

20 May 2015

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Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

Dear Members

Response to the Consultation Paper - Methodology for Assessment of Council Fit for the Future Proposals – Financial Performance Criteria

Thank you for the opportunity to respond to the Local Government consultation paper, *Methodology for Assessment of Council Fit for the Future Proposals*.

I appreciate that there needs to be criteria and benchmarks that councils are required to address in their submission. In conducting a number of bootcamps on behalf of Local Government NSW, I would like to make the following observations for the consideration of the members of the Panel:

- **The Building and Infrastructure Asset Renewal Ratio:**

Asset renewal is extracted from Special Schedule 7 with data being extracted from council's asset management systems.

Depreciation being used as a benchmark is contestable especially where straight line or diminishing value methods are used. Depreciation does not take into consideration the condition rating to upgrade council's assets which in the majority is deemed as "acceptable". If councils were to use a condition method of depreciation, it may more accurately reflect the asset renewal ratio.

I am concerned with funding the infrastructure gap and asset renewal that there is a duplication of required funding that cannot be met by Local Government authorities.

- **Infrastructure Backlog Ratio:**

It is suggested as an alternative the Gross Replacement Cost may provide a better insight than using written down value as the denominator

In using written down value, there may be a number of assets that may have been depreciated to a small residual which could distort the actual performance of councils.

- **General Comment:**

There would appear to be some inconsistency in extracting information from council's asset management system and other information being extracted from the financial accounts. There may be an opportunity to have a more consistent approach using data from council's asset management system. In developing a case for a Special Rate Variation to fully fund asset maintenance and a plan to address the infrastructure backlog through additional borrowing and reserve funding, Council has been advised that all assets will be to an acceptable standard in 10 years' time. This time line reflects the Long Term Financial Plan and is consistent with the Integrated Planning and Reporting framework. I would submit that councils need to improve within the proposed three to four years however holistically a 10 year horizon should inform the council position consistent with Integrated Planning & Reporting.

- **Debt Service Ratio:**

I believe the debt service ratio should be from 0% up to 20%. I submit this as councils that do not need to borrow and meet all other criteria should not be assessed as not meeting this benchmark due to having no borrowing.

- **Real Cost Operating Expenditure:**

I find this a difficult measure of efficiency given the encouragement to increase the funding of assets given that only 19% of councils were meeting their asset maintenance requirements. Also while cost shifting and increase costs due to changes in legislation occur, it is difficult to use this as a measure of efficiency.

I respectfully submit these observations for the Panel's consideration and once again thank you for the opportunity of providing a submission. If you require any further information in relation to Council's submission, please contact Mr Michael Sewell, Director Business Services on [REDACTED].

Yours sincerely

[REDACTED]

Michael Sewell
Director Business Services