



THE LORD MAYOR OF SYDNEY
CLOVER MOORE

17 SEP 2015

John Miller
Principal Council Officer
Legislative Council of NSW

By email gpscno6@parliament.nsw.gov.au

Dear Mr Miller

Post-hearing responses - Legislative Council Inquiry into Local Government

I refer to your email requesting responses to the questions taken on notice by the City of Sydney at the public hearing held by General Purpose Standing Committee No. 6 on 24 August 2015 as part of its inquiry into Local government in New South Wales

I enclose responses to the questions on City of Sydney boundary changes and approaches to depreciation.

Yours sincerely

A handwritten signature in black ink that reads 'Clover Moore'.

Clover Moore
Lord Mayor of Sydney

Encl.

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DEPRECIATION

CHAIR: I do have one question that I would like you all to take on notice, given your extensive experience—that is, what is the way to deal with depreciation? Could you suggest to the inquiry how we could deal with that to get a benchmark that works for New South Wales, given all the other issues that you have to deal with? There must be an answer for standardising that a little better.

RESPONSE

Depreciation is an accounting term used to ascribe a value to the consumption of fixed assets utilised to deliver goods and services.

From an accounting perspective, a basic tenet is the “matching principle”, as an organisation can only determine the success of its financial operations if it matches the revenues earned in a period against the full cost of delivery. The full cost being all of the consumerable costs (including labour costs, inventory and material costs, production costs, service and distribution costs, marketing, administration and selling costs) and the utilisation value of plant, equipment, building, vehicles, etc, required to facilitate sale and delivery of the relevant goods and services.

While theoretically sound, the reality is that depreciation is in fact an arbitrary allocation exercise largely based on historical costs (with some adjustment for periodic revaluation) and generally assumes a consistent pattern of usage over the years of deemed “useful life”, for each major classification of assets.

From a practical sense it is impractical to annually revalue each asset, within an asset type, and that it is not possible to determine the consumption of each individual asset in use during any given financial year. It is therefore an accounting nicety to approximate some consumption value during the period in question so it is at least considered in any evaluation of operating financial performance.

While it would appear desirable to harmonise each council's depreciation rates (e.g. roads, paths, parks, vehicles, etc.) to allow meaningful benchmarking of each council's financial performance and position, this is not really possible across the State. The environmental factors vary too wildly in different areas, and communities may well desire different service level standards which they may well be willing to pay for

The depreciation quandary has gained much significance over the years from an engineering perspective, as it has become a quantifiable means of promoting the debate for greater renewal, upgrade and in the shorter term the maintenance budget required to fund an asset at its desired service level. To this end it is worthwhile noting that a number of the financial performance measures included within the Fit for the Future model come out of the Institute of Public Works Engineering Australia (IPWEA).

The City's preferred view is to utilise the Integrated Planning & Reporting (IPR) legislative framework introduced by the State in 2009, and lauded by the Independent

Local Government Review Panel (ILGRP), as a sound method for measuring asset management performance against agreed service levels with each local community.

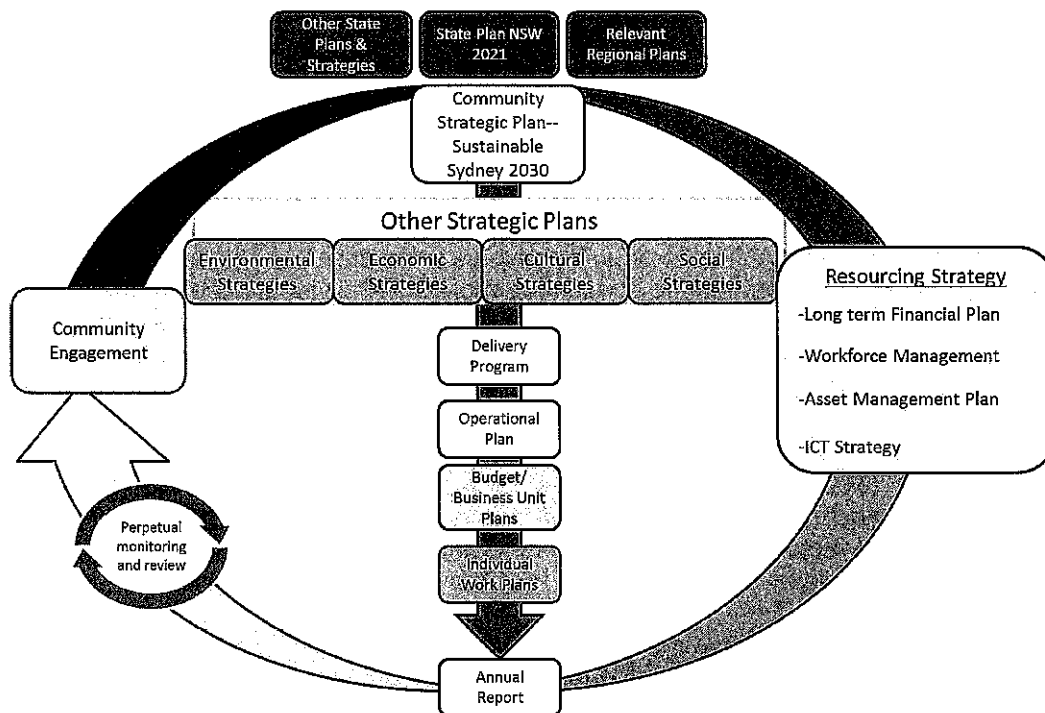
IP&R introduces a strategic and operational level of planning, that accepts key planning outcomes as dictated by the State Government and other Regional goals, and then engages with its local government community (business, residential, workers and visitors) to determine a Community Strategic Plan (in our case Sustainable Sydney 2030) which will achieve or advance these goals.

These plans are then cascaded down through the City's environmental, economic, cultural and social strategies to form a 4 year Delivery Program and a 1 year Operational Plan which set out the council's outcomes, goals, targets and measures to progress community interests.

Of interest is that each of these strategic and operational plans, are integrated with one another and underpinned by a 1-10 year resourcing strategy which includes long term financial planning, asset management plans, workforce management plans and in our case an ICT strategy.

NSW Treasury Corporations definition of Financial Sustainability for councils

"A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community." (TCorp 2013 Report, page 5)



Council's asset management plans are the appropriate source to consider the breadth and conditional quality of our assets, as they are much better integrated into our operations and long term financial plans, and significantly more useful for asset planning than an arbitrary depreciation schedule. The plans provide condition assessments of all key asset classes, identify assets which require a particular focus, and

allow for the ebbs and flows of operations to ensure that our asset upgrade, renewal and maintenance programs are fully funded and appropriate for the particular time frame.

The asset management plans have a 10 year timeframe, so they allow council to be flexible and inform its community that it is deliberately focussing its attention and funding towards its greatest priorities. For instance, the City has a 3-4 year focus where significant funding needs to be directed towards contributing to the State Government's light rail project and forward funding the delivery of major infrastructure in Green Square to support delivery of this major urban renewal program.

The IPR process allows us to engage with our community to ensure that they understand while this is a key focus, we will still ensure that all assets remain at an appropriate standard and remain safe for operational and community use, over the longer term.

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CHANGES TO CITY OF SYDNEY BOUNDARIES

The Hon. PETER PRIMROSE: My first question is to the Lord Mayor and Ms Barone. One of the most bizarre arguments in this whole process is having councils come to a committee of a Parliament that was set-up in 1842 and whose boundaries were established by the Colonial Secretary arguing that one of the reasons boundaries have to change for councils is that they were established in the nineteenth century. Do the City of Sydney boundaries reflect the nineteenth century decisions of the Colonial Secretary or have they been changed relatively recently?

RESPONSE

Since 1842, the City of Sydney has had nine sets of boundaries as follows:

1842

City of Sydney established and incorporated by a Bill introduced into the Legislative Council by Governor Gipps.

The Sydney Police District boundaries, established in 1833, provided the first boundaries for the City of Sydney. These boundaries incorporated Pyrmont, Ultimo, the central areas of Haymarket, The Rocks, Millers and Dawes Points, Woolloomooloo, Potts Point, Elizabeth Bay, Darlinghurst, Surry Hills and Chippendale.

1870

Sydney Common included in City of Sydney under the name Moore Park.

1908

Municipality of Camperdown included in City of Sydney.

1948

The City of Sydney expanded by the State Labor Government with the inclusion of the municipalities of Alexandria, Darlington, Erskineville, Glebe, Newtown, Paddington, Redfern and Waterloo.

1968

The City of Sydney reduced following the 1967 sacking of Sydney City Council by the State Liberal Government with:

- Paddington north of Oxford Street transferred to the Municipality of Woollahra;
- Glebe transferred to the Municipality of Leichhardt;
- Part of Newtown (west of King Street) transferred to the Municipality of Marrickville
- Part of Camperdown/Newtown (north of King Street and west of Church and Mallett Streets) transferred to the Municipality of Marrickville.

- A new municipality created which comprised the areas south of Cleveland Street (Alexandria, Darlington, Erskineville, Redfern, Waterloo and the remaining part of Newtown).

This new municipality was initially named Northcott, later changed to South Sydney.

1982

City of Sydney and South Sydney Councils amalgamated by the Wran Labor Government.

1988

Following the sacking of Sydney City Council by the Unsworth Labor Government in March 1987, Greiner Liberal Government shrinks City of Sydney. The new council covers the city centre, Haymarket, The Rocks, Millers and Dawes Points, Pyrmont and Ultimo. The eastern boundary of the Council encroached upon the edges of Surry Hills, Darlinghurst and Potts Point.

The remaining area was constituted as South Sydney Council.

2003

Glebe, Forest Lodge (from Leichhardt Council) and the area largely north of Oxford Street (from South Sydney Council) incorporated into the City of Sydney by the Carr Labor Government.

2004

City of Sydney and remaining areas of South Sydney Councils amalgamated following the sacking of both Councils by the Carr Labor Government.