

Independent Pricing and Regulatory Tribunal
 Methodology for Assessment of Council Fit for the Future Proposals
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How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?

Hawkesbury City Council (Council) is generally comfortable with the *Key Elements of Strategic Capacity* as outlined in the Final Report of the NSW Independent Local Government Review Panel (ILGRP). As a council which has not been identified for amalgamation under the FFTF reform process, Council's response to this question limits itself to a review of the adequacy of the *Key Elements* as a tool for a more detailed assessment of scale and capacity.

Measurement of Strategic Capacity. It is not clear from the assessment methodology as to the criteria that IPART will employ to determine if a council has demonstrated its compliance with the *Key Elements*. Consequently, it is not possible to provide a meaningful commentary on the adequacy or otherwise of the proposed approach for assessing scale and capacity based on the requirements outlined in the *Key Elements*.

A number of these elements are clearly subjective - e.g. how can a council's capacity for *Knowledge, creativity and innovation; High quality political and managerial leadership; Advanced skills in strategic planning and policy development* be reasonably determined. In the absence of specific criteria for the measurement of the elements, Council assumes that IPART's assessment of Strategic Capacity will be based on the quality and content of each council's FFTF Proposal and accompanying documentation and essentially take the form of a desk top audit. Taken together, these matters suggest that while addressing the key elements of strategic capacity is an important marker of an overall FFTF assessment, it should not be viewed as a threshold pre-requisite to determine if a council's FFTF Proposal proceeds to full assessment.

To this end, Council is pleased that the IPART methodology includes provision for IPART to seek information from councils or meet with them to clarify aspects of their FFTF proposal (p 9 of the Consultation Paper) as this will provide some safeguards to potentially address the limitations of the presumed desk top audit approach.

Implied devolution of additional function to local government. In terms of a more general observation, Council is concerned that the intent of the key element relating to "*Scope to undertake new functions and major projects*" is to facilitate the devolution of additional functions or legislation from the state to the local level. There are long-standing concerns within the local government sector as to the financial impact of cost shifting between levels of government. The continued devolution of additional functions to local government, without the requisite resourcing and/or where constraints are placed on the capacity of local government to levy reasonable fees and charges to cover the costs of these functions, will negatively impact on the financial sustainability of councils.

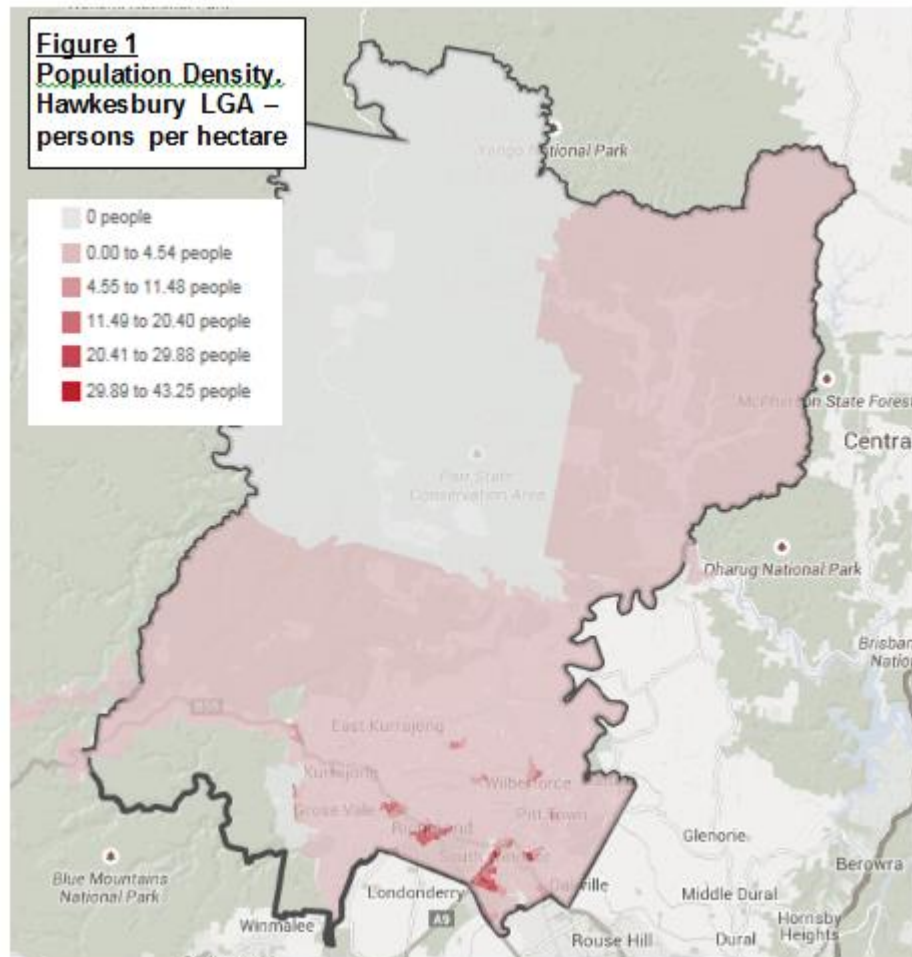
Which of the Rural Council Characteristic are the most relevant considering a council must satisfy a majority of the characteristics to be considered a rural council?

While Council is classified as a metropolitan council (for FFTF purposes) it would like to take the opportunity presented by the Consultation Paper to comment on this question.

Limitation of current metropolitan –vs- rural council categories. As a metropolitan fringe (peri-urban) council, Council meets or partially meets the nine Rural Council Characteristics outlined in the Consultation Paper. Situated as it is on the metropolitan fringe of the Greater Sydney Region, Council straddles the divide between the urban metropolitan councils to its east and south, and rural councils to its west and north. Accordingly it encapsulates the characteristics of both metropolitan and rural councils. While the south east corner of the LGA is predominantly urban, the remainder of LGA forms a much larger rural hinterland. In this key respect (in comparison with the metropolitan councils to its east) Council has a relatively small population spread over a large area (a population of 65,000

persons across 2,793 km² [Figure 1](#)). As outlined in the Consultation Paper, this demographic pattern is deemed to be the primary determinant of a rural council.

Accordingly Council believes the simple categorisation of councils as either 'metropolitan' or 'rural' does not adequately capture the particular characteristics and challenges facing peri-urban councils. The current metropolitan/rural category model carries the explicit expectation that a peri-urban council has the same capacity as a metropolitan council to achieve the FFTF benchmarks. This assumption is misplaced.



Recalibration of FFTF time frames. It is Council's contention that the 'must *meet*' time frame for FFTF benchmarks which apply to metropolitan councils should not be rigidly imposed on peri-urban councils. The assessment methodology should take into account the particular circumstances of peri-urban councils and adjust the 'must *meet*' time frame for these councils to a more realistic level. In particular the time frame for achieving the Operating Performance Ratio (OPR) should be extended for peri-urban councils to the '*plan to meet within 10 years*' time frame applied to rural councils.

The primary factor impacting on Council's OPR is its current incapacity to fully fund annual depreciation charges which in turn is a function of the size of its Infrastructure Backlog. As a peri-urban council, Council maintains a large asset holding (in excess of \$1 Billion) – more than half of which is made up of 1,038km of local roads - which services a relatively small and dispersed population. In effect, Council's ability to achieve a break-even OPR will be contingent on its capacity to address its Infrastructure Backlog and raise the additional revenue required to fund asset maintenance and renewal over the longer term.

Accordingly, Council would argue that the assessment of a council's performance against the OPR benchmark should take into account the current factors driving the OPR result. For peri-urban councils this will be primarily a function of their performance against the asset related FFTF

benchmarks. There should be internal consistency between the two in relation to required time frames for meeting the applicable FFTF benchmarks.

To this end, Council is pleased that the IPART has acknowledged that the varying circumstances of councils will impact on the time frames required for councils to improve their performance (p 19 of the Consultation Paper). As outlined above, Council believes this flexible approach will be required in the assessment of the FFTF performance of peri-urban councils.

Are there any improvements we can make to how we proposed to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance. Are there issues that we need to consider when assessing council's proposals using the measures and benchmarks for these criteria?

As outlined above in response to the previous question, Council believes that the application of the time frame criteria outlined on page 26 of the Consultation Paper will need to take into account the particular circumstances of peri-urban councils. Specifically, the time frame for achieving a break-even OPR should be changed from *'must meet'* to *'must demonstrate improvement in'* with respect to peri-urban councils.

Time frames for Operating Performance Ratio benchmark. In relation to the OPR Benchmark, Council would also suggest that the time frame which requires metropolitan councils to achieve the OPR benchmark within five years and rural councils within ten years may be unrealistic. As the OPR benchmark for any one year is based on the average over the preceding 3 years, meeting the benchmark by 2019/20 (for example) would effectively require a council to either achieve a break even operating result by 2017/18 and sustain this until 2019/20, or generate substantial operating surplus by 2019/20 to offset any accrued negative operating results in the two years leading up to 2019/20.

Accordingly Council would propose that the performance criteria for the OPR should be amended. The preferred measure should be to achieve at least a break even operating result *in* 2019/20 for metropolitan councils, and plan to achieve a break even operating result *in* 2024/25 for peri-urban and rural councils.

Interaction of FFTF Benchmarks. In undertaking the preliminary work for preparation of Council's FFTF Proposal, it has become evident that the FFTF benchmarks are interdependent. Achieving or improving performance against a single FFTF benchmark has impacts on other FFTF benchmarks.

The assessment process, as outlined on Page 8 of the Consultation Paper, defines Operational Sustainability as a council meeting Operating Performance and Own Source Revenue Ratios by 2019-20 while at the same time improving the Asset Renewal Ratio. To become operationally sustainable, councils with substantial infrastructure backlogs would be expected to direct the maximum possible amount of available revenue to asset renewal. This would ensure that assets are renewed at least at the same rate they are depreciating with any remaining 'surplus' revenue (beyond the required asset renewal funds) directed to reducing infrastructure backlogs.

Councils basing their FFTF proposals on the above approach may, however, face difficulties in meeting or improving the Asset Maintenance Ratio at the same time as addressing their Asset Renewal Ratio. The formula for the (OPR), which is based on operating revenue and operating expenses, effectively limits the ability of councils to increase asset maintenance expenditure without negatively impacting on the OPR. As asset maintenance expenditure is included in operating expenses, which in turn drives the OPR, increases in asset maintenance expenditure not matched by equal increases in operating revenue result in a deterioration of the OPR which impact on the capacity of a council to meet the OPR benchmark with the stipulated timeframe.

To address both the Asset Renewal Ratio and the Asset Maintenance Ratio simultaneously would require operating revenues to be substantially increased (or alternatively for a council to redirect revenue from existing services by reducing service levels or discontinuing services). Where a council is in a position where its operating revenue needs to increase significantly to meet the Asset Renewal Ratio benchmark, it may be required to 'trade off' any short to medium term improvement to its Asset Maintenance Ratio. A council will need a longer timeframe than the proposed 4 year period to adjust

its revenue base to the level required to also significantly improve the Asset Maintenance Ratio. To do both simultaneously would require substantial rating increases which may be beyond the community's capacity to accept or pay.

Accordingly Council would suggest that in the assessment of FFTF proposals, consideration should be given to the aggregated impact of the asset related FFTF benchmarks rather than viewing each asset related FFTF benchmark in isolation. In practice this would mean that the assessment panel should consider the trajectory of the combination of the Asset Renewal Ratio, the Asset Maintenance Ratio and the Infrastructure Backlog to assess whether a council is taking the appropriate steps to improve its overall asset maintenance and renewal position over the time period covered by the FFTF proposal. To this end, Council notes that the OLG Guidelines for the preparation of FFTF proposals has given consideration to 'trade-offs' which reflect community priorities and/or prioritise the allocation of revenue to address infrastructure backlogs (Council Improvement Proposal, Page 11)

How should council's engage with their communities when preparing FFTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important.

As a council which has not been identified for amalgamation under FFTF reform process, the applicable OLG Council Improvement Proposal (Template 2) does not require Council to consult with the community. This is recognised on page 36 of the Consultation Paper which acknowledges that the consultation requirements for councils completing the Council Improvement Proposal Template will be limited or otherwise not required. However, Council would make the following general observations and suggestions.

Capacity for meaningful community consultation. The complexity of the issues relating to amalgamation and boundary adjustments are quite significant. To all intents and purposes the time frame for the preparation of FFTF proposals, and undertaking the required consultation with residents where possible amalgamations have been identified, has been quite compressed.

The Guidelines and Templates for the FFTF proposal were issued by the OLG on 31 October 2014. FFTF proposals are required to be endorsed by councils and submitted by 30 June 2015. Traditionally December and January are not considered to be ideal times for community engagement – which has effectively left councils with a period of five months to prepare and model FFTF strategies, determine their approach for meeting FFTF requirements and benchmarks, and consult with the community regarding the FFTF reform process. A reasonable conclusion could be drawn that this time frame seems to have precluded meaningful community engagement if for example, councils were to follow the good practice guidelines developed by the *International Association for Public Participation*.

The issues involved in becoming Fit for the Future will require choices to be made by councils and their communities and will be particularly profound where councils have been required to consider mergers and amalgamations. While Council acknowledges that the FFTF proposals can be viewed as roadmaps for achieving future financial sustainability, rather than rigid prescriptions for actions to be implemented, developing an FFTF proposal does require the consideration of strategies which may be contentious and which will require careful and detailed modeling and explanation to residents. There is a risk that the time frame imposed on councils to submit FFTF proposals may have a negative impact on the subsequent capacity of councils to engage with their communities to identify the costs and promote the benefits of moving from backlog to sustainability over the long term.

Recognition of prior consultation. With respect to consultation requirements for FFTF proposals, the proposed assessment methodology appears to be based on the assumption that the only relevant consultation findings are those which have taken place concurrently with the preparation of FFTF proposals. Local governments consult with their communities on an ongoing basis – consequently they have accumulated substantial body of data and knowledge as to the expectations and views of their communities.

While Council is currently undertaking an on-line survey to gauge community sentiment in relation to the ILGRP recommendation for Council to remain in its current form (a recommendation accepted by the NSW Government), the primary consultation findings which have shaped and informed Council's

FFTF Proposal have been derived from consultations undertaken prior to the release of OLG Guidelines and Templates. To this end, Council would suggest that providing evidence to justify the content of FFTF proposals should not be limited to the outcomes of consultation which have occurred post October 2014.

Should council performance against the FFTF proposal be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals?

Council is in agreement with the need for councils to report on progress in implementing FFTF Proposals. Council would support the integration of FFTF reporting within the existing local government reporting frameworks (e.g. the Integrated Planning and Reporting (IPR) framework).

Council would however suggest that the primary audience for reporting of progress should be the local community and that therefore whatever process is proposed by IPART, that it should be tailored to this audience. Reporting should be easily comprehended and in plain English. Council would also suggest that a single reporting format be developed so that reports are not required to be submitted to multiple agencies (or alternatively to permit the same report to be submitted to different agencies).