



Office of  
Local Government

Office of Local Government

# **FIT FOR THE FUTURE REASSESSMENT REPORT**



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## Summary

The NSW Government is committed to real and meaningful reform that will strengthen the system of local government across the State. The Fit for the Future (FFTF) program is a key reform measure 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 FFTF proposals. In IPART's October 2015 report, it assessed 87 of the 139 (63%) proposals it received as not being fit for the future.

Of the 87 proposals assessed as not fit, 18 were assessed as having sufficient scale and capacity, but did not meet the financial criteria.

In May 2016, the Office of Local Government (OLG) released the *Fit for the Future Financial Reassessment Guidelines* to those councils that did not satisfy the financial criteria in the original IPART assessment, and that were not subject to a merger proposal. The guidelines provided information to councils eligible for reassessment, including the criteria for reassessment and the associated timeframes. Fourteen councils fell into the criteria.

The OLG reassessment process provided an opportunity for those fourteen councils to revise their improvement plans, and to resubmit their FFTF proposals to OLG for reassessment.

This report details the reassessment process and results.

## Key findings

Thirteen councils submitted revised FFTF improvement plans to OLG for reassessment in July 2016.

The revised proposals were endorsed by way of Council Resolutions.

One council successfully sought approval from OLG to submit its FFTF proposal in a subsequent reassessment round.

OLG assessed the remaining proposals against the FFTF benchmarks, as well as council strategies and actions to improve financial performance, against the stated sustainability, infrastructure and services and efficiency criteria.

OLG assessed nine proposals as being fit for the future, which represents 69% of the proposals received. Of the proposals reassessed as fit:

- all satisfied the sustainability criteria in the OLG reassessment;
- two satisfied the infrastructure and service management criteria in the OLG reassessment (seven had met the infrastructure and service management criteria in the original IPART assessment and were not required to be reassessed against this criteria); and

- one satisfied the efficiency criterion in the OLG reassessment (eight satisfied the efficiency criterion in the original IPART assessment and were not required to be reassessed against this criteria).

OLG assessed four proposals as not fit for the future, which represents 31% of the proposals received. Of the proposals assessed as not fit:

- all did not satisfy the sustainability criteria in the OLG reassessment;
- one satisfied the infrastructure and service management criteria in the OLG reassessment (three had met the infrastructure and service management criteria in the original IPART assessment and was not required to be reassessed against this criteria); and
- one satisfied the efficiency criterion in the OLG reassessment (three satisfied the efficiency criterion in the original IPART assessment and were not required to be reassessed against this criteria).

A table of the assessment results (Annexure A), and an assessment summary (Annexure B) for each council is attached to this report.

The nine councils assessed as fit will have access to Treasury Corporation (TCorp) borrowing facilities, subject to TCorp's credit criteria.

## The reassessment approach

The councils eligible for reassessment were:

Bellingen Shire *	Blacktown City	Campbelltown City
Clarence Valley	Gwydir Shire *	Hay Shire *
Kempsey Shire	Lithgow City	Mid-Western Regional
Tenterfield Shire *	Tweed Shire	Warrumbungle Shire *
Weddin Shire *	Yass Valley *	

*Councils marked with an asterisk (\*) fall within OLG Groups 8-11. 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. It should be noted that the groupings are based on broad demographic variables, and there are often large differences between councils in the same group.*

All fourteen councils within the reassessment program participated in an OLG workshop on 7 June 2016, designed to support councils in developing revised proposals and provide an opportunity to share strategies and suggestions for achieving 'fitness'. Representatives from IPART, TCorp and the Institute of Public Works Engineering Australasia also presented at the workshop.

Subsequently, the *Fit for the Future Financial Reassessment Guidelines* and an OLG Reassessment Template were provided to councils outlining the reassessment process and submission requirements. Councils in OLG Groups 1-7 were required to meet the benchmark within 5 years (by 2020-21) while councils in Groups 8-11 were required to meet the benchmark within 10 years (by 2025-26).

A second round of the reassessment process will be held in late 2016 for those councils that did not meet the financial criteria and were under consideration for a merger, but the merger proposal did not proceed.

Clarence Valley Council successfully sought approval from OLG to submit Council's FFTF proposal in the second round reassessment process.

### **The reassessment criteria and benchmarks**

OLG assessed the proposals using the same financial criteria and benchmarks used in the IPART assessment process (Annexure C). 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 asset renewal ratio.

Like IPART, OLG considered a council's operating performance ratio as a key measure of financial sustainability, and therefore a benchmark that all FFTF councils should meet.

The infrastructure and service management criteria reflects whether a council's asset management practices ensure it 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 councils' ability to deliver value for money infrastructure and services and is measured by the real operating expenditure ratio.

It is important to note that councils were required to submit their ratios to IPART over a three year average, based on General Fund results. OLG identified that this resulted in mixed and inconsistent responses from councils to IPART. The OLG reassessments were based on actual or forecast figures for each year, recorded from the General Fund results only.

### **The reassessment process**

In July 2016, the participating councils were offered the opportunity to attend individual pre-assessment meetings. Eight of the thirteen councils met with representatives from the OLG's Performance Team, to individually discuss their FFTF reassessment proposal and the financial assumptions the council intended to include within its proposal. The meetings enabled councils to highlight key strategies and issues, and to ask questions or to clarify the requirements of the templates and the reassessment process.

Council proposals were required to be submitted to OLG by 29 July 2016.

OLG consistently assessed the council proposals using the defined criteria and benchmarks. Generally, councils were required to demonstrate that they met the benchmarks or demonstrated improvement towards meeting the benchmarks within the reporting period. Councils were also required to outline what measures had been implemented to achieve the benchmarks since the original IPART assessment.

The reassessments were largely dependent on the information provided within the councils' proposals, along with an examination of each council's long term financial plan and discussions with councils. To simplify the process, councils were only required to submit for reassessment, those benchmarks that were not previously met in the original IPART assessment.

A table of the assessment results (Annexure A), and an assessment summary (Annexure B) for each council is included within this report.

### **Improvements proposed by councils**

The councils' FTFF proposals documented a range of strategies to support and improve financial sustainability over the long term. Examples of these strategies included:

- constraining expenditure through revised and/or joint procurement strategies, expanding resource sharing initiatives, energy efficiency savings and reviewing plant and equipment requirements;
- increasing fees and charges, implementing levies and identifying new income streams;
- increasing income through Special Rate Variations (SRVs);
- a focus on asset management, which has resulted in councils investing funds into renewal and maintenance of existing assets, as well as rationalisation of surplus assets;
- improved information and a greater focus on asset management, reducing the estimated cost to bring council assets to a satisfactory standard and therefore reducing the infrastructure backlog ratio;
- working with communities to develop the agreed service levels required when determining local priorities and budgets.

## **Ongoing monitoring of councils**

This report shows an ongoing improvement in the financial sustainability and performance of councils.

Following the reassessment process, OLG will continue to monitor and assess the performance of all councils in NSW to ensure that they continue to meet long term strategies and identified benchmarks and deliver the improvements committed to in the FFTF process.

Issues identified through these processes may require councils to participate in the Financial Sustainability Program (FSP), or other OLG monitoring and improvement processes.

## Annexure A - Table of assessment results

Council	Reassessment Result	Sustainability	Infrastructure and service management	Efficiency
Bellingen Shire	Fit	✓	N/A	N/A
Blacktown City	Fit	✓	N/A	N/A
Campbelltown City	Fit	✓	N/A	N/A
Gwydir Shire	Not Fit	✗	N/A	N/A
Hay Shire	Fit	✓	N/A	N/A
Kempsey Shire	Not Fit	✗	✗	N/A
Lithgow City	Not Fit	✗	N/A	✓
Mid-Western Regional	Fit	✓	✓	N/A
Tenterfield Shire	Not Fit	✗	N/A	N/A
Tweed Shire	Fit	✓	✓	N/A
Warrumbungle Shire	Fit	✓	N/A	✓
Weddin Shire	Fit	✓	N/A	N/A
Yass Valley	Fit	✓	N/A	N/A

N/A – criteria satisfied in IPART assessment. Councils were only required to submit to OLG for reassessment, those benchmarks that IPART considered the council 'did not satisfy' the FFTF benchmarks

## Annexure B – Assessment Summaries by Council

### BELLINGEN SHIRE COUNCIL - FIT

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

#### Reassessment Summary

##### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as Council meets the sustainability benchmarks by 2025-26.
- 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 achievable.

##### Sustainability – Satisfied

- The OPR is forecast to be 1.1% in 2025-26 which meets the benchmark.
- Council met the OSR in the original IPART assessment, and was not required to provide forecasts for this assessment.
- Council did not meet the BIRR in the original IPART assessment, and is forecast to be 91% in 2025-26 which is close to the benchmark. Council's results against this benchmark will be monitored into the future.

##### Infrastructure and service management - Satisfied

- Council satisfied the infrastructure and service management criteria in the original IPART assessment, and was not required to be reassessed against those benchmarks.

##### Efficiency - Satisfied

- Council satisfied the efficiency criterion in the original IPART assessment, and was not required to be reassessed against this benchmark.

##### Water and/or Sewer

Council state that 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.

## BLACKTOWN CITY COUNCIL - FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- While Council forecast significant improvement in its sustainability ratios, they do not meet the benchmark for the own source revenue or the building and infrastructure asset renewal ratio by 2020-21.
- Council met the infrastructure and service management and efficiency criteria in the original IPART assessment, and was not required to be reassessed against those benchmarks.
- The Office of Local Government assessment of Council as fit for the future is conditional. OLG will continue to monitor and assess the performance of Council to ensure it continues to meet its long term strategies and identified benchmarks, and deliver the improvements Council committed to in its FTF proposal.

#### Sustainability – Satisfied

- Council's OPR is -4.9% in 2015-16 and forecast to be 2.5% in 2020-21, which meets the benchmark.
- Council forecast results for OSR is 56% in 2020-21 increasing to 76% in 2025-26. This is due to the extraordinary impact of non-cash revenue and section 94 contributions associated with the significant growth in LGA due to the North West Growth Sector (NWGS).
- Council's BIRR is 43% in 2015-16 and 78% in 2020-21 which does not meet the benchmark.
- While the BIRR is not met, the strategies implemented by Council demonstrate a trending improvement.

#### Infrastructure and service management - Satisfied

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

#### Efficiency - Satisfied

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

## CAMPBELLTOWN CITY COUNCIL- FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as the Council meets the sustainability criteria.
- Council has implemented a number of strategies which have increased revenue and reduced expenditure to achieve improvement.
- The strategies proposed by Council appear to be achievable.

#### Sustainability – Satisfied

- Council's OPR is 9.2% in 2015-16 and forecast to be 1.6% in 2020-21, which meets the benchmark.
- Council met the OSR ratio in the original IPART assessment and it is forecast to be 62% in 2020-21 which meets the benchmark.
- Council's BIRR is 110% in 2015-16 and forecast to be 103% in 2020-21 which meets the benchmark.

#### Infrastructure and service management - Satisfied

- Council satisfied the infrastructure and service management criteria in the original IPART assessment.
- Council has forecast the IBR ratio to be 2.2% in 2015-16 and 0.6% in 2020-21 which meets the benchmark.
- Council has forecast the AMR ratio to be 100% in 2015-16 and 100% in 2020-21 which meets the benchmark.
- Council has forecast the DSR to be 3.4% in 2015-16 and 1.8% in 2020-21 which meets the benchmark.

#### Efficiency - Satisfied

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

## GWYDIR SHIRE COUNCIL - NOT FIT

Reassessment Findings		OLG	IPART
<b>Sustainability</b>	<b>Overall</b> Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	<b>Does not satisfy</b> Does not satisfy Satisfied Does not satisfy	<b>Did not satisfy</b> Did not satisfy Not stated Did not satisfy
<b>Infrastructure &amp; service management</b>	<b>Overall</b> Infrastructure Backlog Ratio (IBR) Asset Maintenance Ratio (AMR) Debt Service Ratio (DSR)		<b>Satisfied</b> Did not satisfy Satisfied Satisfied
<b>Efficiency</b>	<b>Real Opex</b>		<b>Satisfied</b>

### Reassessment Summary

#### Fit for the Future Reassessment – NOT FIT

- It should be noted that Council was found 'Not Fit' for Scale and Capacity criteria by IPART.
- Council does not meet the sustainability criteria overall, as a result of the operating performance ratio results being optimistic.
- The identified assumptions and strategies do not appear sound in order for Council to achieve the desired results given historical performances.
- 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.

#### Sustainability – Does not satisfy

- Council reports it will meet the OPR benchmark from 2016-17 and will be 1.8% in 2025-26. These results appear to be optimistic as actual results for the past three years have been -29.24% in 2014-15, -56% in 2013-14 and -42% in 2012-13. The strategies outlined in Council's proposal are not convincing and do not align with the forecast results.
- Council forecasts a ratio of 61% for OSR excluding FAGs by 2026 which meets the benchmark.
- Council did not meet the BIRR in the original IPART assessment, and forecasts to be 108% in 2025-26 which meets the benchmark. This result is dependent on optimistic strategies.

#### Infrastructure and service management – Satisfied

- Council did not meet the IBR ratio in the original IPART assessment, but was deemed to meet the criteria overall. Council did not submit any additional information in relation to this criterion.

#### Efficiency – Satisfied

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

#### Water & Sewer

Council has water supply and sewerage business activities. It currently is not compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework.

## HAY SHIRE COUNCIL - FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as Council meets the sustainability benchmarks by 2025-26.
- 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.
- The strategies proposed by Council appear to be achievable.

#### Sustainability – Satisfied

- Council has forecast the OPR to be -3.8% in 2015-16 and 2.6% in 2025-26 which meets the benchmark.
- Council has forecast the OSR to increase from 39% in 2015-16 to 44% in 2025-26. Although just below the benchmark, the Council meets the requirement for it to demonstrate improvement by 2019-20. With FAGs, the ratio increases from 70% in 2015-16 to 78% by 2025-26.
- Council has forecast the BIRR to be 109% in 2015-16 and 103% in 2025-26 which meets the benchmark.

#### Infrastructure and service management – Satisfied

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

#### Efficiency - Satisfied

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

#### 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.

## KEMPSEY SHIRE COUNCIL – NOT FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – NOT FIT

- Council does not satisfy the financial criteria overall. While Council forecasts to meet the benchmarks, Councils operating performance ratio and infrastructure backlog ratio results appear to be optimistic.
- The identified assumptions and strategies do not appear sound in order for Council to achieve the desired results.
- Council met the criterion for efficiency in the original IPART assessment, and was not required to be reassessed against this benchmark.

#### Sustainability – Did not satisfy

- Council did not meet the OPR in the original IPART assessment, and is forecast to be 1.0% (General Fund) in 2020-21 which meets the benchmark. These results appear to be optimistic as actual results for the last three years have been -15.0% in 2014-15, -40.0% in 2013-14 and -35.5% in 2012-13 (Consolidated Fund).
- Council met the OSR in the original IPART assessment, and is forecast to be 74% in 2020-21 which meets the benchmark, however is reliant on council getting an additional SRV.
- Council did not meet the BIRR in the original IPART assessment, and is forecast to be 93% in 2020-21 which does not meet the benchmark, however Council projects to meet the benchmark by 2023-24. Council's results against this benchmark will be monitored into the future.

#### Infrastructure and service management – Did not satisfy

- Council did not meet the IBR in the original IPART assessment, and is forecast to be 1.3% in 2020-21 which meets the benchmark.
- Council did not meet the AMR in the original IPART assessment, and is forecast to be 100% in 2020-21 which meets the benchmark, however this is reliant on optimistic SRV funding.
- Council satisfied the DSR in the original IPART assessment, and is forecast to be 1.6% in 2020-21 which remains above the benchmark.

#### Efficiency - Satisfied

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

#### Water and/or Sewer

Council has water supply and sewerage business activities. It currently is 90% compliant with the NSW Government Best Practice Management of Water Supply and 100% with Sewerage Framework. Council states it is incorporating the outstanding items into its future water utility improvement program.

## LITHGOW CITY COUNCIL - NOT FIT

Reassessment Findings		OLG	IPART
<b>Sustainability</b>	<b>Overall</b> Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	<b>Did not satisfy</b> Did not satisfy Satisfied Satisfied	<b>Does not satisfy</b> Does not satisfy Not stated Does not satisfy
<b>Infrastructure &amp; service management</b>	<b>Overall</b> Infrastructure Backlog Ratio (IBR) Asset Maintenance Ratio (AMR) Debt Service Ratio (DSR)		<b>Satisfied</b> Satisfied Satisfied Satisfied
<b>Efficiency</b>	<b>Real Opex</b>	<b>Satisfied</b>	<b>Does not satisfy</b>

### Reassessment Summary

#### Fit for the Future Reassessment – NOT FIT

- Council does not satisfy the sustainability criteria overall. While Council forecasts to meet the benchmarks, it is important to note that Council's proposal has a heavy reliance on two proposed SRV's to meet the benchmarks.
- Council notes high level objectives to meet the benchmarks, but does not tie these objectives to specific strategies outside of legislative requirements.
- Council's proposal does not provide substantive evidence of strategies implemented since the initial IPART review to move the Council towards long term financial sustainability.
- Council met the criteria for infrastructure and service management in the original IPART assessment, and was not required to be reassessed against the benchmarks.

#### Sustainability – Did not satisfy

- Council has forecast the OPR to be -5.1% in 2015-16 and 1.9% in 2020-21 which meets the benchmark, however it is contingent on two proposed SRV's. Council's plans on the SRV are unclear.
- Council has forecast the OSR to be 66% in 2020-21 which satisfies the benchmark.
- Council has forecast the BIRR to be 89% in 2015-16 and 135% in 2020-21 which meets the benchmark, however this improvement in the ratio appears to be dependent on the successful application for additional SRV's and a reliance on additional grant funding. Council's results against this benchmark will be monitored into the future.

#### Infrastructure and service management – Satisfied

- Council satisfied the IBR benchmark in the original IPART submission, and is forecast to be 1.0% in 2020-21 which remains above the benchmark.
- Council satisfied the AMR benchmark in the original IPART submission, and is forecast to be 109% in 2020-21 which remains above the benchmark.
- Council satisfied the OSR benchmark in the original IPART submission, and is forecast to be 2.9% in 2020-21 which remains within the benchmark.

#### Efficiency – Satisfied

- Council's real operating expense shows a minor decline of \$0.04 per person over the reporting period, and therefore meets the benchmark.

#### Water and/or Sewer

Council has water supply and sewerage business activities. It is currently 90% compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework. Council states it manages its water supply and sewerage operations on a full cost recovery basis each year.

## MID-WESTERN REGIONAL COUNCIL - FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as Council meets the sustainability and infrastructure and service management benchmarks by 2025-26.
- Council has implemented a number of strategies to address its sustainability and infrastructure and service management following the initial IPART review.
- Council met the criteria for efficiency in the original IPART assessment, and was not required to be reassessed against that benchmark.
- The strategies proposed by Council appear to be achievable.

#### Sustainability – Satisfied

- Council has forecast the OPR to be -2.5% in 2015-16 and 2.5% in 2020-21 which meets the benchmark.
- Council met the OSR in the original IPART assessment and reports that the OSR is forecast to be 67% in 2020-21 which continues to meet the benchmark.
- Council met the BIRR in the original IPART assessment and reports that the BIRR is forecast to be 102% in 2020-21, which continues to meet the benchmark.

#### Infrastructure and service management – Satisfied

- Council has forecast the IBR to be 3.4% in 2015-16 and 1.2% in 2020-21 which meets the benchmark.
- Council has forecast the AMR to be 100% in 2015-16 and 102% in 2020-21 which meets the benchmark.
- Council met the DSR in the original IPART assessment and reports that the DSR is forecast to be 3% in 2020-21 which continues to meet the benchmark.

#### Efficiency - Satisfied

- Council satisfied the efficiency criterion in the original IPART assessment, and is forecast to continue to decrease real operating expenditure until 2020-21 which remains within the benchmark.

#### Water and/or Sewer

Council has water supply and sewerage business activities. Council report a water supply backlog of 3.5% and a sewer supply backlog of 15.7% and operates on a break-even basis.

## TENTERFIELD SHIRE COUNCIL - NOT FIT

Financial Reassessment Findings		OLG	IPART
<b>Sustainability</b>	<b>Overall</b> Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	<b>Does not satisfy</b> Does not satisfy  Satisfied	<b>Did not satisfy</b> Did not satisfy Satisfied Did not satisfy
<b>Infrastructure &amp; service management</b>	<b>Overall</b> Infrastructure Backlog Ratio (IBR) Asset Maintenance Ratio (AMR) Debt Service Ratio (DSR)		<b>Satisfied</b> Satisfied Satisfied Satisfied
<b>Efficiency</b>	<b>Real Opex</b>		<b>Satisfied</b>

### Reassessment Summary

#### Fit for the Future Reassessment – NOT FIT

- Council does not satisfy the sustainability criteria. While Council forecasts that it will meet the benchmarks, the assumptions identified in its proposal do not appear to be robust to ensure they are achievable in light of past performance.
- It appears Council has undertaken a review of its accounting strategies to become FFTF, rather than reviewing its long term financial sustainability measures to identify savings or revenue opportunities.
- Council's submission and additional information does not clearly articulate Council's financial sustainability plans.

#### Sustainability – does not satisfy

- Council did not meet the OPR in the original IPART assessment, and is forecast to be 1.7% in 2025-26 which meets the benchmark. The strategies that Council has identified to meet the OPR include reducing road maintenance expenses and reclassifying grants from capital to operating. Council has not provided values for these.
- Council stated that depreciation will be reduced by \$231K in 2015-16 as RFS assets have been removed. However Council also states that depreciation expense will increase by \$500K following a revaluation of its road network.
- Council states that the above strategies have alleviated the need for the SRV suggested in the original IPART proposal. The proposed SRV would have provided an accumulative increase of \$4.358M to 2025-26.
- Council has used the assumption that FAGs will increase by 2.5% p.a. for the life of the long term financial plan, and not remain constant as required in the guidelines to Council.
- If the RFS depreciation expense and the reduction of the FAGs are added back, it is unlikely that council will meet the OPR ratio.
- Council met the OSR ratio in the original IPART assessment and was not required to be reassessed on the criterion.
- Council forecasts its BIRR to be 101% in 2025-26 which meets the benchmark.

#### Infrastructure and service management

- Council satisfied the infrastructure and service management criterion in the original IPART assessment.
- Council has forecast the IBR ratio to be 7.3% in 2015-16 and 0.4% in 2020-21 which meets the benchmark.
- Council has forecast the AMR ratio to be 110% to 2025-26 which meets the benchmark.
- Council has forecast the DSR to be 3.9% in 2015-16 and 1.6% in 2020-21 which meets the benchmark.

#### Efficiency

- Council satisfied the efficiency criterion in the original IPART assessment.
- Council reports a decline in real operating expenditure from \$196 per person in 2015-16 to \$182 in 2025-26.

## TWEED SHIRE COUNCIL - FIT

Financial Reassessment Findings		OLG	IPART
<b>Sustainability</b>	<b>Overall</b> Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	<b>Satisfied</b> Satisfied  Satisfied	<b>Did not satisfy</b> Did not satisfy Satisfied Did not Satisfy
<b>Infrastructure &amp; service management</b>	<b>Overall</b> Infrastructure Backlog Ratio (IBR) Asset Maintenance Ratio (AMR) Debt Service Ratio (DSR)	<b>Satisfied</b> Did not satisfy Satisfied	<b>Did not satisfy</b> Did not satisfy Did not satisfy Satisfied
<b>Efficiency</b>	<b>Real Opex</b>		<b>Satisfied</b>

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as the Council meets the criteria for sustainability and infrastructure and service management.
- Council has implemented a number of strategies to address its sustainability and infrastructure and service management following the initial IPART assessment.
- Council met the criterion for efficiency in the original IPART assessment, and was not required to be reassessed against that benchmark.
- The Office of Local Government assessment of Council as fit for the future is conditional. OLG will continue to monitor and assess the performance of Council to ensure it continues to meet its long term strategies and identified benchmarks, and deliver the improvements Council committed to in its FFTF proposal.

#### Sustainability - Satisfied

- Council satisfies the criteria for sustainability based on meeting the benchmarks for the OPR and OSR by 2020-21 and the BIRR by 2023-24.
- Council has forecast the OPR to be 2% in 2020-21, which meets the benchmark.
- Council met the OSR in the original IPART assessment and is forecast to be 85% in 2021 which meets the benchmark.
- Council has forecast the BIRR to be 134% in 2015-16 and 94% in 2020-21, which is slightly below the benchmark (100%). However the ratio trajectory shows Council meeting the benchmark by 2023-24. Council's results against this benchmark will be monitored into the future.

#### Infrastructure and service management – Satisfied

- Council satisfies the criteria for infrastructure and service management based on meeting the benchmarks for the AMR and DSR.
- Council is considered sufficiently close to meeting the benchmark for IBR (benchmark <2%, Council 2.7%).
- Council has forecast the AMR to be 100% from 2015-16 to 2020-21 and beyond which meets the benchmark.
- Council satisfied the DSR in the original IPART assessment and has remained within the benchmark in the reassessment.

#### Efficiency - Satisfied

- Council satisfied the efficiency criterion in the original IPART assessment, and is forecast to continue to decrease real operating expenditure until 2020-21.

#### Water and/or Sewer

Council states that 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.

## WARRUMBUNGLE SHIRE COUNCIL - FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as Council meets the sustainability and efficiency benchmarks by 2025-26.
- Council has implemented a number of strategies to address its sustainability and efficiency following the initial IPART review.
- Council meet the criteria for infrastructure and service management in the original IPART assessment and was not required to be reassessed against the benchmark.
- The strategies proposed by Council appear to be achievable.

#### Sustainability – Satisfied

- Council's OPR is 1.8% in 2015-16 and forecast to be 3.4% in 2025-26 which meets the benchmark.
- Council met the OSR ratio in the original IPART assessment and is forecast to be 70% in 2025-26.
- Council met the BIRR ratio in the original IPART assessment and is forecast to be 105% in 2025-26.

#### Infrastructure and service management - Satisfied

- Council satisfied the infrastructure and service management criteria in the original IPART review.
- Council has forecast the IBR to be 2.3% in 2015-16 and 0.7% in 2025-26 which meets the benchmark.
- Council has forecast the AMR to be greater than 100% in 2015-16 and greater than 100% in 2025-26 which meets the benchmark.
- Council has forecast the DSR to be 4.6% in 2015-16 and 0% in 2025-26 which meets the benchmark.

#### Efficiency – Satisfied

- Council's real operating expense declines from \$327 per person in 2015-16 to \$318 in 2025-26, therefore meets the benchmark.

#### Water and/or Sewer

Council has water supply and sewerage business activities. It currently is 90% compliant with the NSW Government Best Practice Management of Water Supply and Sewerage Framework.

## WEDDIN SHIRE COUNCIL – FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as Council meets the criteria for sustainability.
- 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 achievable.

#### Sustainability – Satisfied

- Council satisfies the criteria for sustainability based on meeting the benchmarks for the operating performance ratio, own source revenue and the building and infrastructure ratios by 2020-21 and continuing to meet these benchmarks by 2025-26.
- Council has forecast the OPR to be -0.6% in 2015-16 and 5.3% in 2025-26 which meets the benchmark.
- Council's OSR, without the inclusion of Financial Assistance Grants, is 52% in 2015-16 and 61% in 2025-26 which meets the benchmark.
- Council met the BIRR ratio in the original IPART assessment and forecasts the ratio to be 116% in 2025-26 which continues to meet the benchmark.

#### Infrastructure and service management - Satisfied

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

#### Efficiency - Satisfied

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

#### Water/Sewer

Weddin Shire Council has not commented on its sewer business activity. Council's 2014-15 Financial Statements report no infrastructure backlog and an operating surplus of \$101K. Council does not operate a water business.

## YASS VALLEY COUNCIL - FIT

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

### Reassessment Summary

#### Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as Council meets the sustainability benchmarks by 2025-26.
- 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 achievable.

#### Sustainability – Satisfied

- Council has forecast the OPR to be -19.3% in 2015-16 and 1.5% in 2025-26 which meets the benchmark.
- Council met the OSR in the original IPART assessment, and reports that without the inclusion of Financial Assistance Grants, OSR is 71% in 2015-16 and 68% in 2025-26 which continues to meet the benchmark.
- Council has forecast the BIRR to be 75% in 2015-16 and 130% in 2025-26 which meets the benchmark.

#### Infrastructure and service management - Satisfied

- Council has forecast a reduction in its IBR from 2.3% in 2015-16 to 0% by 2019-20.
- Council has progressively lowered the IBR, and meets the benchmark as a result of reviewing asset management plans to comply with revised asset life assumptions and community level of service expectations.
- Council met the AMR benchmark in the original IPART assessment, and is forecast to be 102% in 2025-26 which remains above the benchmark.
- Council met the DSR in the original IPART assessment, and is forecast to be 0% in 2025-26 which remains within the benchmark.

#### Efficiency – Satisfied

- Council satisfied the efficiency criterion in the original IPART assessment, and is forecast to continue to decrease real operating expenditure until 2025-26 which remains within the benchmark.

#### Water and/or Sewer

The 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.

**Annexure C – Criteria and Benchmarks**

Criteria	Definition	Benchmark	Requirements
<b>Sustainability</b>			
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 Asset 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.
<b>Infrastructure and Service Management</b>			
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.
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	All councils must meet the benchmark within 5 years.  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.  Ratios of 0% may also be considered where adequate explanatory material is provided.
<b>Efficiency</b>			
Real Operating Expenditure	$\frac{\text{Operating expenditure}^1}{\text{Population}}$	A decrease in Real Operating Expenditure per capita over time	Councils in Groups 1-7 should demonstrate savings over 5 years.  For councils in Groups 8-11, savings over a longer timeframe may be considered with adequate explanation.

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

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