

NSW Independent Pricing and Regulatory Tribunal  
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Z15/101155  
EM-912.01.002  
25 May 2015

Dear Sir/Madam

## IPART CONSULTATION PAPER – METHODOLOGY FOR THE ASSESSMENT OF FIT FOR THE FUTURE PROPOSAL

Thank you for the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) Methodology for Assessment of Council Fit for the Future Proposals, April 2015. Council supports IPART's involvement in the assessment of the Fit for the Future Proposals and would like to raise the following points for your consideration. Our comments have been aligned where possible to the consultation questions raised by IPART:

- 1 How should the key elements of Strategic Capacity influence our assessment of Scale and Capacity? Are there improvements we can make to how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?**

The Independent Local Government Review Panel recommended no merger options for Wollongong City Council and proposed a Joint Organisation for the Illawarra Area. It is understood, therefore, that Wollongong City Council immediately meets the scale and capacity criterion.

There is concern however that the criteria appear to be unmeasurable, despite wording such as "More robust", "Wider range of skilled staff", etc. There is no benchmark measure included, making it difficult to determine whether a Council can meet the criteria or not. It is also a little unclear as to how the criteria under 3.2.1 on page 21 supplements the elements of strategic capacity, box 3.1 on the same page.

- 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?**

No comment.

- 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?**

Council supports IPART's inclusion of tiered criteria weighting, especially given the limitations of the infrastructure related benchmarks. Further clarification should be provided on what is meant by "inform" in table 3.5 on page 32. It is interpreted as the results will inform IPART's decision on whether they meet the benchmark or not in the context of other information provided. This therefore indicates the benchmarks on their own should not be relied upon.

Council has raised during the various Fit for the Future forums being held by OLG the limitations of the benchmarks. Whilst the Council recognises that IPART's Terms of Reference are not to review or

modify the criterion, Council would like to provide detail on the limitations of the benchmarks as these impact on the results and should be considered when reviewing every Council's Fit for the Future proposals. It is also hoped that OLG can engage with IPWEA and the local government industry and commit to improving the ratios prior to any amendment or inclusion in the IPR Guidelines.

*Asset Maintenance Ratio* – Required asset maintenance standards are not set by the OLG and therefore the definition of required maintenance is arbitrary, and varies across Councils. It makes for difficult comparison across Councils as it is impacted by community service level requirements, as well as locational differences, etc. Further, IPART itself acknowledges that a result in excess of 100% can indicate a Council “is not efficiently managing its assets” (pg.31) – or that it is “overspending” on maintenance.

*Infrastructure Backlog Ratio* - The term "satisfactory condition" in the numerator is problematic as it is a notional value and not defined by OLG. The use of written down value in the denominator is equally problematic - measuring “cost to bring to satisfactory” over the written down value of assets means that the reported backlog percentage can change without any additional backlog items. The denominator effectively measures relative age of assets within portfolios and also eliminates impaired assets that have no value. The measurement will therefore impact the relative significance (size) of the result without measuring capacity to renew.

*Building and Asset Renewal Ratio* – A number of environmental factors can impact on the result of this measure. The 100% target is unrealistic in that it would not take into account contributed asset renewal, assets managed by third parties, or assets that aren't being replaced. Examples might be privately funded commercial buildings or community constructed recreational assets where at least a portion of renewal would be anticipated to be third party funded. For Wollongong itself, a significant new greenfield development identified in regional strategies is taking place at West Dapto. Council plans to construct in excess of \$500M in new infrastructure as part of this development over the next 40 years. This measure will therefore be skewed by this new development where it is necessary to provide new infrastructure to service the new community, as well as focus on renewal in our established communities.

**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?***

Council did not re-engage its community specifically for FFTF as Council had recently undertaken significant community engagement as part of its “*Securing our Future*” sustainability review. I can recommend, however that the deliberative approach that was employed by Council to engage with the community ensured significant community debate, and enabled positive analysis and discussion around service levels.

**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?***

Council acknowledges the links made by IPART to the NSW Integrated Planning and Reporting Framework and supports this approach, given there is little reference to IPR provided in the OLG templates.

There does however need to be more detail on how the Improvement Plans will be monitored (i.e. implementation reported on, performance measured and outcomes achieved) and drive improved sustainability into the future. Whilst this is outside of IPART's brief, it may be an opportunity for IPART to recommend to OLG in its final report that Improvement Plans are integrated into Council Delivery Programs and Operational Plans, rather than as additional plans to report on. The Fit for the Future Benchmarks – once the limitations have been improved - have the potential to be included in Council Annual Reports (recognising Special Schedule 7 will become auditable), and are encouraged to be used as a planning tool for Delivery Program reviews.

**6 Other comments**

Fit for the Future is a positive move in the right direction for encouraging Councils to focus on their financial and asset sustainability in a strategic way. However, the program indicates that a fit council is only financially and asset capable, rather than responding to those other issues raised by the Independent Local Government Review Panel, that having sound leadership, being environmentally responsible and socially resilient.

Lastly, we request that IPART suggest to OLG that the format for submitting the Fit for the Future proposals are publicised as soon as possible so formatting processes and administration can be implemented.

Please contact Kerry Hunt, Executive Manager Strategy on [REDACTED] should you require further information.

Yours sincerely

A black rectangular redaction box covering the signature of David Farmer.

**David Farmer**  
**General Manager**  
Wollongong City Council