

# ITEM - 25 GM - 26/10/15 - LOCAL GOVERNMENT REFORM - FIT FOR THE FUTURE

**REPORT BY: R BAILEY - GENERAL MANAGER**

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## REFERENCE

Min No 14-456: Ordinary Meeting of Council held on 17 November 2014  
 Min No 15-145: Ordinary Meeting of Council held on 29 June 2015

## SUMMARY

The NSW Government received the Independent Pricing and Regulatory Tribunal (IPART) Assessment of Council Fit for the Future Proposals on Friday 16 October and released it to councils on Tuesday 20 October 2015.

Councils are now provided with a final 30 day consultation opportunity to inform the Government's position on local government reform and respond to the IPART findings.

This report outlines the findings from the Tribunal's Assessment of Council and direction for further reform.

## COMMENTARY

The Independent Pricing and Regulatory Tribunal's (IPART's) final assessment of councils' Fit for the Future proposals has been publicly released and councils have four weeks to lodge a formal response with the NSW Department of Premier and Cabinet.

IPART completed its assessment of all council submissions and reported back to the NSW Government last Friday. The government released the IPART report on Tuesday 20 October.

The Fit for the Future (FFTF) reforms aim to improve the strength and effectiveness of local government in providing services and infrastructure that communities need. Council will be aware that on 10 September 2014 the State provided a response to the Independent Local Government Review Panel and Local Government Acts Taskforce reports. With the release of the templates and guidance for the Fit for the Future Program Council made its submission to the NSW Government and IPART consistent with the Fit for the Future criteria. This was submitted by the closing date of 30 June 2015.

The Government established four criteria it considered necessary for a council to be FFTF:

- Scale and capacity to engage effectively across community, industry and governments
- Sustainability
- Effectively managing infrastructure and delivering services for communities
- Efficiency

Benchmarks were identified for the above. These included:

1. **Sustainability**
  - Operating Performance Ratio
  - Own Source Revenue Ratio
  - Building and Asset Renewal
2. **Effective Infrastructure and service management**
  - Infrastructure Backlog Ratio

- Asset Maintenance Ratio
- Debt Service Ratio

### 3. Efficiency

- Real Operating Expenditure

The Government asked IPART to perform the role of the independent Expert Panel to assess how council proposals meet the FFTF criteria. According to the Terms of Reference, IPART was to:

1. Develop a methodology for assessing proposals
2. Undertake the assessments of whether each council is FFTF, consistent with the methodology, and
3. Provide the Government with a final assessment report by 16 October 2015.

Council's submission was prepared after being workshopped with councillors. The starting point of this submission was the Local Government Independent Review Panel recommendation that Lithgow Council be a:

*"Council in Central West JO"*

Therefore the Panel believed that Lithgow City Council already had the scale and capacity.

Council's submission was prepared on the basis of a "stand alone" Council. The submission put forward by Council met four of the seven of the FFTF benchmark criteria that were set by the NSW Government for its financial sustainability over the next five years in respect of sustainability, infrastructure and service management and efficiency.

In addition to the above:

- TCorp assessed Council as being financially sustainable, with a 'Sound' financial sustainability rating
- Lithgow City Council was involved in an amalgamation process in 2004 where areas of the former Evans and Rylstone shires were included in the Lithgow LGA.
- Lithgow City Council has a long track record of operating under regional arrangements, including shared services and resource sharing through CENTROC and strategic alliances.
- Council is operating as per the Independent Review Panel Recommendation as a Council in a Joint Organisation
- Lithgow City Council is a strong performer in the delivery of large capital projects partnering with State and Federal Government funding bodies
- Council has implemented all recommendations from the 2007 Office of Local Government Promoting Better Practice Review, indicating that it is operating at best practice across all its operations
- Council participates in the NSW Local Government Professionals *Operational and Management Effectiveness Survey* demonstrating Council's commitment to benchmarking performance and enabling management decisions to improve its performance
- Council was given a rating of 'moderate' in the OLG Infrastructure Audit demonstrating its performance in managing infrastructure

On Tuesday 20 October 2015 the NSW Government released the IPART final report assessing all of the FFTF proposals. This report sets out IPART's assessment of whether local councils are fit or not fit for the future based on the proposals submitted.

139 local council proposals from 144 councils were received. They included four merger proposals, 115 Council Improvement Proposals and 20 Rural Council Proposals. Lithgow City Council's submission was one of the 115 Council Improvement Proposals.

Outside of Metropolitan Sydney, IPART received:

- 2 Merger Proposals
- 79 Council Improvement Proposals, and

- 20 Rural Council Proposals.

In relation to the 79 Council Improvement Proposals received by IPART in non-metropolitan areas, 32 were assessed as fit and 47 as not fit. Lithgow City Council was one of the 47 considered as 'not fit'.

The IPART report indicated the following;

- The council satisfies the scale and capacity criterion.
- The council does not satisfy the financial criteria overall. While it satisfies the infrastructure and service management criterion, it does not satisfy the sustainability and efficiency criteria.
- The council does not satisfy the sustainability criterion as a result of its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FTFF) councils should meet; therefore the council is not fit.

#### **Scale and capacity – satisfies**

1. The council proposal is consistent with the ILGRP's option to stand alone.
2. As the ILGRP did not identify another option for this council, it was not required to demonstrate how it met each of the elements of scale and capacity.
3. Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.

#### **Sustainability – does not satisfy**

- The council does not satisfy the sustainability criterion based on its forecast for an operating performance ratio of -9.0% by 2019-20, which does not meet the benchmark.
- The council's building and infrastructure asset renewal ratio is forecast to be 69.0% by 2019-20 which is below the benchmark.

#### **Infrastructure and service management – satisfies**

- The council satisfies the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.

#### **Efficiency – does not satisfy**

- The council does not meet the efficiency criterion based on its forecast increase in real opex per capita over the period to 2019-20.

The assessment by IPART was expected given that Council submitted an application that met four of the seven benchmark criteria that the Government had set. Council also submitted an 'Improvement Plan' with the aim to achieve the targets in the longer term.

The IPART assessment does not mean that Council is in a poor financial condition it means Council did not meet the criteria set by the Government.

Lithgow Council has demonstrated that it is progressive, innovative and improving. This was done through the recent winning of the AR Bluett Memorial Award. This in itself is a very significant achievement in terms of Local Government in NSW and the ability of the Council.

The other two councils that were acknowledged in the Awards last week, Warringah and Pittwater, were both also assessed as 'not fit' but again both councils have clearly demonstrated that they too have been progressive, innovative and most importantly improving.

Added to this Council has demonstrated that it does have the scale and capacity to stand alone with the very large number and size of projects that it has delivered in recent years and there are still many more currently underway.

Many of the councils that have been assessed as 'Fit' have been granted significant rate increases in recent times e.g. Blue Mountains (40% over 4 years) and Wollondilly Council (51% over 4 years) and Parkes Council (63% over 4 years) or are proposing future rate increases while others have been cutting services and jobs.

The Independent Local Government Review Panel (ILGRP) has already stated that Lithgow City Council has the scale and capacity to stand alone.

IPART has also stated:

- *The Lithgow City Council proposal is consistent with the ILGRP's option to stand alone.*
- *Our analysis has not identified evidence for a better alternative to the council's proposal to stand alone.*

### **30 DAY CONSULTATION PERIOD**

Councils have now been provided with a 30-day consultation period, ending on Wednesday 18 November. Councils found to be unfit due to **scale and capacity**, and those with a neighbouring council that has been deemed unfit due to **scale and capacity**, have been asked by the government to nominate their preferred amalgamation partners.

The government has reiterated that funding will be made available to support the costs of amalgamations for merger preferences that are submitted before the consultation period ends and which are supported by neighbouring councils and acceptable to the government. The government has also announced a Stronger Communities funding package that will be offered to acceptable merger proposals made by Wednesday 18 November to assist amalgamating councils to invest in community infrastructure.

The funding will provide each new rural/regional council of \$5 million to invest in community infrastructure projects such as sporting fields, libraries, and parks and funding of up to \$5 million for each new rural/regional council to ensure ratepayers do not pay for the up-front costs of merging, hence a total of \$10 million. This funding is based upon two councils merging, an additional \$5 million would be available if there were a third council involved in the merger (into one new council). This funding will be available to those mergers agreed to by councils and the NSW Government.

The government will consider councils' responses and decide on the next steps by the end of 2015.

Of Lithgow's close neighbouring councils the following assessment has been made by IPART:

- Blue Mountains – Fit
- Mid Western Regional Council – Not Fit
- Bathurst Regional Council – Fit
- Oberon – Not Fit

### **POLICY IMPLICATIONS**

NIL

### **FINANCIAL IMPLICATIONS**

NIL

### **LEGAL IMPLICATIONS**

NIL

## ATTACHMENTS

1. Letter - Paul Toole - Minister for Local Government - IPART Assessment
2. Report Card - Key Findings
3. Fact Sheet - Next Steps
4. OLG Circular 15-36 - Release of IPART's Fit for the Future report - Announcement of Stronger Communities Fund
5. IPART Final Report - Assessment of Council Fit for the Future Proposals - [http://www.ipart.nsw.gov.au/Home/Industries/Local\\_Govt/Reviews/Fit\\_for\\_the\\_future/Review\\_of\\_Local\\_Council\\_Fit\\_For\\_The\\_Future\\_proposals/News/Final\\_Report\\_on\\_Fit\\_for\\_the\\_Future\\_Council\\_proposals\\_released](http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Reviews/Fit_for_the_future/Review_of_Local_Council_Fit_For_The_Future_proposals/News/Final_Report_on_Fit_for_the_Future_Council_proposals_released)

## RECOMMENDATION

### **THAT** Council:

1. Note the presentation of the final report from IPART on the Assessment of Council Fit for the Future Proposals
2. Note that Lithgow City Council has been assessed by IPART under the Government's Fit for the Future criteria as 'Not Fit'
3. Note that the Independent Local Government Review Panel has assessed Lithgow City Council as having sufficient scale and capacity
4. Note that Lithgow City Council's submission was considered consistent with the ILGRP's option to 'stand alone'.
5. Note that IPART's analysis did not identify evidence for a better alternative to the Council's proposal to stand alone.
6. Determine that its preferred position is to 'stand alone'
7. Authorise a working party to hold discussions with interested neighbouring councils on their preference for merger(s)
8. Authorise the working party to have the authority to explore any options that it considers feasible
9. Appoint the Mayor, Deputy Mayor and General Manager as representatives on the working party