As detailed in the SOPCC Merger Business case, there are significant differences between the merger partners, particularly socio-economic status. Auburn Council is one of the most socio-economically disadvantaged LGA in the Sydney Metropolitan area. The only parts of Auburn Council which are similar to Canada Bay or Burwood (and Strathfield) in the Socio-Economic Indexes for Areas (SEIFA) index are Wentworth Point and Newington, which are located in Sydney Olympic Park area.

There are considerable differences in education, qualifications, employment levels and income between the Council areas, which highlights the difficulties in merging communities with few commonalities.

- According to NIER (March 2013), Burwood and City of Canada Bay are part of a cluster of councils which have a high proportion of overseas born residents with high educational attendance, high year 12 achievement and a high ratio of professional to trade qualifications. Auburn is part of a cluster of councils with a high proportion of overseas born residents with poor English and moderate year 12 achievement.
- According to NIER (March 2013), Burwood and City of Canada Bay are characterised by low unemployment levels, low social security uptake, while Auburn is characterised by moderate unemployment levels and moderate social security uptake.
- Auburn has the lowest median weekly household income (\$1,160) of the three areas, followed by Burwood (\$1,310); City of Canada Bay has the highest median weekly income (\$1,817)
- According to NIER (March 2013) Burwood and City of Canada Bay belong to a cluster of councils with middle incomes, with a high salary and wage component, while Auburn is characterised by low to middle incomes, with around 60% of disposable income from wages and salary



- In all three council areas, the most common occupational group is professionals. For both Auburn and Burwood the second and third most common occupational groups are Clerical and Administrative workers and Trades and Technicians. In City of Canada Bay the second most common occupation group is Managers followed by Clerical and Administrative workers

The merged council would need to develop a governance model that represents the communities of interest across the proposed merger area, given the lack of similarities in the three council areas, this may be a challenge.

### Rates

Impact on rates for Strathfield residents is significant. The Inner West Modeling by Morrison Low estimated that an inner west merger would cause residential rates in Strathfield Council to rise by at least 16% and business rates to rise by up to 50%. It was estimated that rates of the Canada Bay area would increase, while the Burwood area would decrease.

In the SOPCC business case, there are claims that because of time constraints modeling on rates projections could not be estimated. Given the impact of increases to Council rates on residents and ratepayers, it is a reasonable expectation that communities be informed of likely impacts.

In the Auburn-Burwood-Canada Bay merger, level of rates would be impacted by inclusion of high and low value land areas. Auburn Council land value is significantly lower than Strathfield Council and likely lower than Burwood and Canada Bay. In the proposed merger, Auburn Council also has the largest land area of 32km<sup>2</sup>, against Burwood at 7km<sup>2</sup> and Canada Bay 20km<sup>2</sup>.

In a merger, the structure of the rating system will be applied to all residential properties. As the basis of rates is unimproved land value, when low value land is combined with areas with high land values such as Strathfield and Canada Bay, it causes rates to increase in areas of high land value. It should be noted that Auburn currently relies on its business rates for the majority of its rates yield, which is highly unusual in comparison to their merger partners. 53% of its rating yield are business rates and 47% are rates on residential properties.

	<b>Strathfield</b>	<b>Auburn</b>	<b>Burwood</b>	<b>Canada Bay</b>
Residential	69%	47%	73%	86%
Business	31%	53%	27%	14%

Rates are calculated on the unimproved land value, using either a full ad valorem (% in \$) or combination of base rate (specific amount) and ad valorem (%in \$). Strathfield uses a base/ad valorem model, while Canada Bay, Burwood and Auburn use a full ad valorem model.

Council rates are based on land values and a merger of four council areas would result in changes to the amount of rates paid by individual properties. As the *Local Government Act* only allows for one ordinary residential rate across the whole of an urban council area, the



status quo could not remain and a new residential rate covering the merged council area would need to be implemented.

Due to the higher land values in Strathfield, a merger including Auburn would result in significantly increased rates in the Strathfield Council area, which may be in the vicinity of over 20%, which is a reasonable assumption based on modelling for the Inner West Council proposal where discrepancies in land value in the Inner West were less than those between Auburn and Strathfield.

Auburn Council was last valued in 2012 by the NSW Valuer General. The total land value of the Auburn LGA as at 1 July 2012 was approximately \$9 billion. The land value of Auburn per km is about \$281M.

Strathfield Council was last valued in 2013. The total land value of the Strathfield LGA was approximately \$7.24 billion as at 1 July 2013. The land value of Strathfield per km is about \$513.4M.

In terms of total land value, the Strathfield Council area per km is worth more than 80% more than Auburn Council.

Land is revalued by the Valuer General every three years. While land revaluations do not change the total rates revenue councils are permitted to raise, it does change the distribution of the rates burden. It is not uncommon for there to be significant variation in rates for properties due to revaluations, for example when the land values of one suburb increase more than another. The greater the disparity in land values, the greater the potential for rates volatility.