

**Wingecarribee Shire Council**

**Attachment 7**

Morrison Low - Fit for the Future Peer Review



## Wingecarribee Shire Council

Fit for the Future Peer Review

June 2015

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## **1. INTRODUCTION**

Fit for the Future requires all councils to respond by 30 June. Wingecarribee Shire Council was not identified by the Independent Review Panel for structural change.

Council is still required to submit a proposal to IPART demonstrating how it will be Fit for the Future, addressing the key criteria.

- Scale and capacity
- Performance against the benchmarks
- Improvement proposals

Morrison Low has been commissioned to undertake a peer review of Council's calculations of the Fit for the Future benchmarks and the information that supports those calculations.

## **2. APPROACH TO THE PEER REVIEW**

We have been provided with copies of the following documents

- Updated LTFP dated June 2015, to respond to Fit for the Future reforms
- Wingecarribee Fit for the Future presentation dated 15 May 2015
- Wingecarribee Self-Assessment Tool
- Various spreadsheets supporting the calculations of the
  - Renewals Ratio (and inputs)
  - Maintenance Ratio (and inputs)
  - Infrastructure Backlog (and inputs)

Morrison Low conducted a desktop review of the information provided and has had discussions with Council to challenge some points.

### 3. REPORTED PERFORMANCE AGAINST THE BENCHMARKS

Indicator	Current	2019/20 (based on SRV)
Operating Performance	x	✓
Own Source Revenue	✓	✓
Debt Service	✓	✓
Asset Maintenance	x	x (improving)
Asset Renewal	x	x (improving)
Infrastructure Backlog	x	✓
Real Operating Expenditure	x	✓

### 4. CALCULATION OF FINANCIAL RATIOS

We have undertaken a high level review of key information (e.g. LTFP), the base data and supporting assumptions as well as the methodology for calculating the Fit for the Future ratios.

We are satisfied that all the financial ratios have been calculated appropriately.

Meeting the Operating Performance Ratio appears to be predicated on the proposed Special Rate Variation.

Real Operating Expenditure

- Calculation appropriately removes inflation
- Population projection broadly in line with projected population growth (Department of Planning)

The assumptions in the Long Term Financial Plan appear appropriate and consistent with what we would expect to find, noting however that the financial projections are based on a Special Rate Variation.

Council has produced an LTFP which includes a base case and alternate scenarios; however the improvement plan is based on Council's preferred LTFP scenario.

We have reviewed all the price increases applied to the base year and all price increases are consistent with the assumptions, except for wage increase.

- We noted that wages are increasing at 3% (stated growth rate) but in addition there is a 1% extra increase for the performance appraisal system. Council has since advised that the 1% for performance appraisal has in effect been 'netted off' against the expected savings in workers compensation

## 5. ASSET DATA

We note that

- Council is continuing to improve and refine its asset data, in accordance with the 2013 Morrison Low Asset Management Improvement Plan
- the continuous improvement plan will increase the level of confidence in Council's asset data. Council should ensure that the improvement plan continues to be implemented
- Council has allocated funds to achieve the target for capital renewals program of 100%. Works should be programmed early so that all funds allocated are expended as planned. Carry-over of renewal works will have a negative impact on the renewals ratio.

The aim of a depreciation exercise is to have depreciation reflect the real loss of value of assets over time (within the limitations of the accounting standards). As such, reviews of useful life etc. must reflect as accurately as possible the performance of assets at Wingecarribee. Ten percent appears to be a reasonable assessment.

## 6. CALCULATION OF THE ASSET RATIOS

The infrastructure backlog ratio uses a reasonable assumption for the determination of the estimated cost to satisfactory.

- Council may at some stage need to justify the percentages applied
- The process for auditing of SS7 will require an ongoing asset condition assessment process
- The maintenance ratio also uses a reasonable approach
- Meeting the ratio appears to be predicated on the proposed SRV

We would expect that the required maintenance would remain at a similar level across the forecast years and would only increase if service levels changed or additional assets were obtained or disposed of.

We note however that Council's required maintenance reduces in later years based on increased funding of renewals, proactive maintenance and dealing with the infrastructure backlog. We consider that to be a reasonable approach; however we would expect that the required maintenance would remain stable after this time.

The proposed audit of SS7 may require Council to justify the estimated required maintenance expenditure. A comparison with other councils or benchmarking data may assist in this assessment.

We note that the maintenance budget increases to meet the benchmark by 2019/20 in what seems to be a logical and manageable increase.

## **7. ASSET RELATED PROJECTION**

Renewals ratio:

- The assumptions and rationale for determination of the renewal ratio are explained and appear to be reasonable
- Meeting the ratio appears to be predicated on the SRV
- We have had numerous discussions with staff and it is clear that there are processes in place, such as the STEP system, which will ensure that asset renewal expenditure is optimised to achieve best value for money

The disposal of underutilised assets, particularly parks and open space assets, is generally problematic. Council has already undertaken significant work in identifying possible surplus or underutilised assets. However, typically there are community and political issues that will need to be addressed. Council should be careful not to overstate the value of this initiative.

We are not in a position to comment on the validity of the estimated depreciation over the modelling period but it is important that depreciation is a true reflection of the loss of value of assets over time.

## **8. DRAFT FIT FOR THE FUTURE PROPOSAL**

Council has identified a large number and range of improvement opportunities in the action plan. We would suggest that more work be done on some of the identified strategies and actions as it may be possible to estimate the opportunity to reduce costs or increase revenue that arise and then model in the impacts of these. Otherwise the improvements in a financial sense are solely based on a Special Rate Variation.

## **9. CONCLUSIONS**

We have undertaken a desktop review of the calculation of Council's Fit for the Future ratios and the information that supports them.

In general we are comfortable that the ratios and the information that supports them are appropriate.

We believe that there is opportunity for Council to improve the improvement plan to clarify which opportunities will have financial impacts, and include the benefit of those in their forward projecting.