



Dr Peter Boxall
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Contact: Stephen Glen
Our Ref: 14/181
Your Ref:

Dear Dr Boxall


METHODOLOGY FOR ASSESSMENT OF COUNCIL FIT FOR THE FUTURE PROPOSALS

Please find attached Cessnock City Council's submission on the proposed methodology for assessment of council *Fit for the Future* proposals.

Of particular note, Cessnock City Council resolved on 6 May 2015 that *the timeline be extended to allow councils adequate time to make submissions.*

Further, on 20 May 2015, Council (in support of its 6 May 2015 resolution) also wished to state its support in principle for the local government industry by not supporting *scale and capacity being used as a determinant in the Fit for the Future process.*

Yours faithfully


Stephen Glen
General Manager
25 May 2015



Cessnock City Council

Submission on the proposed methodology to assess council Fit for the Future proposals

Cessnock City Council welcomed the announcement of the Independent Pricing & Regulatory Tribunal (IPART) with the addition of Mr John Comrie as the Expert Panel in the *Fit for the Future* reform process.

Council recognises that local government needs to be financially sustainable and embraces reforms that are designed to ensure, over the long-term, councils will generate sufficient funds to provide the levels of service and infrastructure agreed with their communities.

Preferred options for Hunter, Central Coast and Illawarra councils

While the Independent Local Government Review Panel's final report did not include Hunter, Central Coast and Illawarra councils in its tables of recommendations for metropolitan and non-metropolitan councils (re-produced in appendices b and c of the methodology); it is assumed that the conclusions from chapter 14 of the Panel's final report should be applied. E.g. "*Pursue the establishment of Joint Organisations for the Hunter and Illawarra...*"

Recommendation:

That the methodology clarifies the preferred options for Hunter, Central Coast and Illawarra councils.
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Council Improvement Proposal

While there was no specific template for councils that were recommended to pursue the establishment of a Joint Organisation, the methodology notes (on page 15) that councils may choose to incorporate aspects of structural change (such as sharing services or resources with other councils) in their Improvement Plans.

Given the range of options for reform detailed on page 12: is "council within a Joint Organisation" deemed to be a structural change and, if so, how should the implications of this change be incorporated into proposals; and, given that the Joint Organisation pilots are in their infancy, how will these implications be assessed by the IPART?

Recommendations:

That the methodology clarifies whether being part of a Joint Organisation is considered to be a structural change.
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That the methodology clearly describes how councils that are part of a Joint Organisation will be assessed.

Focus on Operating Performance Ratio

The key to financial sustainability is ensuring a council sets own source operating revenues and service levels such that it will maintain a small operating surplus whilst also addressing asset renewal needs as required.

Council is supportive of the focus on the current and projected operating performance ratio as a means of assessing financial sustainability and that this has been designated as a 'must meet' criteria.

However, a weakness of this criterion is that depreciation, on average, represents a very large proportion of the total operating expenses of councils. There is a need to ensure a consistent approach (both over time and across organisations) to the basis of the annual estimates of depreciation expenses.

Scale and Capacity

Council resolved, on 20 May 2015, with regards to scale and capacity as the threshold criterion:

That Council as an expression of principle, in support of the local government industry, does not support scale and capacity being used as a determinant in the Fit for the Future process.

The State Government's terms of reference (on page 43) ask the IPART to consider the social and community context and outcomes for each council and the methodology notes that these factors will be particularly relevant when considering the scale and capacity criterion.

The consideration of this additional factor introduces an element of discretion into an (otherwise) objective assessment and provides the opportunity to influence the outcomes of the process (particularly where all of the other criteria have been met).

Collaborative Approach to Reform

It was disappointing to note that, despite the Terms of Reference requiring the assessment methodology "*to consider advice provided by the Ministerial Advisory Group*" (refer page 43), that the consultation paper was developed (and released) without the knowledge of that group.

While Council is committed to working with the State Government to achieve reforms that benefit residents and ratepayers; when the key industry advisory group is excluded from significant decisions, it casts doubt on the authenticity of the State Government's commitment to collaboration and makes it appear that the reform process is rubber-stamping a pre-determined outcome.

Conclusion

Council appreciates the opportunity to comment on the proposed methodology and looks forward to working with the IPART to demonstrate its fitness for the future over the coming months.