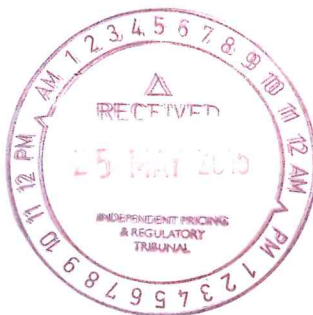




KIAMA MUNICIPAL COUNCIL



Phone Enquiries:

4232 0444

Reference:

15/33515

13/5/2015

Methodology for Assessment of Council Fit for Future proposals
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Sir/Madam

Kiama Council - submission on draft IPART methodology

Thank you for the opportunity to comment on the draft Methodology for Assessment of Council Fit for the Future Proposals.

Kiama Council is committed to the Fit for the Future program and is equally committed to ensuring the opportunities presented to Council, as a result of the current reforms, are realised and embedded into Council's operations and management to ensure ongoing financial sustainability, effective asset and infrastructure management and for ensuring the ongoing delivery of high quality services.

Council has embarked on the Fit for the Future program and the local government sector reforms in good faith. After attending a number of workshops facilitated by the Office of Local Government (OLG) and other forums facilitated by LGNSW for example, Council believes it has a solid understanding of the requirements and expectations for its submission, as outlined and reaffirmed on multiple occasions by these peak organisations.

The repeated rhetoric particularly from the OLG has always been about 'telling the story' to achieve improved outcomes and that the process largely concerns the notion of continual improvement. It was clear that Councils need to be demonstrating that they're recognising the need to be, and adopting new ways of, managing its operations to deliver improved outcomes with respect to scale and capacity, financial sustainability, effective asset and infrastructure delivery and services, and efficiency. The draft methodology appears to vary from the previous advice provided by the OLG.

ALL CORRESPONDENCE

GENERAL MANAGER

PO BOX 75

KIAMA NSW 2533

ADMINISTRATION
CENTRE

11 MANNING STREET

KIAMA NSW 2533

CONTACTS

PHONE: 02 4232 0444

FAX: 02 4232 0555

council@kiama.nsw.gov.au

www.kiama.nsw.gov.au

ABN: 22 379 679 108

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The following is tendered as issues or concerns identified by Kiama Council with the draft methodology and it's hoped that these can be considered by IPART and used to redefine the proposed methodology.

Issue	KMC response
<p>Submissions to IPART on the draft methodology are due 25 May 2015. The panels Terms of Reference indicate the methodology for assessing proposals must be finalised and available to councils no later than the week commencing 1 June 2015.</p>	<p>This timeframe provides very limited time for IPART to thoroughly review all submissions (it's anticipated there will be a high % of Councils making submissions) and then finalise a methodology by 1 June.</p>
<p>Assessing the criteria –</p> <p>As the ILGRP deemed Kiama Council as having sufficient 'scale and capacity', Council is required to address the remaining criteria.</p>	<p>Advice from the OLG is when completing Template 2, a council already deemed to have scale and capacity by the ILGRP is not required to demonstrate this. But instead should refer to how the 'elements' of scale and capacity will be further enhanced.</p> <p>Council therefore believes that where a council is deemed to already have scale and capacity but does not dwell on it specifically in it's submission, it should not be considered by IPART to be any more or less able to respond to or address the 'elements' of scale and capacity (or strategic capacity) as defined in Box 8 of the ILGRP report.</p>
<p>Assessment ratings –</p> <p>Where a Council is deemed 'Not fit' by IPART suggests (s.3.1 pg20) that the rating would be potentially accompanied by a recommendation.</p>	<p>Council believes an explanation and recommendation from IPART for immediate/future action should be mandatory when deeming a Council 'not fit.' The State Government and IPART in its Methodology document both recognise that some Councils may take longer than others to be 'fit', therefore IPART recommendations should be considered part of the improvement process.</p>
<p>Assessing the criteria –</p> <p>S.3.3 pg 26 '...we encourage councils to meet all of the benchmarks as early as possible in the future.'</p>	<p>Whilst the IPART 'approach allows for some flexibility regarding when councils need to meet benchmarks', will this flexibility extend to considering the merits of Council arguments as to why a benchmark will not and should not be met?</p>
<p>Assessment ratings –</p> <p>S. 3.3 1. Scale the benchmarks in order of importance – 'must meet.' Includes Operating</p>	<p>Council agrees with IPART's position that these three ratios in particular are fundamental to the ongoing financial sustainability of a council. The bearing these have on the capacity for Kiama Council to deliver surpluses and reserve funds for</p>

<p>Performance; Own Source Revenue & Debt Service ratios</p>	<p>future asset management; to draw on own sources of revenue and rely less on State and Federal Government funding; and to be in a position to access borrowing facilities is fundamental to a sustainable council.</p> <p>However where a council has a robust, fiscally prudent and responsible approach to achieving the benchmarks that are beyond the timeframe of 2019-20 (1-2 years), this should be acknowledged and accepted by IPART (and the State Government).</p>
<p>Proposed assessment – IPART is proposing that certain benchmarks must be met in order for a Council to be deemed ‘fit.’</p>	<p>As suggested above the OLG advice has focussed on ensuring Councils embark on a process of change and improvement to ensure Councils progress toward meeting the benchmarks or justify why a benchmark cannot or should not be met. Central to OLG & ILGRP conclusions/advice was that Councils recognise the need to be managing themselves in a fiscally prudent manner and adopting better practice measures to become more sustainable. In short the crux of the advice was to begin to adopt better practice financial and asset/infrastructure management to ensure better service delivery in the most efficient way.</p> <p>There was always a high degree of ambiguity relating to whether or not Councils (when adopting the Continuous Improvement process i.e. Template 2) had to achieve certain benchmarks. Certainly for Kiama Council it only marginally misses two and one of these, the Operating Performance ratio, is impacted on by Council's \$62m investment in the expansion of our Centre of Excellence in Aged Care facility, which after significant expenditure goes on to deliver a sustainable revenue source. As a result however of borrowing significantly to fund the development, Council doesn't meet the OP 3 year ave until FY22 – or two years after the IPART requirement.</p> <p>In addition, Council in its Improvement Plan is proposing a series of internal operational and management responses that will take time for the improvements and efficiencies to be realised. Council is adamant that these better practice initiatives are critical to instituting organisational change and making cultural improvements and as such, must be allowed to take their course. These</p>

	<p>improvements along with process changes and then finally revenue increases through SRVs must all be allowed to prevail in a sequential and structured way. If, as a result, 'must meet' benchmarks are not met by IPART timeframes, this should not mean an organisation is deemed 'not fit.'</p> <p>The methodology should recognise/be flexible enough so IPART can judge the arguments and merits of submissions made which do not meet the benchmarks by the specified date because of valid reasons or where they include sound strategies to meet benchmarks at later dates.</p>
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I trust these comments are useful and provide IPART with suggestions as to how the methodology for assessing Fit for the Future submissions can be improved.

If you have any questions, please contact me on (02) 4232 0444.

Yours sincerely

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Michael Forsyth
General Manager