

Ref: D15/15736  
lod:dlr

25 May 2015

Independent Pricing and Regulatory Tribunal of NSW  
PO Box K35  
Haymarket Post Shop NSW 1240

Dear Sirs

**RE: SUBMISSION - METHODOLOGY FOR ASSESSMENT OF COUNCIL FIT FOR THE FUTURE PROPOSALS**

Thank you for the opportunity to comment on the methodology to be used by IPART in determining if Councils are Fit for the Future.

**Five-year timeframe**

Ideally, the assessment should be that the Council will become sustainable in a reasonable timeframe, with that timeframe dependant on the situation the Council is currently in, after all, one size does not fit all. This does have to be offset with the certainty that is provided by IPART identifying timeframes invaluable, taking into account that IPART will not be discussing the assessment with the Councils. In a perfect world, this should be an iterative approach that only goes to the Minister once a deadlock is reached that discussions cannot resolve.

In terms of the financial issues some Councils are facing a five-year timeframe is extremely short and rectifying the issues may have unintended consequences. Consideration is requested to looking at longer timeframes, such as ten years, which would align with the timeframes in the legislation and guidelines for long-term financial and resourcing plans. It is difficult to hold an argument that councils cannot effectively estimate out ten years if the legislation requires them to do so. This is particularly the case where the Council has to meet the benchmark. There may be capacity to have shorter timeframes in which a Council is able to show it is improving, but applying absolute timeframes over such a wide range of financial situations does not give Councils in a difficult situation a reasonable chance to develop a practical solution.

Perhaps varied timeframes could be adopted based on the TCorp assessments, for example, weak councils with a negative outlook may have a longer timeframe than those with a moderate outlook.

The five-year timeframe is considered especially onerous where there is averaging of the result. IPART has indicated that they will use the benchmarks as calculated in the template. It is unclear if this relates to the final year or the three-year averaged figure. It is assumed it is meant that the calculated figure for that year (i.e. the preceding three-year average) is planned to be used.

In most instances the Councils will be aiming to meet the benchmark because they are absolute indicators of the final position for sustainability, not benchmarks towards achieving sustainability. For example, there will be few councils that are aiming to exceed the operating performance benchmark. So to get an average over three years means that the Council has to achieve the benchmark in the first of the three years, or by the 2017-18

year. This in reality means all Councils only have the 2016-17 year to make the total change needed to meet the indicators based on a three-year average. This is one year to meet the Operating Performance Ratio and the Own Source Revenue Ratio based on the current methodology, as the 2015-16 year budgets are effectively set.

It is suggested that the "meets" requirement indicators need to be a longer timeframe to be realistically achievable to any Council with a more than moderate financial issue.

### **Conflicting indicators**

There is potential for indicators to work against each other. For example, where a Council is currently not fully funding its maintenance costs it is required to improve on that indicator over five years. Equally, the Council is required to reduce its level of expenses per person over the same period. In this situation the only way for a Council to meet the criteria is to increase maintenance at a lower level than population is estimated to increase.

This may not be beneficial to the community and may not be the best way for a Council to become sustainable.

Provision needs to be allowed for that a Council can still be Fit for the Future if it is not possible to meet all the criteria in the timeframe, but the Council can show that it has a sound case for reaching a sustainable position over the longer term, and for its selection of which indicator to focus on in the short-term.

### **Assessment to be on sustainability or meeting the benchmarks?**

It is unclear how IPART will be determining its assessment. The documentation indicates that there are effectively two stages. At the start of the presentation on each of the indicators are what are seen as broad criteria that would be applied. Two slides later the presentation shows that the assessment will be based on performance against the numerical benchmarks.

IPART needs to make it clear if it can provide an assessment of a Council being Fit for the Future even if some benchmarks are not met. While this has been intimated, taking into account that there is no ability to change the proposal after it has been submitted and that the information will be used in making a political decision, this needs to be very clear and as much guidance on what discretion IPART has against the benchmarks provided as possible.

I hope this information is useful in determining the final guidelines. At the end of the day IPART will have achieved a good result if those Councils that have lodged a proposal that shows they will be long-term sustainable are assessed as Fit for the Future. Getting here started in the 1960s for many Councils, getting where they need to be may take more than half a decade.

Yours faithfully

A solid black rectangular box redacting the signature of David Rawlings.

David Rawlings  
GENERAL MANAGER