

Proposed Fit for the Future assessment methodology

Public forum presentation

IPART

15 May 2015

Establishment of assessment methodology

June 2015 - Release of final assessment methodology



30 June 2015 – Council proposals due



31 July 2015 – Public submissions due



16 October 2015 – Release decisions to Minister

Session 1 – Assessment methodology

Criterion 1

Scale and capacity

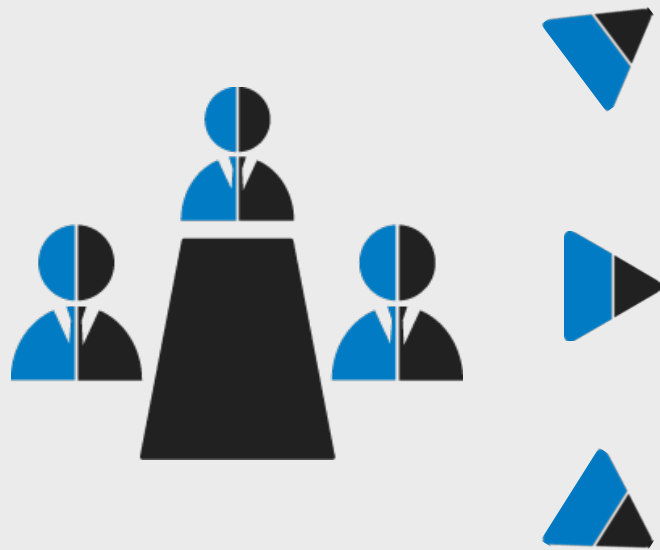


Scale and capacity criterion

Scale and capacity established as threshold

- Council first assess scale and capacity against ILGRP recommendation
- Proposal based on whether it currently has or will have sufficient scale and capacity with proposed approach

Options for councils



Merged council

Stand alone

Rural council

Scale and capacity for non-rural councils

- 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.



Council satisfies scale and capacity if...

- **Adopts** ILGRP preferred option for scale and capacity
- Alternatively, we will make an assessment based on whether proposal is ***broadly consistent*** with ILGRP objectives **and** scale and capacity criteria

Objectives for metro areas

- ▼ High capacity to represent and serve local communities
- ▼ Equitable patterns of local government taking into account planned developments
- ▼ Support Sydney's status as a global city
- ▼ Support implementation of Metropolitan Strategy

Objectives for regional and rural council

- ▼ Be 'fit for purpose' and maintain maximum possible community life and identity
- ▼ Create regional centres to anchor Joint Organisations, where possible
- ▼ Ensure close relationship between regional centres and adjoining councils
- ▼ Address 'councils at risk' through mergers with adjoining areas

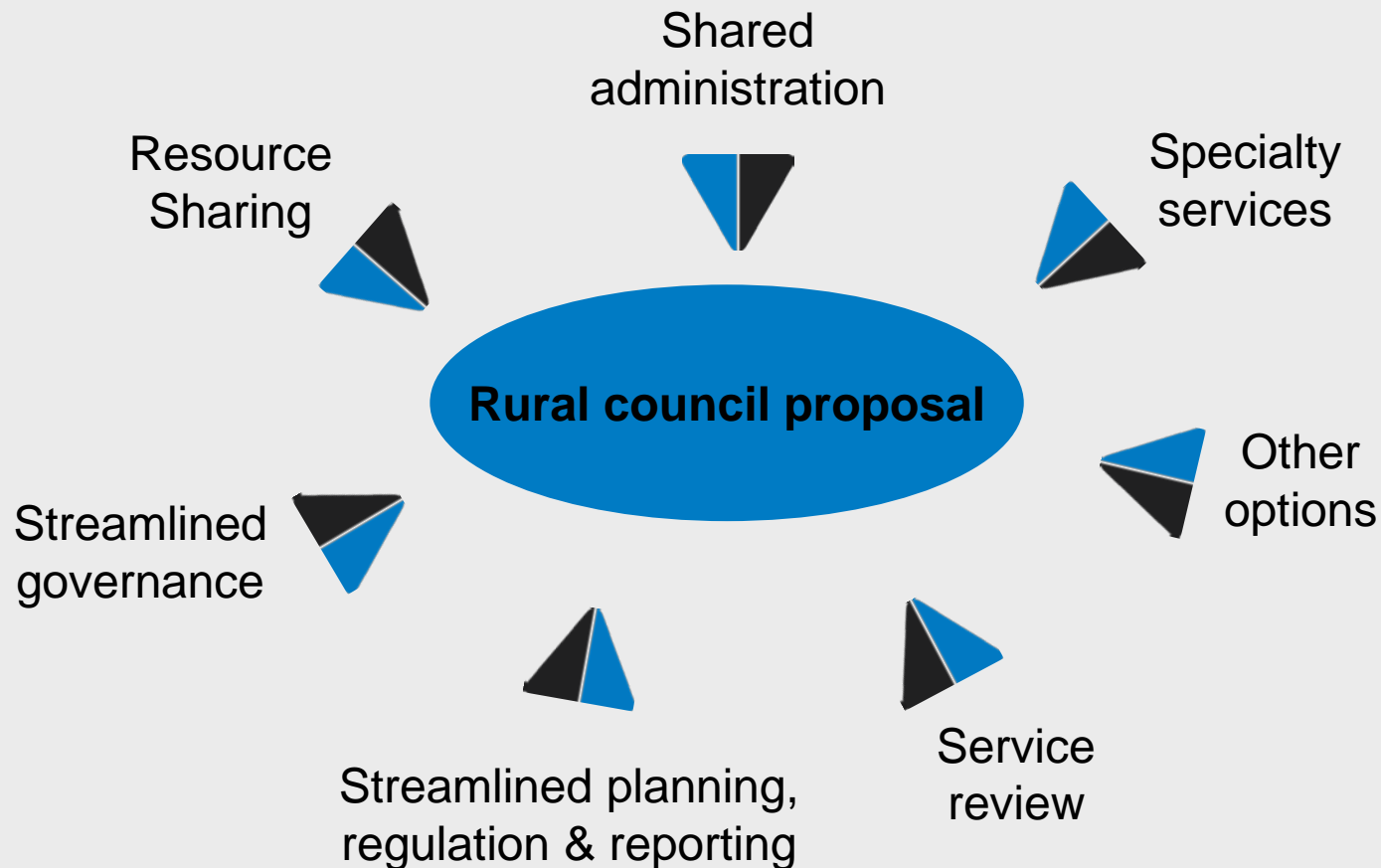
Rural council characteristics

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

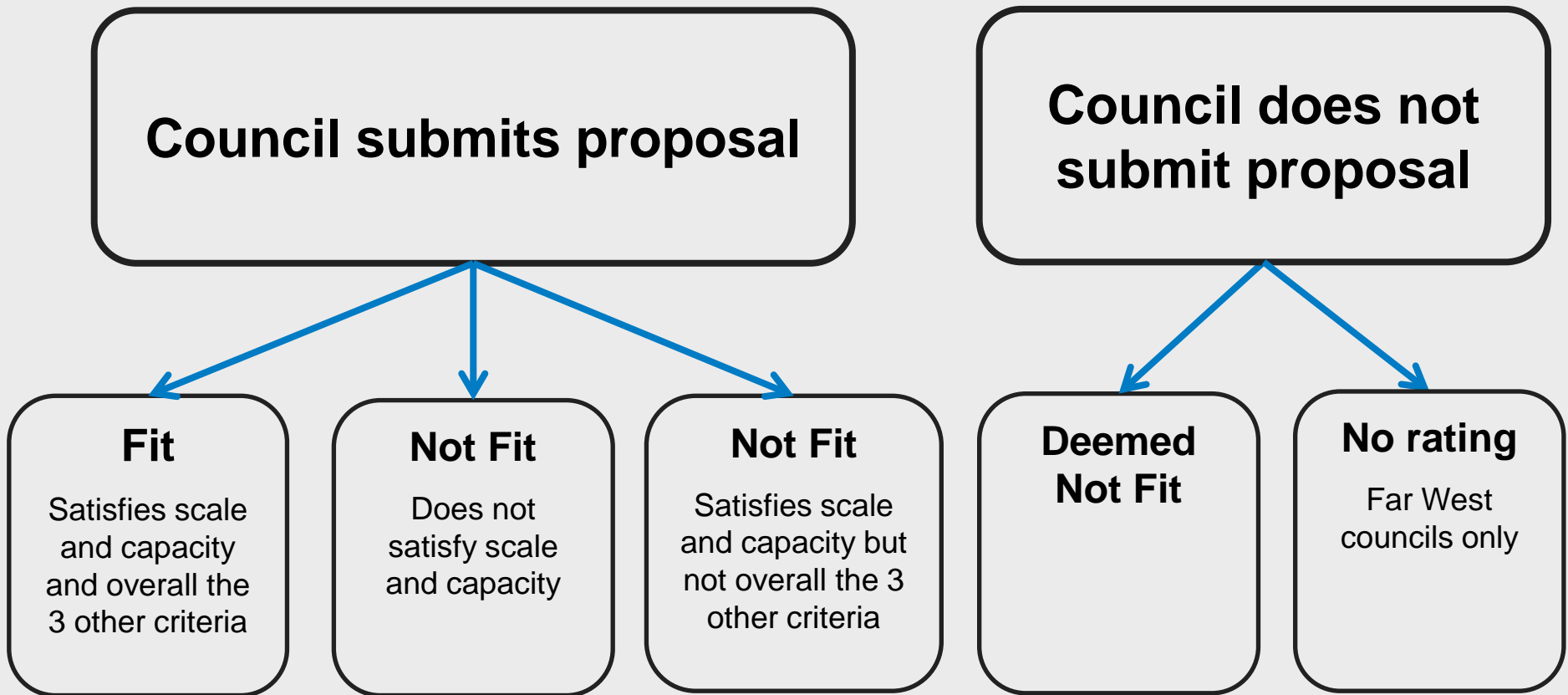


Rural councils satisfy scale and capacity if...

- ▼ They demonstrate real improvements....



Scale and capacity in overall assessment



Discussion points

- ▼ Key elements of strategic capacity
- ▼ Rural council characteristics



Session 2: Assessment methodology

Criterion 2 - sustainability

**Criterion 3 - effective infrastructure
and service management**

Criterion 4 - efficiency

...and - other considerations

Criterion 2 - sustainability

How we propose to assess sustainability

- Is council able to meet its expenditure requirements?
- How dependent is council on grants and contributions?
- Does council renew assets when due?

Criterion 2 - sustainability

Ratios to assess sustainability

- Operating performance ratio
- Own resource revenue ratio
- Building and asset renewals ratio



How will we assess sustainability?

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

Criterion 3 – Infrastructure and service management

How we propose to assess effective Infrastructure and service management

- Does council manage its infrastructure effectively?
- Does council spend enough to maintain its assets?
- Does council use debt efficiently?

Criterion 3 – Infrastructure and service management

Ratios to assess infrastructure and service management

- Infrastructure backlog ratio
- Asset maintenance ratio
- Debt service ratio



How will we assess effective infrastructure and service management?

Office of Local Government		IPART	
Performance measure	Benchmark	All councils (except rural councils)	Rural council (option)
Infrastructure Backlog Ratio	< 2%	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
Debt Service Ratio	0 to 20% average over 3 years	Meet within 5 years	Meet within 5 years

Criterion 4 – Efficiency

How we propose to assess efficiency

- Does council provide agreed service levels based on value for money?



Criterion 4 – Efficiency

Ratio to assess efficiency

- Real operating expenditure

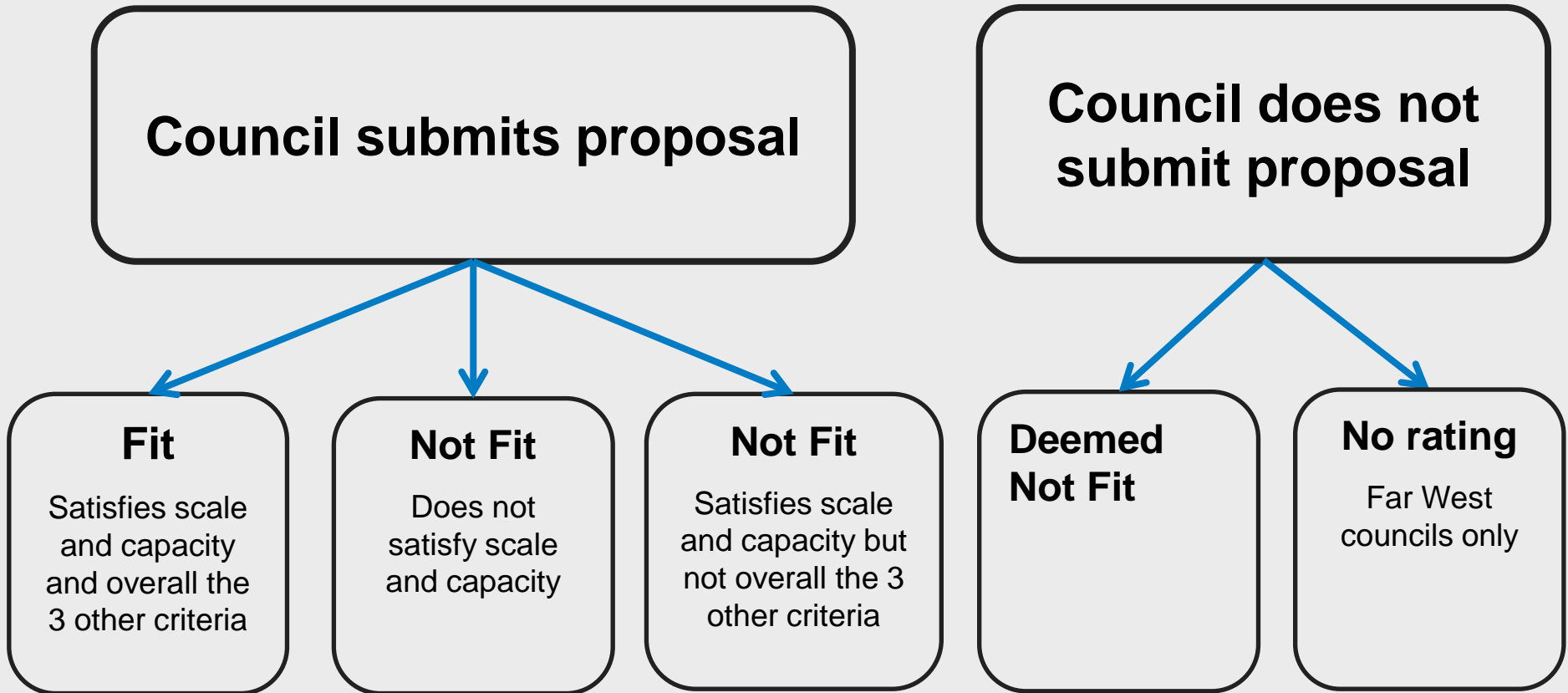
For example, given agreed community service levels, what is council's real operating expenditure per person?



How will we assess efficiency?

OLG	IPART		
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

Criteria 2- 4 in overall assessment

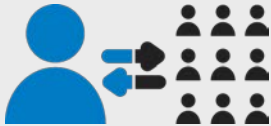


Other considerations

We will also consider some additional factors



Social and community context



Council consultation on FFTF proposals



Water utility performance

Information requirements

Robustness of supporting information

- ▼ Past data and forecast data
- ▼ Assumptions should be robust and consistent
- ▼ Analysis of ILGRP *preferred option* should be rigorous
- ▼ Explanation of one-off performance issues.



Discussion Points

- ▼ How should the benchmarks for criteria 2 to 4 be scaled
- ▼ Are the timeframes to achieve criteria 2 to 4 appropriate
- ▼ Are there other factors we should consider in our assessment of council's proposals?
- ▼ How should performance against proposals be monitored?



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