



General Manager

25 May 2015

Dr Peter Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Dr Boxall AO

Methodology for Assessment of Council Fit for the Future Proposals

Bankstown City Council ("Council") welcomes the opportunity to provide comment on IPART's Draft Methodology for the Assessment of Council Fit for the Future Proposals.

As the closest level of government to the community, local government is uniquely placed to identify community needs and provide effective and efficient responses to local issues. While this can result in varying service levels from Council to Council, it means the services that are delivered reflect the individual characteristics of the local community. One of the key concerns when considering reform and amalgamations is that Councils have to remain responsive to the needs of the local areas, rather than becoming so large that they no longer have the capacity to represent their residents.

This submission has been prepared in consultation with Councillors, following the initial release of IPART's methodology. Council notes that due to IPART's 28 day consultation period, and Council's existing meeting schedule, this submission will be formally reported to Council on Tuesday 26 May 2015.

Timeframe

Council notes that IPART will release its methodology the week commencing 1 June 2015, with the closing date for Fit for the Future proposals being 30 June 2015.

Like many Councils across NSW, Bankstown has serious reservations concerning this timeframe and its proximity to the final submission date for the Fit for the Future proposals. Considering the significance of the Fit for the Future local government reforms, it is unreasonable for IPART to expect Councils to review or amend their approach to responding to the various templates within 29 days. This is especially the case for those Councils considering a merger, who are required to place their proposal on exhibition.

Simply put, the suggested timeframe provides little opportunity for Councils to amend their proposals should there be any change to IPART's methodology. If IPART is to change its methodology, then IPART should seek on behalf of local government an extension to the 30 June deadline so that formulas for assumptions can be re-evaluated based on any changes to the methodology

Other concerns surrounding the timing is the expectation that the rollout of the State Government's recommendations are slated to coincide with the September 2016 Local Government Elections. Transitioning Councils towards "fit for the future plans" will take time and clearer guidelines around the transition should be made available.

Scale and Capacity

Given that scale and capacity is a threshold criteria, Bankstown City Council seeks clarification on the proposed approach for measuring the qualitative elements contained within Box 3.1 *Key elements of Strategic Capacity*⁽¹⁾ of IPART's Local Government Consultation Paper. Of course, IPART will understand that most, if not all Councils, will be closely investigating their "scale and capacity". As it is currently described, scale and capacity is presented quite broad. To lessen the ambiguity, some relevant case studies would assist Councils in clarifying how submissions would be assessed against the scale and capacity criteria.

Council has noted significant discussion within the Local Government sector and much conjecture in metropolitan media relating to the setting of minimum population size.

Bankstown City Council has invested significant time and resources into community engagement especially regarding its improvement proposal, on the basis that we have scale and capacity. Accordingly IPART should include its intended minimum expected population targets for metropolitan Sydney in its final criteria so that councils can clearly and confidently respond to scale and capacity expectations.

⁽¹⁾ IPART *Methodology for Assessment of Council Fit for the Future Local Government Consultation Paper*, April 2015, p21

Further, Bankstown, is concerned with the lack of definition and subjectivity of the use of the term 'superior'^[2]. Does IPART propose to release the criteria that it will use to determine whether a proposal is indeed "superior", especially in circumstances where this option was raised for the first time in IPART's draft methodology? Perhaps it may be more appropriate that any alternative proposal be reviewed for as 'consistent' with the Independent Local Government Review Panel (ILGRP) options, rather than plainly superior.

Assessment Methodology

Bankstown City Council agrees in principle to the assessment methodology for the seven benchmarks and seeks to make the following comments.

Sustainability

While the financial sustainability of Councils is a key aspect of the Fit for the Future reform package, the benchmarks fail to address concerns surrounding cost shifting, nor do they indicate how this will be improved through amalgamations or any other reform; that is, will the State Government proactively look to minimise the impact of cost shifting for a "fit for the future" merged Council?

In any event, Bankstown City Council contends that any robust analysis must take into consideration the impact that cost shifting and changes to grants programs can have on Council budgets and long term sustainability.

The Local Government NSW cost shifting survey was last conducted for the 2011/2012 financial year and aimed to establish the extent of cost shifting by the Australian and NSW Governments onto local government in NSW. The survey estimated the total impact of cost shifting by the Australian and NSW Governments on to local government in NSW for the 2011/2012 financial year to be approximately \$519 million.

The biennial survey for the 2013/14 financial year is currently being completed by Councils and is due mid July, after the Fit for the Future deadline.

Cost shifting continues to place a significant burden on Council's financial situation with approximately \$15,822,000 'shifted' from higher levels of government to Bankstown alone. These include contributions to Fire and Rescue NSW, the Rural Fire Service and the NSW State Emergency Service, lack of adequate funding for public libraries, the failure to reimburse councils for mandatory pensioner rebates and insufficient resources supplied to Councils for their responsibilities to assess development applications, regulate companion animals, manage contaminated land, control noxious weeds, manage flood controls, or administer environmental regulation.

^[2] IPART *Methodology for Assessment of Council Fit for the Future Local Government Consultation Paper*, April 2015, Table 3.1, p25

Similarly, the ongoing debate around rate-pegging and the measures used to determine an appropriate and reasonable limit for our sector continues to be a significant issue, which needs to be addressed.

Consideration should also be given to where a Local Government Area sits on the SEIFA index and in doing so, consider the ability of its community to pay. For instance, based on data collected from the 2011 census, the City of Bankstown is rated as having an index of relative socio-economic disadvantage of 946. This means that the LGA is more disadvantaged than over 60% of other LGA areas in NSW.

Accordingly, Bankstown City Council aims to set rates and charges at a level that provides a sustainable income but does not impose undue hardship on property owners. While the Fit for the Future Roadmap suggests that government financial assistance could be redistributed to rural and regional areas, this principle ignores the high level of disadvantage faced by some metropolitan councils.

Effective Infrastructure & Service Management

As IPART will be aware, there is a marked disparity across local government in terms of an adopted approach in undertaking a detailed evaluation of a Council's asset base, or for that matter, the preparation of Special Schedule 7. In view of this, Bankstown City Council seeks clarification on IPART's assessment methodology, and the approach that will be taken to standardise Council's approaches to infrastructure costing, management and renewals.

This issue aside, Bankstown Council welcomes IPART's decision to consider a downward trend in criteria such as the Infrastructure Backlog Ratio^[3], rather than a mandated fixed percentage before a predetermined date, thereby allowing for Councils to demonstrate a sustainable and permanent improvement over 5 years. Such an approach allows Councils to maintain a considered approach in addressing its infrastructure backlog and reasonably manage the financial impact on the community, particularly when considering an areas level of disadvantage as earlier discussed.

As an active member of SSROC, Bankstown Council is well aware of these issues. Accordingly, when preparing its Asset Management Strategy, Council incorporated SSROC's collective regional approach to the way councils manage and report on their assets, particularly to provide consistency, clarity and above all the opportunity to capitalise on broader efficiencies across the region, as they arise. Amongst the number of issues agreed to by the councils, the decision was also made to apply similar concepts and approach to calculating the useful lives, depreciation rates, life-cycle funding and replacement costs of similar asset classes across the region.

^[3] IPART *Methodology for Assessment of Council Fit for the Future Local Government Consultation Paper*, April 2015, Table 3.5, p32

Should IPART require, Bankstown Council will provide a detailed analysis of these underlying assumptions to assist in preparing more robust reviews of infrastructure.

Efficiency

Council contends that it is possible to achieve efficiency gains, improved capacity, capability and economies of scale without large and wholesale amalgamations creating 'super councils' and inevitably losing the strongest element of local government - its community connection.

In assessing proposals, consideration should be given to the work carried out by Regional Organisation of Councils (ROCs). The organisations act as a facilitator of joint activities between councils which provide efficiency benefits through economies of scale being sought after through the Fit for the Future local government reform. Member councils can reduce the costs of procurement, share the costs of engaging external assistance if needed, and can expose their staff and councillors to a wide network of expertise and views. Furthermore, ROCs are a means of resolving issues and challenges that cross municipal boundaries.

In consideration of efficiency outcomes, IPART should consider the abilities of Councils to utilise efficiencies through business improvement measures as opposed to relying on loan borrowings. For example, Bankstown Council has been able to redirect over \$6M in annual savings from business improvement measures to capital maintenance previously undertaken by borrowings.

Finally, Council notes that there is some broader risks in nominating a fixed real OPEX value for an extended period, particularly given recent trends in Council's expenditure. Consideration may be given to determining a more appropriate approach to projecting future year operational costs to better account for growth throughout the city and to compensate for expected escalation in costs such as construction, wages and so forth.

Community Consultation

Bankstown City Council places great importance on engaging with its community. In preparing its response to the Fit for the Future package, Council adopted a multi-staged Community Consultation Plan consistent with its Community Engagement Policy 2013 which employs the IAP2 Community Engagement Spectrum to guide the process.

Presently, only those Councils completing the Merger Proposal are required to provide evidence of their community consultation. Given that completing a Council Improvement Proposal could result in a significant change to a Council's current approach to raising revenue or its service levels, we would suggest that community consultation should be considered when reviewing all Fit for the Future Council Proposals.

Performance Monitoring

Bankstown City Council continues to support the establishment of a set of performance guidelines developed in consultation with Councils. Council also welcomes the proposal that audits be placed under the oversight of the Auditor General in order to deliver the required outcomes of a more consistent approach to undertaking audits. Council also welcomes the upcoming audit of Special Schedule 7. This will assist in normalising asset valuation and methodologies across the State, making for a more transparent system of asset governance in local government.

Conclusion

Bankstown City Council is strongly of the view that initiatives put forward to address the Fit for the Future criteria should form part of the Integrated Planning and Reporting cycle and as such the implementation of these proposals should take effect from the 2017/18 financial year. This should include the implementation of actions under the FFF proposals such as a potential SRV application.

As a result of undergoing the Fit for the Future process, the NSW Government may give consideration to it being a requirement for the newly elected Council to implement its decision.

While it is acknowledged IPART's role is assessing the Council submissions, further clarification and transparency is required on the Transitional Committees deployed to implement the Fit for the Future proposals.

Should you require more information or would like to discuss the concerns raised by Council, please do not hesitate to contact me on [REDACTED]

Yours sincerely,

[REDACTED]

Matthew Stewart
General Manager