

Fairfield City Council

SUBMISSION - IPART

Methodology for Assessment of Council Fit for the Future Proposals

May 2015

Fairfield City Council (Council) welcomes the opportunity to respond to IPART's *Methodology for Assessment of Council Fit for the Future Proposals*. Fairfield City Council is supportive of IPART's appointment in the role of 'expert panel' along with Local Government expert John Comrie.

Fairfield City Council is a large and financially strong Council which is committed to supporting the needs of its culturally diverse and disadvantaged community. Our City is located in Sydney's south west and is approximately 32 kilometres from the Sydney CBD. The City includes 27 suburbs and is bounded by Blacktown, Holroyd, Parramatta, Bankstown, Liverpool and Penrith City Councils. Fairfield City is home to over 203,109 people and is currently the third largest by population in the Sydney Metropolitan area.

Council has undertaken an assessment of its position against the Fit for the Future (FFTF) benchmarks and has engaged with the community to engender a discussion and understand their views about the NSW Government's reform proposal for Fairfield City, before making a decision on which template to complete. Council supports IPART's inclusion of the community consultations and social and community context in its methodology for assessing Fit for the Future.

In making its submission Council makes the point that the ILGRP presented a suite of recommendations to strengthen Local Government and that recommendations should not be 'cherry picked'. To have councils consider amalgamations in isolation is contrary to the ILGRP's view.

"The challenges facing Local Government can only be addressed successfully through an integrated package of measures, and the Panel's key recommendations are inter-dependent. If individual recommendations are 'cherry-picked', then at best the benefits of reform will only be partially realised, and at worst there will be no significant improvement at all¹".

Council's submission on IPART's draft methodology is provided to ensure that Local Government reform achieves the State Government's mandate 'to improve the strength and effectiveness of Local Government'. Fairfield City Council has concerns about the proposed methodology and reform process, as the draft methodology's approach 'changes the goal posts' by introducing the notion of a threshold criterion.

¹ ILGRP Revitalising Local Government Final Report 2013

Scale and capacity as the threshold criterion requires councils proposing an alternative approach to demonstrate how that alternative proposed approach is superior to the amalgamation options recommended by the ILGRP. Councils have been working on FFTF proposals since September 2014. To change the 'goal posts' less than three weeks before submissions are due is unrealistic and unreasonable.

Outlined below is Fairfield City Council's submission to IPART's *Methodology for Assessment of Council Fit for the Future Proposals*. Should you require clarification on any matters raised, please contact Amanda Bray, Director Corporate Governance on [REDACTED]

Fairfield City Council looks forward to working with IPART and demonstrating how it will be Fit for the Future, while continuing to meet community priorities.

IPART 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?

- A. The NSW State Government's Fit for the Future Blueprint states that the Independent Local Government Review Panel's (ILGRP) recommendations should be the starting point. IPART in its Review of Criteria for Fit for the Future (Sept 2014) recommended that Scale and Capacity should become a threshold criterion. The terms of reference (TOR) for IPART is the first time the State Government has used the term threshold criterion and labelled Scale and Capacity in this way. The introduction of threshold criterion 'changes the goal posts' for the FFTF assessment. The elements of Strategic Capacity are subjective with no supporting evidence. To have the most important decision on Local Government reform in NSW, being made on that basis may result in poor outcomes.

***Recommendation:** That Scale and Capacity not be the only threshold criterion as it is open to interpretation. IPART should include the following in its assessment of Scale and Capacity:*

- Strategic Capacity (Refer further to comments on Strategic Capacity in later recommendations).
- Sustainability
- Effectively managing infrastructure and delivering services for communities;
- Efficiency
- Social and Community Context
- Community Opinion / Consultation

- B. The ILGRP states that it undertook extensive research on the question of Strategic Capacity, however the ILGRP falls-short on producing rigorous evidence of how it defined the Key Elements of Strategic Capacity. The ILGRP referenced ACELG² research as the foundation for determining Strategic Capacity. ACELG literature review uses the terms 'Economies of Scale' and 'Economies of Scope and Strategic Capacity' however did not use the term Scale and Capacity. ACELG states that:

"..... there is a perception that municipal consolidation will result in gains through economies of scale. Our review of the literature makes it clear there is insufficient robust research to support this proposition". (pgs. 39-40)

² Chris Aulich, Melissa Gibbs, Alex Gooding, Peter McKinlay, Stefanie Pillora and Graham Sansom Consolidation in Local Government: A fresh Look May 2011

Recommendation: *That the Key Elements of Strategic Capacity be reviewed, as they are subjective and unsubstantiated.*

- C. The ILGRP presents a suite of recommendations to strengthen Local Government, yet Local Government has been asked to address amalgamations only. Discussion about amalgamation and Scale and Capacity would be better deferred until the State Government provides clarity about the role and authority of councils, reforms the rating system and mechanisms for councils to earn income. Council understands that the State Government has established the parameters of Local Government Reform and that this is outside of IPART's influence; however IPART should consider Scale and Capacity in relation to all the ILGRP's recommendations. Council does not believe it was the ILGRP's intention that amalgamations in isolation would achieve Scale and Capacity. Amalgamations of councils should not be the foundation to achieving Scale and Capacity. The ILGRP *Revitalising Local Government Final Report*, Chapter 4: Building Sustainable Systems addresses Strategic Capacity and states³:

"Strategic Capacity can only be achieved if we look at the system of Local Government as a whole. Very few challenges can be addressed or problems 'fixed' in isolation: understanding how the system of Local Government works is essential to achieve lasting improvements and to avoid the unintended and often adverse consequences of poorly conceived policies and interventions".

Recommendation: *That the assessment of Scale and Capacity take into consideration the State Government's response to the ILGRP's 65 recommendations and the future impacts on Local Government.*

- D. The ILGRP references research undertaken by ACELG⁴ as evidence for the identified Key Elements of Strategic Capacity. ACELG concludes that there is little evidence that amalgamation will of itself yield economies of scale greater than those achievable through other forms of consolidation. Options investigated included a range of approaches to shared services delivery, various models of regional collaboration, boundary adjustment, and voluntary, forced and failed amalgamations of councils. ACELG research which informed the Key Elements of Strategic Capacity considered a range of approaches to consolidating Local Government, not just the option of amalgamations. As stated by ACELG:

"ACELG's report Consolidation in Local Government: A Fresh Look makes it clear that Strategic Capacity can be increased by creating larger units of Local Government: the approach favoured in Queensland; and through regional

³ ILGRP Revitalising Local Government Final Report 2013

⁴ Chris Aulich, Melissa Gibbs, Alex Gooding, Peter McKinlay, Stefanie Pillora and Graham Sansom Consolidation in Local Government: A fresh Look May 2011

collaboration and resource sharing. In the ILGRP's view, a mix of these two approaches will be necessary to ensure a sustainable and effective system of Local Government in NSW".

"The evidence shows that significant benefits can be derived from all of the approaches to consolidation examined. Equally there may be dis-benefits – disruption, transition costs, weakening of local democracy, loss of local identity and employment – that need to be weighed in any strategic approach to reform".

There is a need to consider the negative implications of amalgamations. IPART should consider, in its assessment of Fit for the Future the dis-benefits of an amalgamation.

Recommendation: That IPART consider any dis-benefits in its assessment, including – disruption, transition costs, weakening of local democracy, loss of local identity and employment.

- E. IPART's proposed methodology requires councils who are recommended for an amalgamation to demonstrate how the option of standing-alone is superior to the amalgamation options recommended by the ILGRP, if they are completing template two. The Key Elements of Strategic Capacity (Box 3.1) are subjective measures which have little evidence supporting the approach. It is difficult to define what is meant by superior for each Key Element.

IPART should consider any dis-benefits in its assessment, including – disruption, transition costs, weakening of local democracy, loss of local identity and employment and whether alternative consolidation strategies can achieve the same outcome. One should not have to demonstrate that standing alone is superior to a merged entity. Again the assumptions around what a merged entity would be is again subjective and open to interpretation.

Recommendation: That proposals on alternative approaches not be required to demonstrate they are superior to the ILGRP's recommendations.

- F. In making its recommendations, the ILGRP did not take a 'one size fits all' approach to Scale and Capacity. It did not set a minimum or maximum geographic or population size. Research and debate about an optimum size (population) for Local Government areas have been inconclusive, and there are strongly opposed views as to whether larger amalgamated councils would enjoy significant economies of scale⁵. The current and future estimated population size for metropolitan councils recommended to standalone or amalgamate is not consistent. Some councils with smaller future population

⁵ Wither by, A., Dollery, B., Auster, M. and Marshall, N. (1999) Is Bigger Better: Towards a Model Process for Local Government Structural Reform, Australian Institute of Urban Studies, NSW Branch

sizes have been recommended to standalone and councils with larger future population sizes have been recommended to amalgamate.

“In making its recommendations, the ILGRP did not take a ‘one size fits all’ approach to scale and capacity. It did not set a maximum geographic or population size. It looked at the unique characteristics of each area – geography, economics and transport flows, communities of interest and local identity. The ILGRP made recommendations to ensure each council was able to meet the key elements of strategic capacity”⁶.

“Without changes to council boundaries there will be an increasingly severe imbalance in the structures of Local Government between eastern and western Sydney: by 2031 the 28 councils east of Parramatta will have average populations of 108,800, whilst the 13 to the west will average 212,900”.

As outlined in Table 1, metropolitan councils recommended to stand alone all have a population size between 150,000 and 270,000 residents, with future growth potential.

Table 1: The ILGRP’s recommendations – Current and projected council populations

Local Government Area	Recommendation	Current ⁷	Projected
Camden	Stand-alone	67,084	149,300
Bankstown	Stand-alone	200,357	222,100
Campbelltown	Stand-alone	156,572	233,800
Sutherland	Stand-alone	225,070	262,900
Penrith	Stand-alone	194,134	271,300
The Hills	Stand-alone	187,703	275,300
Fairfield City		203,109	239,900
Liverpool City		199,928	288,950

Recommendation: That minimum population size not be used as the criterion for scale.

- G. The ILGRP makes recommendations to have amalgamated Local Governments with populations of between 500,000 to 600,000 people. It is unclear where this benchmark evolved, and is not supported by Council or imperial evidence. Local Government has been, and remains, a strong supporter and partner in advancing the objectives of the State Government’s Metropolitan Strategies. There has been no evidence provided that larger Local Government is more able to work effectively with State and Federal Governments. Local Government plays an important role in the future

⁶ ILGRP Revitalising Local Government Final Report 2013

⁷ <http://profile.id.com.au/>

planning of Metropolitan Sydney by providing the local knowledge, experience and delivery mechanisms that are critical.

As a Federation, Australia has three levels of governance, which allows decisions to be made at the most appropriate level. To ensure infrastructure and services best meet the needs of communities, it is important these are delivered by the closest level of government to the people equipped for the task. This is the principle of subsidiarity. The Australian Government⁸ considers that Local Government's role complements the role played by other levels of Government in acting as the main infrastructure and service delivery arms. We need to ensure that each level of Government plays its part; progressing regional planning objectives can be achieved through policy, without compromising democracy.

In considering how 'big is too big' IPART should consider a range of factors. For a number of Local Governments, the ILGRP's recommendations creates future Local Governments with population equivalent to Tasmania (513,400 people) and bigger than the Northern Territory (241,800 people) and the Australian Capital Territory (382,900) (Table 3). At this size, the concern is that councils are too large to have sufficient capacity to service the disparate needs and conflicting priorities of this larger community. Larger organisations have the potential to be more bureaucratic and slower to respond than smaller, more agile organisations.

"PWC⁹ (2006, p. 72) noted that whereas 'structural reform through amalgamations is necessary in some instances, each potential amalgamation needs to be assessed carefully to avoid the risk of simply creating large inefficient councils'. In its formal recommendations, PWC (2006, p. 149) held that 'efficiency, effectiveness and scale' could be enhanced by means of regional service provision, shared service arrangements, outsourcing, state-wide purchasing initiatives, and similar initiatives, rather than through compulsory council amalgamation".

Recommendation: *That IPART consider if other consolidation strategies such as resource sharing and strategic alliances can achieve the same capacity and efficiencies as amalgamations, while maintaining local representation, identity and other benefits.*

- H. During community consultations in Fairfield City, many residents raised concerns about local representation. ACELG¹⁰ have focused attention on impacts of the broader roles of Local Government, beyond service provision,

⁸ Australian Government's *State of Australian Cities 2010*

⁹ PriceWaterhouseCoopers. (2006) *National Financial Sustainability Study of Local Government*, Sydney:

PriceWaterhouseCoopers.

¹⁰ Chris Aulich, Melissa Gibbs, Alex Gooding, Peter McKinlay, Stefanie Pillora and Graham Sansom Consolidation in Local Government: A fresh Look May 2011

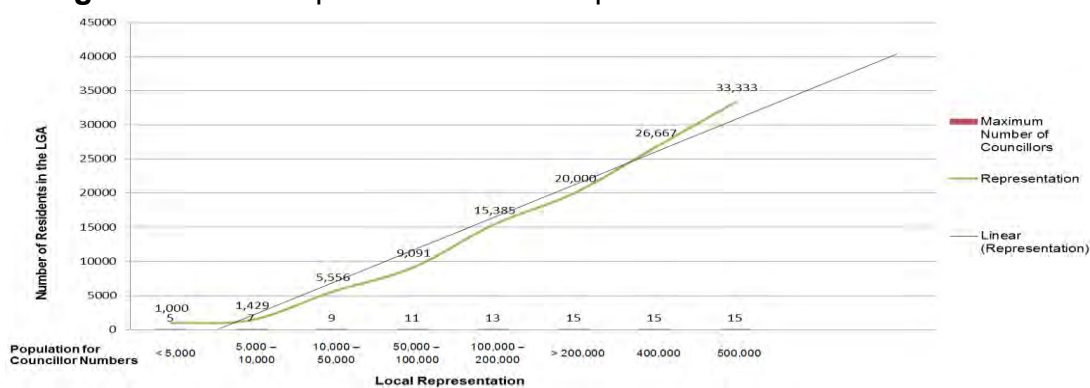
as a consequence of consolidation and identify that local democracy and representation are important and should be considered fully when weighing consolidation options. Any amalgamation needs to ensure that democratic arrangements are not unduly affected, such as maintaining a relatively high ratio of elected members to constituents.

The ILGRP noted that currently in NSW the ‘number of residents per councillor ranges from less than 150 to more than 20,000’. Federal Members have a quota of 90,000 electors with + or – 10% while State Members have a quota of 50,000 electors with + or – 10 %. To ensure local representation and local democracy, IPART should consider the size of councils to ensure local representation is maintained.

An analysis of local representation from the Local Government Managers Australia (LGMA) recommended a sliding scale of representation with the maximum number of Councillors, including the Mayor, being 15 for populations over 200,000, to ensure an efficient and effective council¹¹.

The recommendation from the LGMA Working Paper¹² illustrates that representation is at a consistent level and remains at this consistency up to about 250,000 residents (Figure 1). At 500,000, the estimated future population of Fairfield and Liverpool combined, representation is above the line and thus greater than optimum for local representation. Hence, due to size, the actual capacity of elected officials to deal with local issues will be diluted as representation is diffused amongst this larger population. Local representation will be negatively affected by the size of the proposed amalgamated Council.

Figure 1: Local Representation in comparisons to size of councils



¹¹ LGMA NSW Working Party 1d Final Report, 2013, Identify the barriers to establishing inter-council contractual arrangements for the sharing of staff, including general managers and senior staff, as well as the commercializing services, p13

¹² LGMA NSW Working Party 1d Final Report, 2013, Identify the barriers to establishing inter-council contractual arrangements for the sharing of staff, including general managers and senior staff, as well as the commercializing services, p13

As outlined in Table 2 Fairfield City will have 18,453 residents per Councillor, Liverpool will have 24,079 residents per Councillor. If Fairfield and Liverpool Councils were to amalgamate, there would be a minimum of 35,257 residents per Councillor at 2031.

Table 2: Local Representation

	Population (forecast 2013)	# elected officials	# councillors per resident
Fairfield	239,900	13	18,453
Liverpool	288,950	12	24,079
Combined	528,850	15*	35,257 minimum

* Based on maximum # of elected officials permissible under the LG Act

In addition, amalgamations assume that the populations of the two local government areas are homogenous i.e. they share similar backgrounds, a common local identity, common priorities etc. However, as the communities in Fairfield and Liverpool have differing needs and priorities, there will be conflicting priorities if amalgamated, making local representation difficult. The risk is that the priorities for Fairfield's disadvantaged communities will be marginalised as the main focus of Liverpool will be to develop the Regional City and to develop the urban release areas. Social and community context is an important consideration in determining the outcome of an amalgamation and the ability to maintain local representation.

While the ILGRP suggested adopting a board of directors or place management concept, this ultimately reduces local representation and adds a level of complexity. Many councils have already adopted a place management approach within a population of 200,000. While place making may be a strategy to maintain local identity it is not a strategy for local representation and local democracy. Having community boards with little power or responsibility, and no resources to take action or make decisions on behalf of the community, does not ameliorate impacts on local democracy or local representation.

Recommendation: *That scale should be based on a range of factors including maintaining local representation and local identity, community needs and social and community context. .*

- I. NSW currently has 152 Local Government Bodies with a population of 7,439,200. The ILGRP has recommended that the number of Metropolitan councils be reduced from 41 to 15-18. Metropolitan councils in NSW have not been recommended to form Joint Organisations by the State Government in phase 1 of the reform.

According to the Metropolitan Strategy, Sydney will be home to a future population of 5,861,750¹³ residents. Metropolitan Sydney councils are responsible for 78.8% of NSW population. Many councils in Metropolitan Sydney area are already some of the largest in Australia as outlined in Table 3.

NSW and Australia already have some of the largest Local Government jurisdictions by population. Britain has the largest councils with an average of 143,000 persons per council, however the function of Local Government is much broader France had the smallest councils with an average of 1,500 persons per council.

Dollery 2013¹⁴ shows that

“in 2012, the average size of councils in Victoria (71,183 persons per council), Queensland (62,467 persons per council) and NSW (47,963 persons per council) sat above the national average (40,118 persons per council), while the average size of councils in South Australia (24,335 persons per council), Western Australia (17,484 persons per council), Tasmania (17,666 persons per council) and the Northern Territory (14,677 persons per council) fell well below the national average”.

Table 3: Snapshot of LG in Australia¹⁵

State	Population	% of Australian population	LG Bodies	Five Largest Councils – Population) 2011 Census
NSW	7,439,200	32.02%	152	Blacktown – 307,816 Sutherland – 220,835 Wollongong – 203,487 Lake Macquarie – 200,849 Fairfield – 196,567
Victoria	5,768,600	24.83%	79	Casey – 255,659 Greater Geelong – 220,068 Brimbank – 189,386 Hume – 171,996 Boroondara – 169,507
Queensland	4,676,400	20.13%	73	Brisbane – 1,067,279 Gold Coast – 527,828 Moreton Bay – 382,280 Logan – 282,673 Townsville – 185,768
Western Australia	2,535,700	10.91%	138	Sterling – 202,014 Joondalup – 164,445 Wanneroo – 150,106 Swan – 112,960 Gosnells – 106,724
South	1,674,700	7.21%	68	Onkaparinga – 162,925

¹³ Metropolitan Strategy <http://www.planning.nsw.gov.au/en-us/planningyourregion/regionalgrowthplans/metropolitansydney.aspx>

¹⁴ Dollery, B. E., Grant, B and Kortt, M. (2013) An evaluation of Amalgamation and financial viability in Australian Local Government, Public Finance and management Vol 13 pp 215-28

¹⁵ Local Government National Report 2011-12

Australia				Salisbury – 132,473 Charles Sturt – 108,332 Port Adelaide – 113,257 Tea Tree Gully – 100,593
Tasmania	513,400	2.21%	29	Launceston – 65,826 Hobart – 50,078
ACT	382,900	1.65%	-	-
NT	241,800	1.04%	16	Palmerston – 30,162 Alice Springs – 28,008

An independent assessment based on the merits of each application should be the foundation for any recommendation on amalgamation. An arbitrary target, which has no foundation in empirical evidence, should not be the determining benchmark.

***Recommendation:** That the impacts of amalgamation and community consultation should be prioritised rather than having a target number of Councils in the metropolitan area. IPART should not set a benchmark on the number of Sydney Metropolitan councils, but rather make an assessment based on merit, community benefit and local representation and democracy.*

- J. Councils have the ability to achieve Scale and Capacity without amalgamation. Many councils already collaborate with one another and the State to achieve regional priorities without the implementation cost or the resource burden of undergoing an amalgamation. Councils have the capacity to support the creation of Regional Cities through their planning protocols, policies, support of social activities and business development without amalgamation. Collaborative strategies can achieve better outcomes than amalgamations and should be considered as part of IPART's assessment.

***Recommendation:** That IPART consider the capacity of councils to support Regional Cities without amalgamation and with alternative collaborative measures.*

IPART QUESTION 2

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?

Attached (Attachment A) is a letter to the Minister for Local Government in relation to the proposed FFTF benchmarks. Council understands that IPART is interested in hearing views on the criteria, so that it can provide advice to the NSW Government.

***Recommendation:** That the Infrastructure Backlog Ratio calculation be changed from Written Down Value to Total Replacement Value.*

IPART QUESTION 3

How should councils engage with their communities when preparing FFTF 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.

Council believes that any boundary changes or amalgamations should be a decision of our residents and not that of politicians or bureaucrats. Fairfield City Council is pleased that IPART is incorporating community attitude into its assessment. Fairfield City Council supports IPART's approach. As stated earlier, community opinion / consultation should be considered as part of Scale and Capacity.

***Recommendation:** That social and community context and the results of community consultation be significant factors in the FFTF assessment.*

IPART QUESTION 4

Should council performance against FFTF 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?

Council has concerns about the Real Operating Expenditure per capita benchmark as the calculation takes no account of the actual services delivered or the quality of the services delivered.

Fairfield City Council supports IPART's exclusion of IPR supported service improvements when assessing a council's efficiency.

***Recommendation:** That the calculation also exclude extraordinary items of expenditure as they relate to SRV approvals, grants, etc.*

IPART QUESTION 5

Councils are also invited to comment on any other aspect of the proposed methodology.

To change the 'goal posts' now six months after *Fit for the Future* was released, and less than one month before the submission is due, places an unreasonable impost on councils.

Fairfield City Council is concerned about the timeframe and process. Councils have been working on their proposals since September 2014. IPART will release its final *Methodology for Assessment of Council Fit for the Future Proposals* in the week commencing 1 June 2015, which leaves Council less than three weeks to finalise its submission and have it adopted by Council. Council notes that IPART will accept community submissions until the end of July, this option should also be available to councils.

Recommendation: That IPART discuss the proposed timeline with the State Government requesting that proposals be submitted to IPART by the end of July 2015, at the earliest.

IPART's methodology suggests that councils will be given an opportunity to present an overview of their proposal to IPART, which Council suggests is an appropriate approach and one which Fairfield City Council would support.

Fairfield City Council notes that IPART's report will be provided to the State Government for assessment, and will be released following Cabinet approval. In the interests of transparency the IPART report should be made available to relevant Councils.

Recommendation: That IPART provide advice to the NSW Government that IPART's report should be provided to relevant councils at the same time it is provided to the Minister for Local Government and the Premier.

Attachment A
Letter to the Minister: Regards FFF criteria



Office of the Mayor
Frank Carbone



In reply please quote: 13/04884
Your Ref: A401360

Contact: Amanda Bray on 9725 0303

26 November 2014

The Hon Paul Toole MP
Minister for Local Government
GPO Box 5341
SYDNEY NSW 2001

Dear Minister

The first step in the *Fit for the Future (FFTF) Plan*, outlined by the NSW Government, is to submit a proposal demonstrating how councils will be *FFTF* in relation to financial management, capacity and service and scale of operations.

Fairfield City Council has commenced the *FFTF* self-assessment, which has raised numerous issues for Council in relation to the *FFTF* benchmarks, LG Act reform and the Local Government Elections 2016. Council requests that the Office of Local Government consider the suggestions and provide clarification on the matters raised.

Fit for the Future self-assessment

1. Operating Performance Ratio (greater or equal to break-even average over 3 years)

- *The removal of net-gain from the disposal of assets from profit.*

Operational assets such as fleet, plant and assets for the delivery of services are part of the management of continuing operations. The effective and efficient management of the acquisition and disposal of assets should be included as part of the operating performance of councils. However, any extraordinary profit or loss on sale of assets such as large parcels of land or buildings that are not in the normal course of the operations should be eliminated.

Recommendation: *The OLG should consider modifying the template to include operational assets.*

Fairfield City Council, Administration Centre, 86 Avoca Road, Wakeley NSW 2176
Personal Assistant Tel: (02) 9725 0203 Fax: (02) 9725 4559 ABN: 83 140 439 239

All communications to:
Fairfield City Council, PO Box 21, Fairfield NSW 1860

- *The removal of the Net-share of interests in joint ventures/associates using the equity method.*

Westpool and the Metro Pool are group insurance schemes formed by member councils successfully for more than 25 years. There are currently 19 member councils in the two schemes. These schemes provide a wide range of insurance products to member councils. By pooling their insurance resources and exercising real control over their risks, the member councils are able to achieve significant cost savings versus alternatively sourced commercial insurance coverage available in the insurance market. The result is "best practice" comprehensive risk coverage at lower relative cost and longer term budget stability for their ratepayers.

The *FFTF* formulas require the removal of the Net Share of Interests in Joint Ventures/Associates using the equity method. The use of this particular formula effectively hides the fact that the real annual insurance cost borne by a member council is the net of the annual contribution paid less the change in equity the member council receives as a result of its participation in the scheme. As an example: one member council of the Westpool scheme in the 2013/14 FY paid \$695,000 in contributions and received back \$794,000 in equity payments reflecting a net real profit to the council of \$99,000 from its insurance coverage activities in that period.

The *FFTF* formula as it currently stands requires councils to only recognise the cost of the premium payment but not the gain of the equity payment which results in a significantly incorrect reporting of the actual cost of insurances for the council concerned.

The *FFTF* formula prohibits OLG from comparing the actual performance of member councils against councils who insure with third parties and include that costs in their Profit and Loss, as the removal of the equity payment from the calculation completely hides the benefits of the highly effective insurance risk mitigation and cost control strategies employed by member councils of the Pools. Such a move would not only achieve fairness under accepted accounting principles and but would also reinforce that the Pool approach to managing insurance is a strategically sound practice which assists to ensure the financial sustainability of Pool member councils.

The contributions in the Profit and Loss to Westpool when netted off against the change in equity would reasonably reflect reduced insurance premiums for the year. This would be reasonable to compare against councils who insure with third parties and include that cost in their Profit and Loss.

Recommendation: *That the equity that accumulates as a result of the Pool members' activities under the Mutual Scheme are included in their assets.*

- *Other Revenues – Fair-value adjustments - investment properties*

- Why would this asset class be distinct from other assets?
- Revaluation of assets has contributed significantly to depreciation costs that are not eliminated. The accounting standard is unlikely to change; therefore it needs to be a strategic consideration in asset portfolio management.
- Investment properties may present opportunities for financial sustainability to supplement rates bases, the exclusion from a *FFTF* assessment appears to be misguided.

Recommendation: *The treatment of fair-value adjustments for investment properties needs to be reconsidered.*

2. Infrastructure Backlog Ratio (less than 2%)

How does the benchmark of less than 2% set compare in terms of best practice asset management? *FFTF* and Asset Management also require considerations of appropriate service levels for different assets that reflect a number of variables specific to each LGA. For example, demographics, services, geographic spread, socioeconomic impact, utilisations etc.

Recommendation: *A backlog ratio of 2% for every asset needs to be reconsidered with consideration given to community priorities, in-line with the Integrated Planning and Reporting Framework.*

3. A decrease in Real Operating Expenditure per capita over time

This measure takes no account of the actual services delivered or the quality of the services delivered. It suggests that to be *FFTF* a Council could simply reduce the level of service, remove essential services or reduce the quality of services. A more relevant measure would need to take account of the services and the efficiency in how these services are delivered.

Recommendation: *The OLG should consider reviewing the measure to take account services and efficiency measures demonstrating how efficiency measures have been implemented.*

LG Act Reform

The *FFTF* Plan recommends legislative reform with options of streamlining legislation including boundary changes and/or voluntary mergers. The process is very complex and currently Legislation requires consultation with affected ratepayers and government agencies. Is the OLG considering modifying the requirements under Sections 263 and 218F of the Act in relation to community consultation including a requirement of formal polls?

2016 Local Government Elections

In relation to the *FFTF* Plan and the Local Government Elections, scheduled for September 2016, numerous issues surface which require immediate clarification so not to jeopardise Fairfield City Council's position of conducting its own election.

The Local Government Amendment (Elections) Bill amends the Local Government Act (Act) and commenced on 19 November 2014 which requires further provisions in relation to elections to civic office and related purposes. Councils are now required to decide at least 18 months prior (March 2015) to the next ordinary election to enter into an arrangement with the NSW Electoral Commissioner or have the City Manager administer the elections. Fairfield City Council at the 23 July 2013 Ordinary Council Meeting resolved:

"That Fairfield City Council conducts its own Local Government Election in 2016".

The Bill requires a report to the OLG 15 months prior to the 2016 election (June 2015) by those Council's administering the election in-house, to demonstrate their capacity to conduct a successful election. The timing of such a requirement potentially conflicts with *FFTF* milestones and legislative requirements.

Recommendation: *Fairfield City Council is currently preparing to conduct its own Local Government Elections for 2016. The OLG should advise Council if contractual arrangements for an election could be in any way, adversely affected by the State Governments FFTF Plan.*

Does the OLG/Minister have any advice or objection to FCC proceeding to conduct its own elections in relation to the State Governments *FFTF* Plan?

Could you please clarify the issues and questions raised and consider alternative recommendations made from Fairfield City Council. If you would like to discuss further please contact Amanda Bray, Director of Corporate Governance on telephone [REDACTED]

Yours sincerely

[REDACTED]
FRANK CARBONE
MAYOR OF FAIRFIELD CITY