

25 May 2015

By Electronic Submission
Independent Pricing and Regulatory Tribunal

Methodology for Assessment of Council Fit for the Future Proposals

Submission of Moree Plains Shire Council

We refer to the Local Government – Consultation Paper April 2015 in relation to the Methodology for Assessment of Council Fit for the Future Proposals (“Consultation Paper”).

Moree Plains Shire Council (“MPSC”) makes the following submission in respect of the Consultation Paper:

1. Scale and Capacity: The Threshold Criterion

In the Final Report of the NSW Independent Local Government Review Panel (“ILGRP”) issued in October 2013 (“Panel Review”), Moree Plains was placed in Group G, with its options being “Council in Namoi JO or merge with Gwydir” (neither being identified as a preferred option). Gwydir Shire Council (“Gwydir”) was placed in Group F with the same options identified, however, was also identified as a Council urgently requiring a revised long-term assets and financial management plan and an updated sustainability assessment.

In determining the appropriate option to be pursued by MPSC, we have followed the guidance set out by the Office of Local Government (“OLG”). As no preferred option was identified for MPSC, we reviewed our strategic capacity to assess whether MPSC has the appropriate scale and capacity to remain as a stand-alone council as a member of a joint organisation or if a merger with Gwydir is feasible. Having regard to this review and TCorp’s findings in relation to MPSC, it is felt that MPSC does have sufficient strategic capacity (having regard to the features of strategic capacity set out in Box 3.1 of the Consultation Paper) to remain a stand-alone council and thus, we are in a position to demonstrate that the “Council in Namoi JO” is the superior option to the merger optionⁱ and submit a Council Improvement Proposal.

(It is noted, however, that in the Council Improvement Proposal templateⁱⁱ only 500 words is provided for a council needing to justify its scale and capacity argument. For such a fundamental consideration, we question whether this will allow councils to provide sufficient detail to address the considerations of Box 3.1.)

The Consultation Paper sets out how IPART will assess scale and capacity in circumstances where the ILGRP provided multiple options but did not express a preferenceⁱⁱⁱ.

As a Group G council, MPSC was identified as a candidate to resource-share as part of a regional JO and to this end, MPSC is actively participating in the pilot Namoi JO and is sponsoring one of the three (3) projects identified for this pilot JO.

IPART suggests that where a merger option has been identified, this must be explored – meaning both MPSC and Gwydir need to “explore” this option. No guidance is provided on what is necessary to satisfy IPART that the option has been sufficiently explored other than to examine whether the merger could improve sustainability and build strategic capacity.

It is also noted that, in instances where councils may not be able to reach agreements with neighbouring councils on merger options, IPART suggests that the council would submit a Council Improvement Proposal to demonstrate how it meets the scale and capacity criterion under an alternative option^{iv}. We believe this is a sensible suggestion for councils where several options have been identified by ILGRP.

It is felt that the two options presented by the ILGRP for MPSC reflect the fact that MPSC is in a position to demonstrate it has sufficient scale and capacity (thus, being a candidate to complete a Council Improvement Proposal) but that its neighbour, Gwydir is not. In identifying MPSC as a viable merger partner for Gwydir, limited analysis of the relative strengths and weaknesses of each organisation (and the environment in which they operate as regional councils) seems to have been undertaken to practically consider whether these circumstances make for a complimentary merger. We consider that comprehensive consideration of the implications of the “merge with Gwydir” option would have identified the potential detrimental impact this may have upon MPSC’s ability to be Fit for the Future (“FFTF”) over the foreseeable future as many of our weaknesses are shared. There is a potential to create a fragile financial base to build from.

Given the overriding purpose of the FFTF reforms (that is, to improve the strength and effectiveness of local government in providing services and infrastructure that communities need) and the areas where MPSC will need to demonstrate improvement in the Fit for the Future Criteria and Measures (mainly the asset management/ infrastructure backlog measures) based on IPART’s current assessment methodology, a “merge with Gwydir” (which itself has been identified to have significant issues in these areas) may hinder MPSC’s ability to be FFTF within the timeframes suggested by IPART. Whilst we acknowledge that IPART proposes to provide flexibility for councils in meeting the forward benchmarks where there is merger proposal, we consider there is a real potential for the “merge with Gwydir” option to impair MPSC’s ability to improve its performance in these areas and indeed, may compound these challenges for many years to come.

By way of example, an area of considerable asset renewal backlog for MPSC is its unsealed road network (approximately 1,700km) and our FFTF submission will address how this may be improved over the course of the next few financial years, given our revenue base (supported by approximately 6,400 rateable properties, with rates generating approximately 40% of our income). Similarly, Gwydir has considerable challenges in asset management reflected by a low building and infrastructure renewal ratio and high infrastructure backlog ratio (supported by approximately half the number of rateable properties of MPSC).

While it is acknowledged that the region could benefit from regional collaboration (and certainly, MPSC and Gwydir already cooperate in a very material way for some services including, by way of example, our waste collection), MPSC considers the pilot Namoi JO is a means of achieving effective collaboration so an organisation’s strengths are exploited and the influence of certain weaknesses diminished. In addition, MPSC is also in a position to more efficiently provide some services to the Gwydir community.

We query whether this type of analysis of these organisations will discharge MPSC’s responsibility to “explore” the “merge with Gwydir” option.

In terms of addressing the scale and capacity threshold criterion in FFTF proposals due on 30 June 2015, we believe it would be prudent for councils to be availed an opportunity to provide confidential submissions (as an addendum to their FFTF proposals). This will ensure that IPART has to hand the full factual background and supporting information in relation to the options canvassed by a council prior to finalising its FFTF proposal. Without such protection from disclosure, a council may not be in a position to fully articulate its decision-making process without straining good working relationships with other local government authorities in the region.

2. Improvements to IPART's assessment of sustainability, infrastructure management and efficiency criteria

2.1 Water Utilities

MPSC has responsibility for water and sewer management. Pursuant to the OLG guidance^v, when preparing a Council Improvement Proposal, these activities are to be considered separately; both in the Future Improvement Proposal and the financial modelling.

We understand this provides a reasonable basis for IPART to consider council proposals on a consistent basis.

However, MPSC operates a very successful water utility business which contributes to our strategic capacity. Although, IPART notes that it will consider how the performance of the General Fund is affected by the water utility business as part of our scale and capacity assessment, no detail is provided as to how this consideration will be made or the materiality of this. For councils like MPSC, this has a materially adverse effect on our FFTF projections.

2.2 Exclusions from the Fit for the Future Criteria and Measures

MPSC's performance in respect of the "Own Source Operating Revenue" performance ratio has been affected by one-off or for-purpose grants, primarily funding for flood damage. Funding of this nature is provided in circumstances outside the control of the local government authority (in response to an event warranting such funding in order to restore the community's infrastructure and services following such event).

Receipt of such funding cannot be forecast but must form part of this ratio. Given that this funding (in the case of flood damage) is provided to "make good" the local government area and return it to the state it was immediately prior to the relevant event, we believe it would be appropriate for such funding to be excluded to ensure that councils are considered on a consistent basis.

3. Engagement with Communities

IPART has indicated that councils should choose methods of community engagement which reflect the issues that need to be consulted upon and where a Council Improvement Proposal is submitted (where the ILGRP recommended that a council had sufficient scale and capacity), limited, if any, consultation is necessary^{vi}.

We consider this appropriate.

To date, we have undertaken limited community consultation as it is felt that the actions being identified in our Council Improvement Proposal are consistent with our Community Strategic Plan

and our past and future approach to sustainability. IPART states that, generally, the nature and extent of consultation should be commensurate with the significance of changes involved in the proposal and possible impacts.

We are mindful of the value of community consultation but conscious of the limited opportunity to obtain meaningful feedback from the community. In our experience, frequent approaches for community engagement tend to diminish the participation level and the quality of response.

4. Monitoring Council Performance against FFTF proposals

IPART has suggested that council performance against FFTF proposals should be monitored.

As a regional Council with very stretched resources, an additional level of reporting could be extremely onerous. Therefore, reporting should focus on collecting useful information that can be beneficially used to streamline and improve the delivery of local government services.

The OLG have indicated that through completing the FFTF process, councils will develop four (4) year forward estimates that will integrate with our Delivery Program and a one (1) year action plan that will provide important input to our Operational Plan.

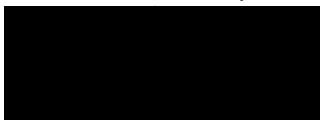
Accordingly, as these will form part of our integrated planning and reporting ("IPR"), it would seem sensible for progress to be reported through the IPR process as we are required to report back to the Council on a six (6) monthly basis. This could be done on an exception basis only.

Performance against the Fit for the Future Criteria and Measures is already incorporated into the financial reporting regime; this, in effect, requires all local governments to annually report on their financial sustainability in their audited Annual Financial Statements allowing timely and accurate comparative information.

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Please do not hesitate to contact us if you have any questions in relation to our submission.

Yours sincerely



Lester Rodgers
GENERAL MANAGER

ⁱ IPART, *Methodology for Assessment of Council Fit for the future Proposals*, April 2015, p 25.

ⁱⁱ OLG, *Council Improvement Proposal*, October 2014, p 1.

ⁱⁱⁱ IPART, *Methodology for Assessment of Council Fit for the future Proposals*, April 2015, p 24.

^{iv} IPART, *Methodology for Assessment of Council Fit for the future Proposals*, April 2015, p 24.

^v OLG, *Council Improvement Proposal*, October 2014, p 7.

^{vi} IPART, *Methodology for Assessment of Council Fit for the future Proposals*, April 2015, p 36.