



The Office of the General Manager

21 May 2015

Dr Peter J Boxall AO
Chairman
IPART
PO Box K35
HAYMARKET NSW 1240

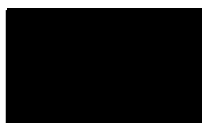
Dear Dr Boxall

RE: Submission to IPART Methodology for Assessment of Council's *Fit for the Future* Proposals

At the Council meeting held 11 May 2015, Council considered a report on the methodology IPART proposes to use in assessing council *Fit for the Future* proposals and resolved to respond to the invitation for submissions.

Council's submission is attached for your consideration, and includes support for IPART's appointment to the role of Expert Panel and for the inclusion of local government knowledge and expertise in technical assessments, including the appointment of Mr John Comrie.

Yours sincerely



Debra Just
GENERAL MANAGER

Willoughby City Council

At the Council meeting held 11 May 2015, Council considered a report on the methodology IPART proposes to use in assessing council *Fit for the Future* proposals and resolved:-

That Council responds to the invitation from IPART to comment on the proposed “Methodology for Assessment of Council Fit for the Future Proposals” and delegates to the General Manager the authority to finalise Council’s submission to include the following points:

That Council supports:

- **The appointment of IPART to the role of the Expert Panel;**
- **The use of local government knowledge and expertise in technical assessments; and**
- **The use of information sourced from IPART decisions on Special Rate Variations.**

That Council expresses its strong concern that:

- **Scale and capacity has been identified as the threshold criteria, and the merger proposal contained in the Independent Local Government Review Panel Report is considered as the starting point against which other options are to be assessed, but the Report itself did not provide any evidence which establishes that benchmark;**
- **The use of potentially inaccurate and inconsistent data across councils; and**
- **Scale criteria should not be measured by a minimum population size or by a target number of councils in metropolitan Sydney, as evidence to support these measures has not been provided through the *Fit for the Future* process.**

Council raises the following points relating to the proposed assessment methodology:

Council supports:

- **The appointment of IPART to the Expert Panel role which should enable the assessments to be conducted with consistency, fairness, impartiality and be based on evidence provided by councils.**
- **The use of local government knowledge and expertise in the technical assessment process.**
- **The opportunity to present to the Expert Panel.**
- **The use of information sourced from “IPART decisions on 508(2) or 508A Special Rate Variations” to support council proposals.**
- **The consideration of the social and community context of the council.**
- **Consideration of the nature and quality of the supporting information.**
- **Consideration of the robustness and consistency of the assumptions underlying the councils’ forecasts.**

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- Consideration of how the council consulted with its community regarding its proposal and alternative options.
- Consideration of the outcomes from the community consultations.

Council is concerned that:

- Scale and capacity as *threshold criteria* may negate the reasonable consideration of other assessment criteria for the council including operational sustainability, capital sustainability and efficiency.
- Scale and capacity issues are further compounded by the requirement that the merger proposal contained in the Independent Local Government Review Panel (ILGRP) Report be considered as the starting point against which other options are to be assessed when the ILGRP Report itself did not provide any evidence which established the benchmark for scale.
- Three of the indicators contain data that is not currently audited; one sustainability indicator and two effective infrastructure and service management indicators and therefore the use of these indicators could lead to doubts as to information accuracy and consistency across councils.
- In virtually all cases, scale cannot be achieved without a merger
- Evidence suggests scale does not automatically translate to benchmark performance.

Further comment on use of Asset Ratios and Benchmarks

Building and Asset Renewal Ratio

- Depreciation included in the denominator is an ongoing issue as it is considered to be unreliable and easily manipulated to affect the desired result.
- Depreciation varies significantly even for close neighbours.
- The Australian Accounting Standards Board tentative decision on residual values results in further reliability issues about depreciation calculations.
- Consumption based depreciation versus straight line – Willoughby City Council uses consumption based depreciation which can result in a higher depreciation expense.
- Annual versus three to five year cycle valuations impacts depreciation. Willoughby City Council, for example, revalues most categories of infrastructure assets annually.
- Asset renewal expenditure can vary significantly from year to year and an average over a longer period than three years would be more meaningful.

Infrastructure Backlog Ratio

- Asset data reliability issues may arise as Special Schedule 7 is not audited
- Lack of comparability between councils due to the high degree of subjectivity and inconsistent approach in quantifying infrastructure backlog.

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- There is debate about the denominator being written down value (WDV) rather than replacement cost. Using WDV results in an inflated ratio as the value of assets at condition 5 is zero.
- Measures of what satisfactory asset condition is vary from council to council.
- Willoughby spent 24 months consulting with the community about their expectations on the standard of infrastructure. Council engaged using online surveys, discussion forums, Q & A sessions, a Citizens Panel, information stalls, social media activities and public meetings. Council combined this information with detailed data on all assets, their condition and maintenance requirements to develop an accurate picture of renewal requirements out fifteen years which provides it with a genuine understanding of its asset base which may not be replicated by other councils, and therefore make comparisons between councils less reliable.

Asset Maintenance Ratio

- This measure encounters similar data reliability as outlined above.
- Lack of comparability between councils can occur due to definition and interpretation of asset maintenance and operational costs versus renewals.
- The benchmark of greater than 100% over 3 years may not be financially desirable.

Willoughby City Council
May 2015