

Independent Pricing and Regulatory Tribunal of New South Wales  
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Dear Sir

## **DRAFT METHODOLOGY FOR ASSESSMENT OF COUNCIL FIT FOR THE FUTURE PROPOSALS**

IPART has developed a series of questions for stakeholders to consider when submitting comments on this consultation paper.

June Shire Council has responded to each of these questions below. As requested, Council has provided some justification for its position and we have included recommended changes to the final methodology in block highlights.

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?

### Reference 2.1 Draft IPART Methodology

Two dot points in this section need further clarification:

- Combine as a strong Joint Organisation
- (Stand alone) council within a Joint Organisation

These two items as presented are confusing. IPART should make the distinction clearer, as intended by ILGRP:

The only reference to “combine as a strong Joint Organisation” refers to metropolitan councils only. The “stand alone council within a Joint Organisation” is a reference to councils outside the metropolitan area.

They are mutually exclusive items and should be reflected in that way to avoid confusion.

“Combined as a strong Joint Organisation” includes a notation that it refers to metropolitan councils only. “(Stand alone) councils with a Joint Organisation” include a notation to non-metropolitan councils.



## Reference 2.5 Innovation Fund

Last paragraph. IPART single out Rural Councils as being able to apply for funding under the innovation fund. Below is an extract from the Fit for the Future Website.

### **\$4 million to help smaller councils**

Small rural councils (less than 10,000 population) will be eligible for grants from a \$4 million Innovation Fund to help them develop new ways of working. This might involve using new technologies to overcome the challenges of remote communities, or working with other small councils to develop a better way of providing services.

The innovation fund is available to all rural councils under 10,000 people. IPART has confused access to this fund with the defined term of Rural Councils.

There should be some adjustment in the final methodology to reflect the intention of the innovation fund being accessible to all rural councils with populations under 10,000 people.

## Reference 3.1 Assessment Ratings

IPART have created a “deemed not fit” category for councils that do not lodge a submission by the due date of 30 June 2015. There has been no suggestion from the Government or ILGRP regarding a position of this type. It adds something new to a process that has been in place for three years. It is inconsistent with Government responses in key workshops and forums over the past 12 months where the question has regularly been put by councils. Councils that may inadvertently miss the cut-off date for submissions may be subjected to a “deemed not fit” prosecution.

IPART are not in a position to make a subjective call on the performance or otherwise of a council without appropriate material to do so. The Terms of Reference 2. (a) requires IPART to operate with consistency, fairness and impartiality.

Accordingly, this Council respectfully requests the “deemed not fit” category be removed from the final methodology.

## Joint Organisations

Since the final ILGRP's report, the Government has made and delivered its own response to the Panel's recommendations, including, items it supports and others that it does not.

In addition, the evolution of this reform package has moved beyond simply the ILGRP's recommendation around Joint Organisations. There is now a more defined approach adopted around Joint Organisations and their role to deliver strategic capacity through a committed and strong council membership base. The Pilot Joint Organisations have received creditable endorsement by the Government - so too should IPART reflect this position in the methodology.



Within the draft methodology, IPART have not given sufficient weight to councils' involvement with the Joint Organisations. Joint Organisations will play a significant role in the delivery of strategic capacity. Councils will achieve strategic capacity through this vehicle and it has a valid place in the methodology, particularly for the councils that can meet the remaining seven key benchmark ratios.

IPART have incorporated concessions for financial rigor for councils who submit merging templates in recognition that these councils may well not meet the benchmarks ratios in the early years due to the high costs associated with establishing council mergers. Therefore, it is only reasonable that another important plank of the Government's reform process in establishing Joint Organisation have elevated recognition in IPART's methodology.

This Council strongly requests that a council's involvement with a Joint Organisation be given appropriate weighting in the scale and capacity criterion in the final version of the methodology.

### Reference 3.2.1 Assessing scale and capacity

IPART have indicated in their assessment for "Council Improvement" submissions they will include "an appropriate minimum population size". Since the release of ILGRP's report the Government has been consistent in its own position on population targets. That is "council should use the Panel's recommendation as starting point in assessing scale and capacity".

The draft methodology is heavily weighted toward ensuring the Panel's recommendations are the end point when it comes to IPART's major assessment components to submissions as opposed to the starting point. This has placed minor weightings on community and social capacity issues. This is inconsistent with the sector's successful lobbying of Government to recognise the importance of community capacity on an equal footing to strategic capacity.

Workshops and forums delivered by the Government consistently rejected the promotion or establishment of population targets for rural based councils. To reinforce that position, Template Two is silent on population figures, in fact it goes to the effort of diluting the consequence of population size on p.8 of Template Two guidelines:

In making its recommendations, the Panel did not take a one size fits all approach to scale and capacity. It did not set a minimum geographic or population size. It looked at the unique characteristics of each area - geography, economic and transport flows, communities of interest and local identity. The Panel made recommendations to ensure each council was able to meet the key elements of strategic capacity\*:

In IPART's own narrative in its draft methodology, it is reinstating a position which is no longer critical in the debate to be Fit for the Future. Scale and capacity should be outcome and service delivery focused, not population based.

Our Council requests that population targets be removed from the final methodology and IPART assessment process for all rural based councils.



IPART refer to “a target number of councils in the metropolitan or regional areas” in 3.2.1. There is no valid reference to target numbers of council for regional areas that our Council can find. I suspect this is a misprint.

Please remove the “regional area” from the description or provide further explanation as to IPART's rationale.

#### Reference 3.2.2 Consistency with ILGRP preferred option

Where IPART indicates they will:

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.<sup>37</sup> As an example, we will consider the following ILGRP objectives:

For Regional or rural areas:

- ensure that local government in these areas remains in place and is ‘fit for purpose’ and can maintain community life and identity to the maximum possible extent
- where possible, create a regional centre with the necessary scale and capacity to anchor a Joint Organisation
- where possible, ensure that there are close functional inter-relationships (eg, ‘overspill’ development, commuter catchments, service provision) between a regional centre and adjoining council areas, and
- address ‘councils at risk’ in regional areas through amalgamations with adjoining areas.<sup>39</sup>

There doesn't appear to be a way for councils to be meaningfully measured against this statement. It appears to be a statement about how IPART will conduct its assessment outside of council submissions. It appears that IPART will undertake its own work beyond that of the ILGRP to determine the suitability for councils FFTF status. The footnote 37 and 39 in IPART's methodology refer to sections in the ILGRP report which supply no empirical evidence to assist IPART in its assessment. In fact, footnote 39 refers to, in part, section 12.2 of the ILGRP's report describing “community boards” which the government has since rejected.

There is a significant level of uncertainty from this council's perspective about how IPART can treat or apply 3.2.2 given the nature of the ToR.

## 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?

While IPART is meeting the Government ToR provisions via a methodology for assessing Rural Councils it should also bear in mind that the same listed characteristic for Rural Councils also applies to other rural councils and even some larger regional city councils which have extensive rural areas.

IPART are in a unique position in that it has processed over 100 SRV applications many of which were for rural based LGAs. Many of those have been supported by independent economic and social reports that substantiate the inability for revenue raising in low population density areas to adequately meet infrastructure provisioning.



There is a gap between IPART assessing Rural Council submissions compared to other submissions from rural councils with similar characteristics to Rural Councils.

IPART should demonstrate some fairness and independence within their assessment process. Our Council would encourage IPART to consider this approach given that councils in rural areas face the same challenges as councils that have been called out as Rural Councils.

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?

Federal Assistance Grants (FAGs) are now able to be included in own source revenue for Rural Councils. FAGs are delivered on the basis of need and social disadvantage across LGAs nationally. They are distributed as a fair share of the tax revenue system to those that most need it.

Councils have been arguing that FAGs should not have been removed from own source revenue for some time now. While we applaud the inclusion of FAGs for Rural Councils to calculate the own source revenue ratios, the same principal applies by IPART in this case more broadly.

John Comrie's Review of TCorp's Report: "Financial Sustainability of the NSW Local Government Sector" in which he states: "I suggest that consideration should be given to including financial assistance grants revenue in the numerator (or at least having an additional indicator that included such that was given equal weighting with this one). Such revenue is in the main a reliable source of revenue for local governments."

The Federal Government have no plans or even suggested the removal of this unrestricted revenue stream to councils. The inclusion of FAGs for one section of the sector and not others is inequitable and unfair, particularly for councils which have similar characteristics to Rural Councils.

Operating Performance Ratio includes a depreciation expense –councils with large rural road networks are placed at a disadvantage. This ratio should be changed from "must meet" to "meet or improve".

4. 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.

In order to give proper recognition of community consultation IPART should provide within their methodology recognition of any community consultation undertaken by a council within the previous five year period.



This would recognise the valued contribution by communities toward the future of their community. Many councils have spent time and money in surveying community attitudes and expectations through IP&R, SRV, ILGRP and FFTF propositions over the last five years. There is an obvious connection between these things and what IPART will be basing its decision on.

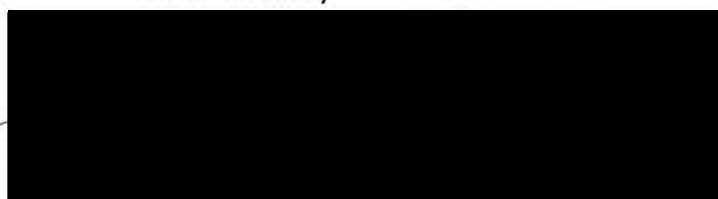
It is only reasonable that community consultation prepared within the previous five year period is given proper recognition as valid consultation in IPART's methodology.

5. 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?

This Council strongly opposed the inclusion of any monitoring criteria being established at this early stage. The following points support this request:

- Setting future monitoring control on councils prior to the establishment of Joint Organisations in 2016 is premature. Joint Organisations will have a positive impact on regional scale and capacity. Monitoring provisions on councils may hamstring the ability of its member councils to support Joint Organisations moving forward.
- The Government will not release changes to the Local Government Act until 2016. It is impossible for IPART to consider these provisions in any monitoring process it provides at this early stage.
- IPART are not privy to the final decision the Government will make regarding FFTF proposals and recommendations. Creating monitoring provision without information on what structures may be put in place by the Government is seen as feckless.
- IPART's ToR does not extend to the developing future monitoring provisions of councils.

Yours faithfully



James Davis  
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