



25 May 2015

Reference File: F09153

Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET Post Shop NSW 1240

Dear Sir/Madam,

SUBJECT: Methodology for Assessment of Council Fit for the Future Proposals

Thank you for the opportunity to make a formal submission on the proposed methodology for assessing local government Fit for the Future (FFTF) proposals. On behalf of Blue Mountains City Council I would like to make the following comments.

1. **Strongly support “meet or improve”.** Blue Mountains City Council (BMCC) supports the scaling of benchmarks in order of importance, with some being ‘must meet’ and others ‘must demonstrate improvement in’. This allows a council with a documented strategy under IP&R to move to a financial sustainability position over a 10 year period to show both an improvement in 3 years (that may not meet the FFTF target) and a 10 year strategy for financial sustainability that does meet the FFTF target.
2. **Guidance on backlog calculation.** The calculation of Infrastructure Backlog or Bring to Satisfactory (BTS) and Maintain at Satisfactory (MAS) needs clear definition for consistent practice. The calculation methods for BTS and MAS continue to be inconsistently applied and this is likely to continue to provide high variability and low confidence policy decision unless there is clear guidance from IPART. BMCC strongly supports a risk-based approach for this calculation, with BTS being the Modern Equivalent Renewal Cost of high residual risk assets not financed in the current annual reporting period.
3. **Sustainability ratio should use CRC instead of WDV.** The use of WDV (carrying amount) in an infrastructure sustainability measure is likely to lead to inconsistent and potentially unreliable policy decisions. Modern equivalent renewal cost or depreciable amount is a more reliable measure.
4. **Unrealistic timeframe.** BMCC appreciates the fact that IPART has consulted on the assessment methodology, but we believe the timeframe for IPART to revise the methodology based on the outcomes of the consultation process and for councils to amend proposals in light of the revised methodology is unsatisfactory. While the proposals are due on 30 June 2015, it should be noted that in order to meet business paper deadlines for the June Council Meeting, the FFTF proposal must for most councils be finalised by early June.

5. **Impact of statutory charges on efficiency ratio.** BMCC would like to highlight the fact that statutory charges which are out of the Council's control but may increase more than CPI, will have a negative effect on the efficiency ratio. This is relevant to the cost of emergency services in the Blue Mountains. The BMCC contribution to Fire and Rescue NSW increased by 36% in 2013/14 and 21% in 2014/15.
6. **Assumptions about access to additional funding.** It is not clear whether a council can make assumptions about the outcome of the Fit for the Future process and thus make assumptions about access to T-Corp borrowing facilities to inform the 4-year strategies and 1-year action plan.
7. **Alignment of FFTF with Integrated Planning and Reporting and monitoring of FFTF performance.** BMCC supports alignment of FFTF with IPR and that this alignment be made transparent e.g. FFTF should align with 10 and four year timeframes of the Resourcing Strategy and Delivery Program to affect improvement in financial sustainability. We support monitoring of FFTF performance and suggest this be achieved through existing IPR reporting mechanisms such as the annual report and the four year End of Council Term Reports to report progress against FFTF criteria, strategies and actions.
8. **Comments on efficiency measurement.** Further clarification is requested on the impact on the measurement of efficiency for councils who have been successful in special rate variations that result in increases to operating expenditure. The proposed IPART approach states that all councils (except rural councils) "*Must demonstrate savings (net of IPR supported service improvements) over 5 years*". Please provide further clarification of what "*net of IPR improvements*" means as under IPR all council business comes under IPR. Is this specifically referring to special rate variations where the community has endorsed a higher level of service provision?
9. **Limitation of current Metropolitan versus Rural classifications.** It is suggested that IPART give further consideration to recognising the particular challenges faced by councils located on the fringe of metropolitan Sydney. The challenges of these peri-urban councils (including City of Blue Mountains) are different to those faced by rural and non-fringe metropolitan councils and warrant different consideration and assessment.

Thank you once again for the opportunity to make a submission on the proposed assessment methodology. We look forward to receiving the final report in the very near future.

Yours faithfully

ROSEMARY DILLON
Group Manager, Integrated Planning and Finance