



Dr Peter J Boxall AO  
Chairman  
The Independent Pricing and Regulatory Tribunal (IPART)  
PO Box K35  
Haymarket Post Shop  
NSW 1240

25 May 2015

Dear Dr Boxall

Our Reference: CSG/14/3/7

**Council Fit for the Future Assessment Methodology 2015**

Please find attached a joint submission from the Councils of Hunter's Hill, Lane Cove and the City of Ryde in respect to the abovementioned methodology.

Council Officers would be pleased to assist with any queries you may have in regard to the submission or the attached accompanying Report.

Enquiries in the first instance should be directed to the undersigned.

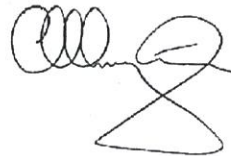
Yours sincerely



Gail Connolly  
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City of Ryde Council



Barry Smith  
General Manager  
Hunter's Hill Council



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General Manager  
Lane Cove Council



# IPART's Proposed Methodology for Assessment of Council Fit for the Future Proposals

Local Government – Consultation Paper  
April 2015

**Joint Submission from Hunter's Hill, Lane  
Cove and City of Ryde Council's**

**25 MAY 2015**



 City of Ryde



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## **INTRODUCTION**

Following the publication of the Fit for the Future (FFTF) program by the Minister for Local Government in September 2014, NSROC Councils and a number of other Councils in northern Sydney have collaborated and held a number of discussions working towards formulating a response to the Fit for the Future program.

As a result of these discussions, a northern Sydney 'Fit for the Future' Symposium was held at Willoughby Council on 5 February 2015, to provide direction and to assist each Council in determining their Fit for the Future response.

In the City of Ryde's case, an Extraordinary Council Meeting was held on 17 February 2015 to establish the City of Ryde's response. As a result, part of Council's response was to seek interest from other participating Councils at the Symposium, to join Ryde in an investigation of a Joint Regional Organisation for northern Sydney. As a result, two Councils confirmed their interest being Hunter's Hill and Lane Cove Councils.

Since February, all three Councils have strongly collaborated and jointly committed funds in undertaking research and community engagement in formulating a single, joint response to Fit for the Future.

Therefore as part of this alliance, this is a joint submission on behalf of Hunter's Hill, Lane Cove and the City of Ryde Councils.

The Councils commissioned Professor Brian Dollery to evaluate and make recommendations in respect of IPART's proposed Methodology for Assessment of Council's Fit for the Future Proposals. His Report is attached and while the three Councils commissioned this Report, some of the non-technical views expressed in the attached Report are Professor Dollery's personal views and not the views of Hunter's Hill, Lane Cove and City of Ryde Councils.

However, in making this submission, the Councils have, in part, relied on Professor Dollery's Report in raising the key issues which we believe IPART should consider in finalising the Methodology for the Assessment of Council Fit for the Future Proposals.

## Summary of Recommendations

1. This submission strongly recommends IPART seek the Government's agreement to extend the 30 June 2015 deadline by 90 days to 30 September 2015, to allow proper communication and consultation with local communities, after the Assessment Methodology has been finalised by IPART.
- That IPART reject any FFTF proposal that amounts to a hostile merger or boundary adjustment bid for either part or whole of an adjoining Local Government Area, where no evidence can be provided that demonstrates the parties have an agreed position on the proposal;
- That as a point of principle, IPART reject any FFTF proposal that includes or proposes substantially dividing or splitting a Local Government Area or a major retail/commercial centre/CBD area, for the reasons that this will adversely impact scale and strategic capacity and is contrary to the State Government's own strategic planning principles;
- In respect of where a proposal plans to either amalgamate or transfer a significant portion of an area to another entity, IPART needs to acknowledge the public and community of interest test and consider the need for a community poll to be undertaken;
- When assessing the scale and capacity criterion, IPART needs to consider all proposals that have identified the key functions that meet the fundamental requirements of the State Government's scale and capacity criteria;
- When assessing the scale and capacity criterion, IPART needs to take a more sophisticated approach than just considering the preferred options as recommended by the ILGRP. Council submissions that demonstrate that they are proposing a superior option need to be objectively evaluated, especially where economies of scale for key strategic functions have been identified and meet the requirements of the State Government's scale and capacity criteria. This also may include proposals that identify economies of scale in service provision to be undertaken on a Shared Services approach;
- When considering scale, IPART should assess scale based on the number of households and businesses, as opposed to population forecasts, as this is a more relevant and accurate basis for measurement;
- This submission recommends a uniform approach be given to all submissions, irrespective of whether they are metropolitan, regional, rural or merged proposals for the reasons as detailed in this submission and the attached Report;

- **This submission recommends IPART consider a broader range of indicators in its determination of the sustainability of a Council's proposal;**
- **This submission recommends IPART include a customer/community satisfaction indicator, to ensure that there is at least one qualitative indicator to assess Councils' performance;**
- **That IPART consider the concept of undertaking pilots to trial a broader base of performance measures, as part of the recommendations and implementation timetable process.**
- **That due to the reliability of the data that underpins the Infrastructure and Service Management ratios, this submission is recommending IPART undertake further analysis or, at the very least, exercise caution in the level of reliance placed on these ratios.**
- **This submission recommends IPART's use of Households and Businesses and not population for use in any efficiency ratio and to introduce a different ratio for the reasons detailed in this submission and in the attached Report.**
- **This submission recommends IPART acknowledge that the FFTF criteria are deficient in not having any qualitative measures of Council's performance, and seeks IPART's inclusion of at least one qualitative measure, being customer/community satisfaction in IPART's methodology.**
- **This submission also recommends the assessment of each Council's engagement, methodology and results of each Council's community consultation process as an integral and core assessment criteria. IPART must assess the community consultation process and outcomes, in conjunction with IPART's assessment of Scale and Capacity.**

## 1. DUE PROCESS

One of the key deficiencies in respect of responding to the Draft Assessment Methodology for Fit For the Future (FFTF) is the process and timing of both the announcement of the Expert Panel and the release of the Draft Assessment Methodology.

As IPART is aware all Councils are finalising their FFTF proposals which are due to be submitted on 30 June 2015. To be commenting on the draft Assessment Methodology by 25 May 2015, that is then due to be published in the week of 1 June 2015, sends a strong message that the Methodology will not be changing and does not show the respect, value and expertise that the Local Government industry can provide to this subject.

It is acknowledged that IPART was not in control of the timing of its appointment as the Expert Panel. However, from a Local Government perspective it is difficult not to be highly cynical of the whole process and how the assessments will be undertaken.

The other key point on the timing of the release of the Assessment Methodology is that it has been released effectively one month before submissions are due. As IPART would appreciate, Councils have undertaken extensive community consultation with our local communities and given the significance of the Assessment Methodology, this should have been a key component in all of those consultations with our respective communities.

This again is significant and clearly demonstrates how poor this process is becoming, when critical information such as the Assessment Methodology, which was not available for the community consultation process, is literally being changed at the last minute. It underpins concerns that the NSW Government has tacitly changed its position on 'No Forced Amalgamations' and to achieve this end, has announced IPART as the Expert Panel as late as possible. That appointment has resulted in publishing the Assessment Methodology late and gives no time for Councils or the community to make any meaningful response. For this reason, this submission recommends IPART extend the deadline for FFTF submissions to be lodged by 90 days to 30 September 2015. This will allow Councils to consult with their communities on the Assessment Methodology after it has been finalised by IPART.

**Therefore, this submission strongly recommends IPART seek the Government's agreement to extend the 30 June 2015 FFTF deadline by 90 days, to 30 September 2015, to allow proper communication and**

**consultation with local communities, after the Assessment Methodology has been finalised.**

### **Questions raised by IPART.**

In your publication, IPART asked a number of questions to be addressed, in seeking responses on the Draft Assessment Methodology from Local Government. Therefore, the balance of this submission responds to the questions stated in your document.

### **2. How should key elements of strategic capacity influence our assessment of scale and capacity? Are there any improvements we can make on how we propose to assess the scale and capacity criterion, consistent with OLG guidance material?**

The following points are made in respect of the above:

#### **Key Principles in Assessing Scale and Capacity**

This submission requests IPART consider the following key principles when assessing the scale and capacity criterion;

#### No Splitting of Local Government Areas and Major Town/Commercial Centres/Strategic Centres

A major inhibitor of optimising strategic capacity is where a Local Government Area is proposed to be split. Such a proposal gives no consideration to the underlying social, cultural and business infrastructure that are in place together with other support networks that make communities thrive. It also highlights a total lack of understanding of how communities work, what support structures they rely upon for shopping, education, transport, recreation, everyday life activities and where they work.

Therefore, in any consideration of splitting a local government area, it is a fundamental issue that the community in the affected area should be thoroughly consulted either through a poll or referendum of electors. IPART needs to take into consideration that an issue of splitting a Local Government Area is not just the numbers on the balance sheet. Such an issue needs extensive community consultation to allow the community to fully understand the proposal, the likely impacts and to express their view.

As detailed in the FFTF documentation, this submission also reinforces the point, that any FFTF proposal that includes a hostile takeover of an adjoining Local Government, should be rejected by IPART.

Such a proposal, as is the case with the City of Ryde, also splits a major retail and commercial centre that will adversely impact the local and State's business economy and workings of the retail and commercial centres. This splitting of major centres is contrary to the State Government's strategic planning principles for major and specialised centres.



Such a suggestion also gives no recognition to how a Council such as Ryde, has driven the development of Macquarie Park to become a magnet for industry leaders and global giants. Due to the vision of the City of Ryde, Macquarie Park is now experiencing massive growth, with the precinct projected to become Australia's fourth largest CBD behind Sydney, Melbourne and Brisbane by 2030. It is also expected to accommodate over 40,000 new jobs by the same time - a boon to both jobseekers and the local and state economy.

**Therefore, in respect of Scale and Capacity, this submission requests that IPART;**

- **Reject any FFTF proposal that amounts to a hostile bid for either part or whole of an adjoining Local Government Area and where no evidence can be provided that the parties have an agreed position on the proposal;**
- **That as a point of principle, IPART reject any FFTF proposal that includes or proposes substantially dividing or splitting a Local Government Area or a major retail/commercial centre/CBD area, for the reasons that this will adversely impact scale and strategic capacity and is contrary to the State Government's own strategic planning principles;**
- **In respect of where a proposal plans to either amalgamate or transfer a significant portion of an area to another entity, IPART needs to acknowledge the public and community of interest tests and consider the need for a community poll to be undertaken;**

#### Scale – Where Economies of Scale Exist

In respect of scale, many studies have proven that organisations can be highly efficient and effective, no matter the size of the organisation.

However, scale does matter when it can streamline the strategic planning for effective and timely decision making for a global city that Sydney both needs and deserves. Therefore, this submission stresses the importance of not taking a 'one size fits all' approach when determining scale and capacity. On this point, while proposals may not be consistent with the OLG's FFTF documentation (ie No Joint Organisations) in metropolitan Sydney, IPART needs to give proper consideration to any proposal that demonstrates it meets and exceeds, the recommended option.

As detailed in the attached Report, Professor Dollery provides details from his research, (page 41), which has also been proven in many studies, that not all functions undertaken by Councils or business, demonstrate a falling average cost as volumes increase. Therefore, a more sophisticated approach is required in the methodology that differentiates or attempts to identify those functions or services that should be consolidated, to take advantage of economies of scale.

Where strategic economies of scale exist that reinforce the FFTF scale and capacity criteria, such as the benefits of sub-regional strategic land use planning and sub-regional Section 94 plans, it justifies a regional approach being taken. For the same reasons at the services level, where services that provide economies of scale have been identified, models such as Shared Services, should be considered. Therefore, IPART needs to fully analyse all proposals objectively, even though they may be outside the preferred options of the ILGRP.

**When assessing the scale and capacity criterion, IPART needs to take a more sophisticated approach than just considering the preferred options as recommended by the ILGRP. Council submissions that demonstrate that they are proposing a superior option need to be objectively evaluated, especially where economies of scale for key strategic functions have been identified and meet the requirements of the State Government's scale and capacity criteria. This also may include proposals that identify economies of scale in service provision to be undertaken on a Shared Services approach;**

#### Scale- On Households and Business (not Population)

Detailed in the attached Report, Professor Dollery makes the point on pages 35-37, that population played a critical role in the Independent Local Government Review Panel's preferred options, which have now become the merger recommendations.

As detailed in the attached paper, it is considered appropriate that the methodology also gives consideration to scale being assessed on household and business numbers as this is a much more reliable and a more relevant basis for public policy, given that a high level of Local Government services are focused on properties, rather than individuals.

This approach is preferred, as using population ignores the business sector, which is a significant sector that Local Government services and partners with in undertaking employment, tourism and economic development initiatives.

As Professor Dollery highlights in his report, population forecasts are generally inaccurate and can lead to misleading interpretations and results.

**When considering scale, IPART should assess scale based on the number of households and businesses, as opposed to population forecasts, as this is a more relevant and accurate basis for measurement;**

- 3. Are there any improvements we can make to how we propose to assess the sustainability, infrastructure management and efficiency criteria, consistent with OLG guidance? Are there issues that we need to consider when assessing councils' proposals using the measures and benchmarks for these criteria?**

#### Assessment of Sustainability Indicators

The attached report, on pages 42-48, highlights some critical outstanding issues that the NSW Government needed to address, as a result of the ILGRP's report. It was always envisaged that issues such as changes to rate pegging and the necessary changes to the Local Government Act would be done first, thereby facilitating any structural reform that may follow.

Also, the other issue that Professor Dollery highlights are the impacts either of the removal or the continual freezing (loss in real terms) of the Financial Assistance Grant (FAG).

These issues, noting that the timing on when these matters will be addressed are still not known, have a critical impact and influence on the sustainability ratios included in each Council's submission and IPART's subsequent assessments.

As detailed in pages 7-9 of the attached report, the sustainability indicators have changed and are still changing as part of this Assessment. Professor Dollery details how the indicators that were recommended by TCorp, were modified when the FFTF program was announced and further in the proposed IPART Methodology. Clearly, the major difference in the most recent changes is in the criteria for a non-rural Council, compared to rural and merged Council proposals.

This submission seeks a uniform approach to be given to all submissions, irrespective of whether a proposal is non-rural, rural or merged, for the reasons as detailed in this submission and the attached Report.

Further, it is noted that when assessing 'sustainability', even though there are only three approved indicators, the attached paper (pages 18-21), details the additional indicators that should be considered in determining an organisation's sustainability. As stated on page 18, Dollery states although we have significant reservations regarding TCorp's (2013) approach, it did at least contain measures of liquidity and the ability to service debt; critical measures which are integral to any program purporting to measure financial sustainability.

- Therefore, when considering the sustainability criteria, this submission requests IPART consider a broader range of indicators in its determination of a submission's sustainability.**

The other main point to note is the inadequacies and contrast in approach that has been taken by the NSW Government compared to the Victorian Government, in establishing an effective Performance Monitoring System. While this is not the subject of review by IPART, the points are well made in pages 14-17 of the attachment. This also highlights that the Victorian program uses 70 quantitative and 24 qualitative measures of a council's performance, compared to NSW's 7 quantitative measures. Also, in all the FFTF Indicators, there are no qualitative indicators, such as community satisfaction.

As detailed in Victoria's example, there is a very clear role for pilot studies with the introduction of a new performance monitoring system, thereby allowing reviews and enhancements to be undertaken to the system. Therefore IPART needs to consider including both these initiatives into its assessments and recommendations for inclusion in the implementation timetable.

**This submission recommends IPART;**

- **This submission recommends a uniform approach be given to all submissions, irrespective of whether they are metropolitan, regional, rural or merged proposals for the reasons as detailed in this submission and the attached Report;**
- **This submission recommends IPART consider a broader range of indicators in its determination of the sustainability of a Council's proposal;**
- **This submission recommends IPART include a customer/community satisfaction indicator, to ensure that at least one qualitative indicator to assess Councils' performance;**
- **That IPART consider the concept of undertaking pilots to trial a broader base of performance measures, as part of the recommendations and implementation timetable process.**

Assessment of Infrastructure and Service Management Indicators

The Report generally, and in particular on pages 45-49, clearly demonstrates that IPART needs to be mindful of the weaknesses and the level of reliability that can be placed on the data that are the basis of the Infrastructure Ratios.

As stated, Schedule 7 details Councils' Infrastructure Backlogs, have been excluded from Auditors' opinions to date, due to the unreliability of the data. It is noted that these schedules will be audited from 1 July 2014.

Also, as IPART itself has recognised on Page 31 of its Methodology document, the Asset Maintenance Ratio is misleading;

*“ Should a Council continuously exceed the Asset Maintenance target by spending more on maintenance than is required ie the ratio is >100%, this may also indicate the Council is not efficiently managing its assets.”*

- **That due to the reliability of the data that underpins the Infrastructure and Service Management ratios, this submission is recommending IPART undertake further analysis or, at the very least, exercise caution in the level of reliance placed on these ratios.**

#### Assessment of Efficiency Indicator

The Report generally, and in particular on pages 49-54, demonstrates that this ratio is not a 'real' efficiency indicator as it does not measure outputs. This measure is a calculation of expenditure per capita.

As the Report and this submission has stated, the more effective and relevant basis of scale is the measure of households and businesses, as predominantly services delivered relate in the main to properties, not individuals. As stated earlier in this submission, basing Scale and Efficiency ratios on population, ignores the entire business sector in each community. This submission also has highlighted the inaccuracies in projections for population forecasts.

Professor Dollery also highlights on Page 52, the other critical problem with this indicator - is the empirical method chosen to establish the direction of expenditure/per capita trend. He states;

*“The OLG toolkit employs linear regression to establish whether expenditure per capita is rising or falling. Unfortunately, the use of linear regression to establish the direction of the trend is completely flawed owing to the fact that it breaks the key assumption of linear regression: that the data association has a linear functional form”.*

To explain this, Professor Dollery provides an example on pages 52-54 and this submission seeks IPART's consideration of the important points raised in the attached Report.

- **This submission recommends IPART's use of Households and Businesses and not population for use in any efficiency ratio and to introduce a different ratio for the reasons detailed in this submission and in the attached Report.**

**4. How should councils engage with their communities when preparing FFTF proposals? Are there other factors we should consider to inform our assessment of council consultation? Please explain what these other factors are, and why they are important.**

As indicated in the FFTF documentation, each Council was to fully inform and engage with its community to explain what was being proposed by the State Government and to explain the options available to Councils in formalising their responses.

As stated previously it is disappointing that in the proposed Assessment Methodology, there is no qualitative performance measure, as this is regarded by most Local Government Authorities as a critical indicator. The real risk of the Government's strategy and the Assessment Methodology proposed by IPART, is the minimal if any value it is giving to community feedback in its assessment of FFTF proposals.

To reflect this, it is not until you reach Page 36 of the 38 page written document, that Council's consultation with its community is listed under the heading;

*'Other considerations in assessing FFTF Proposals'.*

This submission strongly opposes the minimalist approach being given to Councils' approach on community engagement and the community survey results received.

In essence, as the Minister for Local Government, the Hon Paul Toole, has reinforced on many occasions, how important it is for Councils to fulfil their obligations in respect of the Integrated Planning and Reporting Framework. At the very core of the Framework, is the obligation on each Council to engage and listen to their communities when planning for the future.

This submission takes the opportunity to emphasise that the FFTF process is the greatest reform ever seen by Local Government in NSW and to allow such an important decision to be rushed and not to allow the voice of each community to be given appropriate weight and consideration by IPART, would leave the evaluation process exposed and open to severe public criticism.

- **This submission recommends IPART acknowledge that the FFTF criteria are deficient in not having any qualitative measures of Council's performance, and seeks IPART's inclusion of at least one qualitative measure, being customer/community satisfaction in IPART's methodology.**
- **This submission also recommends the assessment of each Council's engagement, methodology and results of each Council's community consultation process as an integral and core assessment criteria. IPART**

**must assess the community consultation process and outcomes, in conjunction with IPART's assessment of Scale and Capacity.**

