

INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Organisation: Willoughby City Council

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2 July 2015

Ms Madeleine Foley
The Director
General Purpose Standing Committee No 6
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Ms Foley

RE: INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES

Thank you for the opportunity to make a submission to the Inquiry into Local Government in New South Wales.

This submission is focussed in the main on addressing the following areas of the *Terms of Reference*: the role of the Independent Pricing & Regulatory Tribunal (IPART); the scale of local councils in New South Wales; the performance criteria and associated benchmark values; the appropriateness of the deadline for proposals; costs and benefits of amalgamations for local residents and businesses together with potential impacts of forced mergers.

Council previously responded to an invitation from IPART in May 2015 to comment on its proposed "*Methodology for Assessment of Council Fit for the Future Proposals*" and much of the information included within this submission is based on that response.

Council supported:

- 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.

It expressed 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 assessed. However the Report itself did not provide any evidence which established that benchmark.
- The use of potentially inaccurate and inconsistent data across councils.
- Scale criteria should not be measured by minimum population size (and whilst the final methodology released by IPART was silent in this regard it was clear from the *ILGRP Report* that a 250,000 population was the yardstick). A measure based upon residential populations alone ignores the significant contribution of vibrant CBD's and industrial areas to a council's scale and capacity.

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Similarly, a target number of councils in metropolitan Sydney should also not be used, as evidence to support both of these measures has not been provided through the *Fit for the Future* process.

- The tight timelines have not been conducive to discussions with merger partners.
- No value has been placed within the methodology on a council's total cash, cash equivalents and investments and their ability to assist in providing infrastructure funding and to address community needs.
- Industry evidence suggests that scale does not translate to achieving benchmark performance.
- Three of the indicators contain data that is not currently audited; one sustainability indicator and two effective infrastructure and service management indicators and therefore their use could lead to doubts as to information accuracy and consistency across councils.

Other points of commentary:

- Council's *Fit for the Future* submission references independent analysis provided by Morrison Low consultants on a variety of potential impacts of amalgamations. They include the costs and benefits for local residents and businesses; evidence of the impact of forced mergers on council rates; local infrastructure investment and maintenance and municipal employment together with the likely costs and benefits of amalgamations for local communities.
- Council is an active member of the Northern Sydney Region of Councils (NSROC), of the combined NSROC/SHOROC Group of Mayors and the Sydney Metropolitan Mayors' group and can see great potential for a Joint Organisation (JO) with significant delegation to establish and deliver regional strategic priorities if they do not duplicate work already occurring through sub-regional land use planning and NSROC. However, JO's were not to be entertained for Metropolitan Councils as part of the current *Fit for the Future* process.

The following commentary highlights specific concerns surrounding use of Asset Ratios and Benchmarks to gauge a council's "fitness".

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 neighbouring councils.
- Consumption based depreciation versus straight line depreciation affects the ratio. Willoughby City Council uses consumption based which can result in a higher depreciation expense.
- The use of annual, versus three to five year cycle, valuations impact depreciation.
- Asset renewal expenditure can vary significantly from year to year and an average over a longer period than three years would be more meaningful.

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Infrastructure Backlog Ratio:

- Asset data reliability issues may arise as Special Schedule 7 is not audited and it is understood that the Office of Local Government plans to refine this schedule for 2016/2017 and hold information sessions later this calendar year. Therefore how much credence can be given to its adequacy in reporting is brought into question.
- Lack of comparability between councils occurs due to the high degree of subjectivity and inconsistent approaches in quantifying infrastructure backlog.
- There is debate about the denominator being the written down value (WDV) rather than replacement cost. In fact the particular schedule and associated indicator within Council's 2013/2014 annual accounts reflects the replacement cost with that action taken with the agreement of its external auditor. The use of WDV results in an inflated ratio as the value of assets at condition 5 is zero.
- Measures of what constitutes satisfactory asset condition vary from council to council. Willoughby City Council 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 for fifteen years which provides it with a genuine understanding of its asset base which may not be replicated by other councils, and therefore makes comparisons between councils less reliable.

Asset Maintenance Ratio

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

Should you require further information, my office can be contacted

Yours sincerely

Debra Just
GENERAL MANAGER