

# Methodology for Assessment of Council Fit for the Future Proposals

## Public Forum Presentation

IPART

11 May 2015

# Session 1 – Assessment methodology

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## **Assessment timeframe and Scale and Capacity criterion**

# Timeframe

## **FFTF reforms announced**

- Sept 2014 to early 2015 – development of FFTF framework

## **Establishment of assessment methodology**

- 27 April 2015 – Release of assessment methodology
- May 2015 - Consultation on IPART proposed methodology for assessment
- June 2015 – Release of final assessment methodology

# Timeframe contd....

## Assessment Phase

- 30 June 2015 – Proposals due
- 31 July 2015 – Close of public submissions on council proposals
- October 2015 – Release decisions to Minister

# Consultation on IPART proposed methodology for assessment

## Scale and capacity established as threshold

- ▼ Council first assesses scale and capacity against ILGRP recommendation
- ▼ Proposal based on whether it currently has or will have sufficient scale and capacity with proposed approach
- ▼ 3 types of proposals
  - No change – council improvement proposal
  - Structural change – merger proposal **OR**
  - Rural characteristics – rural council proposal

# Assessment approach - ratings

**Council submits proposal**

**Council does not submit proposal**

**Fit**

Satisfies scale and capacity and 3 other criteria

**Not Fit**

Does not satisfy scale and capacity

**Not Fit**

Satisfies scale and capacity but not other criteria

**Deemed Not Fit**

**No rating**

Far West councils only

# Key elements of strategic capacity - ILGRP definition

## Key elements of strategic capacity

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and Federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

# Proposal satisfies scale and capacity if....

- Adopts ILGRP preferred option for scale and capacity
- Alternatively, ***broadly consistent*** with objectives, eg,

No change	Merger	Rural
Presents sound argument why no structural change is superior to ILGRP merger	Proposes merger with fewer/ different councils to ILGRP (eg 2, 3 not 4)	Satisfies Rural Council characteristics (OLG)
Proposal is indicative of features of strategic capacity	Sound argument how proposal consistent with ILGRP objectives for merger	Proposal demonstrates merger option considered but found not feasible
		Demonstrates strategies planned for real change indicative of strategic capacity



# How should the key elements of strategic capacity influence the assessment ?

We will consider if **council improvement** and **merger proposals** demonstrate key elements, eg:

- ▼ Appropriate minimum population size
- ▼ Target number of councils in metropolitan/regional areas
- ▼ **Plan** to achieve other key elements, eg, :
  - effective regional collaboration
  - employ wider range of skilled staff
  - credibility for more effective advocacy.

# Does the proposal address regional/state-wide objectives?

**For example, for metropolitan councils, ILGRP identified the following types of objectives:**

- ▼ More capacity to better represent and serve local communities on metropolitan issues - true partners of State and Federal agencies
- ▼ More equitable pattern of local government across the area, accounting for planned development
- ▼ LGAs underpin Sydney's status as a global city
- ▼ Support implementation of Metropolitan Strategy eg, planning/development of major centres and preparation and implementation of sub-regional Delivery Plans.

# Does the proposal address regional/state-wide objectives?

## **Examples of objectives ILGRP identified for regional and rural councils:**

- ▼ Ensure local government remains in place, is 'fit for purpose', maintains maximum possible community life and identity
- ▼ Where possible, create regional centre with scale and capacity to anchor a Joint Organisation
- ▼ Ensure close functional inter-relationships between regional centre and adjoining council areas
- ▼ Address 'councils at risk' through mergers with adjoining areas.

# Rural council characteristics – which are most relevant?

## Rural council characteristics

1. Small and static or declining population spread over a large area
2. Local economies that are based on agricultural or resource industries
3. High operating costs, dispersed population, limited opportunities for ROI
4. High importance local identity, social capital, capacity for service delivery
5. Low rate base and high grant reliance
6. Difficulty attracting/retaining skilled, experienced staff
7. Challenges in financial sustainability, provision of services/infrastructure
8. Long distance to major (or sub) regional centre
9. Limited options for mergers

# Assessing rural council proposals

- ▼ Must satisfy main rural council characteristics
- ▼ Alternative to merger, only if merger not feasible
- ▼ Lower cost (reduced regulatory/compliance burden) with regional Joint Organisation undertaking selected regional functions
- ▼ Eg Group C councils – if merger ruled out  
or Group B councils – if merger ruled out
- ▼ Demonstrates plan to enhance capacity and performance to more sustainable level.

# Discussion points

- ▼ How should the key elements of strategic capacity influence assessment of scale and capacity?
- ▼ 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?

# Session 2: Assessment methodology

## **Other criteria**

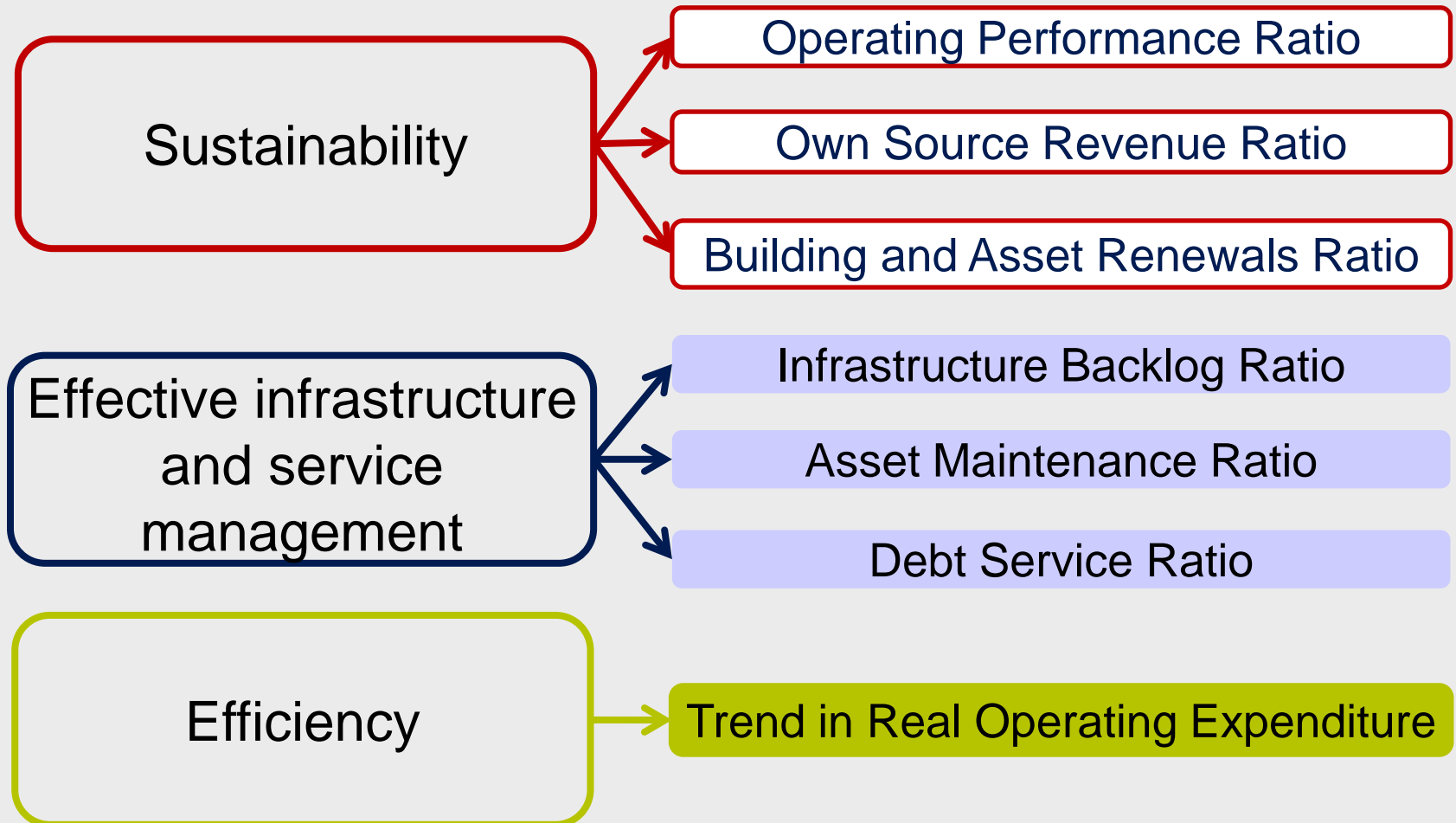
**Sustainability**

**Effective infrastructure and service management**

**Efficiency**

**and other considerations in the  
assessment**

## 4. What are the other criteria?





# How will we assess sustainability?

**Operating performance:** meeting ongoing operating expenditure requirements

$$\frac{\text{Net continuing operating result (excl capital grants and contributions)}}{\text{Total continuing operating revenue (excl capital grants and contributions)}}$$

**Own source revenue:** controlling own operating performance and sustainability

$$\frac{\text{Total continuing operating revenue (excl all grants and contributions)}}{\text{Total continuing operating revenue (incl capital grants and contributions)}}$$

**Building and asset renewals:** preventing asset deterioration and controlling asset backlog

$$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$$

# How will we assess sustainability?

<b>Performance measure</b>	<b>Benchmark</b>	<b>All councils (except rural councils)</b>	<b>Rural council (option)</b>	<b>Merger case</b>
Operating Performance Ratio	>= break even average over 3 years	Must meet within 5 years	Plan to meet within 10 years	Must meet within 5 years for non-rural councils Plan to meet within 10 years for rural councils
Own Source Revenue Ratio	> 60% average over 3 years	Must meet within 5 years	Plan to improve within 5 years & consideration of FAGs	Must meet within 5 years for non-rural councils Plan to improve within 5 years & consideration of FAGs for rural councils
Building & Infrastructure Asset Renewal Ratio	>100% average over 3 years	Meet or improve within 5 years	Meet or improve within 5 years	Meet or improve within 5 years

# How will we assess effective infrastructure and service management?

**Infrastructure backlog:** managing backlogs and providing sustainable levels of service

$$\frac{\text{Estimated cost to bring assets to satisfactory condition}}{\text{Total write-down value of infrastructure, buildings, other structures, depreciable land and improvement assets}}$$

Total write-down value of infrastructure, buildings, other structures, depreciable land and improvement assets

**Asset maintenance:** spending enough to avoid increasing backlog

$$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$$

**Debt service:** using debt wisely to spread costs across time

$$\frac{\text{Cost of debt service (interest expense and principal repayments)}}{\text{Total continuing operating revenue (excl capital grants and contributions)}}$$

# How will we assess effective infrastructure and service management?

<b>Performance measure</b>	<b>Benchmark</b>	<b>All councils (except rural councils)</b>	<b>Rural council (option)</b>	<b>Merger case</b>
Infrastructure Backlog Ratio	< 2%	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years
Asset Maintenance Ratio	> 100% average over 3 years	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years	Meet or improve/inform within 5 years
Debt Service Ratio	0 to 20% average over 3 years	Meet within 5 years	Meet within 5 years	Meet within 5 years

# How will we assess efficiency?

**Real operating expenditure:** utilising economies of scale and managing service levels to achieve efficiencies

$$\frac{\text{Real operating expenditure}}{\text{Population}}$$

<b>Benchmark</b>	<b>All councils (except rural councils)</b>	<b>Rural council (option)</b>	<b>Merger case</b>
A decrease in Real Operating Expenditure per capita over time	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	Demonstrate operational savings (net of IPR supported service improvements) over 5 years but may not be practical in short term

# What sort of information do we require for our assessment?

## ▼ **Examples of supporting information**

- ▼ Council proposals based on OLG templates
- ▼ NSW TCorp's Financial Sustainability assessments
- ▼ Aspects of Integrated Planning & Reporting framework plans
- ▼ IPART's Special Rate Variation assessments
- ▼ Any other information we gather and consider relevant.

## ▼ **Robustness of supporting information**

- ▼ Past data and forecast data
- ▼ Assumptions should be robust and consistent
- ▼ Analysis of ILGRP *preferred option* should be rigorous
- ▼ Explanation of one-off performance issues.

# Other considerations and reporting requirements

## ▼ Other considerations

- ▼ **Social and community context** - eg, impact of its proposal on its residents' communities and local representation?
- ▼ **Council consultation on FFTF proposals** - met the OLG requirements in making the proposal? Proposed option presented in a balanced manner and adequately captured community feedback?
- ▼ **Water utility performance** - is the General Fund affected by the water utility business?

## ▼ Reporting requirements

- ▼ We propose councils would report their performance in their Annual Reports, which will be assessed by the Audit Office.

# Discussion Points

- ▼ Any improvements to how we propose to assess sustainability, infrastructure/service management and efficiency, consistent with OLG guidance?
- ▼ Any issues we need to consider when using the measures and benchmarks for these criteria?
- ▼ How should councils engage with their communities when preparing FFTF proposals?
- ▼ Any other factors to consider to inform our assessment of council consultation?
- ▼ Should council performance against FFTF proposals be monitored?
  - If so, any improvements we can make about how councils can monitor and report progress?