



25 May 2015

Mr Peter Boxall AO, Chairman
Methodology for Assessment of Council Fit For the Future Proposals
Independent Pricing and Regulatory Tribunal (IPART)
PO Box K35
Haymarket Post Shop NSW 1240

Dear Mr Boxall

Submission on Methodology for Assessment of Council Fit for the Future (FFTF) Proposals

Byron Shire Council would like to thank (IPART) for the opportunity to provide a submission on the proposed methodology for assessment of Council Fit for the Future Proposals.

In that regard, Council would like to provide the following comments on the basis that Council will need to lodge a Council Improvement Program (CIP) – Template 2 as part of its FFTF proposal:

- **Benchmark 1 – Operating Performance Ratio**

Councils are required to account for significant infrastructure assets and recognise annually the consumption of the economic life of those assets as a depreciation expense. Often it is the case such infrastructure assets ie roads and bridges are non-income producing and the quantum of the depreciation expense is significant. Benchmark 1 is requiring Council to fund ongoing operational expenses and the depreciation of the assets under its control within five (5) years, using a breakeven average calculated over three (3) years.

The expectation this Benchmark be met within five years using the three (3) year average methodology, means that Councils will be required to either raise a significant amount of additional revenues or be required to significantly redirect or reduce expenditures in a period of less than five (5) years to meet this requirement.

Council considers this a very short time period and recommends that a ten (10) year period is more appropriate timeframe, in which to meet this benchmark, and would allow Council's to address with their Communities the measures that they plan to implement through the existing Integrated Planning and Reporting framework to meet the Benchmark.

The current timeframe and methodology may require Council's to make decisions that could have significant potential negative impacts on current service delivery and other non asset related programs, which have been agreed with the Community through the existing Community Strategic Plan and Delivery Program. The potential impact could be better managed by Council's if the timeframe was extended to ten (10) years from the current five (5) years.

If the benchmark is to remain to be met within a five (5) year period then consideration should be given to a trend analysis that demonstrates an improvement in this ratio on a year by year basis for Council to be determined Fit and a projection that the Benchmark would be met within two (2) years of the current five



(5) year timeframe. This would allow Councils to achieve a breakeven position by year 5 and meet the breakeven three (3) year average within seven (7) years.

- **Benchmark 3 – Building and Asset Renewal Ratio and Benchmark 4 – Infrastructure Backlog Ratio**

Councils to date have not been given clear definition around infrastructure backlog, what constitutes restoration to satisfactory standard and required asset maintenance. The results that are annually disclosed at Special Schedule 7 to a Council's annual financial statements, are critical inputs included in Benchmark 3 and Benchmark 4, and at this time lack consistency across the State, as each Council may have not taken the same approach to determine such results.

The IPART Methodology for Assessment recognises and notes this situation at page 31, "*we consider there maybe data consistency issues that need to be taken into account when interpreting a council's reported asset renewal, backlog and maintenance performance, as there is no current requirement for this data to be routinely audited*". Council supports this assessment and welcomes the conclusion that improvement should be shown in these ratios rather than the requirement that they must be met. Council strongly supports IPARTS flexible approach as detailed at page 26.

The inconsistency across NSW in asset reporting revolves around the subjective nature of assessments for asset life, asset condition, unit rates, and what is a 'satisfactory' standard. It is noted that reference is made in the methodology to the Accounting Code at page 28, which in turn cross references the Office of Local Government ("OLG") manual. These documents have not produced a consistency in approach and as a result it is very difficult to compare or conclude regarding the state of assets across NSW. Council supports efforts to provide increased direction in this area with a view to a consistent approach and standard against which audit is possible.

There is also diversity in approaches to the assessment of asset measures with some councils placing emphasis on condition whilst others place emphasis on a risk based approach. Council has deployed a risk based approach with supporting evidence.

The uncertainty around asset measures is also relevant to the Operating Performance Ratio in the context of depreciation.

Special Schedule 7 was expected to be subject to audit for the 2014/2015 financial year but this requirement has now been deferred until a framework is in place to allow audit. It is acknowledged it is the responsibility of each Council to determine the disclosure included at Special Schedule 7, which then determines the results for Benchmark 3 and 4. However, the assessment of all Councils against Benchmark 3 and 4, to inform the Fit for the Future outcome, may be inconsistent as individual Council outcomes currently differ, depending upon the rationale used.

- **Benchmark 7 – Real Operating Expenditure per Capita**

Benchmark 7 compares operating expenditure against population with an expectation of reducing expenditure over time. Council submits it is at a disadvantage where the population basis utilised is purely the residential population.

Byron Shire Council is required to compare operating expenditure that attempts to service the resident population along with 1.5million tourists each year, but can only include the resident population in the comparison.

Councils that have expenditure influenced by the impact of significant tourism should be able to broaden the population base utilised in the calculation to incorporate the tourism influence. Alternatively Councils should be able to discount their expenditure based on the measured impact of tourism to Council expenditure.

In benchmark 7 Council understands that this Benchmark has been developed to measure efficiency gains achieved by each Council over time, but it is also a new measure that could be perceived as punishing Councils for allocating additional budget and resources to services, activities and programs.

In the past, through Local Government benchmarking such as the annual Comparative Information on NSW Local Government prepared by the OLG, Councils have received a “pat on the back” where their expenditure on current service delivery and other non asset related programs has exceeded the Industry “norm”.

In such instances Councils have been seen as meeting or even exceeding community expectations and needs. There are also a number of Industry Awards including the Bluett Award, awarded annually that have acknowledged and rewarded Councils achievements in these areas, including the setting of new industry best practice.

The introduction of this Benchmark may in time be seen as placing an artificial cap or ceiling on new innovation, ideas and practices within the Local Government Industry.

- **Other Comments**

Byron Shire Council like all Councils in NSW has embraced the statutory requirements of the Integrated Planning and Reporting process. Council is concerned that the Fit for the Future process and the concentration on compliance for Councils to achieve seven Benchmarks over time, will require Councils to change priorities. This comes over the top of the Integrated Planning and Reporting regime where Council has developed compacts with its community. Compliance with the FFTF benchmarks should not come at the expense of those community compacts.

Council in particular is concerned that the FFTF Benchmarks are narrow in focus and are the sole Benchmarks used to determine a Council’s FFTF outcome. It is acknowledged IPART may incorporate other factors to inform its assessment of Councils, but Council would like to see the inclusion of a broader range of performance and benchmarking data, such as the results and outcomes achieved by Councils in the Price Waterhouse Coopers and NSW Local Government Professionals NSW Local Government operational and business effectiveness benchmarking survey.

Council is hopeful the contents of its submission will be given due consideration amongst other submissions IPART will receive, and will assist to further inform and improve the Fit for the Future Assessment methodology, that is be used to provide the recommendations to Government regarding the future of the local government sector in New South Wales.

[Redacted Signature]

Yours sincerely

[Redacted Name]

Ken Gainger
General Manager

[Redacted Contact Information]