

Submission to IPART on assessment methodology

This submission refers only to the assessment of councils in the metropolitan area as no study has been done on the rural council situation

1 Objectives of Reform

The assessment is assumed to be measured against achieving objectives. The objectives available in papers are

The State Government Policy objectives as stated (IPART Report)

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and ‘strategic capacity’ to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel’s recommendations.

The Review Panel considered two central issues related to structural reform in local government: (Panel Final report)

- *The need for increased scale and capacity to enable councils to remain sustainable, provide adequate services, and be valued partners in the system of government.*
- *‘Keeping the local’ in local government so that community identity and local democracy are maintained.*

The Review Panel objectives were (IPART Report)

- *For Metropolitan areas:*
 - *create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and federal agencies*
 - *establish a more equitable pattern of local government across the metropolitan area, taking into account planned development*
 - *underpin Sydney’s status as a global city*
 - *support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.*

Recommendation: It would be useful if the assessment methodology detailed which set of objectives were the subject of the assessment or if all.

2 Assessment of scale and strategic capacity

It is unclear from the document whether scale and strategic capacity will be assessed separately or together. It appears from page 25 that the assessment approach is as stated below

ILGRP preferred option: Merger

Our assessment approach

1. Meets criterion if same proposal as preferred by the ILGRP.
2. Does not meet criterion if it does not submit the same proposal as preferred by the ILGRP, unless it presents:
 - a sound argument (eg a business case) for 'no structural change' which clearly demonstrates why the option proposed is superior to the merger option and indicative of the features of strategic capacity in Box 3.1

This seems to indicate that a proposal is superior to merger option in the features in Box 3.1 it will pass threshold issues to be Fit for the Future

However earlier in the paper (page 21) it is stated

For Council Improvement and Merger Proposals, if the scale and capacity requirements outlined in Box 3.1 are satisfied, which we consider may include a demonstration of sufficient scale such as:

- an appropriate minimum population size, or
- a target number of councils in the metropolitan or regional area, or
- a future plan of the council to achieve scale in the medium to longer term (eg, Sydney fringe councils).

And also stated in the paper (page 23)

In addition, we intend to examine the proposal's consistency with the broader regional and state-wide objectives of the ILGRP's preferred option, including economic, transport, regional planning and equity objectives.³⁷ As an example, we will consider the following ILGRP objectives:

For Metropolitan areas:

- create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and federal agencies
- establish a more equitable pattern of local government across the metropolitan area, taking into account planned development
- underpin Sydney's status as a global city
- support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans.³⁸

This appears to state that scale by itself (ie appropriate minimum population size and and equitable pattern of local government) is an assessment criteria to be met irrespective of strategic capacity assessment

Therefore it is impossible for a council of less than recommended size of the Panel preferred option to meet this criteria unless it does so through a joint organisation. (although the paper stated joint organisation were for a later stage of the process at the consultation on May 21 the IPART Chairman stated that proposal for joint organisations to meet scale and capacity would be considered)

Recommendation: The methodology should be explicitly stated in the methodology if and what scale criteria on its own is to be met by any proposal and that Joint Organisations could meet the criteria

Merger proposals

It also therefore appears that a merger proposal in line with Panel preferred option will be assumed to meet all the criteria of strategic capacity without having to detail how.

Recommendation: It should also be explicitly stated if the above is the case or if not the case detail what merger proposal must show to pass the strategic capacity threshold.

Criteria for a non preferred option proposal

From the above it appears that the methodology for a proposal that does not follow the preferred option has to be assessed against three sets of criteria

- a) a sound argument (eg, using a business case) that demonstrates that the proposed approach is superior to the recommended merger, in strategic capacity as set out in Box 3.1
- b) Must meet the requirements from page 21 shown above
- c) Must meet the requirements from page 23 shown above

Recommendation: The methodology should explicitly state if these three criteria must be met by any proposal.

Lack of consideration for local

Nowhere in the methodology does it assess the second key issue in the Panel paper mentioned above.

- 'Keeping the local' in local government so that community identity and local democracy are maintained.

It would appear that a councillor in a merged council would be representing half those that a State member represents. This does not appear to be much differentiation between state and local in any sense

Recommendation : That all proposals be assessed on keeping the local in Local Government

3 Requirement to be superior that Panel preferred option

As mentioned before the methodology assumes that the merger proposal meets the scale and capacity criteria without any examination

The methodology demands that any alternative proposal be superior to the merger proposal

However the Panel did not in any of its reports that I can find detail how the merger proposals would meet the strategic policy elements

A review of the Tate study commissioned by the Panel, the ACELG Fresh look Study referenced often in the Panel report Vol 1 and 2, Prof K Sproats report and the Panel report gave no greater insight to the Elements of Strategic Capacity shown in Box 1.

The Panel did not illustrate how the councils that do not need to amalgamate already have that strategic capacity.

Detailed below are issues with the strategic elements and thus the difficulty alternative proposals have in showing they are superior

It looks like both IPART and the councils have an almost impossible task to show or assess superiority

Recommendation: That the assessment methodology list details how the mergers meet the strategic capacity elements so proposals can report why they are superior

4 Issues with the Strategic Capacity elements in Box 3.1

Below are queries on individual elements of Box 3.1

□ **More robust revenue base and increased discretionary spending.**

There are some examples in Panel reports of rural council mergers and with big cities with strong commercial rates but not clear how just amalgamation will give more robustness and more discretionary spending. The surplus in total will be bigger absolutely but not per head but how is this more robust or increases discretionary. Important to know what IPART will assess this

□ **Scope to undertake new functions and major projects**

Difficult to understand when Panel and reports do not give examples of potential new functions. So how this will be assessed.? Obviously if major projects have already been handled by a Council assessment of superiority must be detailed

□ **Ability to employ wider range of skilled staff**

There is in the various reports of increased scope from amalgamations although many councils outsource as do commercial organisation. Would like to know how IPART will measure this ability?

□ **Knowledge, creativity and innovation**

Not sure how this can be assessed and in the commercial world big organisations are not known for their creativity and innovation compared to smaller organisations

□ **Advanced skills in strategic planning and policy development**

With the current strategic planning process not sure how size gives advanced skills and the assessment of this should be explained..

□ **Effective regional collaboration**

Clearly there is an obvious capacity to represent a large area but how does this make it more effective in joining with other large councils in the region.

□ **Credibility for more effective advocacy**

Clearly there is an obvious capacity for advocacy as the Council represents a larger number of people.

□ **Capable partner for State and Federal agencies**

State has not been able to say how it wishes to partner with councils so do not understand how IPART can judge a proposal being superior to an unknown partnership

□ **Resources to cope with complex and unexpected change**

*Not sure how a merged organisation would have spare resources to deal with change
No examples were given of how a merged council would cope and if an organisation has borrowing capacity would have an ability to outsource whether merged or not.*

□ **High quality political and managerial leadership**

*The evidence from Qld amalgamations was that CEO and Councillors were all paid a great deal more but little evidence of more effective. Anecdotal evidence from Auckland is similar.
How is IPART going to judge that the proposal from a council is superior to the panel preferred option in this element?*

Overall the requirement is that the proposal be superior, not just equivalent to preferred option and unless assessment methodology is detailed it will be subjective.

Recommendation: a) That i) IPART give details of the assessment criteria as recommended above

or ii) explicitly state that a judgement will be made on IPART understanding of the capacity of preferred option

or iii) IPART expect council proposal to compare each of these elements with council understanding of capacity of preferred options

b) that IPART detail if every capacity element has to be superior or only a majority of elements

5 Comparison with Strategic Objectives

Having assessed against Box 3.1 it appears that IPART has chosen to assess the proposals against the Panel objectives although the terms of reference require the State Govt objectives be considered.

Issues with assessment against ILGRP objectives:

□ Panel objectives for Metropolitan areas:

– **create high capacity councils that can better represent and serve their local communities on metropolitan issues, and be true partners of State and federal agencies**

Same problem as in Box 3.1 how can you assess if an organisation can be a true partner when the State have not committed to how and what it is going to partner.

– **establish a more equitable pattern of local government across the metropolitan area, taking into account planned development**

It is assumed that equitable pattern mean that the number of Councillors per person be approximately the same. IPART will have to explain what the means in term of local representation as the IGLRP suggested Community Boards be established to ensure continued local representation.

– **underpin Sydney's status as a global city**

In using this objective as an assessment measure IPART must first explain what it means

– **support implementation of the Metropolitan Strategy, especially the planning and development of major centres and the preparation and implementation of sub-regional Delivery Plans,**

The metropolitan strategy as published divided Sydney into 6 sub regions and website states that the commission is not yet formed or decided how it will work with the councils in those six regions . Therefore unless IPART can detail how it will assess if the proposal from a council will be better than the Panel preferred option this objective must then be ignored

Recommendation: IPART detail how proposal will be assessed against these objectives or state that a subjective judgement will be made without any details.

The State Government Policy objectives as stated (IPART Report)

Create strategic and Fit for the Future councils – Councils that are financially sustainable; efficient; with the capacity to effectively manage infrastructure and deliver services; the scale, resources and 'strategic capacity' to govern effectively and partner with the State; and has the capacity to reduce red tape and bureaucracy for business and of a scale and structure that is broadly in line with the Panel's recommendations.

Most of the issues about strategic capacity and partnering have been raised before. The OLG has been requested but not able to detail red tape and bureaucracy that should be reduced so it is impossible to use this criteria in any assessment

Recommendation: IPART detail which parts of the State objectives will be used in the assessment.

6 Sustainability and Infrastructure Indicators in assessment

Operating Performance

The definition of Net continuing Operating result should exclude as well as capital grants and contributions

- a) profit and loss on assets disposals for obvious reasons
- b) interest on S94 contributions as interest can only be used on capital items
- c) Surplus and deficit on waste as under act cannot be used on other operations
- d) Surplus of organisations in which council has equity only to the share it has access in cash which often will be a dividend unless it has access

Supplying the above data will enable IPART make a qualitative judgment on the ratio in the assessment in line with the “must meet” or “ must demonstrate improvement in” scaling

Recommendation: IPART adopt this definition to assessment process

Asset Renewal Ratio

This ratio is impacted by the accounting policies associated with valuation, depreciation and capitalisation. The table attached shows variation in data from a number of councils which make it difficult to see how council can be fairly and equally assessed

A council with a low valuation, low depreciation rate and low capitalisation policies will have no problem meeting this ratio

Supplying the data below will enable IPART make a qualitative judgment on the ratio in the assessment in line with the “must meet” or “ must demonstrate improvement in” scaling

Recommendation: Councils should be asked to provide as a minimum valuation of roads and stormwater per km, the depreciation as a % of asset replacement value and the capitalisation policy.

Infrastructure Backlog Ratio

It is not logical to have the denominator of this measure as the WDV of the assets . It should be the replacement or fair value and some council already do this in schedule 7 of accounts
It is noted that IPART in its review of criteria thought this measure should only be used if audited. I understand that this schedule will not be audited again this year.

However that ratio is fixed for this process IPART must live with this un audited state for assessment.

The numerator in the ratio is an unaudited figure supplied by the council itself. Some councils take bring to satisfactory means bring to as new, others have just the minimum expenditure,
Supplying the data below will enable IPART make a qualitative judgment on the ratio in the assessment in line with the “must meet” or “ must demonstrate improvement in “ scaling

Recommendation: IPART ask Council to supply the Replacement or Fair value of the assets in condition 4 and 5 on Schedule 7 basis so in the assessment can make a judgment if the bring to satisfactory is at least covering those assets.

Asset Maintenance Ratio

This ratio is greatly impacted by the capitalisation policy splitting expenditure between maintenance expense and renewal capital. If a Council capitalises all expenditure above a low figure the amount of maintenance required by the same definition will be low as will the actual amount spent. On the attached table the variation between some councils of the amount required for classes of assets is shown.

Supplying the data below will enable IPART make a qualitative judgment on the ratio in the assessment in line with the “must meet” or “ must demonstrate improvement in “ scaling

Recommendation : that councils provide their capitalisation policy so this ratio can be assessed.

Building and Infrastructure		Fair value	Depreciation		Required Maintenance	
		\$'000	\$'000	% FV	\$'000	%FV
No						
Amalgamation	Sutherland	1,455,286	19,548	1.3%	18,438	1.3%
	Blacktown	2,606,153	46,830	1.8%	36,450	1.4%
Amalgamation	Warringah	995,165	10,685	1.1%	7,241	0.7%
	Manly	829,948	4,326	0.5%	2,044	0.2%
	Pittwater	501,659	4,951	1.0%	8,965	1.8%
	Mosman	371,459	4,610	1.2%	5,313	1.4%
	Botany	227,158	4,514	2.0%	2,405	1.1%

Roads alone			Fair value		Depreciation		Required Maintenance	
		Kms	\$'000	\$/km	\$'000	\$/km	\$'000	\$/km
No Amalgamation	Sutherland	804	404,139	503	7,043	8.8	8,272	10.3
	Blacktown	1173	1,315,543	1,122	23,001	19.6	21,055	17.9
Amalgamation	Warringah	486	366,947	755	3,355	6.9	2,910	6.0
	Manly	110	157,312	1,430	474	4.3	88	0.8
	Pittwater	244	124,915	512	1,111	4.6	1,620	6.6
	Mosman	94	118,140	1,257	1,612	17.1	913	9.7
	Botany	90	80,583	895	725	8.1	150	1.7

Notes

Data has been extracted from Financial statements(audited) and Schedule 7 (unaudited) from either 2013 or 2014 accounts
Data shows huge variation due to different valuation, depreciation and capitalisation policies
With these variations it is difficult to see how IPART assesses ratios fairly without more information
These variations were pointed out to T Corp as they question validity of comparisons of councils