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a sense of community

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

21 May 2015

Dear Dr Boxall,

Re: Methodology for Assessment of Council Fit for the Future Proposals

Randwick City Council welcomes the opportunity to provide comment to the IPART on the "Methodology for Assessment of Council Fit for the Future Proposals" Consultation Paper.

The Council has been actively engaged in Local Government reform, submitting extensive submissions at each stage of the Independent Local Government Review Panel's (ILGRP) consultation process, undertaking both independent external assessments and internal research and financial modelling and engaging extensively with our community to ensure we have carried out our due diligence.

The **time frame** provided to councils by the State Government to prepare a 'Fit for the Future' proposal has always been tight, and the announcement that the final assessment methodology will not be available until the first week of June makes the completion of the requirements in time for 30 June 2015 extremely difficult to meet. Councils will have scarce opportunity to ensure our response meets the final guidelines, let alone an opportunity to place the proposal document on 28 days public exhibition. On that basis, we request that consideration be made to extending the 30 June deadline.

An overarching clarification is sought as to how the assessment methodology will be applied by IPART in the instance that there are multiple submissions referring to a given council.

In addition to our concern with the tight time frame of the final guidelines, we would like to comment on a number of issues including the "superiority" test and the definition of scale:

Response to the IPART questions:

Question 1. How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material? (p25)

"Superiority" test (p25)	• The insertion of the word 'superior' into the assessment guidelines for a stand-alone proposal (where the ILGRP recommended a merger) - It is almost impossible for a single council to be superior to a group of councils to which it is a subset. For example, the revenue base of the City of Sydney is $582m. If you add the four eastern Sydney councils that are recommended to merge with the COS the revenue base is superior at $985m. It is difficult for Randwick, or any council, to demonstrate they are superior to the overall set. Under these parameters this test forces these councils to consider a merger proposal or most likely be deemed 'not fit'.
Define "an appropriate minimum population size" (p21)	• Page 21 of the paper states sufficient scale would indicate a proposal with the "appropriate minimum population size". Guidance is requested regarding the appropriate minimum population size, ideally the actual target minimum population for councils in the Sydney metropolitan area.
"A future plan of the council to achieve scale in the medium to longer term (eg, Sydney fringe councils)" (p21)	• We encourage the IPART to consider the future targets for the three drivers of sub regional planning in their assessment of scale: jobs, dwellings and population. • These targets drive planning in areas such as open space and infrastructure requirements and land use planning. The scale of a council needs to be appropriate to manage and deliver these plans.
Define region (p6)	• "Proposal must be consistent with the objectives identified by the ILGRP for their <u>region</u>" (p6) – For a council in the Sydney Metropolitan area, please define region - is this Metropolitan Sydney, Eastern Sydney, etc.? It is unclear which of the ILGRP's objectives the IPART is referring to: o the ILGRP's objectives for the Sydney Metropolitan area (p103 of the ILGRP's final report); o the rationale for the recommended merger (p104); or o the key attributes of a Global Capital City (p100). • At the Public Forum in Sydney on 11 May 2015 the IPART advised the objectives are those listed on page 23 of the consultation paper for the Sydney Metro area. We suggest a reference to this page be included on page 6 for clarity.
"Underpin Sydney's status as a global city" p23	• The ILGRP's key attributes for a 'Global Capital City' (p100) and the boundaries proposed to strengthen the 'Global City' (p104) do not align with the State Government's Sydney metropolitan planning documents.

	• The concept of a global city is tied more closely to a city's function and influence rather than size. A global city refers to a metropolitan area rather than a central city in isolation. The central city and the surrounding greater Sydney metropolitan area need each other to function as a whole. Local Government boundary changes would not make any difference to Sydney's ability to compete as a global city. These issues are detailed in Randwick City Council's Options Analysis (in particular *Appendix A Community Profile and Strategic Planning*, May 2015, p19-26) and will be included within Randwick City Council's Fit for the Future Proposal.

Question 2. Rural council question – no response.

Question 3. Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria? (p33)

Debt Service Ratio	• The Consultation Paper states "performance measures for infrastructure performance and debt" will be assessed in the "context of the council's overall capital sustainability as reflected by its Asset Management Plan". We agree with this statement, as it is unreasonable to expect a council with no infrastructure backlog and within a developed area to have debt. However, the paper also states "a FFTF council must meet the Debt Service Ratio measure within five years" (p31). This statement is inconsistent with the assessment approach proposed by the IPART and we suggest that **a council that meets the Infrastructure Backlog benchmark should not also need to meet the Debt Service Ratio.** • We appreciate the purpose of this benchmark is to ensure "the cost and benefits of long lived assets are shared equitably between generations."[1] However, as one of the oldest local government areas in Australia, Randwick's asset management program is largely maintenance and renewal of existing infrastructure programmed over twenty years through our Asset Management Plans. Special rate variations, most recently the 'Buildings for our Community' program, have boosted the expenditure on certain asset classes to the required level. The work is perpetual with a similar amount of funding required annually. As per the Council's robust long term financial planning, there is no need to allocate debt financing to these projects.
Technical comment **Are ratio calculations required for 4 or 5 years?**	• In the templates ratios are required for four years (2016-17 to 2019-20), however the Consultation Paper also states ratios must be met or show improvement within 5 years (p29). If so, are we required to provide ratio calculations for 5 years to 2020-21? • For consistency with the Integrated Planning and Reporting framework which requires planning over a ten year period, we suggest ratios also be provided for ten years.

[1] IPART, *Transcript of Webcast – Methodology for the Assessment of Fit for the Future Proposals, Sydney Public Forum*, 11 May 2015, p31.

Technical comment **Fit for the Future measures – guidance (p28)**	• The diagram provided in the paper does not include guidance for the projected population and LGCI. The OLG has provided councils with suggestions for these projections in the following document (page 2): http://www.fitforthefuture.nsw.gov.au/sites/default/files/Example%20of%20how%20to%20complete%202.3%20and%204.1%20of%20Template%202%20%28A419332%29.pdf. o **Population projection:** As population projections are only provided for 2011, 2016, 2021, 2026 and 2031 we suggest a reasonable approach is to average the five year growth and assume equal growth in each year to provide an annual population number to calculate the efficiency ratio. o **LGCI projection:** the OLG has suggested councils apply a LGCI of "2.5% for 2016/17-2019/20 (consistent with the underlying CPI)". However we suggest a LGCI based on the formula applied by the IPART would provide a more accurate projection[2]. To simplify the projection, we recommend a projection of 60% materials and contracts expenses (based on Deloitte Access Economics Business Outlook Dec 2014: House building materials) and 40% labour costs (based on Deloitte Access Economics Business Outlook Dec 2014: Average Weekly Ordinary-Time Earnings): ▪ 2016-17 3.23% (M&C 2.96% and Labour 3.64%) ▪ 2017-18 3.15% (M&C 2.61% and Labour 3.96%) ▪ 2018-19 3.01% (M&C 2.31% and Labour 4.06%) ▪ 2019-20 3.13% (M&C 2.48% and Labour 4.10%)
Technical comment **2014-15 and 2015-16 financial projections (page 34)**	• The IPART have requested a longer time series of data, with financial projections back to 2014-15 and 2015-16. It is not clear if, for a merger proposal, this is required for each individual council as separate statements or if a sum of the finances for each council is required in one statement.

Question 4. How should councils engage with their communities when preparing FFTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important. (p37)

- We agree, information should be balanced and statistically valid responses sought from the community.
- From December 2014 to May 2015 we undertook one of the largest single community consultations in the history of the Council, engaging extensively with our community on a number of options, including six merger proposals. A community engagement strategy was developed and implemented to increase community awareness through the provision of information and to involve the community in determining the best proposal for Randwick City. Due to the time constraints imposed, it will not be possible to place the actual proposal template on 28 days public exhibition prior to submitting it to the IPART, however we would promote the IPART's exhibition period in July as another chance for the community to have their say.

[2] IPART, *Local Government Cost Index Information Paper*, December 2010, p3.

Question 5. Should council performance against FFTF proposals be monitored? If so, are there any improvements we can make on the approach outlined for councils to monitor and report progress on their performance relative to their proposals? (p38)

- We agree with the IPART's proposal, progress against FFTF proposals should be subject to audit and reported in the Annual Report. This should be consistent with the annual reporting of the acquittal of Special Rate Variations.
- We support improvements to the consistency and robustness of audits industry-wide, however we are concerned appointing the Auditor General responsible for conducting Local Government audits will lead to a significant increase in costs for the Council's auditing function. The audit of Brisbane City's financial statements by the Queensland Audit Office is over six times the cost of City of Sydney's audit[3].
- Whilst we understand a review of the assessment criteria is outside of the IPART's Terms of Reference, more work is needed on sustainability measures, in consultation with the industry, before a reporting and monitoring framework is established to ensure the measures are robust, meaningful and comparable. Many of the issues with data comparability and integrity could be resolved through a clearly defined set of measures and more detailed guidelines for accounting for expenditure such as depreciation, the allocation of directly attributable costs to services in Special Schedule 1 of the annual financial reports and reporting the condition of infrastructure and building assets in Special Schedule 7. We have been participating in OLG facilitated working groups to enhance performance measurement and reporting for Local Government for a number of years. We would welcome the opportunity to assist further in the development of a robust framework for reporting and measuring the performance of Local Government.

Should you have any questions regarding this submission please contact Caroline Foley, Manager Business Performance Projects, on [redacted]

Yours sincerely

[redacted]

Ray Brownlee
General Manager

[3] Randwick City Council, Submission – Future Directions for NSW Local Government, April 2013, p14.