



May 2016

Fit for the Future

Financial criteria reassessment

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Becoming Fit for the Future

Last year, councils participated in one of the most comprehensive reviews of local government performance ever undertaken in NSW. The Fit for the Future process was designed to transform the system of local government to ensure councils are ready to deliver better services and infrastructure to their communities. Many councils reported that the Fit for the Future process helped them to better understand their operations and informed improvement of their operational outlook.

Councils that did not meet the sustainability, service and infrastructure and efficiency benchmarks can now revise their improvement plans and resubmit them for assessment.

Those that are assessed as being Fit for the Future will be eligible to access the TCorp borrowing facility.

Your council is encouraged to take advantage of this important opportunity, if it is eligible for reassessment.

Introduction

The NSW Government has been working with the local government sector for four years to ensure that councils are Fit for the Future and ready to deliver the services and infrastructure that communities need.

Under the Fit for the Future process, all NSW councils (except the eight councils in the Far West) were asked to put forward proposals that:

- assessed their scale and capacity against the recommendations of the Independent Local Government Review Panel and put forward options to address this, where necessary; and
- assessed performance against the Fit for the Future benchmarks, and put forward strategies and actions to improve against the Sustainability, Infrastructure and Services, and Efficiency criteria.

The Government appointed IPART to undertake an independent assessment of council proposals. IPART found that 27 councils were 'Not Fit' due to not meeting one or more of the financial criteria (nine of these also did not meet the scale and capacity criteria).

These guidelines outline the opportunity for councils that did not meet the financial criteria, and that are not subject to a merger proposal, to be reassessed.

Councils that did not meet the financial criteria and are subject to a merger proposal will be given an opportunity to be reassessed later this year if the merger does not go ahead.

The Government will reassess councils that are 'Not Fit' due to not meeting scale and capacity, and where no merger proposal has been put forward, once Joint Organisations are operating effectively.

Councils in the Far West will have the opportunity to participate in a financial sustainability review, and successful councils will have access to the TCorp borrowing facility.

Councils able to meet the financial benchmarks following reassessment will have access to the TCorp borrowing facility, providing access to cheaper loans to fund important local projects.

The Office of Local Government will also be calling on councils assessed as Fit to support their peers during the reassessment process, as well as in future sector development programs. Fit councils should begin implementing their Fit for the Future Improvement Plans and can now access the TCorp borrowing facility.

All councils will report annually against the Fit for the Future measures to ensure councils deliver the improvements they committed to in their Fit for the Future proposals.

Is my council eligible for this reassessment?

The following councils are eligible for the current reassessment:

Sydney metropolitan

Blacktown City Council

Campbelltown City Council

Regional NSW

Bellingen Shire Council

Clarence Valley Council

Gwydir Shire Council

Hay Shire Council*

Kempsey Shire Council

The City of Lithgow Council

Mid-Western Regional Council

Tenterfield Shire Council

Tweed Shire Council

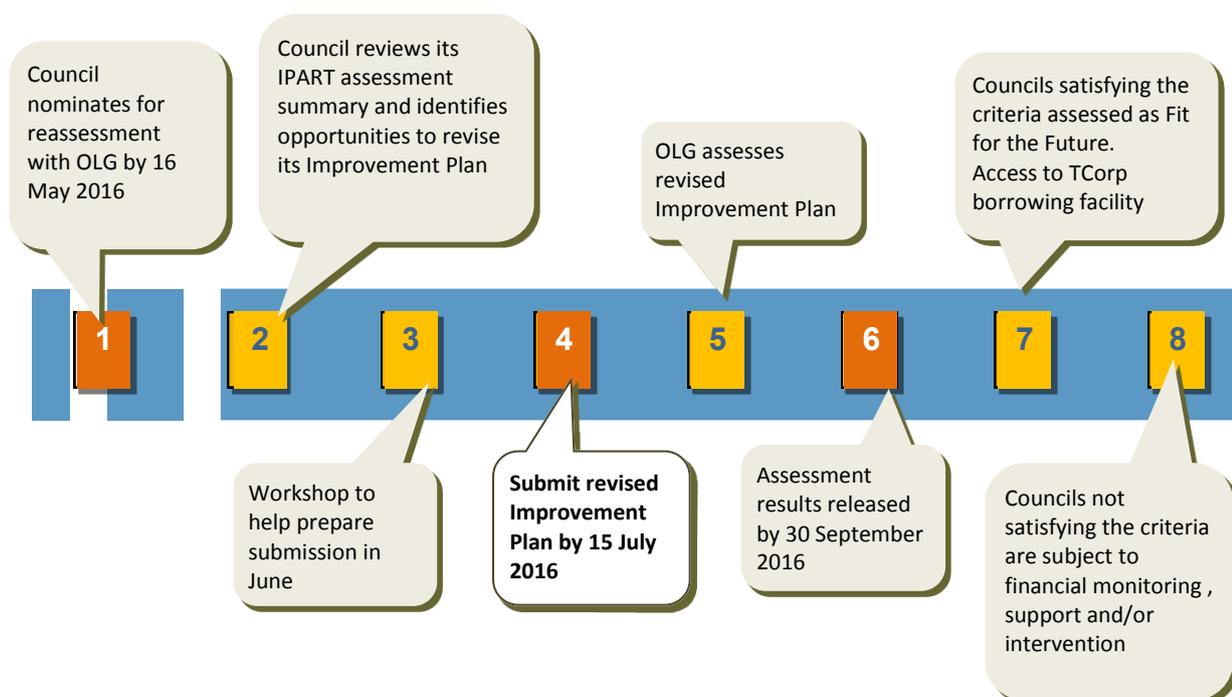
Warrumbungle Shire Council

Weddin Shire Council*

Yass Valley Council

*Submitted a Rural Council proposal but were assessed by IPART as 'Not Fit' in relation to key financial criteria.

Timeframes and milestones



What will be reassessed?

The reassessment process will use the same criteria and benchmarks as IPART's Fit for the Future assessment.

Councils can draw upon 2014-15 financial and asset management information for the reassessment and extend Improvement Action Plans to 2020-21.

The reassessment will focus on benchmarks not previously met, but councils need to show that changes do not adversely affect performance against other criteria and benchmarks.

The reassessment will focus on existing Improvement Action Plans, prepared using Template 2 (Council Improvement) or Template 3 (Rural Council) in the Fit for the Future assessment.

Councils that made a submission using Template 2 (Council Improvement) are not eligible for reassessment under Template 3.

The reassessment will consider specific issues raised by IPART in the summary assessment for each council but not issues of general dispute with the original assessment findings.

There is no requirement to prepare a new Template 2 submission. Provide only the materials listed on Page 7 of these guidelines.

To be successful, a council's revised Improvement Action Plan must satisfy the requirements outlined in the tables in the Appendix, as per the original IPART assessment.

STEP 1: Nominating for reassessment

Councils seeking reassessment of their Improvement Proposal should complete the Request for Reassessment form, available on the Fit for the Future website (council log-in section) or from their OLG Relationship Manager.

Completed forms must be received no later than **Monday 16 May 2016**.

The form includes a section asking councils to summarise progress made so far on revising the Improvement Proposal. This will help to ensure councils receive the level of support needed at reassessment workshops in June 2016.

STEP 2: Preparing your submission

Deciding where to start

The Assessment Summary provided by IPART identifies where councils did not achieve the benchmarks and provides comment to which councils should respond.

The following examples show how a council may approach the reassessment, based on Assessment Summary outcomes.

Example 1

IPART assessment summary - Council x

Scale and capacity	Satisfies
Financial criteria	Does not satisfy overall
<ul style="list-style-type: none"> Sustainability 	Does not satisfy 
<ul style="list-style-type: none"> Infrastructure and service management 	Satisfies
<ul style="list-style-type: none"> Efficiency 	Satisfies

1. Explain how your council will address the issues raised by IPART for each of the Sustainability benchmarks not achieved.

2. Provide a new Improvement Action Plan to show your council can now satisfy the three Financial criteria as per the requirements in the Appendix

Example 2

IPART assessment summary - Council y

Scale and capacity	Satisfies
Financial criteria	Does not satisfy overall
<ul style="list-style-type: none"> Sustainability 	Does not satisfy 
<ul style="list-style-type: none"> Infrastructure and service management 	Does not satisfy 
<ul style="list-style-type: none"> Efficiency 	Satisfies

1. Explain how your council will address the issues raised by IPART for the Sustainability and Infrastructure benchmarks not achieved.

2. Provide a new Improvement Plan to show your council can now satisfy the three Financial criteria, as per the requirements in the Appendix

Participating in the workshops

To help councils prepare their submissions for reassessment, the OLG will provide optional peer review, information and support at workshops in June 2016. After OLG has received each council's reassessment request, OLG will contact General Managers to discuss needs and match each council to the most appropriate workshop.

Workshops will include general information on completing submissions, as well as the opportunity for peer review of revisions. Councils that performed well in the Fit for Future assessment will be asked to provide review support for their colleagues.

STEP 3: Submitting your revised proposal

What do you need to provide for reassessment?

Each reassessment submission should include:

- ✓ A copy of the Council Resolution endorsing the revised proposal.
- ✓ A copy of (or hyperlink to) council's original Fit for the Future submission to IPART.
- ✓ A statement (two pages maximum) for each criterion not achieved, explaining what actions council will take to address the issues raised by IPART.
- ✓ A revised Improvement Action Plan, demonstrating how council can now satisfy the three financial criteria.

To prepare the amended Improvement Action Plan, councils will need to review Sections 2.3 and 3 of Template 2 and rework Section 4 to show revised outcomes. Councils will also need to resubmit the Key Assumptions section in 3.1 of the template. If your council has revised any of these assumptions, you must explain the reasons for the changes. OLG will provide councils with a new version of the template for the reassessment.

Revised proposals and supporting documentation may be submitted to OLG via email at: onestopshop@olg.nsw.gov.au or via hard copy to:

FFTF Reassessment Submission

Locked Bag 3015,

NOWRA NSW 2541

Submissions will not be accepted after **15 July 2016**.

STEP 4: The reassessment process

Who will carry out the reassessment?

OLG will oversee the reassessment process in consultation with IPART and TCorp. OLG will provide a panel of suitably qualified finance and asset management professionals to undertake the review.

Councils can make a presentation to the reassessment panel, upon request. The panel may request additional information or clarification if required.

Assessment outcomes

Where a council's revised proposal meets the requirements outlined in the Appendix, the council will be assessed as Fit for the Future and can access the TCorp borrowing facility, following notification of the results.

Councils unsuccessful in the reassessment process may be referred to OLG's Financial Sustainability Program for support and capacity building, or be placed on a performance monitoring program. Where the reassessment process identifies serious or systemic sustainability issues, financial intervention will be considered.

There will be no review of the reassessment results.

Eligible councils opting not to participate in the reassessment process will be automatically referred to OLG's performance monitoring program. Where there is consistent poor financial management, a Performance Improvement Order may be issued.

More information

Information on the reassessment process is available on the Fit for the Future website:
<http://www.fitforthefuture.nsw.gov.au/content/fit-future-reassessment>

OLG will be opening an on-line forum in the council log-in section of the site for councils participating in the reassessment to share ideas and information. Updates regarding the reassessment process will be posted on the forum.

For enquiries about the process, please contact your council's OLG Relationship Manager.

Appendix

Criteria and benchmarks

As per the original Fit for the Future assessment, the following benchmarks will apply:

Measure	Definition	Benchmark
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 - average over 3 years
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% - average over 3 years
Building and Asset Renewal Ratio	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	Greater than 100% - average over 3 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%
Asset Maintenance Ratio	$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$	Greater than 100% - average over 3 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% - average over 3 years
Efficiency		
Real operating expenditure	$\frac{\text{Operating expenditure}^1}{\text{Population}}$	A decrease in Real Operating Expenditure per capita over time

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.

Addressing the criteria

Sustainability		
Performance measure	Benchmark	Requirements
Operating Performance Ratio	Greater than or equal to break-even average over 3 years	Councils in OLG Groups 1-7 must meet the benchmark within 5 years Councils in Groups 8-11 must plan to meet the benchmark within 10 years
Own Source Revenue Ratio	Greater than 60% average over 3 years	Councils in Groups 1-7 must meet the benchmark within 5 years. Councils in Groups 8-11 may include current FAGs contributions in their calculations. These councils must demonstrate improvement towards the benchmark within 5 years.
Building and Asset Renewal Ratio	Greater than 100% average over 3 years.	All councils must meet the benchmark, or show improvement towards achieving it within 5 years

Smaller councils

As per the IPART assessment, councils in OLG Groups 8-11 (councils with an agricultural base and smaller populations) will be subject to a broader assessment methodology that reflects their particular circumstances. Councils in these groups must achieve the Operating Performance Ratio requirements within the timeframes specified and should aim to show improvement against the other benchmarks, as directed.

Financial Assistance Grants

When including FAGs contributions in calculations for Own Source Revenue, smaller councils should base their estimates on current funding levels only. Although the NSW Government is currently considering other distribution models for FAGs, speculation on possible outcomes should not be included in your modelling.

Infrastructure and Service Management		
Performance measure	Benchmark	Requirements
Infrastructure backlog	Less than 2%	All councils should meet, or show improvement towards achieving the benchmark within 5 years.
Asset Maintenance	Greater than 100% average over 3 years	All councils must achieve, or show progress towards achieving the benchmark within 5 years.
Debt Service Ratio	Greater than 0% and less than or equal to 20% average over 3 years.	All councils must meet the benchmark within 5 years.

Infrastructure issues

Councils facing particular infrastructure challenges, due to historic issues, growth and settlement patterns, or other issues, may provide additional explanatory material regarding their circumstances when addressing these benchmarks and responding to IPART's assessment comments.

Assessment methodology

As with the IPART assessment, the performance measures for infrastructure and debt will be assessed in a holistic manner, having regard to the council's overall capital sustainability, as reflected in its Asset Management Plans, and considering each council's particular circumstances.

Data consistency

The reassessment process will also acknowledge and consider potential data inconsistency issues when interpreting a council's reported asset renewal, backlog and maintenance performance. Councils may wish to provide details of how they are working to improve the quality and consistency of their asset data as part of their submission.

Efficiency		
Performance measure	Benchmark	Requirements
Real operating expenditure per capita	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.

Achieving efficiencies

OLG notes that the majority of councils in the reassessment group successfully achieved this benchmark in the IPART assessment. These councils should ensure that actions undertaken in response to improving performance against the other benchmarks do not adversely affect their efficiency outcomes.

Generally councils should aim to demonstrate that, within their particular circumstances, they are utilising economies of scale and managing services levels to achieve efficiencies.