

Our Reference:

25 May 2015

Dr Peter J Boxall AO
Chairman
Methodology for Assessment of Council Fit for the Future Proposals
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Dr Boxall AO

Eurobodalla Shire Council Submission on “Methodology for Assessment of Council Fit for the Future Proposals: Local Government – Consultation Paper April 2015”

Thank you for the opportunity to provide comments upon the methodology for assessment of Council’s Fit for the Future proposals.

Your consultation paper lists five distinct questions for stakeholder feedback as well as an open invitation to comment on any other aspect of the proposed methodology. We will comment on each question in turn.

Question 1: *How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?*

Comment: This criteria is not relevant to Eurobodalla Shire Council (ESC) as at 3.2.2 it states “We propose that all council FFTF proposals that directly align... with ILGRP preferred options on scale and capacity will meet this criteria.” ESC is noted as “No change so this has already been assessed.

Question 2: *Which of the ‘Rural Council Characteristics’ are the most relevant, considering a council must satisfy a majority of the characteristics to be considered a rural council?*

Comment: This is not applicable as ESC is not classified as a ‘Rural Council’.

Question 3: *Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria?*

Comment:

Financial Sustainability

For all calculations Financial Assistance Grants should be considered as a 'stable income source' for all councils not just rural councils as currently stated.

Operating Performance ratio: Changes in Council's performance can be affected by multiple factors:

- Expansion in its role by its own policy choices or by devolution from another level of government
- Increases in significant costs (for example, construction) that are non-controllable by a council
- Changes in the community's demographic profile, such as an ageing population, which may induce significant increases in council expenditures in terms of services and/or staffing
- Relative socio-economic disadvantage of the Local Government Area placing pressure on revenue collection
- Unforeseeable events, such as natural disasters.

Council supports the original IPART proposal for flexibility of this benchmark being a range between an operating deficit of -3% and an operating surplus of 10% of operating revenues averaged over 3 years.

Own-Source Operating Revenue Ratio: ESC agrees with this ratio in principal, however considers its 'utilities' being water and sewerage revenues should be included in the calculation of the ratio.

Building and infrastructure Asset Renewal Ratio: The issues of measurement for renewal is that many local government assets are long lived and it is considered a five year improvement timeframe insufficient. A minimum of 10 years to show improvement is considered necessary for the benchmark of 100%.

Effective infrastructure and service management

Infrastructure Backlog Ratio (IBR): ESC considers that the benchmark of less than 2% is an overly ambitious target for councils which will be difficult to meet over the long term without significant revisions to its asset base and revenue. We recommend an improving sliding scale for 20 years be engaged to reasonably demonstrate compliance with the benchmark.

We also suggest that the current IBR should be revisited and the denominator changed to current replacement cost (CRC) instead of written down value.

There is also an argument that the figure of 2% is too low and that provided the risk is well managed, this figure could be increased to recognise the need to properly plan and program works, to allow greater flexibility in response to changing circumstances (e.g. prolonged wet weather impacting road pavements) and to be able to respond appropriately to community needs. It is recommended that consideration be given to setting this ratio at three times the average annual depreciation.

Similar to the asset renewal ratio, effective strategies such as meeting the annual infrastructure renewal targets of short lived asset components, can be effective at removing backlog, provided sufficient timeframes are provided to complete total cycles of asset renewal and risks are well managed using a hierarchy approach. These cycles are typically 10 to 20 years in duration, suggesting that the timeframes to meet the IBR should be longer.

Asset Maintenance Ratio: This ratio is acceptable given it has been confirmed it relates to routine maintenance not renewal or capital activity.

Debt Service Ratio: ESC agrees with this ratio as it allows a flexible borrowing strategy to be engaged given the 0% allows for debt free and 20% is sustainable.

Efficiency

This measure focuses on cost-effectiveness which may not adequately measure efficiency in local government. It is also not practical to compare across councils because of the different services provided. This being said, a downward trend in 'real operational expenditure per capita' is acceptable unless there is an impact on operational expenses resulting from a need for an increase in service levels in line with community priorities, through the Integrated Reporting and Planning process.

Question 4: *How should councils engage with their communities when preparing FTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important.*

Comment: The comprehensive consultation process undertaken during the Integrated Planning and Reporting process is considered appropriate for ESC as it has already been assessed as having scale and capacity.

Question 5: *Should council performance against FTF proposals be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals?*

Comment: ESC agrees the inclusion in the Annual Report of performance is appropriate. ESC does not support the proposal that the Auditor General be engaged to perform additional reviews. Any additional review is seen as simply an additional unnecessary cost given ESC has: an Independent Audit Committee, an external Independent Internal Auditor, and the statutorily required independent external auditor.

Should you require further information on our submission, please do not hesitate to contact Council's Director Finance and Business Development, Mr Anthony O'Reilly on [REDACTED]

Yours sincerely

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Dr Catherine Dale
General Manager

