

Tweed Shire Council response to IPART  
Fit for the Future Assessment  
**November 2015**

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Tweed Shire Council (Council) welcomes the opportunity to respond to the Office of Local Government (OLG) and the Independent Pricing and Regulatory Tribunal (IPART) on IPART's assessment of Council's Fit for the Future (FFTF) submission.

## Outcomes and plans

The results of the IPART assessment are consistent with the information provided by Council in the original submission both in terms of Scale & Capacity and Financial Criteria.

Council notes that the assessments undertaken by NSW Treasury Corp and the OLG (resulted in Council receiving assessments of 'Moderate/Neutral' for Financial Sustainability Rating and 'Strong' for Asset Management). These results were based on actual/audited information and not on forecast information which for some councils appear to be via predicted savings and rate increases that their community's may not be aware of.

To give the original FFTF submission integrity, Council felt obliged to only use information that had either been subject to independent audit or was an adopted plan of Council that had undergone community consultation. As a result, the original submission was based on the adopted 2014/2015 Long Term Financial Plan that was formulated in February 2014 and informed by the 2012/2013 audited financial reports of October 2013, nearly eighteen months prior to the submission deadline. Whilst the FFTF criteria are focused on the general fund, Council also included in the original submission the consolidated results (general, water and sewer funds) that met 5 of the 7 financial criteria.

Council's original submission also highlighted our roadmap for the future titled the 'Tweed The Future is Ours' program. This program acknowledged the challenges in the criteria where Council was below benchmark, namely the Operating Performance Ratio, Building & Infrastructure Renewal Ratio, Infrastructure Backlog Ratio and Asset Maintenance Ratio.

The "Tweed The Future is Ours" program in summary has 3 main stages:-

### Stage 1a - Assets

Before embarking on possible solutions to address the FFTF benchmark criteria shortfalls it was considered prudent to first verify our underlying data and projections relating to infrastructure assets.

As Council has over \$2 billion in general fund infrastructure, minor changes of 1% can have an effect of \$20m and have a material impact on the depreciation expense calculations.

Council engaged external independent consultants to undertake asset condition assessment and a revaluation for roads, bridges, footpaths, kerb and gutter and stormwater drainage assets, which also involved reviewing previous assumptions relating to asset consumption and useful lives.

Whilst the condition assessments were carried out during May, the results and subsequent revaluations were not received until after the submission deadline. If Council had this information prior to 30 June 2015, it would have changed our forecasted results in our submission to IPART.

### **Stage 1b – Service Levels**

While Council's Integrated Planning and Reporting Framework sets out the services currently provided to the community and at what cost, the service levels and their drivers are less well known.

Council has engaged expert service planning consultants (Elton Consulting) to oversee the collection and documentation of services, service levels and service level drivers. The outcome of this consultancy is expected in March 2016.

### **Stage 2 – Community Engagement**

The second stage of the program is to educate and consult with the community in relation to the information provided by stages 1a and 1b. This involves:-

- the establishment of a Community Engagement Network of 28 Council employees trained in IAP2,
- focus groups within the community to receive feedback on the message and their knowledge of Council services,
- attendance at community events and functions to re-establish and strengthen relationships between Council and the community,
- undertake consultation on the services provided, the service levels, service costs and what is the communities service preferences to meet the FFTF benchmarks,
- on-line consultation through budgetary participation tools such as budget allocator.

This community engagement approach is consistent with the values embedded in the Integrated Planning & Reporting framework.

### **Stage 3 – Consolidating the results**

The "Tweed The Future is Ours" program is scheduled to provide information on assets, services, service levels and the community's preferences near to the election of a new council in September 2016 and will lead into the following years Integrated Planning and Reporting timetable. This timetable requires a review of the Community Strategic Plan, Delivery Program, Operational Plan for the 2017/18 financial year.

## Updated Criteria – following 2014/2015 Audited Financials and updated asset valuations

With the finalisation of the 2014/2015 audited Financial Reports and the updated asset valuations, Council has taken the opportunity to update the FFTF financial criteria results that were below benchmark. The new results now show that Tweed meets this benchmark criteria.

### Operating Performance Ratio

Year	Per Year	3 Year rolling average
2015/16	0.000	-0.034
2016/17	-0.004	0.017
2017/18	0.001	-0.001
2018/19	0.001	-0.001
2019/20	0.000	0.000
2020/21	-0.001	0.000
2021/22	0.003	0.000
2022/23	0.003	0.001
2023/24	0.006	0.004
2024/25	0.003	0.004

The reviewed Operating Performance Ratio results are a marked improvement on the original submission. The changes to the results are due to:-

1. A decrease in 2015/2016 depreciation expense of \$2.3m on the 2014/2015 results due to the revaluation of transport and stormwater drainage assets. (depreciation expense is then indexed 4% annually)
2. Higher than predicted 2014/15 rates and annual charges and user charges that are expected to continue into future years. (Rates and annual charges indexed 2.9% in 2015/2016 and 2016/2017 and 3% thereafter)

Operating/capital grants and contributions, employee costs, borrowing costs, materials and contracts and other expenses have remained as originally submitted.

### Building and Asset Renewal Ratio

The Building and Asset Renewal Ratio has not varied materially from the original submission. The level of funding required to improve this ratio to benchmark will be dependent on the service levels preferred by the community through the “Tweed The Future is Ours” program and the re-allocation of funding from other programs towards asset renewal.

The NSW Government should note that many of the high growth councils such as Blacktown, Liverpool, Parramatta and Wyong were also assessed as not fit. These findings lend support to the fact that depreciation remains a major cost for local government and perhaps taxation other than property taxes should be considered to help fund essential infrastructure such as roads. Council has previously submitted proposals including the re-introduction of 3x3 fuel levy and / or a system of user pays by way of road users purchasing kilometres travelled at time of registration, in a similar manner to New Zealand. For example

a road user may purchase 10,000km at \$40 at time of registration. This in effect introduces a broad based toll user pays system across the state.

Road funding is a challenge facing all three tiers of government and growth councils in particular will continue having challenges to fully fund the depreciation of this asset class, regardless of size.

### **Infrastructure Backlog Ratio**

*Based on OLG condition 2:-*

**2015/16    2016/17    2017/18    2018/19    2019/20**

**Per year – Condition 2**

8.7%      9.1%      9.5%      9.8%      10.3%

The Infrastructure Backlog Ratio based on the OLG condition 2 has deteriorated since the original submission. This is due to both the cost to bring to satisfactory service and the total written down values increasing due to the transport and stormwater drainage asset revaluation.

The Infrastructure Backlog Ratio is very sensitive to service/condition levels. If Council and the community adopted the OLG condition 3 as a service/condition level, then the following results would apply:-

*Based on OLG condition 3:-*

**2015/16    2016/17    2017/18    2018/19    2019/20**

**Per year – Condition 3**

2.8%      2.9%      3.0%      3.2%      3.3%

No Council can deliver everything, all the time. In line with good practice and affordable service delivery, it is not practical or cost-effective to deliver the same level of service across the entire asset portfolio. Service levels should be based on a hierarchy of assets whereby more resources are allocated to the higher usage assets. A road network example could be:-

Regional	For car and truck movements on roads designated as part of the Regional road network. Roads significant to the Region.
Distributor	Not part of the Regional network. Major routes for cars and trucks with local origin or destination.
Collectors	Collector routes for cars and trucks with local origin or destination.
Local Urban	For movement of cars and trucks in urban areas, from higher hierarchies for access to residences or businesses within the Shire.
Local Rural	For movement of cars and trucks in rural areas, from higher hierarchies for access to residences or businesses within the Shire.

## Asset Maintenance Ratio

2015/16   2016/17   2017/18   2018/19   2019/20

### Per year

94.7%   94.7%   94.7%   94.7%   94.7%

### 3 year rolling average

90.6%   94.7%   94.7%   94.7%   94.7%

The reviewed Asset Maintenance Ratio has improved from the original submission due to the 'Required Asset Maintenance' being reduced as a result of the asset condition assessment outcome. That is the transport network has remained in better condition than previously predicted and prior estimates of the amount of annual maintenance required were overstated.

The level of funding required to improve this ratio to benchmark will again be dependent on the service levels preferred by the community through the "Tweed The Future is Ours" program and the re-allocation of funding from other programs towards asset maintenance.

Funding infrastructure requirements is a constant challenge within local government. By way of example, Council is currently assessing a fuel station/service centre development application that is adjacent to the Pacific Highway. The applicant will hand over to council a \$2m roundabout that council will need to depreciate at around 2% or \$40,000 pa and yet receive only around \$15,000 in general fund rates. This means that the development which creates jobs and also serves as essential infrastructure for Pacific Motorway users comes at a recurrent cost to Tweed ratepayers of \$25,000pa. Examples such as this explain in some part why it is the large growth councils in particular that have difficulty meeting this benchmark set by the government for asset maintenance and one must question whether the benchmark set is realistic in an environment where population growth will continue to result in additional infrastructure being built that must also be funded for renewal.

The community consultation component outlined previously, in the "Tweed The Future is Ours" program, will have a major focus on service/condition levels to address the asset management financial criteria benchmarks. This could result in a change in service priorities, a drop in service/condition levels, an increase in rates or a combination thereof. Council will strive to reach community agreement on the way forward.

## Original IPART submission - snapshot

Measure/ Benchmark	2016/17	2017/18	2018/19	2019/20	Achieves FFTF Benchmark Yes/No
<b>Operating Performance Ratio</b>	-0.060	-0.055	-0.053	-0.049	No
<b>Own Source Revenue</b>	82.6%	83.0%	83.5%	84.2%	Yes
<b>Building &amp; Infrastructure Renewal</b>	52.1%	54.2%	53.6%	52.2%	No
<b>Infrastructure backlog Ratio</b>	7.9%	8.2%	8.5%	8.9%	No
<b>Asset Maintenance Ratio</b>	81.3%	71.9%	71.2%	71.3%	No
<b>Debt Service Ratio</b>	9.6%	9.5%	9.2%	9.0%	Yes
<b>Real Operating Expenditure Per capita</b>	0.99	0.98	0.97	0.96	Yes

## **Revised benchmarks following audited 2014/15 financials and asset valuations - snapshot**

Measure/ Benchmark	2016/17	2017/18	2018/19	2019/20	Achieves FFTF Benchmark Yes/No
<b>Operating Performance Ratio</b>	-0.004	0.001	0.001	0.000	Yes
<b>Own Source Revenue</b>	82.6%	83.0%	83.5%	84.2%	Yes
<b>Building &amp; Infrastructure Renewal</b>	52.1%	54.2%	53.6%	52.2%	No
<b>Infrastructure backlog Ratio based on OLG condition 2</b>	9.1%	9.5%	9.8%	10.3%	No
<b>Infrastructure backlog Ratio based on OLG condition 3</b>	2.9%	3.0%	3.2%	3.3%	
<b>Asset Maintenance Ratio</b>	94.7%	94.7%	94.7%	94.7%	No
<b>Debt Service Ratio</b>	9.6%	9.5%	9.2%	9.0%	Yes
<b>Real Operating Expenditure Per capita</b>	0.99	0.98	0.97	0.96	Yes

### **IPART anomaly**

On a technical point, Council notes that IPART removed interest income on S94 reserves to recalculate the Operating Performance Ratio. Whilst we acknowledge this was done to eliminate restricted income, Council would point out that there are also loan interest payments, from loans borrowed in advance of S94 receipts, on the income statement that are funded from S94 Reserves. To be comparable these payment should also be eliminated. For 2014/2015 S94 interest was \$984,000 whilst S94 loan interest payments were \$520,000.

### **Other comments**

Council would welcome being re-assessed by IPART after its extensive engagement with the community and on the challenges on the most current results. The only financial criteria that differed from Tweed Shire to Lismore City Council was that of the Operating Performance Ratio. As this is predicted to improve to benchmark levels will Tweed Shire now be assessed as being fit for the future?

Whilst Tweed Shire Council is willing to work in a collaborative manner with our neighbouring councils in any Joint Organisation, Tweed Shire also has a focus to the north with the Gold Coast and south east Queensland having a large influence on our local economy.

Using the ABS 'Urban centre' classification, Tweed Heads is identified as part of the Gold Coast-Tweed Heads conurbation which has 533,659 people. In the 2013/2014 financial year there were almost 6 million passenger numbers into the Gold Coast Airport. The new International Terminal sits entirely within Tweed Shire Council.

Population projections from id Consulting (population experts), estimate a total population for Tweed of more than 125,000 people by 2036. It is through this growth and its proximity to South East Queensland that the Tweed has evolved as the major regional centre in the northern rivers. With Coffs Harbour and Port Macquarie to its South, Tweed will be positioned as a major regional city for health, arts and culture, employment, business investment and tourism into the future.



	2016	2021	2026	2031	2036
<b>Ballina</b>	45,800	48,500	51,300	53,800	56,200
<b>Byron</b>	35,100	37,400	39,800	42,100	44,300
<b>Kyogle</b>	9,400	9,200	9,100	8,900	8,800
<b>Lismore</b>	45,900	46,700	47,700	48,500	49,200
<b>Richmond Valley</b>	23,300	23,900	24,400	24,900	25,200
<b>Tweed</b>	100,300	108,700	116,900	124,800	132,000
<b>TOTAL</b>	<b>259,800</b>	<b>274,400</b>	<b>289,200</b>	<b>303,000</b>	<b>315,700</b>
<b>TWEED % of North Coast Region</b>	38.6%	39.6%	40.4%	41.2%	41.8%

## Conclusion

As outlined in the above comments, Council is aware of the areas where improvements are required, particularly in the asset management financial criteria, and the “Tweed The Future is Ours” program is a work in progress.

Council believes that the process it is following involving asset management validation, service level data and community consultation is the appropriate roadmap to improve on the current results and is confident given time that the results will be benchmark and Council will continue to be the anchor council within the Northern Rivers region.

## Kyogle comment

Council has resolved not to pursue any merger discussions with Kyogle Council as it sits outside the recommendations of both the ILGRP and IPART for potential merger partners with Kyogle. Kyogle and Casino are 31kms apart, Lismore and Kyogle are 43kms apart, Tweed Heads and Kyogle are 98kms apart.



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