Our Reference: F2014/02719
Contact: Greg Dyer
Telephone: [redacted]
Email: [redacted]

Monday, 25 May 2015

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240
By electronic communication

Dear Dr Boxall AO

Methodology for Assessment of Council Fit for the Future Proposals

Thank you for the opportunity to provide a submission on the proposed methodology for assessment by IPART of Council Fit for the Future proposals. This is an issue of considerable importance for all councils and it is critical that a robust and fair methodology is adopted.

The proposed methodology appears generally consistent with the criteria previously developed and outlined in the report of the Local Government Independent Review Panel and subsequent Office of Local Government publications.

Parramatta City Council has a number of comments and some concerns regarding the proposed methodology. These are outlined below.

Overall Comments

IPART proposes to assess councils as 'unfit' if a merger has been recommended by the Independent Local Government Report but is not proposed in a Council's submission unless either of the following alternatives are proposed:

- A business case for no structural change which is 'clearly superior to the merger option' and indicative of the features of strategic capacity previously identified by the Independent Local Government Review Panel (Box 3.1 in the paper); or

- A merger option broadly consistent with the ILGRP preferred option.

Given that the proposed mergers must be voluntary and all impacted councils need to agree to a merger before any such proposal can be formulated, it is unreasonable to adopt a methodology that requires a business case to demonstrate that an existing structure is 'superior' to the merger option which we have had no opportunity to analyse in the circumstances. We submit rather that the standalone option together with any alternative proposed option should be judged solely on their merits in addressing the criteria.

We do accept strategic capacity as indicated in Box 3.1 generally provides a sound basis for assessing strategic capacity in their own right.

We note IPART's comments that in any improvement submissions that the analysis of the independent panel proposal should be rigorous. As previously noted, mergers are voluntary. Where a council has canvassed a merger proposition with neighbouring councils and as a result has determined that, that option is not available to it, it is then not possible to undertake the necessary analysis to appropriately compare the merger option because access to detailed information regarding such a merger is not available. Whilst a level of information is publicly available, it is noted that this analysis will be of questionable utility as it will not be at the appropriate level of detail.

We also note that where Template 1 cannot be completed, then Template 2 must be submitted. This template requires a standalone improvement plan to be outlined. We note that at the IPART Public Forum, IPART has confirmed that alternative proposals can also be submitted as an addendum. We welcome this position as the current construct of the templates constrains councils from submitting alternative solutions that ultimately meet the overarching intent of the Fit for the Future process. We seek further guidance and clarification from IPART regarding the process of submitting an alternative proposal and how these proposals will be considered.

Scale and Capacity Criterion

Council notes that the assessment of strategic capacity will be a largely qualitative assessment and further information from IPART regarding how they intend to define and assess the criteria is sought. Council believes that given that significant subjectivity exists in the assessment of the strategic capacity criteria, that there should an opportunity provided for Council to make further submission to IPART should an 'unfit' determination be presented in the initial draft of IPART's report. Such a submission could be limited to the specific areas of concern but would allow Council the opportunity to provide further information and elaboration relating to the specific criteria where concern exists.

Additionally, Council considers that a key element of strategic capacity should include a council's ability to genuinely engage with its community in planning and delivering on matters of importance for the community. This would ensure that the ability of Local Government to continue to provide a critical interface with local communities and cater for local needs is maintained. Currently this is not included in the elements to be considered for strategic capacity and Council would urge IPART to take this into consideration.

We also contend that in making the assessment against the strategic capacity criteria it is important for IPART to consider a council's track record in innovation, delivering strategic leadership across a region and delivering major projects. Past performance should be highly regarded as an indicator of future capacity.

Further clarity is also required in relation to any minimum population size that IPART proposes as the basis for assessing proposals as being "fit", together with the basis on which such an assessment is made, given the particular circumstances of each Council. We would also contend that broader indicators of size should be utilised rather than relying on population alone.

Other indicators of the size and scale of activity and influence of a Council should include the number and size of the commercial and industrial base, as well as the population of workers coming into the LGA on a daily basis.

Other benchmarks

We support the approach taken in relation to a number of the benchmarks requiring improvement over a longer time frame rather than needing to meet all benchmarks within the 5 year period. We believe that this is a practical approach.

IPART has indicated that the seven benchmarks will all be assessed equally to form a view regarding whether a Council is Fit for the Future. IPART in the Public Forum on 11 May indicated that these benchmarks will not be weighted and will be considered as "a basket" of items. This results in there being no transparency regarding how IPART will assess whether a Council is "fit or unfit". We seek further detailed information regarding the process IPART will utilise to assess the benchmarks individually and in totality.

It is also not clear to us that failure to meet all of the benchmarks, within the timeframe suggested, necessarily makes a council 'unfit'. If, for example, council meets most benchmarks, maintains a sound ongoing funding base and has plans in place for continuous improvement, it should be possible to still be assessed as 'Fit for the Future' even in the event that some longer term objectives may take additional time to achieve. Provided a clear plan for achievement is provided, an 'unfit' finding does not seem appropriate. We also believe that there is a need for Council to remove the impact of significant but unusual transaction and events (abnormal items) from its long term numbers, so as to better reflect the true underlying position of Council's financial position. Some guidance in relation to how IPART would treat such items would be appreciated.

Council is also unsure that the application of standard benchmarks to all councils in determining 'fitness' is appropriate. In particular Council views that given the differing nature and futures of the current and proposed local government areas comparison to a standard benchmark may not mean councils will be 'fit' to deliver the required changes for their own communities. Parramatta has been clearly identified in the NSW State Government's strategy *A Plan for Growing Sydney* as a key component of the vision for Global Sydney with a growing emphasis on the role of Parramatta as a CBD at the centre of the Sydney metropolitan area. From this it is unclear that applying the same benchmarks to Parramatta as to other areas is appropriate.

We also believe that there is a high level of inconsistency as to how various individual Councils currently account for and measure their infrastructure assets. The unreliability of data and the ease of manipulation to affect desired results brings into question, in particular, the application of the asset and infrastructure ratios to the determination of a Council being 'fit for the future'. Variability of measurement will then flow into asset written down values and depreciation expense figures which are being used heavily in the denominator for a number of measures.

Further, as IPART itself notes, much of this data has not previously been subject to audit and is likely to be inconsistent across the industry. This will make valid comparisons across the industry impossible.

This issue is exacerbated by the fact that a large consideration in asset management planning is the need for public consultation on service standards. Community expectations on asset quality and maintenance can and do vary widely across different council areas and this will have a significant impact on asset planning. This further complicates the applicability of standard benchmarks and the appropriateness of comparing ratios across all Councils.

Other issues

We note that there are inconsistencies in relation to the information required to be completed in Template 1 and 2 for metropolitan councils. Of particular note is that Template 1 explicitly seeks comment regarding community consultation whilst Template 2 does not. Council suggests that IPART, in collaboration with the Office of Local Government review the templates to ensure consistent information is provided under both templates.

No clear guidance has been provided regarding the extent of public consultation that is likely to be regarded as appropriate. Given the timing of submissions and the considerable uncertainty surrounding the ultimate outcome of this process, it is difficult for councils to engage in the levels of consultation which in other circumstances would be considered ideal. While canvassing broader community attitudes is important and has been undertaken by Parramatta City Council, the ability to consult on detailed proposals is difficult as more than one round of consultation would be required to achieve full community engagement. Some further guidance on how IPART proposes to assess community consultation would be helpful. We note, however, that given the timing of the release of IPART's final methodology, any additional consultation is likely to be unachievable prior to the 30 June deadline.

We also note that the timetable indicates that IPART will publish its response to this consultation process in the first week of June. This provides limited time for any further guidance from IPART to be reflected in the submission that is due to the NSW Government on June 30, particularly considering that Council will need to review and provide formal approval of the final submission before that date.

In summary, Council is concerned that any assessment process of its submission takes appropriate account of the whole quality of the submission and the rigour of the analysis undertaken, rather than simply applying a one-size-fits-all approach. Where Council has made a genuine attempt to explore and analyse a variety of options, has consulted with its community on those options, has provided a sound business case supporting its submission that demonstrates it can operate strategically for its area and beyond, while remaining financially sustainable and is committed to continuous improvement, it ought to be regarded as 'Fit for the Future', regardless of the specific guidelines and strictures of the templates provided.

Should you have any questions or require further information about our submission please do not hesitate to contact me.

Yours sincerely

[redacted]

Greg Dyer
Chief Executive Officer