

ITEM **FIT FOR THE FUTURE ASSESSMENT CRITERIA**

THEME:	Proactive Leadership
OUTCOME:	2 Prudent management of financial resources, assets and people to deliver the community outcomes
STRATEGY:	2.2 Maintain a strong financial position that supports the delivery of services and strategies and ensures long term financial sustainability.
MEETING DATE:	26 MAY 2015 COUNCIL MEETING
GROUP:	STRATEGIC PLANNING
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EXECUTIVE SUMMARY

IPART is seeking feedback on the 'Assessment Methodology Consultation Paper' for assessing Fit for the Future (FTIF) submissions.

The Methodology was released on 27 April 2015 and submissions are due by 25 May 2015. The Final Methodology will be released by 1 June 2015. Poignantly, Fit for the Future submissions are required by 30 June 2015.

This report outlines our Council's feedback on the proposed methodology.

REPORT

On 27 April 2015 the Minister for Local Government, the Honourable Paul Toole wrote to Council informing the Independent Pricing and Regulatory Tribunal (IPART) have been appointed as the Expert Panel by Government and will be assessing the Fit for the Future submissions. IPART will be supported by South Australian Local Government expert John Comrie. John Comrie is a former CEO of the Office of Local Government in South Australia and former CEO of Local Government South Australia.

Councils have to lodge these submissions by 30 June 2015. The Panel will make recommendations to the Minister for Local Government by October 2015.

The Government has established four criteria it considers, are necessary for a Council to be considered 'Fit for the Future'.

These criteria are:

- Scale and capacity to engage effectively across community, industry and government.
- Sustainability.
- Effectively managing infrastructure and delivering services for communities.
- Efficiency.

IPART's role is to ensure a consistent, impartial and balanced assessment of Councils' FFTF proposals.

Summary of the three tasks contained in the Terms of Reference to IPART are:

1. Develop a methodology for assessing proposals.
2. Undertake the assessment of whether each Council is 'Fit For The Future' consistent with the methodology; and
3. Provide the Government with a final assessment report by 16 October 2015.

IPART has developed a series of questions for stakeholders to consider when submitting comments on this consultation paper.

The release of the final methodology will be available in the week commencing 1 June 2015, but the Council's final submission is due by 30 June 2015. Proposing any changes to this methodology will not be practical to implement as it requires research and reports to Council prior to lodging the submission.

IPART's questions are listed below along with The Hills Shire Council's proposed response.

1. How should the key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements IPART can make to assess the scale and capacity criterion, consistent with OLG guidance material?

THSC Response –

The Office of Local Government and the Independent Panel both have looked at strategic capacity for effective, efficient and sustainable Local Government. There are a number of key elements that relate to strategic capacity including Council's revenue base, governance model, and comparison to nearby Councils. Clearly a population base is part of this and Councils of similar population with sufficient resources to attract talent to be able to contribute to wider regional planning and issues and be able to respond to emerging needs and trends.

Revenue is key and under present funding models, that is closely related to population. In the context of destination 2031, the need for fewer metropolitan types of Council, a population base of 200,000 to 250,000 by the year 2031 is reasonable. It would also be desirable to take into account population growth and ensure councils remain relative to each other over time to ensure one Council doesn't become too dominant by representing a disproportion amount of residents to the others.

2. Which of the 'Rural Council Characteristics' are the most relevant, considering a Council must satisfy a majority of the characteristics to be considered a rural Council?

THSC Response – Not applicable to us

3. Are there any improvements IPART can make to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that IPART need to consider when assessing Councils' proposals using the measures and benchmarks for these criteria?

THSC Response - Relates to the Debt Service Ratio Benchmark

Benchmark Debt Service Ratio -Average over 3 years > 0% < or equal to 20%

This ratio assumes that Councils with no debt are not “fit for the future”, based on the principle that public assets should be financed by borrowings repaid over the life of the asset so that future users contribute to the funding.

This ignores financially strong councils who do not need to borrow and have set aside funds over time to replace assets or provide new assets.

In fact, when NSW Treasury Corp conducted its review on The Hills Shire Council data, the Debt Service Ratio was regarded as “NOT APPLICABLE” and regarded Council as being financially sustainable in the long term.

Therefore THSC does not agree with this as it is not sound financial practice to borrow if a Council meets the following criteria:

- Unrestricted current Ratio is well above industry average.
 - Has not increased Rates beyond the Rate Peg in the past and is not planning to do so in the future.
 - Has addressed or is addressing the Infrastructure backlog and is within the benchmarks.
 - Has been (and can prove) spending the correct amounts of funds on Asset maintenance and Renewals.
 - Has been meeting all the other FIF ratios.
4. How should councils engage with their communities when preparing FFTF proposals? Are there other factors that IPART should consider to inform the assessment of Council consultation?

THSC Response:

It is assumed if a Council can prove that it is ‘Fit for the Future’ that it does not require any further community consultation. Should Councils be proposing a merger or dramatic change to their operational plans, then these changes need to be advertised and comments received to be considered in a similar manner to the integrated Planning Reporting requirements.

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

THSC Response:

Currently there are numerous ratios with different interpretations required by the following:

- Ratios for Financial Statements - Code of Accounting Practice
- Ratios for The Office Of Local Government Infrastructure Audit
- Ratios For the NSW Treasury Corp
- Ratios for the Fit For The Future

There are no objections to monitoring against the FIF ratios, but there is no need for Councils to be subject to a new audit as this process can be tied to the Integrated Planning & Reporting Guidelines.

It is proposed that IPART introduce prescribed set of Ratios when preparing the Long Term Financial Plan under the Integrated Planning and Reporting Guidelines, and these ratios are compared with the actual results in the audited Financial Statements at year end.

This would also provide uniformity and consistency across all Local Government areas for comparison.

CONCLUSION

IPART conducted a series of workshops as part of the consultation process. THSC participated in a Webcast on 11 May 2015 from 9.30am to 12.30pm.

The Panel recommended " No Change " for The Hills Shire Council with consideration of boundary adjustments with Parramatta Local Government area , and a future merger with Hawkesbury Council.

The Hills Shire Council's position adopted on 25 June 2013, recommends changes involving Hawkesbury and Hornsby Shire Councils and, to a smaller extent, Parramatta City Council.

IPART made it very clear that the submission's starting position should be as per the recommendations of The Panel. If a Council is putting forward a submission outside the Panel's recommendation and that affects other Local Government areas, that it would not consider the submission unless all affected Councils were in agreement.

IPART is only assessing these submissions to ascertain whether a Council is "Fit" or "Not Fit" and the final decision rests with the State Government.

As such, THSC will be filling in Template 2 – Improvement Template to prove that it is "Fit For The Future", along with strong arguments against losing South of M2 to Parramatta Council. It is also proposed to attach Council's preferred position as outlined in the report to Council on 25 June 2013.

A copy of this report will be lodged with IPART as this submission is due by 25 May 2015. After the adoption of a final recommendation, a final report will be forwarded to IPART.

IMPACTS

Financial

This matter has no direct financial impact upon Council's adopted budget or forward estimates.

The Hills Future - Community Strategic Plan

The Hills Shire Council remains committed to ensuring Council is financially secure and is able to sustainably manage its assets, services and functions into the future.

RECOMMENDATION

A copy of this Report be forwarded to IPART.

ATTACHMENTS

Nil.