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Our Reference: IPART FFF



22 May, 2015

Methodology for Assessment of  
Council Fit for the Future Proposals  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240

Dear Sir/Madam,

### **Methodology for Assessment of Council Fit for the Future Proposals**

Thank you for providing the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) methodology for assessment of Council Fit for the Future (FFTF) proposals.

Although the draft report provides a comprehensive methodology for the assessment of councils' FFTF proposals, Kogarah City Council would like to comment on some aspects of the methodology.

#### **Timeframe**

Submissions on the draft methodology close on 25<sup>th</sup> May 2015. IPART will consider submissions, together with its' other consultation processes, and release the final report on the methodology for assessment during the week beginning 1<sup>st</sup> June 2015. Councils are then expected to lodge FFTF proposals by 30<sup>th</sup> June 2015.

This proposed timetable provides IPART with very little time to consider the many expected submissions on the draft methodology for assessment. More importantly, in the event that IPART changes any part of the assessment criteria, councils will have an impossible task to reassess the new methodology, model the new criteria for the existing council against the NSW Independent Local Government Review Panel's (ILGRP) merger proposal, consider its options, consult with the elected officials and the community, and complete its proposal submission by the June 30<sup>th</sup> deadline.

Given the importance of this process on the future of Local Government in NSW, it is Council's view that IPART should request the State Government to consider revising the terms of reference (Box 1.1) to allow sufficient time for IPART and councils to complete their respective requirements as part of the FFTF process.

## **Scale and Capacity**

The ILGRP's key elements of strategic capacity are detailed in Box 3.1 of IPART's methodology for assessment. IPART has proposed to assess a council's scale and capacity by determining if the key elements in Box 3.1 have been met. IPART's consideration may include a demonstration of sufficient scale such as an appropriate minimum population size or a target number of councils in the Sydney metropolitan area. Kogarah City Council does not believe that a minimum population size, or target number of councils, provides a definitive link to the ability of a council to meet the key elements of strategic capacity as detailed in Box 3.1. A council should be entitled to demonstrate its strategic capacity criteria against the key elements regardless of its population size.

The key elements of strategic capacity detailed in Box 3.1 are qualitative in nature. IPART has provided little detail on how these qualitative criteria will be assessed or measured. It would be of benefit if IPART could elaborate in the final methodology what information or measurement factors will be required from councils in order to satisfy strategic capacity as outlined in Box 3.1.

If a Council, based on a sound argument supported by robust information, presents a business case for 'no structural change' it is required to clearly demonstrate why the option of 'no structural change' is superior to the preferred option of the ILGRP in relation to strategic capacity. Given that the assessment criteria for strategic capacity are mainly qualitative and the ILGRP preferred option is not already in existence it is very difficult for councils to demonstrate that the 'no structural change' option is superior to the ILGRP fabricated model, for which many of the underlying assumptions are unknown.

Councils have not been provided with information that shows how an amalgamated council, as the preferred option of the ILGRP, improves the scale and capacity compared to the individual councils. Council's therefore do not have a comparable basis for determining which option is superior for scale and capacity. Any benchmarks to support the key elements of strategic capacity would be welcomed by Council in order to assist with its internal comparison work.

## **Business Case**

If a council submits a proposal that is not the same as the proposal preferred by the ILGRP it is required to include in its submission a business case supporting the council's preferred option. The provision of further guidance on the structure and/or content required for this business case as part of the final report on the methodology for assessment appears to be necessary.

## **Fit For Future Criteria/Measurement**

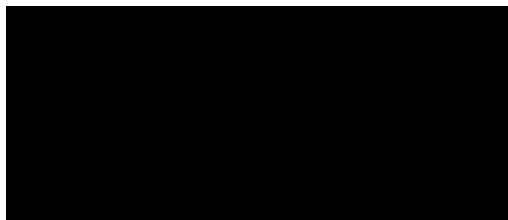
After scale and capacity, IPART will be assessing councils against the benchmarks shown in Figure 3.1 of the methodology of assessment. Council's may have different calculations and measurement of depreciation expense, asset renewal measurement and required maintenance. These figures have a substantial impact on a council's performance ratios as part of IPART's assessment of sustainability and infrastructure management. Three of the seven benchmarks contain data sourced from special schedule seven (7) of a council's financial reports which is unaudited. This can lead to inconsistency of comparative data and makes the consideration of options for councils difficult.

Kogarah City Council understands that IPART is using the criteria provided by the NSW Government and will not be revisiting these criteria as part of this review. However, Kogarah

City Council would ask IPART to recognise that data used for the assessment of sustainability and infrastructure management could be inconsistent and in some cases unreliable if used as a comparison between different council entities.

Thank you again for providing the opportunity to comment on your draft report. I hope the Tribunal will consider this submission in its review of the draft report. If you require any further information on this submission please contact Council's Chief Financial Officer, John Maunder on [REDACTED]

Yours Sincerely,



Paul Woods  
**General Manager**