Assessment of Fit For The Future Benchmarks

Richmond Valley and Kyogle Councils

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Casino Office:
Cnr Walker Street and Graham Place
(Locked Bag 10)
Casino NSW 2470
Phone: (02) 6660 0300
Fax: (02) 6660 1300

Evans Head Office:
Cnr Woodburn Street and School Lane
Evans Head NSW 2473
Phone: (02) 6660 0365
Fax: (02) 6682 4252

Email: council@richmondvalley.nsw.gov.au
Web: www.richmondvalley.nsw.gov.au

Introduction

NSW local councils are moving in the right direction to achieve strong sustainable communities. One of their first steps is the Fit for the Future program, which actively challenges local councils to assess their scale and capacity and to consider regional improvement plans. The Panel's final report assessed Richmond Valley Council's medium term position as 'sustainable' and to consider potential merger benefits with Kyogle Council.

Council modelling assesses the seven key ratios to show the results of a merged entity between Richmond Valley and Kyogle Councils.

Background

The areas of Kyogle and Richmond Valley have natural attractiveness but are both ranked in the lowest decile of socio-economic advantage (SEIFA) across Australia. SEIFA weights income, education, employment, housing and other variables, to determine areas that require federal funding and services.

The two Councils share common environmental initiatives and access the same water source for urban water usage. Both Councils have mapped a path towards long term sustainability and improving their community, however Kyogle is starting farther behind.

Richmond Valley has implemented positive changes including a Special Rates Variation, professional asset valuations and financial movements that best reflect the consumption of service potential from infrastructure assets. As a result Council achieves six of the seven measures of a fit Council by 2019 and achieves the seventh measure within this current Long Term Financial Plan.

Kyogle Council's Long Term Financial Plan adopts a scenario with general rates capped at 22% above rate pegging for the next five years *(general fund figures from Kyogle's Long Term Financial Plan adopted scenario 9 February 2015)*. This will improve their performance over a longer 20 year period, with large infrastructure backlogs resulting from deteriorating timber bridges.

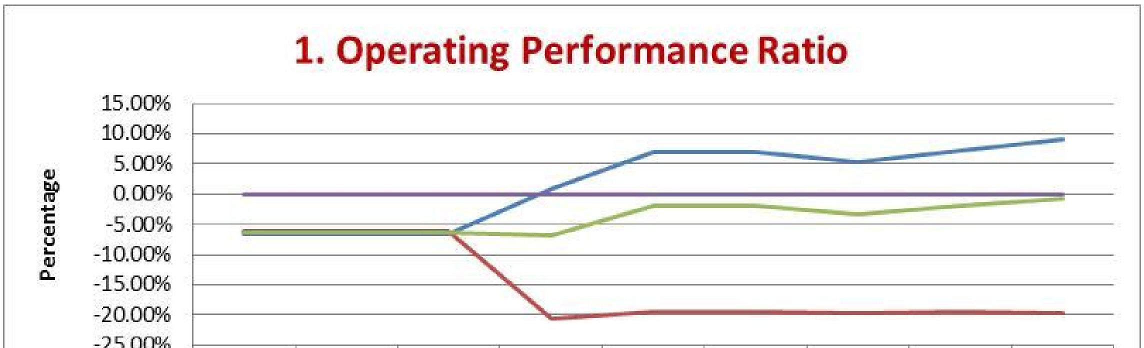
This modelling exercise utilises complete data from Richmond Valley Council sources, but only the aggregated results from Kyogle Council with no capacity to confirm confidence in their methods. *Kyogle's draft submission presents measures referencing a 19 May 2015 scenario which differs significantly from the measures used in this analysis (see ratios below).*

Fit For the Future Indicators

Both Councils achieve the following general fund measures, 2 - Own Source Revenue, 5 - Asset Maintenance Ratio and 6 - Debt Service Ratio. Richmond Valley achieves measure 7 - Real Operating Expenditure with discounted spend per capita declining each year of the Long Term Financial Plan. Kyogle Council's spend per capita increases initially before remaining constant.

1. Operating Performance Ratio

Figure 1 demonstrates Richmond Valley's superior performance, achieving the benchmark in year 2019/20, while Kyogle makes little progress this Long Term Financial Plan. Kyogle's performance does improve over a longer time frame.



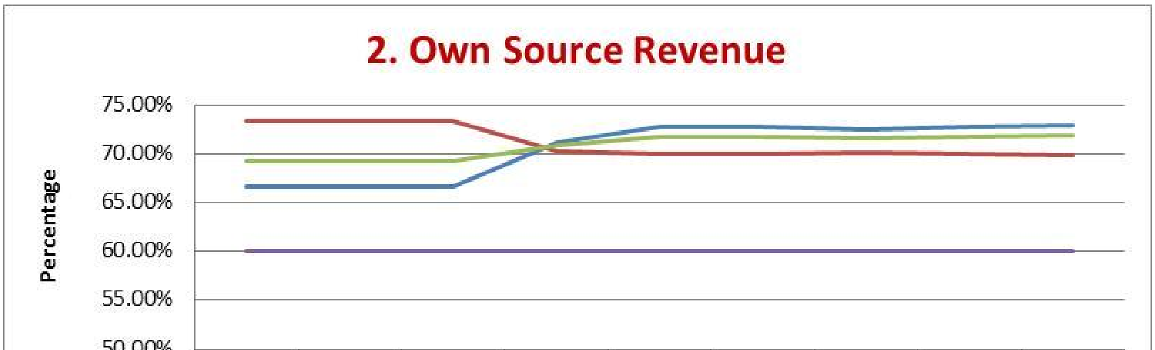
	Average over 3 years to 2016/2017	Average over 3 years to 2017/2018	Average over 3 years to 2018/2019	Average over 3 years to 2019/2020	Average over 3 years to 2020/2021	Average over 3 years to 2021/2022	Average over 3 years to 2022/2023	Average over 3 years to 2023/2024	Average over 3 years to 2024/2025
RVC	-6.49%	-6.49%	-6.49%	0.78%	7.08%	7.08%	5.35%	7.10%	8.99%
Kyogle	-6.02%	-6.02%	-6.02%	-20.64%	-19.56%	-19.56%	-19.63%	-19.44%	-19.63%
Combined	-6.31%	-6.31%	-6.31%	-6.74%	-2.02%	-2.02%	-3.24%	-1.97%	-0.71%
Benchmark	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Figure 1: Operating Performance Ratio

Kyogle Council indicate that their Operating Performance Ratio will meet the benchmark in 2015/16 and stay within a positive range of 15% to 20% for the next 20 years. The large improvement is due to a $10 Million debt facility, an attitude change from previous Councils.

2. Own Source Revenue

Both Councils are above the benchmark for own source revenues as demonstrated in Figure 2.



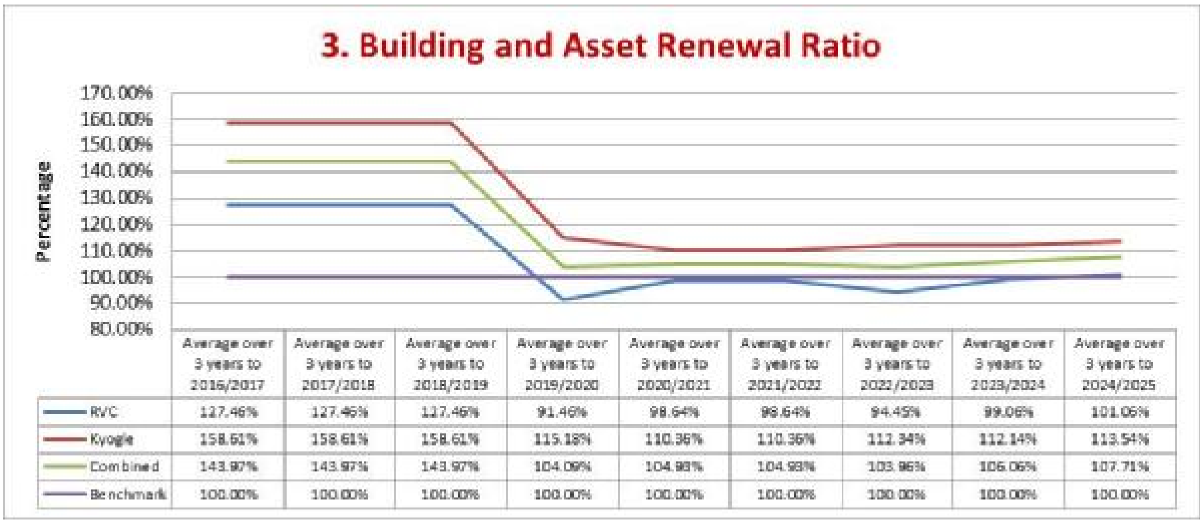
	Average over 3 years to 2016/2017	Average over 3 years to 2017/2018	Average over 3 years to 2018/2019	Average over 3 years to 2019/2020	Average over 3 years to 2020/2021	Average over 3 years to 2021/2022	Average over 3 years to 2022/2023	Average over 3 years to 2023/2024	Average over 3 years to 2024/2025
RVC	66.68%	66.68%	66.68%	71.10%	72.70%	72.70%	72.39%	72.70%	72.89%
Kyogle	73.41%	73.41%	73.41%	70.31%	69.95%	69.95%	70.08%	69.95%	69.82%
Combined	69.18%	69.18%	69.18%	70.83%	71.78%	71.78%	71.62%	71.78%	71.88%
Benchmark	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%

Figure 2: Own Source Revenue

Kyogle Council indicate that their Own Source Revenue Ratio will just meet the benchmark in 2017/18 and hover around this level.

3. Building and Asset Renewal Ratio

Kyogle Council demonstrates superior performance in preserving and restoring the service potential of their infrastructure assets, their Renewals Ratios is consistently far above the benchmark measure. Richmond Valley Council achieves the benchmark at the end of this current Long Term Financial Plan process, the result of a 1.6% per annum general rates increase above the rate peg. Comparative performances are illustrated in Figure 3.



	Average over 3 years to 2016/2017	Average over 3 years to 2017/2018	Average over 3 years to 2018/2019	Average over 3 years to 2019/2020	Average over 3 years to 2020/2021	Average over 3 years to 2021/2022	Average over 3 years to 2022/2023	Average over 3 years to 2023/2024	Average over 3 years to 2024/2025
RVC	127.46%	127.46%	127.46%	91.46%	98.64%	98.64%	94.45%	99.06%	101.06%
Kyogle	158.61%	158.61%	158.61%	115.18%	110.36%	110.36%	112.34%	112.14%	113.54%
Combined	143.97%	143.97%	143.97%	104.09%	104.98%	104.93%	103.96%	106.06%	107.71%
Benchmark	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Figure 3: Building and Asset Renewal Ratio

Kyogle Council indicate that their Building and Assets Renewal Ratio will be 0.8 this year, slowly improving towards the benchmark and achieving a measure of 1.0 in 2034.

4. Infrastructure Backlog Ratio

Kyogle Council has a large starting backlog primarily due to its timber bridges which affects this measure over this planning period. Richmond Valley Council has a high starting backlog, but a new risk based approach improves this measure below the benchmark.

Backlog is an estimate of total assets in a state requiring immediate repair against total remaining service potential (Written Down Value) of assets in the general fund. This includes roads, drainage, buildings, other structures and depreciable land improvements. The numbers at 2014/15 are:

- Richmond Valley Councils current measure is $2.5M/$421M or 0.6%. Over the Long Term Financial Plan this will improve to 2.2M/$518M or 0.42%.
- Kyogle Council's current measure is $41M/$403M or 10.2%. Over the Long Term Financial Plan this will improve to 23M/$531M or 4.4%.
- A combined entity's current measure is $44/$825M or 5.3%. Over the Long Term Financial Plan this will improve to 25M/$1,049M or 2.43%.

Kyogle Council's large infrastructure backlog would be a disadvantage for a merged entity (from Richmond Valley Council's perspective). The quantum of this disadvantage is initially $38 million and reducing over the planning period to $21 million. Infrastructure backlog is illustrated in Figure 4.

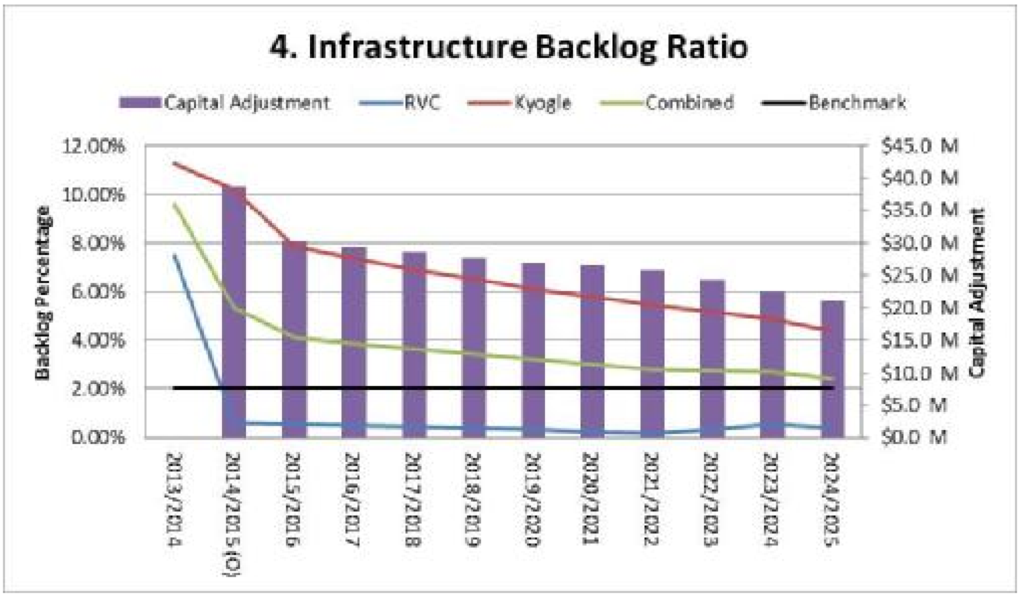


Figure 4: Infrastructure Backlog Ratio

Kyogle Council indicate that their Infrastructure Backlog Ratio will continually improve due to improved capital financing from their successful Special Rate Variation and a $10 million loan facility. They expect to reduce their Infrastructure Backlog and achieve the benchmark in 2031.

5. Asset Maintenance Ratio

Both Councils consistently achieve the benchmark ratio of 100% for maintenance.

6. Debt Service Ratio

Both Councils achieve this measure as illustrated in Figure 5.

	Average over 3 years to 2016/2017	Average over 3 years to 2017/2018	Average over 3 years to 2018/2019	Average over 3 years to 2019/2020	Average over 3 years to 2020/2021	Average over 3 years to 2021/2022	Average over 3 years to 2022/2023	Average over 3 years to 2023/2024	Average over 3 years to 2024/2025
RVC	3.25%	3.25%	3.25%	4.65%	4.06%	4.06%	4.22%	4.06%	3.63%
Kyogle	3.76%	3.76%	3.76%	6.16%	6.13%	6.13%	6.13%	6.14%	6.12%
Combined	3.45%	3.45%	3.45%	5.18%	4.77%	4.77%	4.88%	4.77%	4.47%
Benchmark	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%

Figure 5: Infrastructure Backlog Ratio

Kyogle Council indicate that their Debt Service Ratio will increase to 8% in order to assist with managing their infrastructure backlog.

7. Real Operating Expenditure

This Ratio is achieved by decreasing the discounted spend per person. That is annual operating expenditure discounted to a present value in 2010 divided by the expected resident population for the current planning period. Richmond Valley Council achieves a continuing decline in real operating expenditure, while Kyogle Council maintains real operating expenditure after a large increase in 2015/16.

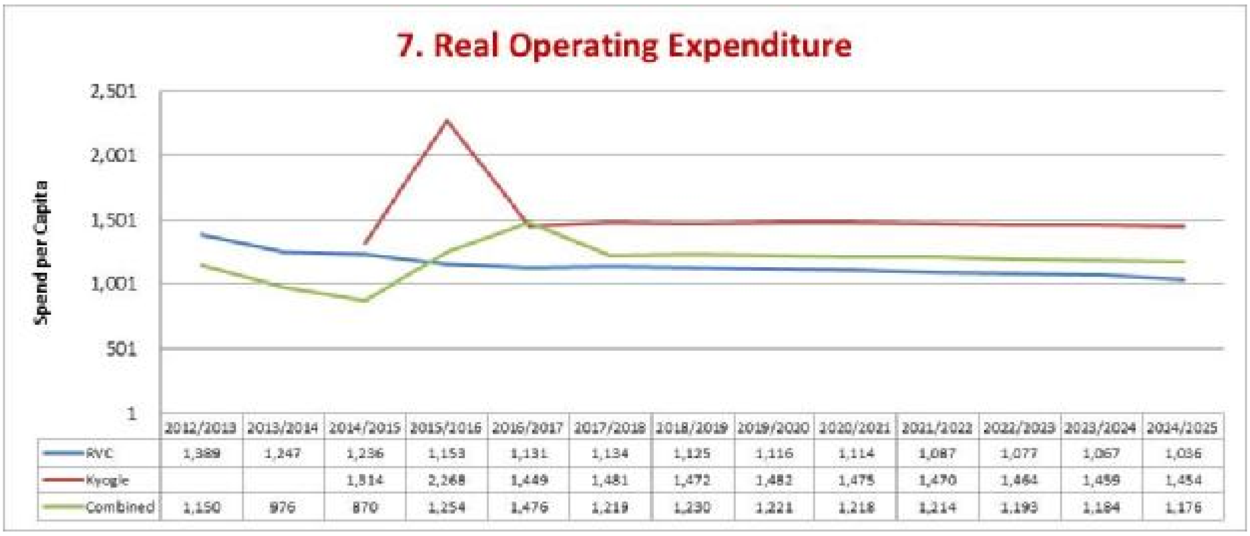


Figure 6: Real Operating Expenditure

Summary

Table 1 provides a quick glance of the entities current position with respect to the FF indicators and expectations at the end of this current Long Term Financial Plan period. An observation is that Kyogle Council is expected to improve performance over the next 10 years, brining their asset backlog close to manageable, but this is at the expense of their operating performance measure.

A merged entity would be setback initially, however would be progressing well towards a fit and sustainable Council by 2025. Achieving a fit status would be boosted by external support, to overcome Kyogle Council's current disadvantage with their poor performing assets.

Kyogle Council's Fit For The Future submission utilises a $10 Million debt facility instead of own sources to improve their performance measures over 20 years versus the scenario dated 9 February 2019.

Table 1: FFF summary for current year and end of LTFP

FFF Summary	Current 2014/15			Expectation 2024/25		
	RVC	Kyogle	Combined	RVC	Kyogle	Combined
1. Operating Performance Ratio	-6.49%	-6.02%	-6.31%	8.99%	-19.63%	-0.71%
2. Own Source Revenue	66.68%	73.41%	69.18%	72.89%	69.82%	71.88%
3. Building and Asset Renewal Ratio	127.46%	158.61%	143.97%	101.06%	113.54%	107.71%
4. Infrastructure Backlog Ratio	0.60%	10.21%	5.30%	0.42%	4.39%	2.43%
5. Asset Maintenance Ratio	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
6. Debt Service Ratio	3.25%	3.76%	3.45%	3.63%	6.12%	4.47%
7. Real Operating Expenditure	↓ $83	↑ $954	↑ $384	↓ $31	↓ $5	↓ $9
FFF Score	6 of 7	4 of 7	4 of 7	7 of 7	5 of 7	5 of 7
Achieves Benchmark						
Under Benchmark						