



Independent Local Government Review

- The NSW Government appointed an “Independent Local Government Review Panel” in April 2012
- The Panels Final Report – “Revitalising Local Government” was released in October 2012 the recommendation for Walcha being merge with Uralla Shire Council or become a Rural Council in a New England Joint Organisation.
- The Government responded to the Panels report by way of a “Fit for the Future” reform package in 10 September 2014.
- Councils are required to complete a submission on how they will become fit for the Future by 30 June 2015
- The Independent Pricing and Regulatory Tribunal (IPART) has been appointed to assess Council submissions



Walcha Community Survey Results

Do you support the Recommendation that Walcha Council merge with Uralla Shire Council?

333 responses

Yes: 52 (16%)

No: 281 (84%)

Walcha Council currently has 8 Councillors would you be in favour of a reduction in this number and if you are what is an appropriate number?

332 responses

Yes: 218 (66%)

No: 114 (34%)

Average preferred number of Councillors was five (5).

If there was a reduction in the number of Councillors would you be in favour of the elimination of the Wards?

325 responses

Yes: 197 (61%)

No: 128 (39%)

Council now meets formally 11 times a year. How many do you feel would be an appropriate minimum?

319 responses **Monthly: 185 (58%) Bi-Monthly: 97 (30%) Quarterly: 37 (12%)**

To assist Council improve its infrastructure (eg: roads, bridges, parks & gardens), would you be willing to pay increased rates?

318 responses

Yes: 137 (43%)

No: 181 (57%)



Timeframe

Assessment Phase

- 30 June 2015 – Proposals due
- 31 July 2015 – Close of public submissions on council proposals
- October 2015 – IPART release assessments to the Minister



Assessment Methodology

Scale and Capacity Criterion



IPART proposed methodology for assessment

Scale and capacity established as threshold

- ▼ Council first assesses scale and capacity against ILGRP recommendation
- ▼ Proposal based on whether it currently has or will have sufficient scale and capacity with proposed approach
- ▼ 3 types of proposals
 - No change – council improvement proposal
 - Structural change – merger proposal **OR**
 - Rural characteristics – rural council proposal



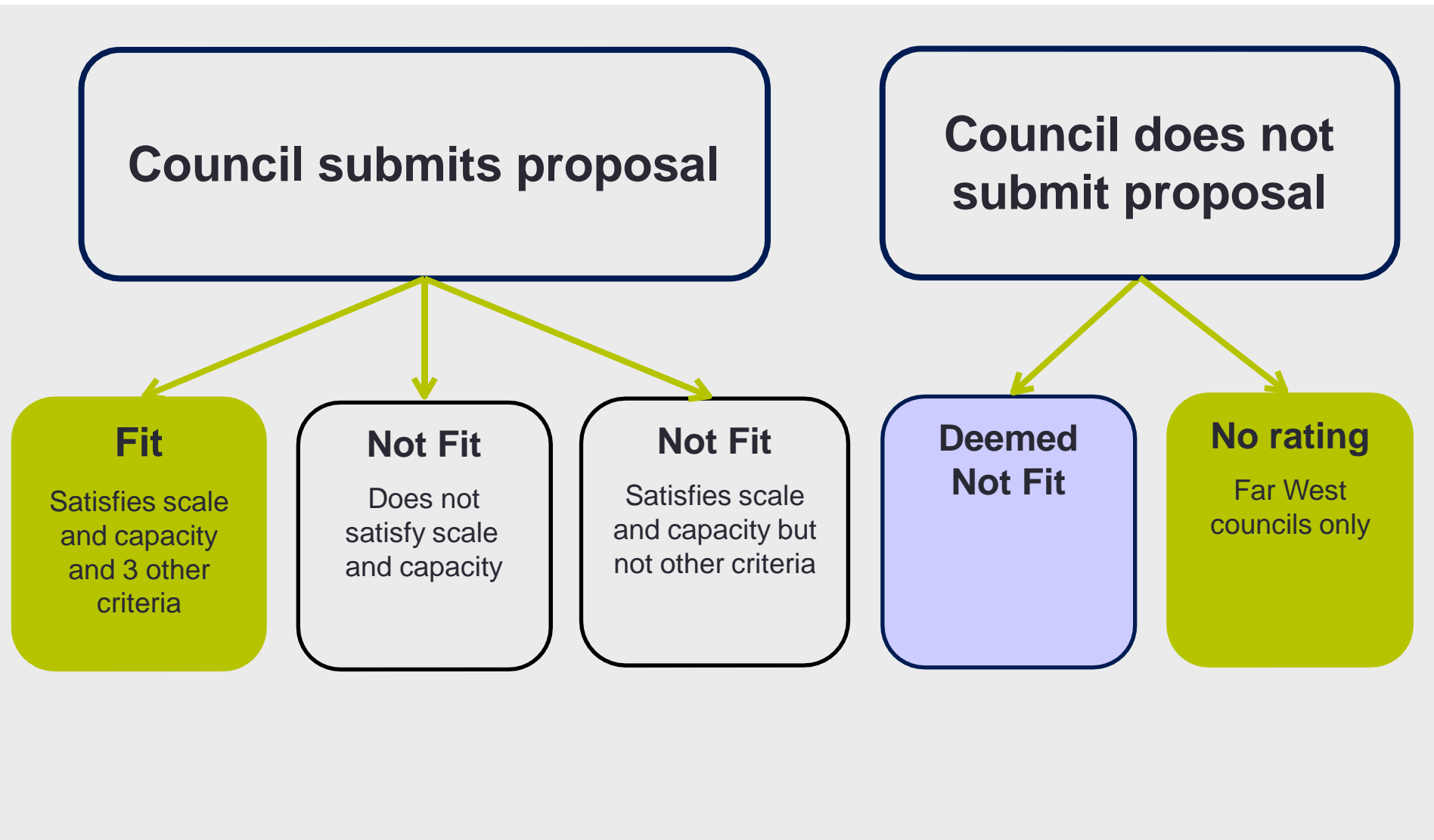
Key elements of strategic capacity - ILGRP definition

Key elements of strategic capacity

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and Federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.



Assessment approach - ratings





Proposal satisfies scale and capacity if....

- Adopts ILGRP preferred option for scale and capacity
- Alternatively, ***broadly consistent*** with objectives, eg,

No change	Merger	Rural
Presents sound argument why no structural change is superior to ILGRP merger	Proposes merger with fewer/ different councils to ILGRP (eg 2, 3 not 4)	Satisfies Rural Council characteristics (OLG)
Proposal is indicative of features of strategic capacity	Sound argument how proposal consistent with ILGRP objectives for merger	Proposal demonstrates merger option considered but found not feasible
		Demonstrates strategies planned for real change indicative of strategic capacity



How will the key elements of strategic capacity influence the assessment ?

IPART will consider if **council improvement** and **merger proposals** demonstrate key elements, eg:

- ▼ Appropriate minimum population size
- ▼ Target number of councils in metropolitan/regional areas
- ▼ **Plan** to achieve other key elements, eg, :
 - effective regional collaboration
 - employ wider range of skilled staff
 - credibility for more effective advocacy.



Does the proposal address regional/state-wide objectives?

Examples of objectives ILGRP identified for regional and rural councils:

- ▼ Ensure local government remains in place, is 'fit for purpose', maintains maximum possible community life and identity
- ▼ Where possible, create regional centre with scale and capacity to anchor a Joint Organisation
- ▼ Ensure close functional inter-relationships between regional centre and adjoining council areas
- ▼ Address 'councils at risk' through mergers with adjoining areas.



Rural council characteristics

Rural council characteristics

1. Small and static or declining population spread over a large area
2. Local economies that are based on agricultural or resource industries
3. High operating costs, dispersed population, limited opportunities for ROI
4. High importance local identity, social capital, capacity for service delivery
5. Low rate base and high grant reliance
6. Difficulty attracting/retaining skilled, experienced staff
7. Challenges in financial sustainability, provision of services/infrastructure
8. Long distance to major (or sub) regional centre
9. Limited options for mergers



Assessing rural council proposals

- ▼ Must satisfy main rural council characteristics
- ▼ Alternative to merger, only if merger not feasible
- ▼ Lower cost (reduced regulatory/compliance burden) with regional Joint Organisation undertaking selected regional functions
- ▼ Demonstrates plan to enhance capacity and performance to more sustainable level.



Assessment Methodology

Other criteria

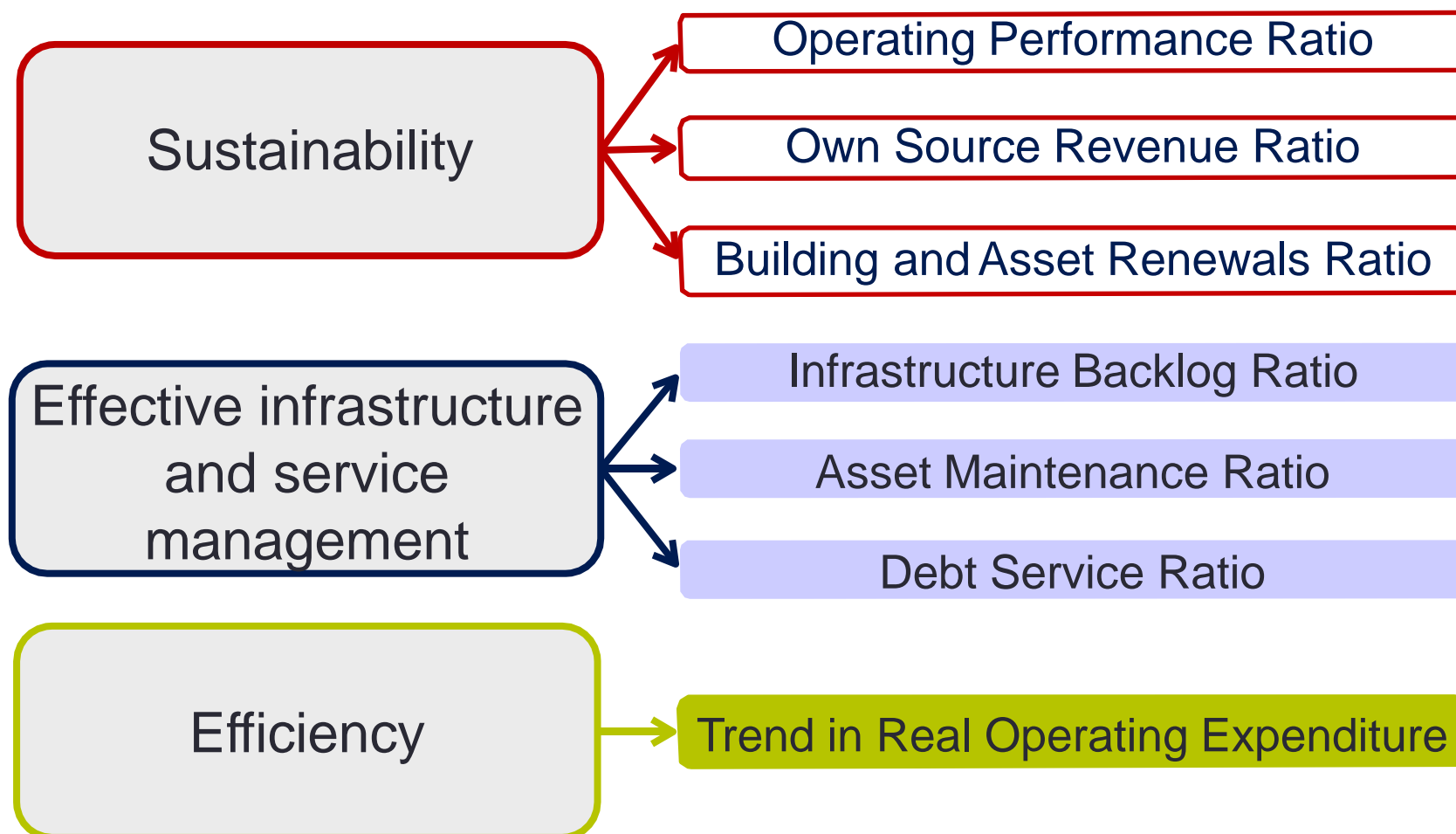
Sustainability

Effective infrastructure and service management

Efficiency



What are the other criteria?



How will we assess sustainability?

Operating performance: meeting ongoing operating expenditure requirements

$$\frac{\text{Net continuing operating result (excl capital grants and contributions)}}{\text{Total continuing operating revenue (excl capital grants and contributions)}}$$

Own source revenue: controlling own operating performance and sustainability

$$\frac{\text{Total continuing operating revenue (excl all grants and contributions)}}{\text{Total continuing operating revenue (incl capital grants and contributions)}}$$

Building and asset renewals: preventing asset deterioration and controlling asset backlog

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



How will we assess sustainability?

Performance measure	Benchmark	All councils (except rural councils)	Rural council (option)	Merger case
Operating Performance Ratio	\geq break even average over 3 years	Must meet within 5 years	Plan to meet within 10 years	Must meet within 5 years for non-rural councils Plan to meet within 10 years for rural councils
Own Source Revenue Ratio	$> 60\%$ average over 3 years	Must meet within 5 years	Plan to improve within 5 years & consideration of FAGs	Must meet within 5 years for non-rural councils Plan to improve within 5 years & consideration of FAGs for rural councils
Building & Infrastructure Asset Renewal Ratio	$> 100\%$ average over 3 years	Meet or improve within 5 years	Meet or improve within 5 years	Meet or improve within 5 years



How will we assess effective infrastructure and service management?

Infrastructure backlog: managing backlogs and providing sustainable levels of service

$$\frac{\text{Estimated cost to bring assets to satisfactory condition}}{\text{Total write-down value of infrastructure, buildings, other structures, depreciable land and improvement assets}}$$

Asset maintenance: spending enough to avoid increasing backlog

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

Debt service: using debt wisely to spread costs across time

$$\frac{\text{Cost of debt service (interest expense and principal repayments)}}{\text{Total continuing operating revenue (excl capital grants and contributions)}}$$



How will we assess effective infrastructure and service management?

Performance measure	Benchmark	All councils (except rural councils)	Rural council (option)	Merger case
Infrastructure Backlog Ratio	< 2%	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years
Asset Maintenance Ratio	> 100% average over 3 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years	Meet or improve/ inform within 5 years
Debt Service Ratio	0 to 20% average over 3 years	Meet within 5 years	Meet within 5 years	Meet within 5 years



How will we assess efficiency?

- Real operating expenditure: utilising economies of scale and managing service levels to achieve efficiencies

Real operating expenditure

Population

Benchmark	All councils (except rural councils)	Rural council (option)	Merger case
A decrease in Real Operating Expenditure per capita over time	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	Demonstrate operational savings (net of IPR supported service improvements) over 5 years but may not be practical in short term

Walcha Councils current trends



Benchmark	2011-12	2012-13	2013-14
Operating Performance Ratio	-0.307	-0.304	-0.118
Own Source Revenue	59.7%	62.6%	61.5%
Building and Infrastructure Assets Renewal Ratio	42.9%	45.4%	112.6%
Infrastructure Backlog Ratio			4.99%
Asset Maintenance Ratio	69.7%	67.4%	67.2%
Debt Service Ratio	0.34%	0.16%	0.59%
A decrease in Real Operating Expenditure per capita over time	4.08	3.59	2.73

Walcha Councils current criteria results



Benchmark	Result	Meets
Operating Performance Ratio (greater or equal to break even average over 3 years)	-0.249	No
Own Source Revenue (greater than 60% average over 3 years)	61.23%	Yes
Building and Infrastructure Assets Renewal Ratio (greater than 100% average over 3 years)	64.75%	No
Infrastructure Backlog Ratio (less than 2%)	4.99%	No
Asset Maintenance Ratio (greater than 100% over three years)	68.12%	No
Debt Service Ratio (greater or equal to 20% average over three years)	0.36%	Yes
A decrease in Real Operating Expenditure per capita over time	Decreasing	Yes

Walcha Councils projected trend



Benchmark	2013-14	2014-15	2015-16
Operating Performance Ratio	-0.118	-0.035	-0.032
Own Source Revenue	61.5%	63.1%	52.3%
Building and Infrastructure Assets Renewal Ratio	112.6%	139.4%	230.4%
Infrastructure Backlog Ratio	4.99%	4.88%	4.28%
Asset Maintenance Ratio	67.2%	99.54%	99.54%
Debt Service Ratio	0.59%	0.94%	0.98%

Where to from here

Scale & Capacity through the Joint Organisations

Namoi Councils

- Regional Advisory
- Intergovernmental Collaboration
- Regional Strategic Planning

New England Councils

- Tourism
- Regional Land Use Planning

Where to from here – cont.

- Services Reviews
- Continued Resource Sharing
- Possible Special Rate Variation



The Infrastructure Challenges

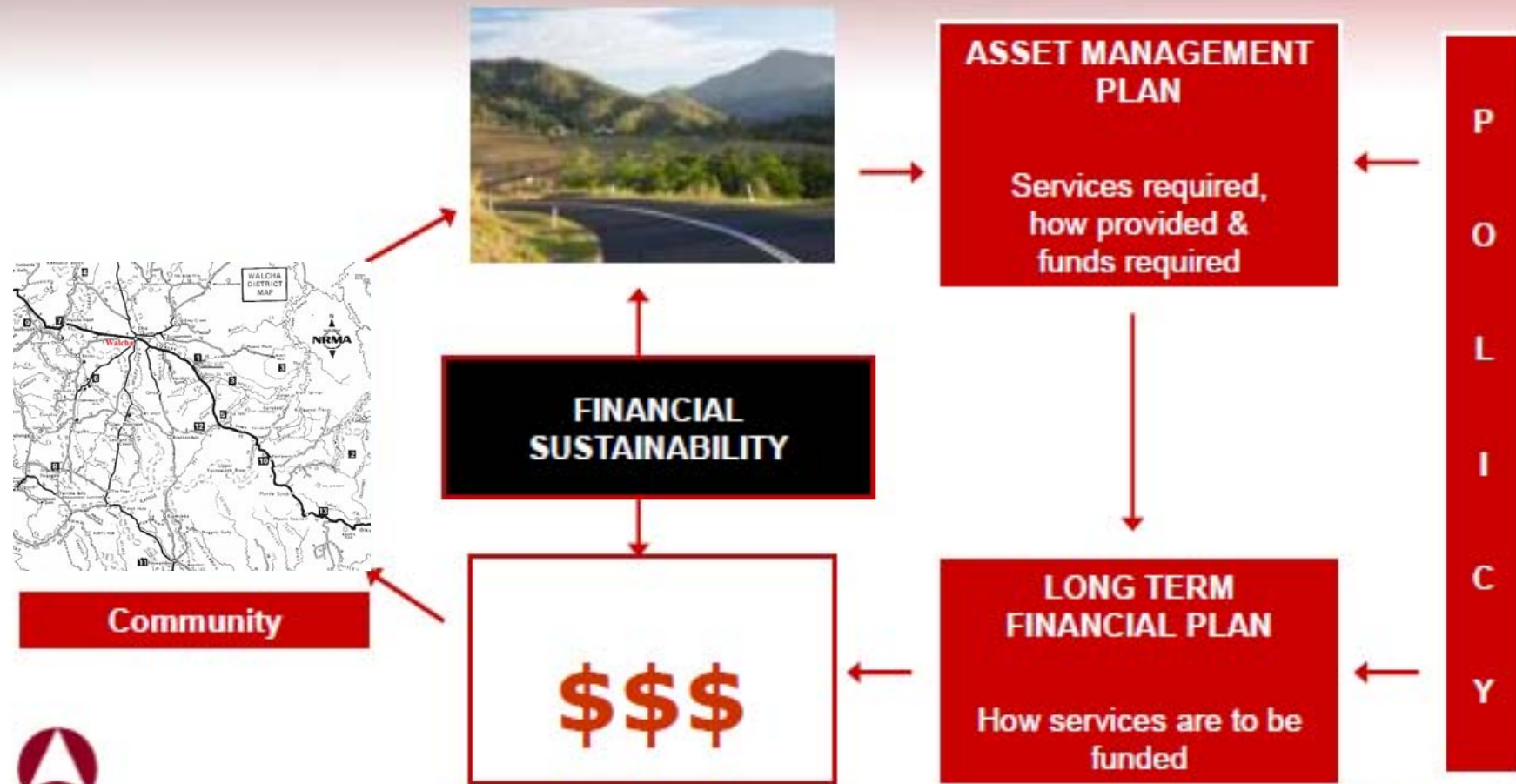
Our Asset Stock



Council is responsible for looking after **\$465M** worth of infrastructure assets owned by the community.

- Roads – 917km
- Bridges – 91 (30 Timber)
- Water – 55.6km mains
- Sewer – 30km mains
- Stormwater – 8.5km pipes
- Buildings - 51

Financial Sustainability Tools



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Areas of Focus



30 Timber Bridges

Backlog - \$7.8M Backlog

- R2R \$200,000/yr + General Revenue
- Funding shortfall of \$45,000/year to prevent backlog increasing.
- No Timber bridge grant program
- **HIGHEST RISK TO COMMUNITY**
- Implementation of Livestock Loading Scheme
- To replace all in next 10 years need +\$580,000/yr

Areas of Focus



Regional Roads

Thunderbolts Way - \$9M Backlog – (23km)

- Council receives only \$700,000 + \$150,000 /year
- 1km costs ~ \$400,000
- Funding shortfall of \$70,000/year to prevent backlog increasing.
- Backlog is reduced as grants become available eg RDA Grant.
- Council is continually seeking additional grant funding for this road.

Areas of Focus



Local Roads

Backlog - \$8M Backlog (32km)

- R2R \$200,000/year + General Revenue \$1.3M
- Funding shortfall of \$330,000/year to prevent backlog increasing.
- Backlog is reduced as grants become available.



Additional Funding Issues

1. To prevent infrastructure assets further decline need additional \$375,000/yr. (excluding regional roads)
2. To address timber bridge issue over 10 years need additional \$580,000/yr for 10 years.



Funding Options

- Loans
- Rate Increases
- Grant Funding

Affordability v's LOS



- If the required funding is not available Assets will continue to deteriorate.
- Need to establish whether we are delivering the expected level of service (LOS)? The customers expectation.
- Question of willingness/ability to pay vs level of service (LOS).



QUESTIONS?