



Can small to medium sized Local Councils ever be sustainable?

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Introduction



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Background

- NSW Reform of Local Government
 - Fit for the Future 2013
 - Prior to the reform - 152 local Councils
 - Now - 128 general purpose Councils
 - How Councils were assessed
 - Scale and Capacity
 - Sustainability criteria

Background cont.

- Sustainability Criteria
 - Operational Sustainability
 - Operating Performance
 - Own Source Revenue
 - **Asset Renewal**
 - Capital Sustainability
 - **Infrastructure Backlog**
 - **Asset Maintenance**
 - Debt Service
 - Efficiency
 - Real Operating Expenditure

A small Council

Council Classification	No. of Councils	Average Council Area Sq. Km	Average Population	Area per person
Large Rural	42	7,877	10,356	0.7606
Metropolitan	25	79	149,853	0.0005
Metropolitan Fringe	9	1,134	142,597	0.0079
Regional Town / City	37	3,688	60,181	0.0613
Rural	15	15,213	3,119	4.8769
Grand Total	128	5,528	60,454	0.0914

A small Council

Council Classification	No. of Councils	% of State's Local Government Infrastructure	% of the State's Population	% of State Area
Large Rural	42	14.0%	5.6%	46.8%
Metropolitan	25	27.0%	48.4%	0.3%
Metropolitan Fringe	9	14.0%	16.6%	1.4%
Regional Town / City	37	42.0%	28.8%	19.3%
Rural	15	3.0%	0.6%	32.2%
Grand Total	128	100.0%	100.0%	100.0%

A small Council

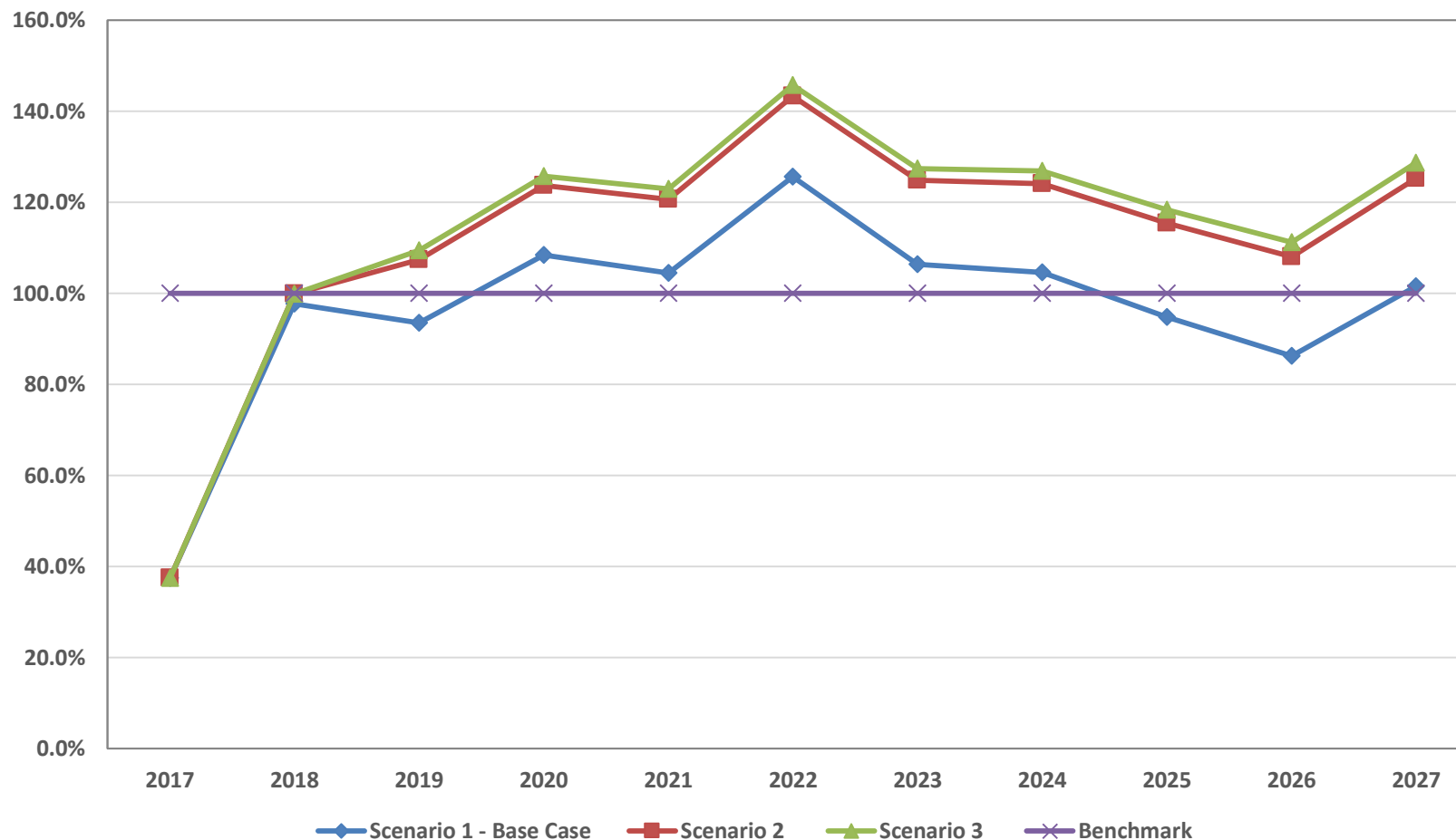
Council Classification	Replacement Cost	Annual Depreciation	Require maintenance	Actual Maintenance
Large Rural	\$17,862,850	\$254,209	\$209,598	\$221,814
Metropolitan	\$34,705,061	\$505,512	\$449,646	\$467,700
Metropolitan Fringe	\$17,882,550	\$254,444	\$182,422	\$195,645
Regional Town / City	\$54,286,818	\$845,730	\$695,524	\$630,949
Rural	\$3,497,327	\$50,664	\$46,138	\$46,830
Grand Total	\$128,234,606	\$1,910,559	\$1,583,328	\$1,562,938

Organisational Sustainability

- Organisation sustainability
 - Operating performance
 - Own source operating revenue
 - Unrestricted current ratio
 - Debt service cover ratio
 - Rates and annual outstanding percentage
 - Cash expense cover ratio
- Asset sustainability
 - Buildings and infrastructure renewals ratio
 - Asset maintenance ratio
 - Infrastructure backlog ratio
 - Cost to bring assets to agreed service level

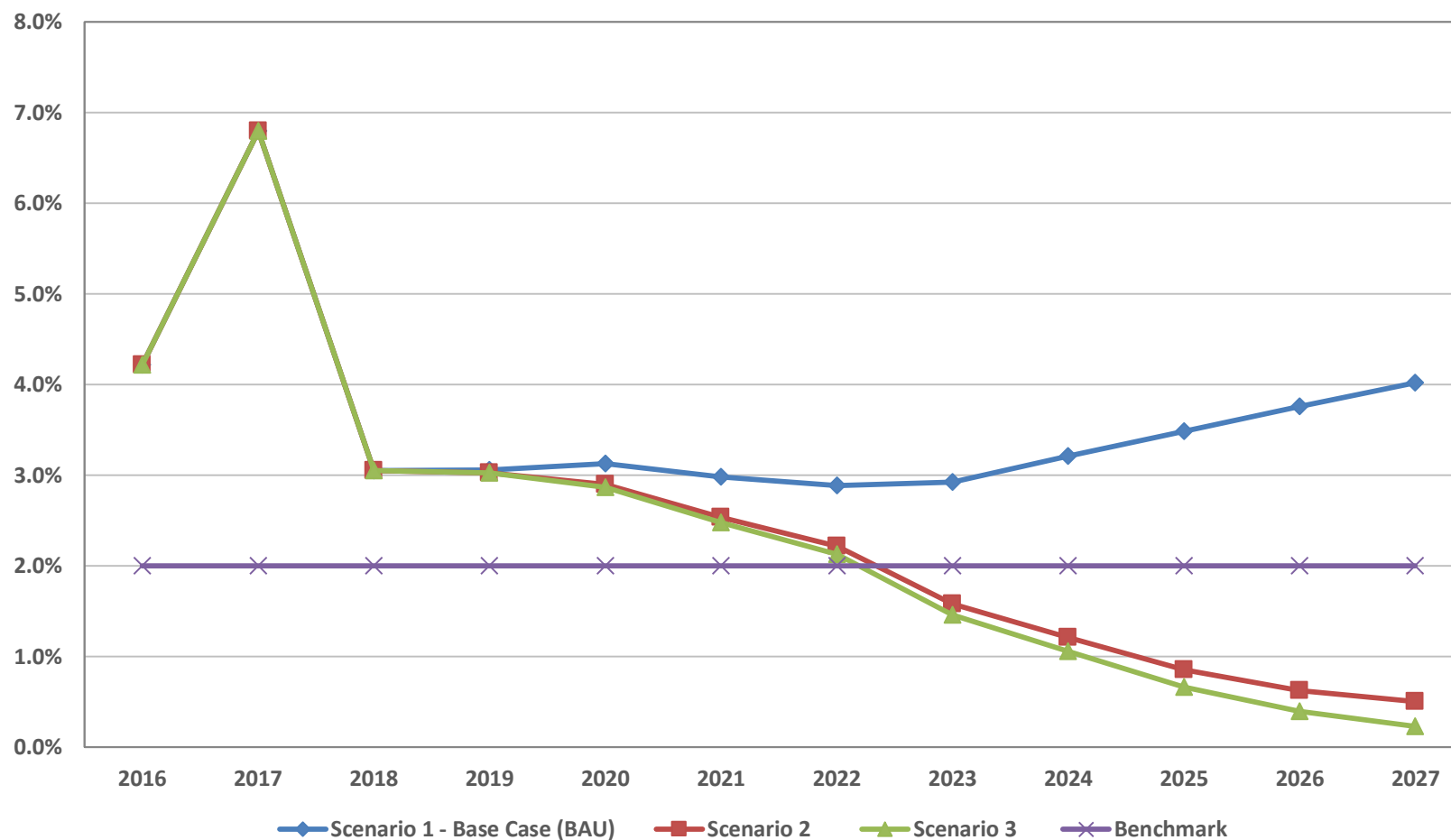
Case study

Buildings & Infrastructure Renewals Ratio (General Fund)
Annual Measure



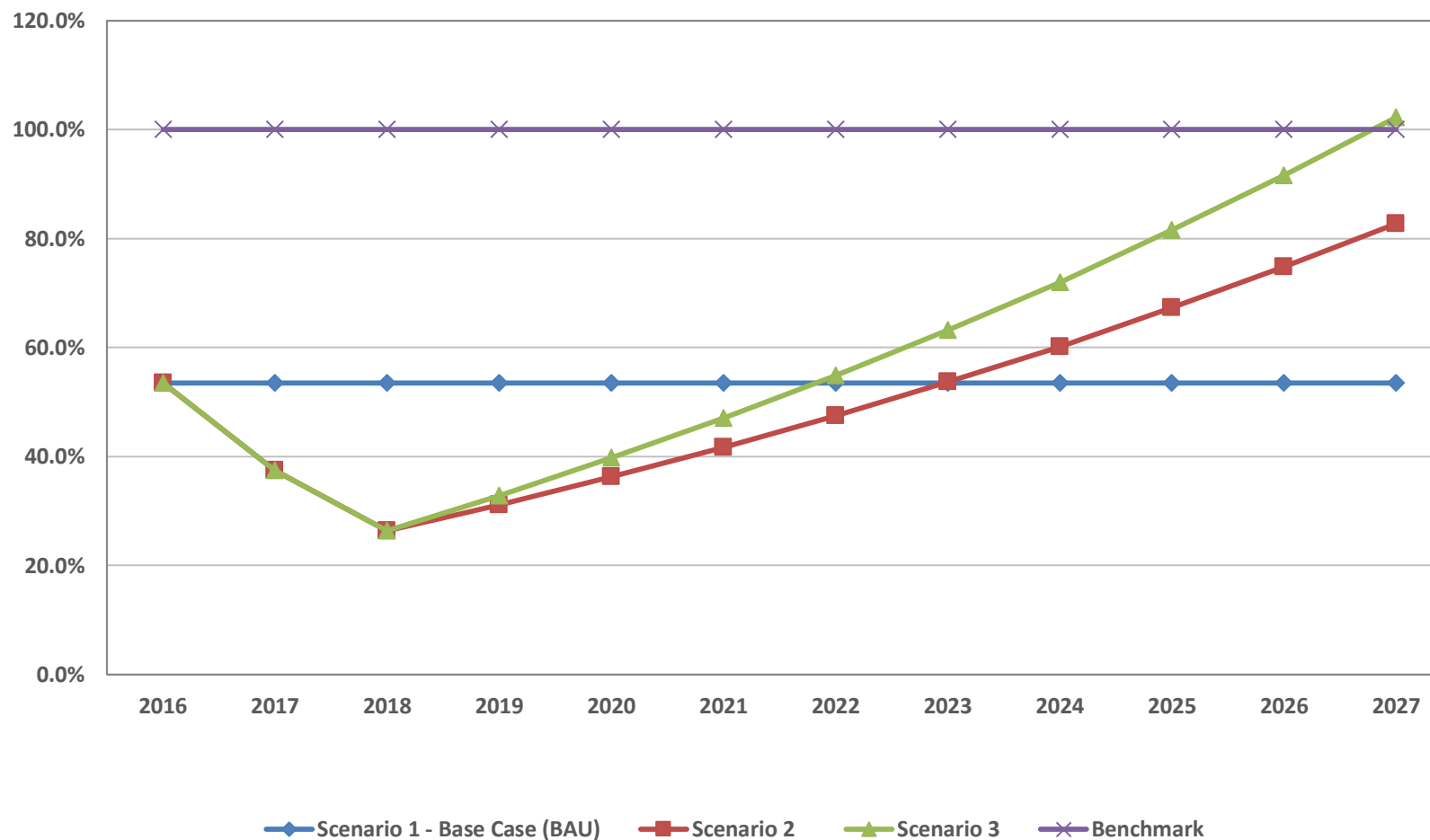
Case study

Infrastructure Backlog Ratio (General Fund)
Annual Measure



Case study

Asset Maintenance Ratio (General Fund)
Annual Measure



What do I need to know to run my business?

- What assets do I own?
 - What are they worth?
 - How long will they last?
 - Age
 - Condition
 - How am I going to maintain these assets?
 - How am I going to renew these assets?
 - What additional assets do I need?
 - What assets don't I need?

Key indices – Rate of Depreciation

Council Classification	Replacement Cost	Annual Depreciation	Average Rate of Depreciation	Average Rate of Required Maintenance	Average Rate of Actual Maintenance
Large Rural	\$17,862,850	\$254,209	1.42%	1.17%	1.24%
Metropolitan	\$34,705,061	\$505,512	1.46%	1.30%	1.35%
Metropolitan Fringe	\$17,882,550	\$254,444	1.42%	1.02%	1.09%
Regional Town / City	\$54,286,818	\$845,730	1.56%	1.28%	1.16%
Rural	\$3,497,327	\$50,664	1.45%	1.32%	1.34%
Grand Total	\$128,234,606	\$1,910,559	1.49%	1.23%	1.22%

Key indices

Council Classification	Replacement Cost	Annual Depreciation	Require maintenance	Actual Maintenance
Rest of the state	\$124,737,279	\$1,859,895	\$1,537,190	\$1,516,108
Rural	\$3,497,327	\$50,664	\$46,138	\$46,830
Grand Total	\$128,234,606	\$1,910,559	\$1,583,328	\$1,562,938

Council Classification	Replacement Cost	Annual Depreciation	Average Rate of Depreciation	Average Rate of Required Maintenance	Average Rate of Actual Maintenance
Rest of the state	\$124,737,279	\$1,859,895	1.49%	1.23%	1.22%
Rural	\$3,497,327	\$50,664	1.45%	1.32%	1.34%
Grand Total	\$128,234,606	\$1,910,559	1.49%	1.23%	1.22%

Individual Councils

Councils	Replacement Cost	Annual Depreciation	Rate of Depreciation	Rate of Required Maintenance	Rate of Actual Maintenance
Council 1	\$170,143	\$5,228	3.07%	1.57%	1.32%
Council 2	\$193,821	\$3,116	1.61%	3.34%	3.12%
Council 3	\$296,635	\$3,178	1.07%	1.29%	1.29%
Council 4	\$183,525	\$2,606	1.42%	1.45%	1.11%
Council 5	\$290,272	\$8,272	2.85%	1.18%	1.23%
Council 6	\$209,374	\$3,299	1.58%	2.55%	2.01%
Council 7	\$144,222	\$2,369	1.64%	2.15%	2.99%
Council 8	\$353,106	\$3,588	1.02%	0.31%	0.81%
Council 9	\$368,231	\$3,376	0.92%	1.31%	1.34%
Council 10	\$145,684	\$2,462	1.69%	1.55%	0.00%
Council 11	\$250,698	\$2,436	0.97%	0.64%	0.68%
Council 12	\$238,713	\$4,015	1.68%	1.29%	1.65%
Council 13	\$259,327	\$1,986	0.77%	0.99%	1.05%
Council 14	\$224,702	\$2,591	1.15%	0.88%	1.40%
Council 15	\$168,874	\$2,142	1.27%	0.73%	0.74%
Total	\$3,497,327	\$50,664	1.45%	1.32%	1.34%

Individual Councils

Councils	Replacement Cost	Annual Depreciation	Change in Depreciation using Max. rate	Change in Depreciation using Ave. rate
Council 1	\$170,143	\$5,228	\$0	-\$2,763
Council 2	\$193,821	\$3,116	\$2,840	-\$308
Council 3	\$296,635	\$3,178	\$5,937	\$1,119
Council 4	\$183,525	\$2,606	\$3,033	\$53
Council 5	\$290,272	\$8,272	\$647	-\$4,067
Council 6	\$209,374	\$3,299	\$3,134	-\$266
Council 7	\$144,222	\$2,369	\$2,063	-\$280
Council 8	\$353,106	\$3,588	\$7,262	\$1,527
Council 9	\$368,231	\$3,376	\$7,939	\$1,958
Council 10	\$145,684	\$2,462	\$2,014	-\$352
Council 11	\$250,698	\$2,436	\$5,267	\$1,196
Council 12	\$238,713	\$4,015	\$3,320	-\$557
Council 13	\$259,327	\$1,986	\$5,982	\$1,771
Council 14	\$224,702	\$2,591	\$4,313	\$664
Council 15	\$168,874	\$2,142	\$3,047	\$304
Total	\$3,497,327	\$50,664	\$56,799	-\$0

What to do?

- Question and challenge key assumptions in asset valuations
- Clearly understand the concept of useful life
 - What useful life is being achieved in your council?
 - Is it documented and can you provide evidence?
- Ensure that asset reporting within your organisation is consistent and telling the same story
- If you are under-depreciating you could possibly be hiding a potential infrastructure problem
- If you are over-depreciating you could be under- estimating your overall sustainability

What to do?

- Undertake your annual review of fair value
- Run key asset reporting figures through your audit and risk committee
- Make sure you understand what is being reported and challenge where appropriate



Questions?

