



Office of
Local Government

Office of Local Government

FIT FOR THE FUTURE REASSESSMENT REPORT – ROUND 2



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Summary

The NSW Government remains committed to programs 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 its October 2015 report, IPART 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) invited 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 revised improvement plans to the OLG. Fourteen councils fell into the criteria. The *FFTF Reassessment Report - December 2016* details the reassessment process and results.

In August 2016 the OLG released the *Fit for the Future Financial Reassessment Guidelines - Round 2*, inviting a second group of councils to revise their improvement plans and to resubmit their FFTF proposals to OLG for reassessment. The councils in this round did not satisfy the financial criteria in the original IPART assessment and were under consideration for merger, but the merger proposal did not proceed.

This report details the Round 2 reassessment process and results.

Key findings

Three councils submitted revised FFTF improvement plans to OLG for reassessment in November 2016, endorsed by way of council resolutions.

OLG assessed the proposals against the sustainability, infrastructure and service management and efficiency benchmarks.

Of these three proposals, OLG assessed Goulburn Mulwaree Council, Hawkesbury City Council and Kiama Municipal Council as being 'fit for the future'. The three reassessed proposals:

- satisfied the sustainability criteria in the OLG reassessment, by satisfying the operating performance ratio. Two satisfied the building and infrastructure asset renewal ratio. The third had met the ratio in the original IPART assessment and was not required to be reassessed against this criteria. All three met the own source revenue ratio in the original IPART assessment and were not required to be reassessed against this criteria;
- all three Councils 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 (the other two had satisfied the criterion in the original IPART assessment and was not required to be reassessed against this criterion).

Clarence Valley Council was originally included in the Round 1 reassessment process and successfully sought approval from OLG to submit its FFTF proposal in the Round 2 reassessment program.

However, Clarence Valley Council did not endorse an improvement plan for submission in the Round 2 reassessment process. As a result, Council remains 'not fit' based on the existing 2015 IPART determination.

A table of the reassessment results (Annexure A) and the assessment summary (Annexure B) for the completed assessments is attached to this report.

The three councils assessed as 'fit' 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 both the IPART assessment process (Annexure C) and in the OLG Round 1 reassessment process. The criteria included financial sustainability, infrastructure and service management and efficiency benchmarks. The councils were required to meet the benchmarks within five years (by 2020-21).

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.

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. Both the Round 1 and Round 2 OLG reassessments were based on actual or forecast figures for each year, recorded from the General Fund results only.

The reassessment process

The *Fit for the Future Financial Reassessment Guidelines – Round 2* and an OLG Reassessment Template were provided to councils outlining the reassessment process and submission requirements.

The guidelines invited the following councils to submit a revised FFTF proposal to the OLG by 30 November 2016 for reassessment:

- | | |
|---|---|
| Regional NSW | Sydney Metropolitan |
| <ul style="list-style-type: none">• Clarence Valley• Goulburn Mulwaree• Kiama Municipal | <ul style="list-style-type: none">• Hawkesbury City |

In November 2016, the participating councils were offered the opportunity to attend individual pre-assessment meetings. Two of the four 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. A third Council, Clarence Valley, had met with OLG representatives during the Round 1 reassessment process and advised OLG that a meeting was not required for the Round 2 process. 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.

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.

Improvements proposed by councils

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

- reducing expenditure by optimising procurement benefits through joint procurement ventures and reviewing organisational structures to ensure all positions are value adding;
- realising revenue opportunities and reviewing fees and charges for partial and full cost recovery;

- focusing on asset management by refining the accuracy of asset management plans, optimising expenditure to achieve sustainable asset outcomes, investing funds into renewal and rationalisation of surplus assets;
- increasing income through Special Rate Variations (SRVs);

Ongoing monitoring of councils

This report, and the Round 1 reassessment report, indicate ongoing improvement in the financial sustainability and performance of councils.

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

In December 2016, OLG issued Circular No 16-49 advising that, as councils undertake the next cycle of the Integrated Planning and Reporting framework, it is important that the strategies and actions identified in councils' Improvement Plans are reflected in the new Delivery Programs and Resourcing Strategies.

The Circular also reminded councils that the OLG will monitor councils' performance against the *Fit for the Future* benchmarks over time.

Issues identified through OLG monitoring processes may require councils to participate in improvement processes aimed to increase the capability and capacity of councils to deliver services and infrastructure that foster satisfied and engaged local communities.

Annexure A - Table of reassessment results

Council	Reassessment Result	Sustainability	Infrastructure and service management	Efficiency
Clarence Valley	Remains Not Fit			
Goulburn Mulwaree	Fit	✓	N/A	N/A
Hawkesbury City	Fit	✓	N/A	N/A
Kiama Municipal	Fit	✓	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

GOULBURN MULWAREE COUNCIL - FIT

Reassessment Findings	Overall	OLG	IPART
Sustainability	Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	Satisfied Satisfied Satisfied	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 Satisfied Satisfied
Efficiency	Real Opex		Satisfied

Reassessment Summary

Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as the 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 -6.1% in 2015-16 and is forecast to be 0.4% in 2020-21 which meets the benchmark.
- Council met the OSR ratio in the original IPART assessment and it is forecast to be 71% in 2020-21 which continues to meet the benchmark.
- Council's BIRR was 68% in 2015-16 and is forecast to be 106% in 2020-21 which meets the benchmark.

Infrastructure and service management – Satisfied

- Council satisfied the infrastructure and service management criteria overall in the original IPART assessment.
- Council's IBR was 3.2% in 2015-16 and is forecast to be 1.4% in 2020-21 which continues to meet the benchmark.
- Council's AMR was 104% in 2015-16 and is forecast to be 105% in 2020-21 which continues to meet the benchmark.
- Council's DSR was 2% in 2015-16 and is forecast to be 4% in 2020-21 which continues to meet the benchmark.

Efficiency – Satisfied

- Council satisfied the efficiency criterion in the original IPART assessment. Council's real operating expense per capita shows a minor decline from \$1,596 in 2015-16 to \$1,343 in 2020-21 and therefore 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.

HAWKESBURY CITY COUNCIL - FIT

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 Satisfied Satisfied
Infrastructure & service management	Overall Infrastructure Backlog Ratio (IBR) Asset Management Ratio (AMR) Debt Service Ratio (DSR)		Satisfied Did not satisfy Satisfied Satisfied
Efficiency	Real Opex		Satisfied

Reassessment Summary

Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as the Council meets the sustainability, infrastructure and service management and efficiency criteria.
- Council states they have reviewed the 20 original strategies submitted to IPART to identify additional cost savings to achieve a reduced SRV.
- 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 – Satisfied

- Council's OPR was -9.4% in 2015-16 and forecast to be 0.6% in 2020-21, which meets the benchmark.
- Council meets the OPR due to the proposed SRV and special rate. Should Council not proceed on this path, as Council states it is subject to Council endorsement, community consultation and IPART approval, it may not meet the OPR by 2020-21.
- Council met the OSR in the original IPART assessment and it is forecast to be 84% in 2020-21 which continues to meet the benchmark.
- Council met the BIRR in the original IPART assessment. Council's BIRR was 80% in 2015-16 and is forecast to be 115% by 2020-21 which meets the benchmark.

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 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. It provides sewer services only.
- Council states it is investigating the potential to pay a dividend from the sewer fund from 2021.

KIAMA MUNICIPAL COUNCIL - FIT

Reassessment Findings		OLG	IPART
Sustainability	Overall Operating Performance Ratio (OPR) Own Source Revenue Ratio (OSR) Building and Infrastructure Asset Renewal Ratio (BIRR)	Satisfied Satisfied Satisfied	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 Satisfied
Efficiency	Real Opex	Satisfied	Did not satisfy

Reassessment Summary

Fit for the Future Reassessment – FIT

- Council satisfied the financial criteria overall as the 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 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 2.6% in 2015-16 and is forecast to be 6.8% in 2020-21 which meets the benchmark.
- Council met the OSR ratio in the original IPART assessment and it is forecast to be 76% in 2020-21 which meets the benchmark.
- Council's BIRR was 244% in 2015-16 and is forecast to be 106% in 2020-21 which meets the benchmark.

Infrastructure and service management – Satisfied

- Council satisfied the infrastructure and service management criteria overall in the original IPART assessment.
- Council's IBR was 1.6% in 2015-16 and is forecast to be 1.3% in 2020-21 which continues to meet the benchmark.
- Council's AMR was 102% in 2015-16 and is forecast to be 102% in 2020-21 which continues to meet the benchmark.
- Council's DSR was 4% in 2015-16 and is forecast to be 6% in 2020-21 which continues to meet the benchmark.

Efficiency – Satisfied

- Council's real operating expenditure per capita was \$1,960 in 2015-16 and shows a decline to \$1871 in 2018-19. The ratio increases to \$1955 in 2019-20 and \$1958 in 2020-21 due to the opening of Council's new aged care facility. Council's LTFP indicates the ratio will decline over the term of the plan.

Water and/or Sewer

Council does not provide water or sewer functions.

Annexure C – 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 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.
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.
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.
Efficiency			
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

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.