



Office of
Local Government

Office of Local Government

**IMPROVEMENT PROPOSAL
REASSESSMENT REPORT
ROUND 3**



JUNE 2018

ACCESS TO SERVICES

The Office of Local Government is located at:

5 O'Keefe Avenue
NOWRA NSW 2541

Locked Bag 3015
NOWRA NSW 2541

Phone 02 4428 4100
Fax 02 4428 4199
TTY 02 4428 4209

Email olg@olg.nsw.gov.au
Website www.olg.nsw.gov.au

OFFICE HOURS

Monday to Friday
9.00am to 5.00pm
(Special arrangements may be made if these hours are unsuitable)
The office is wheelchair accessible.

ALTERNATIVE MEDIA PUBLICATIONS

Special arrangements can be made for our publications to be provided in large print or an alternative media format. If you need this service, please contact Client Services on 02 4428 4100.

DISCLAIMER

While every effort has been made to ensure the accuracy of the information in this publication, the Office of Local Government expressly disclaims any liability to any person in respect of anything done or not done as a result of the contents of the publication or the data provided.

© NSW Office of Local Government 2017
ISBN 978-1-922001-74-0

Produced by the Office of Local Government



www.olg.nsw.gov.au

TABLE OF CONTENTS

Contents

Introduction.....	4
Key findings	4
Table of reassessment results	5
The reassessment criteria and benchmarks	5
The reassessment process.....	6
Improvements proposed by councils	6
Ongoing monitoring of councils	6
Annexure A – Assessment Summaries by Council	8
Annexure B – Criteria and Benchmarks	10

Introduction

The NSW Government remains committed to programs that strengthen the system of local government across the State. These programs aim to ensure that councils are able to deliver the quality services and infrastructure that NSW communities deserve.

The NSW Government appointed the Independent Pricing and Regulatory Tribunal (IPART) to undertake an assessment of council improvement plans. In its October 2015 report, IPART assessed 87 of the 130 proposals it received as not meeting the Government's key financial criteria.

In 2016 the Office of Local Government (OLG) provided those councils that did not satisfy the financial criteria in the original IPART assessment, and that were not subject to a merger proposal, to submit their improvement proposals to the OLG for reassessment.

In December 2016, the OLG released its report detailing the reassessment process and results. Broadly, this report notes that 9 of the 13 councils that submitted revised improvement proposals to the OLG satisfied the NSW Government's financial criteria.

The OLG Round 2 Reassessment Report, released in August 2017, found that the three councils that submitted revised improvement plans to the OLG had also satisfied the NSW Government's financial sustainability criteria. A copy of the Round 1 and Round 2 reports are available on the OLG's website at www.olg.nsw.gov.au.

In November 2017, the OLG released its *Financial Criteria Reassessment Round 3 Guidelines*, inviting a third group of councils to revise their improvement plans and resubmit their proposals to the OLG for reassessment.

This report details the reassessment process and results.

Key findings

Three councils were invited to submit revised improvement plans for reassessment in this third round process. One council, Dungog Shire Council, successfully sought approval from the OLG for an extension of time to submit its proposal in July 2018.

OLG assessed the two remaining proposals against the sustainability, infrastructure and services, and efficiency benchmarks. As a result, OLG assessed Clarence Valley Council and Shellharbour City Council as meeting the key financial benchmarks, with:

- Both councils satisfying the sustainability criteria in the OLG reassessment;
- Clarence Valley Council satisfied the infrastructure and service management criteria in the OLG reassessment. Shellharbour City Council had met the infrastructure and service management criteria in the original IPART assessment and was not required to be reassessed against this criteria; and
- Both Councils, the subject of this report, had previously met the efficiency criterion and were not reassessed against it in the OLG reassessment.

It is intended that, once submitted and the OLG reassessment has been completed, the results of Dungog Shire Council's reassessment will be issued as an addendum to this report.

Table of reassessment results

The following table summarises the reassessment results

Council	Reassessment Result	Sustainability	Infrastructure & service management	Efficiency
Clarence Valley	Satisfied	✓	✓	N/A
Dungog Shire	To be determined	-	-	-
Shellharbour City	Satisfied	✓	N/A	N/A

N/A – criteria satisfied in IPART assessment.

Councils were only required to submit to OLG for reassessment, those benchmarks that were not previously met in the original IPART assessment.

Clarence Valley Council's and Shellharbour City Council's assessment summary (Annexure A) is attached to this report.

The two councils assessed as meeting the financial sustainability criteria will have access to Treasury Corporation (TCorp) borrowing facilities, subject to TCorp's credit criteria.

The reassessment criteria and benchmarks

OLG assessed the proposals using the same financial criteria and benchmarks used in the IPART assessment process and in the OLG's Round 1 and Round 2 reassessment process (Annexure B). The criteria included financial sustainability, infrastructure and service management and efficiency benchmarks.

The sustainability criteria measures a council's achievements in containing operating expenditure within operating income, and whether the council will generate sufficient funds over the long term to provide the agreed level of services and infrastructure for its communities. The sustainability measures include the operating performance ratio, the own source revenue ratio and the building and infrastructure renewal ratio.

The OLG considered a council's operating performance ratio as a key measure of financial sustainability and therefore a benchmark that all councils should meet. This approach is consistent with the approach taken by IPART and by the OLG in the Round 1 and Round 2 reassessment process.

The infrastructure and service management criteria reflects whether a council is sufficiently investing in the maintenance of its infrastructure assets. The infrastructure and service management measures include the infrastructure backlog ratio, the asset maintenance ratio and the debt service ratio.

The efficiency criterion reflects a council's ability to deliver value for money infrastructure and services and is measured by the real operating expenditure ratio.

All three OLG reassessment rounds were based on actual or forecast figures for each year, recorded from the General Fund results only.

The reassessment process

Clarence Valley Council, Dungog Shire Council and Shellharbour City Council were provided with the *Financial Criteria Reassessment – Round 3 Guidelines* and an OLG Reassessment Template outlining the reassessment process and submission requirements.

In February 2018, the participating councils were offered the opportunity to attend individual pre-assessment meetings. The meetings enabled the councils to highlight key strategies, assumptions and issues, and to ask questions or to clarify the requirements of the templates and the reassessment process.

The reassessment process required the councils' to demonstrate that they met the benchmarks or demonstrated improvement towards meeting the benchmarks within 5 years (by 2021-22) while councils in Groups 8-11 were required to meet the benchmark within 10 years (by 2026-27).

The OLG Groups are based on the Australian Classification of Local Governments (ACLG) and are determined according to council's socio-economic characteristics and its capacity to deliver a range of services to the community.

Both Clarence Valley Council and Shellharbour City Council were required to meet the benchmarks by 2021-22.

OLG consistently assessed the proposals using the defined criteria and benchmarks. The reassessment process was largely dependent on the information provided within the councils' proposals, along with an examination of each councils' long term financial plan.

Improvements proposed by councils

Examples of strategies documented by the councils in the Round 3 Reassessment process, to support and improve financial sustainability over the long term included:

- Identifying opportunities to maximise or raise additional income;
- Improving financial sustainability and procurement frameworks to increase accountability and efficiencies;
- Reviewing organisational structures to ensure all positions are value adding;
- Rationalisation of surplus assets and improving asset management planning; and
- Increasing income through Special Rate Variations.

Ongoing monitoring of councils

The outcomes of the OLG's Round 3 reassessment process, combined with the outcomes of both the Round 1 and Round 2 processes, indicate ongoing improvement in the financial sustainability and performance of NSW councils.

The OLG will continue its role of monitoring and assessing the performance of all NSW councils' to ensure they continue to meet long term strategies and identified benchmarks, and deliver the improvements they have committed to.

In December 2016, OLG issued Circular No 16-49 advising that, as councils undertake the next cycle of the Integrated Planning and Reporting framework, the strategies and

actions identified in councils' improvement plans are reflected in their Delivery Programs and Resourcing Strategies.

The Circular also reminded councils that the OLG will monitor councils' performance against the NSW Government's benchmarks over time. The OLG publishes these results in its annual Time Series Data on the OLG website at www.olg.nsw.gov.au.

Councils may be required to participate in improvement processes as a result of any issues or concerns identified through the OLG monitoring process.

Annexure A – Assessment Summaries by Council

CLARENCE VALLEY COUNCIL – SATISFIED CRITERIA

Reassessment Findings		OLG	IPART
Sustainability	Overall Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	Satisfied Satisfied Did not satisfy	Did not satisfy Did not satisfy Satisfied Did not satisfy
Infrastructure & service management	Overall Infrastructure Backlog Ratio (IBR) Asset Management Ratio (AMR) Debt Service Ratio (DSR)	Satisfied Satisfied Did not satisfy	Did not satisfy Did not satisfy Did not satisfy Satisfied
Efficiency	Real Opex		Satisfied

Reassessment Summary

Improvement Proposal Reassessment – SATISFIED CRITERIA

- Council satisfied the financial criteria overall as, on balance, it met the financial sustainability criteria.
- Council has implemented a number of strategies to address its sustainability following the initial IPART review.
- Council's Special Rate Variation (SRV), approved by IPART in May 2018, supports Council's ability to address its long term financial sustainability goals.
- Council met the criteria for Efficiency in the original IPART assessment and was not required to be reassessed against the benchmark.
- Council continues to focus on a range of strategies to improve its financial outlook. The strategies proposed appear to be realistic and sustainable.

Sustainability – Satisfied

- Council's OPR is forecast to be 0.9% in 2021-22 which meets the benchmark.
- Council met the OSR ratio in the original IPART assessment and is forecast to be 73% in 2021-22 which continues to meet the benchmark.
- Council's BIRR was 21.26% in 2016-17 and is forecast to be 87% in 2021-22. While this result does not meet the benchmark Council is showing a positive improvement each year to 2023/24 when the benchmark is achieved. Council's results against this benchmark will be monitored into the future.
- Within its 2016-17 Financial Statements, Council included expenditure related to work-in-progress (WIP) when calculating the BIRR ratio. WIP should not be included and has been removed from the calculation for reassessment purposes. This has not affected the reassessment outcome.

Infrastructure and service management – Satisfied

- Council's IBR is forecast to be 2.3% in 2021-22 which meets the benchmark.
- Council's AMR was 69% in 2016-17 and is forecast to be 57% in 2021-22 which does not meet the benchmark. Stable results are forecast until 2020-21 during the Council's focus on renewal of assets and backlog reduction. Improvements to the AMR are then forecast to 2026-27.
- Council's DSR is forecast to be 4% in 2021-22 which continues to meet the benchmark.

Water and/or Sewer

- Council states it currently achieves the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework and operates on a break-even basis.

SHELLHARBOUR CITY COUNCIL – SATISFIED CRITERIA

Reassessment Findings		OLG	IPART
Sustainability	Overall	Satisfied	Did not satisfy
	Operating Performance Ratio (OPR)	Satisfied	Did not satisfy
	Own Source Revenue Ratio (OSR)		Satisfied
Infrastructure & service management	Building and Infrastructure Asset Renewal Ratio (BIRR)	Satisfied	Did not satisfy
	Overall		Satisfied
	Infrastructure Backlog Ratio (IBR)		Satisfied
Efficiency	Asset Management Ratio (AMR)		Satisfied
	Debt Service Ratio (DSR)		Satisfied
	Real Opex		Satisfied

Reassessment Summary

Improvement Proposal Reassessment – SATISFIED CRITERIA

- Council satisfied the financial criteria overall, as Council meets the sustainability, infrastructure and service management and efficiency criteria.
- Council has implemented a number of strategies to address its sustainability following the initial IPART review.
- Council met the criteria for infrastructure and service management and efficiency in the original IPART assessment and was not required to be reassessed against those benchmarks.
- The strategies proposed by Council appear to be sustainable.

Sustainability – Satisfied

- Council's OPR was 9% in 2016-17 and is forecast to be 17.2% in 2021-22 which exceeds the benchmark.
- Council satisfied the OSR in the original IPART assessment.
- Council's BIRR was 71% in 2016-17 and is forecast to be 102% in 2021-22 which exceeds the benchmark.
- Within its 2016-17 Financial Statements, Council included expenditure related to work-in-progress (WIP) when calculating the BIRR ratio. WIP should not be included and has been removed from the calculation for reassessment purposes. This has not affected the reassessment outcome.

Infrastructure and Service Management – Satisfied

- Council satisfied the infrastructure and service management criteria overall in the original IPART assessment.

Efficiency – Satisfied

- Council satisfied the efficiency criterion in the original IPART assessment.

Water and/or Sewer

Council does not provide water or sewer functions.

Annexure B – Criteria and Benchmarks

Criteria	Definition	Benchmark	Requirements
Sustainability			
Operating Performance Ratio	$\frac{\text{Total continuing operating revenue}^1 \text{ (exc. capital grants and contributions) less operating expenses}}{\text{Total continuing operating revenue}^1 \text{ (exc. capital grants and contributions)}}$	Greater than or equal to break-even – actual/forecast year only	<p>Councils in OLG Groups 1-7 must meet the benchmark within 5 years.</p> <p>Councils in Groups 8-11 must meet the benchmark within 10 years.</p>
Own Source Revenue Ratio	$\frac{\text{Total continuing operating revenue}^1 \text{ less all grants and contributions}}{\text{Total continuing operating revenue}^1 \text{ (inclusive of capital grants and contributions)}}$	Greater than 60% - actual/forecast year only	<p>Councils in Groups 1-7 must meet the benchmark within 5 years.</p> <p>Councils in Groups 8-11 may include current Financial Assistance Grant contributions in their calculations. These councils must demonstrate improvement towards the benchmark within 5 years.</p>
Building and Infrastructure Renewal Ratio	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	Greater than 100% - actual forecast year only	All councils must meet the benchmark, or show improvement towards achieving it, within 5 years.
Infrastructure and Service Management			
Infrastructure Backlog Ratio	$\frac{\text{Estimated cost to bring assets to a satisfactory condition}}{\text{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$	Less than 2% - actual/forecast year only	All councils should meet the benchmark, or show improvement towards achieving it, within 5 years.
Asset Maintenance Ratio	$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$	Greater than 100% - actual/forecast year only	All councils must meet the benchmark, or show improvement towards achieving it, within 5 years.
			All councils must meet the benchmark within 5 years.

Debt Service Ratio	$\frac{\text{Cost of debt service (interest expense \& principal repayments)}}{\text{Total continuing operating revenue}^1 \text{ (exc. capital grants and contributions)}}$	Greater than 0% and less than or equal to 20% - actual/forecast year only	<p>Ratios in excess of 20% may be considered for councils that have responsibility for water and sewer, are subject to high population growth, or have other special circumstances, if appropriate explanatory material is provided.</p> <p>Ratios of 0% may also be considered where adequate explanatory material is provided.</p>
Efficiency			
Real Operating Expenditure	$\frac{\text{Operating expenditure}^1}{\text{Population}}$	A decrease in Real Operating Expenditure per capita over time	<p>Councils in Groups 1-7 should demonstrate savings over 5 years.</p> <p>For councils in Groups 8-11, savings over a longer timeframe may be considered with adequate explanation.</p>

Measures are based on General Fund data and do not include Water and Sewer Funds

¹ Exclude: fair value adjustments, reversal of revaluation decrements, net gain/loss on sale of assets and net share/loss of interests in joint ventures.