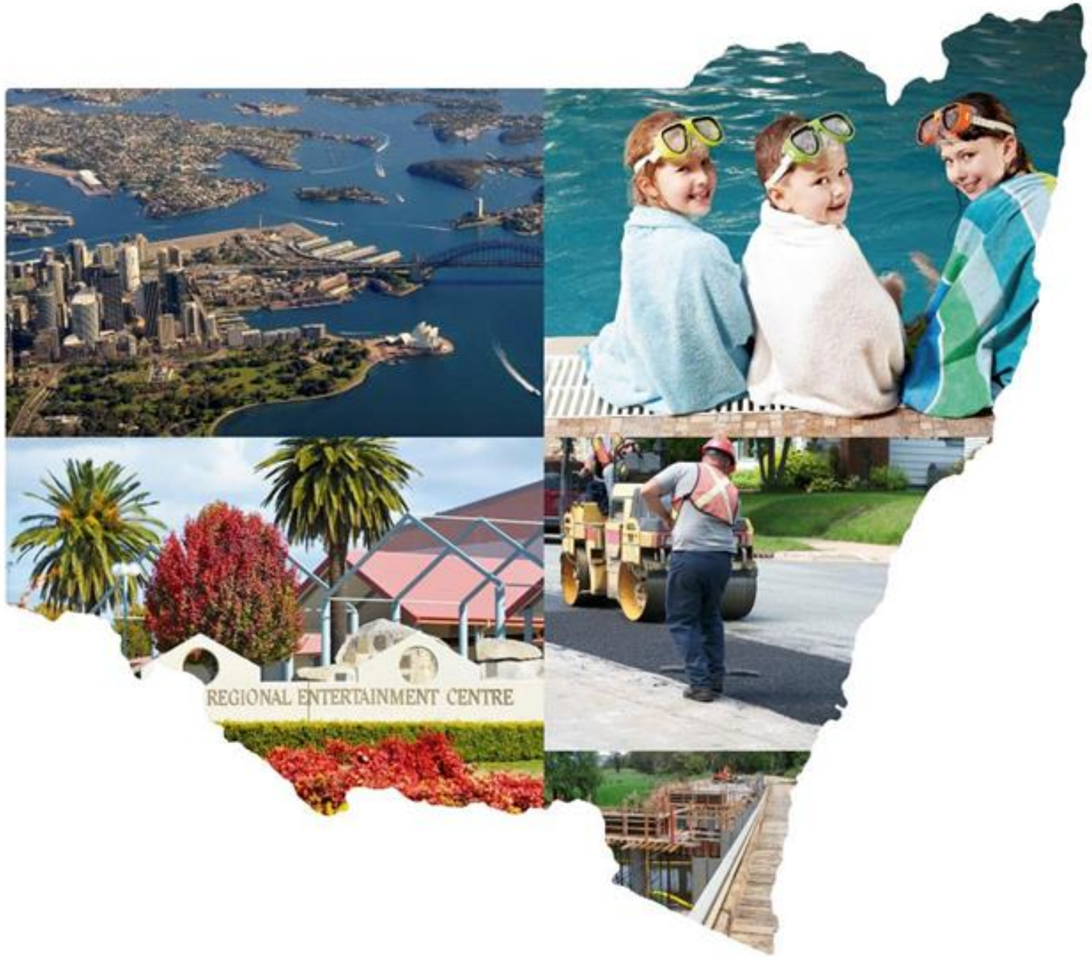
Template 2

Fit for the Future

Council Improvement Proposal

(Existing structure)



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Getting started . . .

Before you commence this template, please check the following:

- You have chosen the correct template – only councils that have sufficient scale and capacity and who do not intend to merge or become a Rural Council should complete this template (Template 2)
- You have obtained a copy of the guidance material for Template 2 and instructions for completing each question
- You have completed the self-assessment of your current performance, using the tool provided
- You have completed any supporting material and prepared attachments for your Proposal as PDF documents. Please limit the number of attachments and ensure they are directly relevant to your proposal. Specific references to the relevant page and/or paragraph in the attachments should also be included.
- Your Proposal has been endorsed by a resolution of your Council.

Council name: **Kempsey Shire Council**

Date of Council resolution endorsing this submission: **22 June 2015**

1.1 Executive Summary

Provide a summary (up to 500 words) of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies and outcomes.

Council is facing a significant financial hurdle, following years of underspending on infrastructure. Council embarked on a program to rectify this situation in 2012 resulting in a multiple year rate increase in general rates as well as the continuation of ongoing increases in the water and sewer area.

Linked to this has been a series of cost cutting exercises and significant changes to how the road and bridge network have been managed. $3.2million per annum has been reallocated from the general activities budgets, equating to around a 20% reduction in manageable costs. Council also ceased new borrowing for minor improvement works and is paying down existing debt to release a further $2.5million per annum over time.

A ten year forward road work programme has been developed based around condition assessment and levels of use. A ten year bridge program has also been developed after bridge condition assessments were undertaken on the timber bridges on the Council's road network. Similar work will be undertaken to guide other asset classes as Council reaches a position where it can fund work in other infrastructure classes.

Bellingen, Nambucca, Kempsey and Gloucester councils are embarking on a shared service review process for all services to find the best ways to provide services over a group of Councils including. Council will continue to lobby for the raising of a state wide levy to fund the Horizontal Equalisation Gap that exists and needs to be addressed.

The process of undertaking service reviews has been identified as providing benefits in the range of $500,000 to $1,400,000. It is expected that the net benefits will convert into improved service standards and filling the current funding gap rather than reducing the level of rates or expenditure.

1.2 Scale and Capacity

Does your council have the scale and capacity broadly consistent with the recommendations of the Independent Local Government Review Panel?

(ie, the Panel did not recommend your council needed to merge or become a Rural Council).

Yes

If No, please indicate why you are not proceeding with a voluntary merger or creation of a Rural Council as recommended by the Independent Panel and demonstrate how your council has scale and capacity (up to 500 words).

2. Your council's current position

2.1 About your local government area

Explain the key characteristics of your local government area, your community's goals and priorities and the challenges you face in the future (up to 500 words).

You should reference your Community Strategic Plan and any relevant demographic data for this section.

Kempsey LGA consists of 29,643 people spread over 337,874 hectares (0.09 persons per hectare) and 10 towns and villages, ranging from escarpments to coastline.

Kempsey LGA has multiple community groups, with differing demands. The working base creates a need for industry support and family based infrastructure. The retiree population is looking for a different set of services and infrastructure and tourists create peak loadings well beyond normal demand.

The largest industry is health care and social services, which has grown 30% between 2006 and 2011, followed by retail trade. The economy has a large agricultural and tourism base. It is also home to significant manufacturing companies such as Nestle' and Akubra.

Kempsey Shire Council has a SEIFA index of 879.72, significantly lower than other group 4 councils and lower than all but one of our nearby councils. This is caused by a combination of increased disadvantage and being a retirement location. Median weekly household income is well below the group 4 council average.

47% of the population was in the workforce in 2011 (dropping from 55% in 2001). Of these 28% worked full time in 2011, compared to 30% in 2001. Council has a lower percentage of the workforce in employment (91.12%) compared to group 4 councils (93.92%). Unemployment has been trending upwards since mid 2012 (currently 8.79%), in line with trends across the north coast. Wealth is around 5.74% lower than comparable LGA's. Historically rates have been kept well below the average for Group 4 Councils, reflecting a push to minimise the rates charged to residents. This is changing with current increases being phased in to create a more sustainable situation.

The community consists of an aging demographic. Between 2001 and 2011 the average age increased from 40 to 45. The household size shrunk from 2.5 to 2.4. The most common households are couples with no children (28%), couples with children (27%), lone person households (24%) and one parent families (13%). Home ownership has been declining slowly (from 69% in 2001 to 67% in 2011). The high level of retiree population is shown by over 30% of rateable residential properties being entitled to a pensioner rebate.

8.5% of the population in 2011 identified as aboriginal, 52% are under 19.

The community aspires to having healthy lifestyles, with the average lifespan needing to increase to the NSW average. They aspire for the level of preventable diseases to come down to state wide averages and to live in a healthy environment.

They aspire to have improved economic and cultural wealth. Increased education and value of production are seen as keys to meeting the need for increased average earnings and employment opportunities.

They aspire to feel and be safe, with preparing for emergencies and education on risks being seen as keys to preventing issues arising. Reducing crime incidences to state averages is seen as very important.

They also aspire to having a well connected social community where people are involved in their community through volunteering and participating in community events.

2.2 Key challenges and opportunities

<table>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>Approved Special Rate Variation
Assessed as having sufficient strategic capacity
Dedicated staff
• High level of people enjoy being at work
Low outstanding debtors
Population growth
• Naturally attractive area
• Rural residential land available
Relationships
• Good local member relationships
• Good government agencies relationships
Strong road asset management planning</td><td>Ageing population
Attracting skilled technical staff
Communication systems
Constraints of Award limiting ability to implement change
Financial position
• Oncost levels affects competitiveness
• Limited financial capacity to make significant changes
• Inability to finance new loans if needed
Higher level of corporate expectations than other service providers
Lack of asset management strategies in place
• Aging infrastructure approaching end of life
• Lack of capacity within existing infrastructure
Lack of community understanding of the cost of services
Large geographic area
Low socio-economic community
Pensioner rebate costs
Retention of skilled technical staff
Unclear definitions of services and service levels</td></tr>
</table>

Opportunities	Threats
Aged population • Employment growth in aged care • Large retiree group potential for volunteering Cash reserves investment Further rate increases Highway upgrades improving access • Employment lands near interchanges • Live locally and work elsewhere Increased Financial Assistance Grants Increased use or sale of council owned land Population growth • NBN allowing more remote work Regional service provision • To provide higher level of service using new methods of service delivery • To really look at what services we provide • Capacity to attract specialist resources • Reduce duplication • Improve staff morale Use of technology to streamline processes Rating of state owned land Review portion of costs covered by users of services or assets	Ageing workforce Amalgamation Climate change Difficulty in resolving conflict between local and regional pressures Flooding Gaining agreement among larger group of partners • In service provision • For lobbying Highway handover of road assets • Reduces financial sustainability Highway Upgrades • Live elsewhere and work here Reduced grant funding Requirement to continue to provide non-core services Requirement to provide more services as other levels of government do not provide them Union opposition Uncertainty about future

2.3 Performance against the Fit for the Future benchmarks

Sustainability					
Measure/ benchmark	**2013 / 2014 performance**	**Achieves FFTF benchmark?**	**Forecast 2016 / 2017 performance**	**Forecast 2019 / 2020 performance**	**Achieves FFTF benchmark?**
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-41.9%	No	-16.11%	-3.64%	No
Own Source Revenue Ratio (Greater than 60% average over 3 years)	63.35%	Yes	64.06%	73.78%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	32.22%	No	72.39%	85.74%	No (Improving)

If the Fit for the Future benchmarks are not being achieved, please indicate why.

For example, historical constraints/context, one-off adjustments/factors, council policies and trade-offs between criteria.

Council has historically been one of the lowest average rating councils in Group 4. This approach of minimising the level of rates has seen income levels set well below the real cost of providing the services and infrastructure offered. Over time this has led to a general decline in the standard of infrastructure and services which in turn has made the area attractive as a location for low income groups due to the low rates and relatively declining land values. This has coupled with being a retirement destination to drive the average wealth down. This in turn means it is difficult to raise the income to the level required to be sustainable in a short period of time without creating hardship across a broad sector of the community.

Council is in the process of implementing a 37.54% cumulative increase in rates until 2017/18 in line with the agreed position with the community. This is on top of a previous one year approval for an 11.37% increase. It was indicated to the community that as Council worked through its service provision and budget reviews the need for rate increases would be reviewed as part of the next Delivery Plan. This would allow the future Council to determine the revenue path with a number of unknowns taken out of the equation, allowing the Council to have a more accurate picture of what increases are really needed.

Due to unanticipated reductions in income, through factors such as the freeze on the Financial Assistance Grant and low interest environment, further rate increases will be required in the next term of Council to get to a sustainable financial position. The new council will have to determine if the community wishes to reduce services or increase revenue to retain those services.

Council has the lowest SEIFA index and the lowest average incomes of group 4 councils. This means any changes need to be measured and implemented over time. The current increases will mean that Kempsey will move towards the average rates for Group 4 during the five year period. This indicates capacity to become sustainable. However, with the low average incomes the community will require time to make the adjustment, as previously identified by IPART.

Equally poor financial condition of the water and sewer funds means that the impact on the ratepayer is intensified as these areas have also seen, and will continue to see, prolonged increases well above cost of living. Having to deal with financial shortfalls across the board, not just in one area of the Council's services increases the hardship of the increases and accordingly the length of time over which the required increases can be implemented.

Council is of the view that its estimates of capital grant funding is conservative and a reliable consistent income. Capital revenue is from Roads to Recovery, Bush Fire Fund, Flood Mitigation Fund, Regional Roads Block Grant and section 94 contributions (at a low level). It is not considered that the impact of increasing rates against the speculative position that these grant programs will be removed is in the best interests of the community. Raising the $1.6million would require an above peg increase of 9%. It is considered that there is the capacity in the future to increase rates should those grant programs be abolished by State and Federal Governments. This is also valid taking into account that the Council does benefit from individual grant capital programs over time (even if these are not certain or regular in the short term). These capital grants, even if considered windfall income, still allows the council to sustainably provide services. An example of this is the Crown Reserves, there is a high likelihood that a number of the facilities on the crown reserves will have a portion of grant funding provided to replace the playgrounds, roads and buildings. This will effectively replace assets without the need for contribution from ratepayers.

Combining these regular capital income streams over time with the operating result does place Council in a situation where it currently has a net surplus forecast over the coming ten years. Windfall capital grants, some of which will occur, will improve that result.

The benchmark for the asset renewal ratio is expected to be achieved over time. Council has found that over the last years of focussing on the road network the efficiencies that can be driven by undertaking larger scale jobs has brought the cost of asset replenishment down. As an example, the unit cost of gravel resheeting has roughly halved by moving to larger segments of resheeting. The implementation of improved asset management and better monitoring is also seeing the effective lives of roads estimated to increase. These factors combined with the current increases in the rates funds allocated to capital replenishment and future funds forecast to become available will lift the council's indicators over the longer term.

Appendix A shows the longer term trend of the Council against the benchmarks.

2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management					
Measure/ benchmark	**2013 /2014 performance**	**Achieves FFTF benchmark?**	**Forecast 2016 / 2017 performance**	**Forecast 2019 / 2020 performance**	**Achieves FFTF benchmark?**
Infrastructure Backlog Ratio (Less than 2%)	16.37%	No	8.17%	6.81%	No (Improving)

Infrastructure and service management

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Forecast 2019 / 2020 performance	Achieves FFTF benchmark?
Asset Maintenance Ratio (Greater than 100% average over 3 years)	60.10%	No	55.46%	56.05%	No (Improving slightly)
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	8.36%	Yes	6.71%	3.70%	Yes

If the Fit for the Future benchmarks are not being achieved, please indicate why.

The historical low average rates impact on this area in the same way as they do above.

Council has not prioritised funding the maintenance shortfall as accurate asset management information, which established the gap with a high degree of certainty was not available and the greatest benefit was seen to come from ensuring further segments of the road network in good condition do not deteriorate past the optimal intervention period. Additionally the capacity of the community to fund increases in the short term has been fully absorbed in addressing the capital shortfall.

Council will not be able to improve the asset maintenance ratios over the periods selected for the review as the priority has been placed on addressing the capital renewal shortfall. Assessment of the impact of allowing roads in reasonable condition to degrade shows that the net cost of not intervening through capital renewal is greater than the cost of a focus on maintenance. Equally the capital renewal often is addressing the high maintenance issues of the road network, thus assisting in moving the Council to a position where it will be able to manage the asset network with the optimal level of maintenance funding in the future.

The financial data from the three years up to 2013/14 have a high level of spending on restoration of flood damaged roads. This expenditure was grant funded and there is no equivalent funding in the future years to maintaining this level of expenditure. In effect this skews the asset maintenance ratio worse than is the actual situation. If this expenditure was not in the earlier periods Council would be showing a lesser negative change in the level of maintenance expenditure over the assessed periods, moving from a result of 55.69% to 53.05%. The financial forecasts indicate the ratio increasing slightly after that time as the impact of the higher costs of flood damage repair falls out of the average calculations and then stabilising.

Further rate increases will be recommended once the Council has completed a process of service reviews and clarified the maintenance shortfall through the current iterations of asset management plans. Council has been researching information on the optimal level of maintenance and will continue to refine this information to ensure that the level of revenue raised matches efficient levels of maintenance expenditure.

2.3 Performance against the Fit for the Future benchmarks

Efficiency					
Measure/ benchmark	**2013 /2014 performance**	**Achieves FFTF benchmark?**	**Forecast 2016 / 2017 performance**	**Forecast 2019 / 2020 performance**	**Achieves FFTF benchmark?**
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	1.61	No	1.52	1.60	No

If the Fit for the Future benchmarks are not being achieved, please indicate why.

Council has a very small estimated population change. This means that the rate of inflation is well in excess of population change. As a result it is not possible to continue to provide the same level of service at a decreasing cost over time. The ongoing cumulative impact of the 2% reduction in available funds in conjunction with the efficiency dividend that is built into the rate increase calculation is not sustainable. This is magnified by the fact that the inflation adjustments include the impact of accounting for the readjustment of asset values for current replacement value, but council does not have the discretion to reduce the main asset base (roads), as residents require road access.

This would require a further 16% reduction in controllable expenditure of Council. As Council has already reduced its discretionary spending in operating expenses by around 20% over the last five years. Further efficiencies would be difficult to achieve over the period in review, particularly in an environment where there is limited capacity for spending of funds on the investigation or implementation of efficiency savings.

Compounding this is the fact that as Council is already underspending on maintenance, the savings could only come from service, administrative or management operating costs, a much smaller pool of expenses. This further magnifies the level of impact of the changes required. Removing $6.8million per annum from just the service delivery costs of council by 2016/17 is not achievable. Administrations costs are already below industry benchmarks, indicting limited capacity to reduce costs in that area.

Based on the community's desire to retain the current level of services, the only option seen as available to meet this benchmark is not considered acceptable to the community. Because two indicators conflict, Council will be required to prioritise one indicators in the short to medium term. Actions to increase operating expenditure to fill the asset maintenance gap will mean that during this period of adjustment it would not meet the benchmark considered a lower priority during the period under assessment irrespective of the savings being made.

2.4 Water utility performance

NB: This section should only be completed by councils who have direct responsibility for water supply and sewerage management

Does your council currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework?

No

If NO, please explain the factors that influence your performance against the Framework.

Council meets all of the requirements for sewerage and 90% of the criteria for water supply. Within the water supply areas Council is yet to achieve the target of deriving over 75% of income from residential properties through usage charges. Council will meet this target in the future.

How much is your council's current (2013/14) water and sewerage infrastructure backlog?

In 2013/2014 Council reported a cost to bring water & sewerage infrastructure to an acceptable standard (special schedule 7) of $24.48M (water) & $13.4M (sewerage). This is based upon the available asset condition data which has been widely used as a surrogate for reporting the "*infrastructure backlog*". It is not considered to be a fair representation of the "infrastructure backlog" faced by Council as the assets in condition 4 to 5 are able to be effectively managed to provide service or are funded for replacement in the near future.

2.4 Water utility performance

Identify any significant capital works (>$1m) proposed for your council's water and sewer operations during the 2016-17 to 2019-20 period and any known grants or external funding to support these works.

Capital works

Proposed works	Timeframe	Cost	Grants or external funding
Telemetry Upgrades & New Instrumentation Installation	2016 - 2017	$1.012M	Nil
South West Rocks Water Treatment Plant Upgrade/Operational Improvements	2016-2018	$1.05M	Nil
Water Supply Distribution System Augmentation	2016-2020	$2.74M	Nil
Fluoridation – Steuart McIntyre Dam	2015-2017	$1.25M	100%
SCADA System Upgrade	2015-2017	1.025M	Nil
Crescent Head - Balance Tank & Water treatment Plant	2018-2020	$4.6M	Nil

Capital works

Proposed works	Timeframe	Cost	Grants or external funding
Central Kempsey Wastewater Treatment Plant – Stage 1	2015 - 2018	$25.7M	Nil
Central Kempsey Wastewater Treatment Plant – Stage 2	2018 - 2020	$23M	Nil
Sewer System Licensing Works – Upgrade Pumping Stations	2016-2020	$1.99M	Nil

2.4 Water utility performance

Does your council currently manage its water and sewerage operations on at least a break-even basis?

No

If No, please explain the factors that influence your performance.

Historically annual and user charges have been kept well below sustainable levels. A sustained period of increases has been put into place in recent years and will continue for some time into the future until the funds become sustainable. For both areas a break even outcome will be achieved within the ten year financial plan.

2.4 Water utility performance

Identify some of your council's strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 period.

Improvement strategies

Strategy	Timeframe	Anticipated outcome
1.Replace/Upgrade the current SCADA system to allow increased automation and online instrumentation	2015 - 2017	• Reduced time lost to travel – lower O&M costs • Improve remote monitoring & alarming • Increase online instrumentation • Reduced water quality risk

Improvement strategies

Strategy	Timeframe	Anticipated outcome
2. Revised pricing path to assist with achieving financial sustainability	2015 – Complete 2016-19 - Implement	• Increased user charges initially • Reduced long term cost of service provision • Reduced reliance on debt to fund routine asset renewal & minor augmentation
3. Undertake prioritised asset renewal program	2016-2020	• Improved system reliability • Reduced interruption frequency • Reduced system losses/infiltration
4 Complete development of Central Kempsey Wastewater Treatment Plant	2015-2020	• Improved treatment performance within license conditions

Improvement strategies

Strategy	Timeframe	Anticipated outcome
5. Investigate opportunities for agricultural effluent reuse	2016/2017	• Identify opportunities to increase effluent reuse • decrease the volume of treated wastewater released to the Macleay River • Reduce the demand on the potable water supply used for agricultural purposes
6. Implement planned restructure of the Water Supply & Sewerage to and provide clear lines of responsibility		• streamline teams within service delivery areas • provide clear lines of responsibility • Improve efficiency (improve cost driven performance measures)

3. How will your council become/remain Fit for the Future?

3.1 Sustainability

Summarise your council's key strategies to improve performance against the Sustainability benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

It is not possible to meet all of the benchmarks as established. In the short or medium term as they conflict with each other. Increasing the level of expenditure on maintenance to achieve the maintenance ratio will negatively impact on the cost of providing services.

Council can only prioritise some indicators to focus on, based on what is seen as the most beneficial outcomes for the community. The focus of the strategy so far has been to increase funding for the highest priority infrastructure through rate increases and find efficiency savings to reallocate to other infrastructure.

Council will invest $700,000 in the coming financial year and expects to invest a similar amount in future years to fund a service review and internal audit capability. This ongoing series of service reviews will move Council to best practice service provision and infrastructure maintenance. As part of this the Council is working with all of the willing partners on the Mid North Coast to look at providing services on a regional basis. This will allow Council to gain efficiencies of scale or scope where they occur and can be captured by a larger group.

The current special rates variation will continue to increase the funds available for transport infrastructure into the future.

Since Council previously lodged the special rate variation in 2012 a better understanding has been developed of the maintenance shortfall. There is still more work to be done to verify what is the optimal level of funding. It is expected that in the next term of Council the councillors will have to determine a strategy for their term of what approach to take about the maintenance shortfall.

Based on the previous consultations around the existing rates variation approval it is expected that the community would prefer to fund the shortfall rather than reduce service levels. Accordingly a special rate variation application has been included as one of the actions to be taken in this proposal.

Council has also been lobbying for a changed approach to funding of local government. The outcomes of this lobbying have not been included in the finances of the council due to the uncertainty that they could eventuate.

Council has taken the approach that the pool of funding to address the horizontal disadvantage factors, identified through the Financial Equalisation Grants assessment methodology, needs to be increased. It is proposed that this needs to occur through the implementation of a state wide levy which raises the shortfall required to resolve the issue of horizontal equalisation. The impact on Kempsey Shire Council would be to increase the available revenue by $6.3million. This would substantially resolve the underfunding issues that currently exist.

Explain the key assumptions that underpin your strategies and expected outcomes.

For example the key assumptions that drive financial performance including the use of SRVs, growth in rates, wage increases, Financial Assistance or other operating grants, depreciation, and other essential or major expense or revenue items.

The maintenance shortfall is calculated at $4.6million. This equates to a 25% rate increase. Based on the previous indications from IPART around the affordability of rate increases it is expected that this would have to be phased in over four years. As this will come into place following the completion of the existing special rates variation it is anticipated that the new council would only be in a position to implement any increase in the 2017/18 year.

This strategy would, of course, lead to Council failing the efficiency benchmark as the increased expenditure on maintenance will lead to an increased cost per person.

The service efficiency reviews will be undertaken over a four to five year period. Actual savings from the process will not be known until services have been reviewed. There are unlikely to be significant cash savings as a result of the process as Council is currently underspending on maintenance and asset renewals, so savings will be reallocated towards the shortfalls that currently exist. Accordingly, while Council may be able to provide a better service or renew assets at an appropriate time, it will not materially change the financial sustainability of Council. Attached is the KPMG review of the proposal to undertake a regional approach to service reviews, which indicates the scope of efficiency savings possible.

The assumptions underlying the current ten year financial plan are attached as Appendix B. These assumptions do not include the outcomes from actions proposed in this document which have not been adopted by Council when it last reviewed its long term financial plan.

3.1 Sustainability

Outline your strategies and outcomes in the table below.

3.1 Sustainability				
Objective	**Strategies**	**Key milestones**	**Outcome**	**Impact on other measures**
1. Increase funding for infrastructure asset renewals	Continue to implement approved rate increases and allocate funds to asset renewal	Additional revenue coming in place each year.	Fully fund long term annual requirements for transport infrastructure	Improves Operating Performance Ratio Improves Own Source Income Ratio

3.2 Infrastructure and Service Management

Summarise your council's key strategies to improve performance against the Infrastructure and service management benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

Over time the changes put into place in the past, to increase the available revenue for asset renewal, will lead to the infrastructure backlog steadily diminishing toward reaching the benchmark in approximately 15 years. Because of the low socio-economic position of the community it is considered that this is the most appropriate course. The existing strategy of paying down debt will be continued. Any future desire to debt fund infrastructure will need to be supported with a rate increase, or a commensurate decrease in levels of service, to fund the loan repayments.

Explain the key assumptions that underpin your strategies and expected outcomes.

Based on community feedback, in the process of applying for a substantive rate increase and the view expressed by IPART as to the affordability of increases, a longer term solution was seen as appropriate. Equally, modelling indicated that seeking to bring forward dealing with the backlog led to an increase in rates that would have to then be wound back in the future as the funds for backlog works were no longer required. There did not seem to be a view in the community that the value of dealing with the backlog quickly exceeded the impact of the cost on the lower socio economic parts of the community. The amount required to be spent has been calculated on lifetime needs for the major asset classes. The funding has been increased to allow for long term asset renewals to be undertaken. Subsequent losses of income, such as the Financial Assistance Grants, and upcoming handover of roads from the NSW Government as part of the highway upgrades will need to be factored in.

3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1. Remove backlog of infrastructure assets	a) Appropriately fund replacement of road and bridge infrastructure from additional rate revenue.	i) Unsealed road network being gravel re-sheeted based on Asset Management Plan timeframes ii) Sealed roads re-sealed within the time frames set in the Asset Management Plans iii) Timber bridges fit for loads required with no major maintenance required	Infrastructure in poor condition limited to the percentage of infrastructure reasonably expected to be due for replacement in the near future.	

3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
	b) Reallocate funds from efficiency savings towards other asset renewal over time	Funding reaches sustainable level		Short term improves the Operating Performance Ratio
	c) Reallocate funding from lower loan repayments to asset renewals over time	Funding reaches sustainable level		Improved Operating Performance Ratio through lower interest costs
2. Further develop information on what is the optimal level of expenditure required on maintenance of assets to ensure that when the process of efficiency reviews is completed the councillors can be well informed on the actual gap.	a) Research international information on the maintenance of asset classes relevant to Council	Identification of accurate best practice maintenance level for each major asset class	Clearer picture of actual maintenance gap	

3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
	b) Work with MIDROC in developing best practice road asset management practices	a) Development of information sharing team b) Development of resource sharing approach to fill staff skill gaps	Adoption of best practice from the group across all councils.	
	c) Restructure ledger to better delineate between maintenance costs and running costs	Ledger restructured	Better capture of maintenance expenditure	

3.3 Efficiency

Summarise your council's key strategies to improve performance against the Efficiency measures in the 2016-20 period, including the outcomes you expect to achieve.

The establishment of a service review process is the primary strategy to achieve efficiencies over time. This indicator will not be met whilst there are increases to maintenance spending overall, as required to sustainably continue to provide the current levels of service. As this measure does not measure efficiency, but only measures spending, Council cannot show an improvement in this indicator as the current level of expenses is lower than the optimal level of maintenance based on the currently available information. Therefore the Council has to increase expenditure no matter what level of efficiency can be gained out of the current allocations.

Explain the key assumptions that underpin your strategies and expected outcomes.

Details of the expected benefits and outcomes are set out in the KPMG report and the attached summary of the actions the Council is planning to undertake as set out in Appendix C.

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency				
Objective	**Strategies**	**Key milestones**	**Outcome**	**Impact on other measures**
1. Maximise efficiency and effectiveness	a) Undertake service reviews of all services	Five service areas per annum targeted to be undertaken.	Identification of potential efficiency savings of over $2,000,000 across the group of councils	Funds may be freed up towards capital renewal, leading to an improved building and infrastructure asset renewal rate or allocated to maintenance, leading to an improved Asset Maintenance Ratio.
2. Achieve possible scale and scope efficiencies	a) Work with willing partners to identify opportunities	Identify savings	Scale and scope benefits in excess of $500,000	

3.4 Improvement Action Plan

Summarise the key improvement actions that will be achieved in the first year of your plan.

Action plan

Actions	Milestones
1. Undertake service reviews of five service areas	Service reviews complete and recommendations prioritised.
2. Increase rates revenue by 10%	Rates levied and allocated to transport infrastructure renewals.
*** Please attach detailed action plan and supporting financial modelling** **Note: KPMG report is attached showing the costings and potential benefits as Appendix D**	

Outline the process that underpinned the development of your Action Plan.

For example, who was involved, any external assistance, consultation or collaboration, and how the council has reviewed and approved the plan.

The Action Plan is a continuation of the ongoing plan for Council to achieve financial sustainability that started well before the Fit for the Future process. It was developed through a process of community consultations in 2010-2011 and culminated in the application for a multiple year rate levy, efficiency drive and change in use of debt. It was identified to the community at the time that there was a need to review the plan. The future and the current proposed actions fit in with the timeframes established due to the timing over which the current rate increases are being implemented.

Council will need to reengage with the community as it firms up the details around the need for further funding, with this work being planned to link in with the next elected council determining their Delivery Plan.

The only new action that has come from the last two years is the potential to undertake shared service reviews. This has been developed internally and regionally, as there has been a strong focus on finding ways to increase the operational efficiency of service provision as a means to get the optimal value from the funds currently available. Following the model being developed KPMG were appointed to review and report on the options included in the report on sharing services.

This was reported to the councillors who are keen to see options that improve the efficiency of operations put into place as soon as practical.

3.5 Other actions considered

In preparing your Improvement Action Plan, you may have considered other strategies/actions but decided not to adopt them. Please identify what these strategies/actions were and explain why you chose not to pursue them.

For example, neighbouring council did not want to pursue a merger, unable to increase rates or increase borrowing, changes in policy or service standards. Council was seeking to include a larger number of councils in regional service provision. Indications in the KPMG report commissioned by MIDROC and the work undertaken by Kempsey Shire Council indicated that this would lead to a higher benefit being achieved. Not all councils were willing to join into regional service provision in line with the model. Developing shared services will be difficult and as such can only be successfully achieved through willing partners working together. Where possible additional councils will be engaged with (in addition to the core group of councils) who are willing to undertake the shared service opportunity reviews to maximise the possible efficiencies from scale and scope. Council has previously considered increasing rates to remove the backlog in a shorter timeframe, but the impost was not seen as warranted. Council was conscious that it set the revenue strategy for the current Delivery Plan. The subsequent Council will have to develop another Delivery Plan and would be in a better position to assess the best option following the works that have been undertaken over the last five years and the next two years. For this reason the rate increase strategy agreed to with the community for this term of Council has not been changed.

4. How will your plan improve performance?

4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-40.35%	-29.95%	-16.11%	-5.44%	-4.02%	-3.47%	No
Own Source Revenue Ratio (Greater than 60% average over 3 years)	62.14%	62.03%	64.06%	72.28%	76.49%	79.42%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than100% average over 3 years)	36.81%	67.28%	72.39%	87.26%	83.98%	85.74%	No
Infrastructure Backlog Ratio (Greater than 2%)	9.74%	9.24%	8.89%	8.17%	7.50%	6.81%	No
Asset Maintenance Ratio (Greater than 100% average over 3 years)	60.10%	54.28%	55.46%	59.14%	68.09%	79.49%	No
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	7.90%	7.29%	6.71%	5.92%	4.78%	3.70%	Yes
Real Operating Expenditure per capita (A decrease in Real Operating Expenditure per capita over time)	2.05	1.49	1.53	1.58	1.65	1.71	No

4.1 Expected improvement in performance

If, after implementing your plan, your council may still not achieve all of the Fit for the Future benchmarks, please explain the likely reasons why.

For example, historical constraints, trade-offs between criteria, longer time required. The current financial situation has taken a considerable amount of time to develop and unwinding that situation without causing harmful disruption within the community will similarly take considerable time. This is compounded by the fact that when a council is operating in a poor financial position communities expectations that the services will continue to be provided means that there are not the funds available to reallocate to working on fundamental changes, such as establishing systems and reviewing processes. Council has put into place what change it and its community can afford to implement. Over the last five years costs of the organisation have been trimmed by $3.2million per annum. This equates to a 20% efficiency savings on expenditure that is within the Council's ability to control. Unfortunately factors, such as the freezing of Financial Assistance Grant and low interest rates, have eroded the ability of Council to transfer those savings into other productivity savings of capital renewal funds. The financial plan that has been developed will lead to the backlog returning to manageable levels. If the conservative estimated capital revenue in Council's ten year financial forecasts occurs the Council will have a net operating surplus over the coming ten year financial plan. Council is seeking the best balance between the community's capacity to pay and the impact of financial unsustainability in the shorter to medium term.

5. Putting your plan into action

How will your council implement your Improvement Action Plan?

For example, who is responsible, how the council will monitor and report progress against achieving the key strategies listed under Section 3. The actions are listed in the Operating Plan for the coming year, in accordance with the Integrated Planning Framework. IPART can refer to the current document for the responsible officer. The legislation and integrated planning guidelines set out the reporting mechanisms. Items that would occur in the next Delivery Plan period will require the councillors at the time to resolve to carry out those actions.