Template 2

Fit for the Future

Council Improvement Proposal

(Existing structure)

NSW GOVERNMENT | Office of Local Government

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: **Kiama Municipal Council**

Date of Council resolution endorsing this submission: **16 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.

Kiama Council's position is one of relative strength. With strong governance, political stability, scale and capacity and an educated community with a high level of Council satisfaction (independent Illawarra Regional Information Service surveys), Council incorporates prudent financial decision making to deliver quality services, assets and infrastructure, and is demonstrable in listening to and servicing the needs of the community. The community continues to express a strong desire for Council to remain independent. The Local Government Review Panel Report reflects this position through its assessment that Kiama Council remain autonomous. An independent third party analysis by Treasury Corp (TCorp) also concluded that Council had a Financial Sustainability Rating (FSR) of moderate and an Outlook of neutral.

The self assessment demonstrates Council meets four of the Fit for Future benchmarks and only marginally misses two (Operating Performance ratio -0.042 & Asset Maintenance ratio 97.58%). The Building & Infrastructure Renewal benchmark (43.51%) is not met, however this figure is considered close to optimal at this time as Council has 100% alignment between the Long Term Financial Plan (LTFP) and Asset Management Plan and 100% alignment between asset management data and financial reporting - Community Strategic Plan (CSP) 2.10: 2.11: 2.12:2.13. Council believes that it's investing the correct quantum of funds to renew assets whilst at the same time ensuring maintenance and renewal occurs within appropriate timeframes. This is reinforced by Council's very low infrastructure backlog.

With sufficient scale and capacity as well as a moderate FSR and neutral outlook, Council builds on this stable financial position to ensure the LTFP continues to support the CSP & Delivery Program and is structured to ensure the ongoing maintenance and delivery of assets and infrastructure to the standard accepted by our community.

Council has commenced a number of actions to reduce expenditure including the introduction of activity based costing and shared regional procurement that is further enhanced through participation in the Joint Organisation of Illawarra Councils (embedded into IPR - OP Activity 4.1.1.1). This approach amongst other actions secures Council's financial position ensuring it has sufficient scale and capacity to remain a high functioning autonomous local government entity (consistent with CSP Strategy 4.1). Council will take advantage of our strong low debt position and borrow funds for identified major projects which may delay the need to consider a rate rise until the mid to latter part of the LTFP period. Revenue from the expansion of our aged care operations will improve our Operating Performance for the remainder of the life of the plan. With predicted revenue increasing significantly on completion of the new Centre of Aged Care Excellence, our operating performance rises sharply from 2018 onwards. This project in particular is expected to deliver for Council a strong and ongoing injection of revenue into the future (as does the existing aged care facility).

As a further demonstration of Council's commitment to improvement it has resolved to broaden the charter of the Revenue Committee (renamed to the Strategic Financial Management Committee) which will be responsible for steering and driving business process improvements.

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.

With a Community Vision of 'working together for a healthy, sustainable and caring community', and with strong political leadership and strongly functioning management team, Council strives for excellence in governance and civic leadership.

Established in 1859 and with a population of over 21,000 residents, Council enjoys a very solid relationship with the community - most recent survey results showed 3 out 4 residents (76%) were either satisfied (60.8%) or very satisfied (15.2%) with Councils overall performance (the next Community survey is scheduled for Nov 2015). Only 3% were dissatisfied. Council is performing above the benchmark set by comparable councils (Refer Attachment One). There is a very strong sense of community and the survey results are testament of Council's ability to met community expectations.

The Kiama LGA has special character (recognised in the Final Report of the NSW Local Government Independent Review Panel – Refer Attachment Two). Predominantly rural landscapes, with town and village centres prospering from a mix of residential and commercial activities, the proximity of Kiama to major cities such as Sydney and Canberra make it an attractive coastal tourist destination. The close proximity to Wollongong and Nowra means Kiama is an important contributor to the local Illawarra economy.

Council has a long history of collaborating with adjoining Councils and is the host organisation of the Southern Councils Group. There are many examples of shared resourcing and cooperation such as the library cooperative with Kiama and Shoalhaven Councils, materials and trade service shared contracts between Kiama, Shoalhaven and Shellharbour Councils.

Financial sustainability remains an important issue for Kiama Council. Funding constraints continue to place increased pressure on the delivery of services and on asset management however Council has commenced a number of strategies and foreshadowed a number of others to address these. A further challenge is the large increase in population over weekends and peak holiday periods. Whilst bringing economic benefits to the local economy, the impact on Council assets and resources can be significant. However Council views these challenges as opportunities, and has addressed these opportunities in the Improvement Plan.

We have developed our Resourcing Strategy, Internal Audit Plan and Enterprise Risk Management Plan as steps to help achieve strong governance frameworks, and to ensure we can satisfactorily maintain and renew infrastructure and meet the service and operational needs and expectations of residents.

With rates and annual charges representing 33% of Council's total revenue, Council is relying less on this source of revenue, and more on sources of revenue Council can control, to gain more flexibility to fund our operations and maintain our financial sustainability. Council has the scale and capacity to prosper as a high functioning public authority.

Council's commercial activities (for example our aged care services) continue to provide an important source of income to offset other financial constraints. Kiama Council has the strategies and framework in place to meet the needs of our ageing community into the future. Council also operates five commercial Holiday Parks as well as a commercial and domestic waste management services.

2.2 Key challenges and opportunities

Strengths	Weaknesses
- Low infrastructure backlog - Low debt - Solid Operating performance (OP) ratio at present - 100% alignment between 10yr Financial Plan and Asset Management Plan - 100% alignment between asset management records & financial records for assets (no gap between valuation records and asset register) - Commercial assets including land holdings - High level of community satisfaction with current Council performance (IRIS etc) - Strong own source revenue (with and without rates) - Educated community - Political stability - Organisational culture - Governance (external requirements, roles, responsibilities)	- Transparency in decision making & community engagement (IRIS survey results) - Lack of financial knowledge/critical ratio understanding & awareness amongst some staff members - Ageing workforce and succession planning - Gaps in service level knowledge and community satisfaction - Lack of formal funding decision making process/analysis; funding allocation processes (full cost/life cycle analysis) - Unplanned capital and operational expenditure - Don't know full cost of service delivery - Lack of Asset Management Plans for some minor asset classes - Underestimation of full life cycle costs associated with new capital and major projects - Service levels for all principal activities have not been adopted - Under use of S.94 and grants

Opportunities	Threats
- Develop Service Level Agreements - Further development of Activity Based Costing/Accounting to key operational areas - Resolution by Council to adopt Activity Based Costing methodology - Continue to embed the Long Term Financial Plan (LTFP) into Delivery Program and ensure complete alignment of asset management and LTFP (Resourcing Strategy) into Integrated Plans - Embed stronger financial planning into non finance staff (exec & managers) - Implement the work order & inspections management module in Authority (to further enhance asset management) - Implement full cost/whole of life funding allocation process - To drive change and institutionalise better practice where required - Develop Asset Management Plans for all asset classes - Resource sharing/regional collaboration - Outsourcing - To grow non rate revenue including commercial opportunities/activities - To increase community, Council and staff awareness of financial sustainability drivers - Make better use of underperforming assets (rationalise) - Being FftF = access to low cost funding; streamlined, less encumbered process for SRV's, rate increases.	- Reduced external funding opportunities (e.g. Federal Assistance Grants – FAG's) - Reduction in commercial and development opportunities for Council - Cost shifting - Unrealistic community expectations - Reduced non rating income - Changes to government policy (Crown Lands; Aged Care) and impacts on commercial opportunities (Blue Haven& Holiday Parks) - Failure to act/change where required - Forced Council amalgamation - Loss of corporate knowledge in a short timeframe - Increased commercial competition (impacts on our aged care business model) - Inability to attract suitably qualified and experienced staff - Long term infrastructure renewals i.e. >40yrs (failing to prepare) - Unplanned capital expenditure - Climate change and other unforseen (unquantifiable) impacts that potentially impact on service delivery and infrastructure - Urban development pressure

2.3 Performance against the Fit for the Future benchmarks

Sustainability

Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	*-4.2%*	*NO*	*-9.76%*	*NO*
Own Source Revenue Ratio (Greater than 60% average over 3 years)	*76.09%*	*YES*	*75.14%*	*YES*
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	*43.51%*	*NO*	*30.84%*	*NO*

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

Operating Performance

Council is currently managing an operating shortfall.

Council is operating within a relatively stable environment and there are no extraneous (geographical; historical; one off) reasons that are impacting on the ratio.

One factor impacting on this ratio over the next four years is Council's commitment to the construction of the Centre of Excellence for Aged Care Facility in the 2015/16 year (to meet the needs of the ageing local and regional population). The $62m development involves the re-development of the Kiama Hospital site to erect a 134 bed Aged Care Facility, Independent and Assisted Living Units in addition to offices for in home care support services.

Council will borrow significantly to fund the project (as evidenced in the Operating Performance ratio modelling and reflected in the Debt Service ratio). The impact on the Real Operating Expenditure ratio is also significant. The income generated from the facility once operational has a material benefit to Council's revenue. The project will have annual expenditure in the range of $8M to $11M per annum while returning revenue of $10M to $14M per annum. The scale of the proposed development will allow Council to meet a growing demand in the local and regional community and importantly be a significant and sustainable generator of revenue for Council over the coming years.
An additional important factor impacting on the Operating Performance ratio is rising employee costs. Opportunities identified by Council to address employee costs as part of reducing expenditure include undertaking internal efficiency reviews and continuing to review technology opportunities and improvements that help to achieve operational efficiencies. Natural attrition of employees and job redesign enables further savings opportunities.

Asset depreciation is another major contributing factor to expenditure. Some gaps still exist in the evaluation of useful life for some asset classes. Council continues to maintain a robust Asset Management Plan which integrates asset maintenance and renewal, maintenance backlogs and inclusion into Integrated Planning documents (Delivery Program, Operational Plan and Long Term Financial Plan). In addition the continuation of comprehensive reviews of depreciation for particular asset classes will ensure depreciation charges currently in the LTFP are correct.

Council is spending the required quantum of funds on asset renewal. Reduced funding for asset maintenance would improve the ratio however the long term impacts are compounding and unsustainable. Council's current maintenance regime is considered optimal within the life of the current Delivery Program and 10 year LTFP.

In the period to FY17 Council will access finance to fund the acquisition and establishment of it's Centre of Excellence for Aged Care. This has a short term impact on expenditure as a result of interest on borrowings and reduced interest on investments. This short term trend reverses as revenue increases once the facility becomes operational. This has an immediate and strong positive impact on the ratio from FY18 onwards. Rate pegging has continued to impact on the capacity for Council to increase revenue at a level sufficient to close the gap between the operating performance result and the benchmark.

The Federal Government freeze on Financial Assistance Grants currently represents a shortfall (compounded) of $1m over the life of the LTFP in addition to other cost shifting impacts.

Building & infrastructure asset renewal

Kiama Council's Building and Infrastructure Asset Renewal reflects the current position of assets within their life cycles. Whilst not meeting the benchmark Council is of the view that current performance is at an optimal level as the Asset Management Plan is fully integrated into the Delivery Program and Operational Plan as well as the LTFP.

All asset renewals for all classes of infrastructure are currently built into the asset management plans and long term financial plan in the year that their life cycle analysis indicates renewal is required. Council is of the opinion that if it were to increase the frequency of infrastructure renewal it would be over committing to infrastructure renewal at times when the assets are not required to be renewed. The effect is that Council would be over servicing (exceeding) the expectations of the community and in addition increasing the cost of asset management. It is anticipated that Kiama's requirement for a renewal ratio greater than 100% will not occur until the 2030 to 2040 long term financial plan. Council has a low backlog which is a reflection of the effectiveness of the integration between the AMP and LTFP.

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	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2%)	1.65%	YES	1.65%	YES

Asset Maintenance Ratio (Greater than 100% average over 3 years)	97.6%	NO	97%	NO
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	2.85%	YES	4.85%	YES

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

Asset maintenance

Kiama currently has an Asset Maintenance ratio of 97.6% (3 year average). If this ratio was above the benchmark Council is of the belief that it would be over committing funds for asset maintenance and therefore over servicing the community's expectation for what it considers to be satisfactory. Improvements in purchasing power from Joint Organisation procurement with neighbouring councils will strengthen this ratio (through reduced expenditure) and enable Kiama to maintain it in the appropriate range of the high 90 percentile. All asset management is incorporated in the Asset Management Plan which is wholly integrated with other Resourcing Strategy documents in particular the Long Term Financial Plan. All asset maintenance is fully integrated into the Operational Plan and Delivery Program. All assets are scheduled for maintenance at the appropriate time and the costs are incorporated into the LTFP. As a result of the above, Kiama Council achieves a very low infrastructure backlog which is a direct reflection of managing asset maintenance through effective, low risk and prudent methods.

2.3 Performance against the Fit for the Future benchmarks

Efficiency

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	*decreasing*	*YES*	*increasing*	*NO*

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

Council's Real Operating Expenditure per capita ratio will continue to rise due to a number of factors, some out of Councils control.
The Kiama Local Government Area (LGA) average annual population growth is around the 1% per year (Source - Department of Planning & Environment – Refer Attachment Three). Council's indexation percentage for expenditure growth is in the range of 2.5% to 3% through the Long Term Financial Plan (LTFP).

A principal reason for why the efficiency benchmark will not be met in the future is the increased expenditure associated with the operations of the new Centre of Excellence of Aged Care. Once operational this project will have annual expenditure in the range of $8M to $11M per annum while returning revenue of $10M to $14M per annum. This has widened the gap between expenditure and population in the LTFP albeit Council will have increased revenue.

Council also operates Blue Haven Care which provides aged and disability care services over four LGA's with annual expenditure of $3M.
Another factor affecting this measure is the very large increase in population during peak holiday periods and weekends. Whilst bringing

economic benefits to the local economy, the impact on Council assets and resources can be significant and it impacts on this ratio (Council is spending a large amount of funds on assets and services to meet a ‘seasonal’ population.)

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?

Yes / No

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

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

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

2.4 Water utility performance

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

Yes / No

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

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.		

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.

Kiama Council considers it's performance in respect of the benchmarks to be at a level that is sustainable and which can be strengthened through ongoing implementation of current and additional financial management strategies and business process improvements (to support existing CSP 4.2 – DP 4.2.2), before the need to consider changes to service levels, or special rate variations (SRV's).

The sustainability benchmark considered the most significant at this time is the Operating Performance ratio and this is where most opportunities for improvement exist.

Council's approach is to continue to implement current activities (regional procurement; budget reviews) and introduce additional measures to achieve stronger financial sustainability and incorporate specific actions into its next iteration of the Operational Plan. The periodic review of the Delivery Program will identify particular amendments or inclusions required to better reflect a more targeted approach. Council recognises that no one solution exists but rather a combination of actions and interventions and a more targeted approach for greater strategic financial planning and analysis is required.

Importantly, Council has resolved to broaden the terms of reference of the Revenue Committee to steer and provide oversight of the business improvement process.

Council's participation in the PricewaterhouseCoopers (PwC)/Local Government (LG) Professional 'Operational and management effectiveness survey', participation in the Fit for the Future program and participation in the Joint Organisation of Council pilot program reinforces Council commitment to a series of improvements that leads to further organisational change and maintains the focus on strengthening Councils balance sheet. Specific actions include;

- stronger financial governance that includes broadening activity based accounting to other key operational areas of the business (already in place in Blue Haven Care)
- a funding allocation process to more tightly control new projects and new asset creation

- strengthening the opportunities from commercial and property investments
- investigating new revenue opportunities including a review of fees and charges
- analysing and rationalising current practises and operations.

Our focus is on actions that have a direct financial impact and benefit and on outcomes that achieve operating expense reductions and maximise operating revenue.

Where targeted policy and process changes are proposed within the current Delivery Program period, they will be aligned to existing CSP strategies/DP Actions (e.g. CSP Goal – 4 ‘Responsible civic leadership that is transparent, innovative and accessible’ CSP Strategy 4.2 ‘Ensure finances are managed responsibly to meet the goals of the CSP and to protect financial investments and assets’) (Refer Attachment Four) and embedded into annual Operational Plan activities. Where longer term strategies are required, they will be embedded into the next iteration of the Delivery Program.

Operating Performance ratio

Operating expense reduction strategies

Continuing with the budget review process already in place, Council expects additional budget savings to be achieved. It’s considered important that Council introduces cost based accounting into other key operational areas of the organisation (already introduced in management of Blue Haven Care) with the aim of being able to quantify the true cost of service provision and to allow analysis of proposed improvement options. Without this level of awareness Council is exposed to taking on or persisting with operations that may be financially unsustainable. This process will also provide information to support consideration for the use of contractors or third parties to take over particular services currently provided by Council.

Undertaking an efficiency review across the organisation to establish opportunities for improvement that are embedded within the new Delivery Program/Operational Plan forms part of the strategic financial management strategy. Part of the process is to establish whether Information Technology opportunities exist, to help streamline processes and achieve operational efficiencies. It’s assumed this exercise will achieve leaner operations that create operational efficiencies and medium to long term cost savings. A review of Council’s Workforce Management Plan will coincide with this efficiency review to ensure any recommendations are reflected in the plan. A critical review of the nature and type of services Council provides to the community is proposed. The analysis is required to ensure that current services are meeting the needs and desires of the community (established through the CSP and community surveys) and to establish whether Council is currently over servicing or undertaking activities and services that aren’t meeting a need, or which are financially unsustainable and should therefore be rationalised. Rationalising of services will occur only if there is a material benefit to the organisation and ratepayers.

The periodic Community Survey to gauge a range of community attitudes and opinions as part of Council’s ongoing strategic planning and quality improvement process is scheduled for November 2015. Whilst needing to achieve longitudinal trends the survey will also improve the process of formalising ‘satisfaction levels’ with the community. Council recognises this may require a separate engagement campaign in addition to the community survey to focus the community and seek their views on the standard of infrastructure and services they would be prepared to accept.

The cost saving opportunities associated with regional procurement strategies and in sharing services amongst member Councils is considered to be significant. The independent report for the Southern Councils Group Regional Procurement Roadmap Report (October 2012) makes reference to research undertaken in Victoria by Ernst and Young in 2008 which highlighted that significant savings of up to 15 – 20% are available through improved procurement practice and increased collaboration (Refer Attachment Five). Member Councils of the pilot Joint Organisation (JO) of Illawarra Councils have already begun collaborating to identify opportunities centred on shared services and procurement as a means to reduce expenditure. Under the JO remit, the Councils have agreed to investigate collaboration on the following activities 1) procurement 2) regional training opportunities 3) shared committees and panels (e.g. Code of Conduct, legal) 4) asset maintenance (e.g. cleaning, building maintenance, fire safety) and 5) professional and specialist services.

Operating expense reduction

Depreciation of Kiama’s infrastructure assets represents a significant cost. The maintenance of a robust and fully integrated Asset Management Plan is fundamental to ensuring depreciation remains an important financial consideration within the LTFP. Council recognises optimal life cycle costing is required to ensure maintenance activities (and costs) are undertaken at the right time and to ensure the remaining life of the asset appropriately reflects the intended use of the asset. The objective is to ensure Council is not over (or under) servicing it’s assets. Current practice is for assets to be re-valued on a cyclical basis of asset classes. It is important to Council that it maintains generational equity and does not look at quick fixes to the ratios that will result in future generations not being able to fund infrastructure renewal.

Council will undertake the following improvement program.

1) Review the remaining life of infrastructure assets not due for renewal in the next 10 years. Asset renewals for the next 10 years have already been completed and their useful lives extended to their optimal life cycle cost replacement, as improved asset data is able to demonstrate. Future depreciation savings are possible by extending this analysis to assets currently outside of the renewal programs. Depreciation savings may be possible in the buildings asset class.

2) Investigate options for additional componentisation of assets into depreciable and non depreciable components depending on proposed or revised accounting standards. This should be conducted at each revaluation of asset classes with Stormwater and Road assets as at 30 June 2015. A revaluation of buildings shall be brought forward from 30 June 2018 to 30th June 2016.

Continuing operating revenue increase

Council plans to review it's Fees and Charges policy as a means to identify possible increases in revenue and to ensure the fees and charges more accurately reflect the true cost to Council. It's anticipated the greatest opportunity in this context exists around Council's commercial activities.

Council has committed to expanding it's aged care operations. The commencement of development of the new Centre of Excellence in Aged Care and relocation of the existing facility is scheduled to commence in 2015/16 and once operational modelling suggests a significant revenue increase for Council from 2018/19.

Due to the existing strong performance of commercial operations (and the Own Source revenue ratio) Council is able to be less reliant on rates as a revenue source. Council already achieves significant income from commercial activities (which also positively impacts on Own Source Revenue ratio) including Blue Haven Retirement Village, Holiday Parks, waste services, leasing of plant and equipment and property management and development. Opportunities to expand these revenue sources need to be planned to provide additional income streams to Council that are non grant or rates based.

After Council has implemented these actions/initiatives and exhausted all other opportunities to reduce expenditure and increase revenue, analysis will be required to determine the residual gap in the Operating Performance ratio i.e. the gap between benchmark and performance. Where a gap exists it's proposed to consider closing the gap by passing onto the community the additional costs required to breakeven and achieve a surplus. Councils Debt Service ratio results will also inform the analysis. Council may be in a position to avoid the need for rate increases by taking advantage of its strong Debt Service ratio position and borrow to fund asset renewals (beyond the current LTFP).

Own Source revenue ratio

Councils meets the benchmark in all modelled and forecasted scenarios. This ratio will be improved through adoption of the improvement plan actions for the Operating Performance ratio including review of the Fees and Charges policy, reviewing current commercial activities and identifying additional commercial opportunities and by examining capacity for existing activities to generate additional revenue. In the event that Council does pursue a rate rise through an SRV in the future, the impact on this ratio will be a positive one.

Building and Infrastructure Asset Renewal ratio

Council's Building and Infrastructure Asset Renewal program reflects the current position of assets in their life cycles. All asset renewals for all classes of infrastructure are currently built into the asset management plans and long term financial plan in the year that their life cycle analysis indicates renewal is required (CSP Strategies 'Well planned and managed spaces, places and environment' 2.10-2.13 & 9 (Refer Attachment Six) and Responsible civic leadership that is transparent, innovative and accessible' 4.11). If Council were to increase infrastructure renewal it would be over servicing the community and increasing the optimal cost of asset ownership. It is anticipated that Kiama's requirement for a renewal ratio greater than 100% will not occur until the 2030 to 2040 long term financial plan. As a result, increased spending on asset renewals should not occur as all required infrastructure renewal/replacement has already been included in the LTFP.

The most appropriate course of action at the present is to ensure all infrastructure renewals remain within the OP/DP and in the long term financial plan at their optimal renewal point, and to investigate the establishment of an Infrastructure Renewal Reserve (able to be generated once a surplus is achieved). This will ensure Council has sufficient funds and available borrowings for future renewals when required in 20 to 30 years time.

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 LTFP scenarios contain a number of assumptions relating to inflation, current service provisions and employee costs. Variations in these assumptions during the life of the plan may have a significant positive (or negative) impact on the Council's future financial plans. The LTFP is updated twice each year to ensure the assumptions are continually updated with the latest information available. A sensitivity analysis of the LTFP focuses on the following;

Rating Policy - Council has estimated that rates will increase on average by 2.55% per year building in a 0.05% rates growth.
Employee Costs - Employee costs are subject to annual award increases and annual performance review increases. Under the current situation staffing is expected to remain at existing levels. Council's strategy within the Improvement Plan (and included in the scenario modelling) is to address employee costs through an efficiency review as well as taking advantage of natural attrition designed to achieve cost savings.

Material and Contracts - The expenditure on materials, contracts and other operating costs have been based on a factor of between 2.3% to 2.5% per year and have been applied through the plan.
Interest on investments - Council's investment portfolio is subject to movements in interest rates. Investments are placed and managed in accordance with the Council's adopted Investment Policy in compliance with the Local Government Act. Service levels and capital expenditure are impacted by fluctuations in interest rates.

Inflation – Changes in inflation impact both revenue and expenditure. Within the Asset Management Strategy the Capital Renewal Program for the 10 year plan assumes an inflation rate of 2.5%.

Population growth - Kiama's population growth is low in contrast with the NSW state average. The plan is based on 1 per cent population growth. Should the population grow faster than this rate both service costs and rating income will be impacted.

Grants - The LTFP models only include recurring grants and capital grants that have already been awarded. Benchmark ratios are modelled using the current parameters outlined by the OLG. Council does not have a strong reliance on grants revenue in comparison with other sources of revenue. A number of the grants that are received fund specific programs that may not be offered by the Council if the grants were eliminated. The general purpose component of the Council's Financial Assistance Grant is currently $1.4 million. If this grant was eliminated, the Council would need to consider reducing capital expenditure and service levels or seek a SRV earlier than anticipated.

Risk - Throughout the development of the LTFP the assumptions underlying the plan are continually tested through a risk assessment process. A conservative approach has been taken in developing the LTFP to ensure chosen options are more likely to succeed and expose the Council to the least amount of risk.

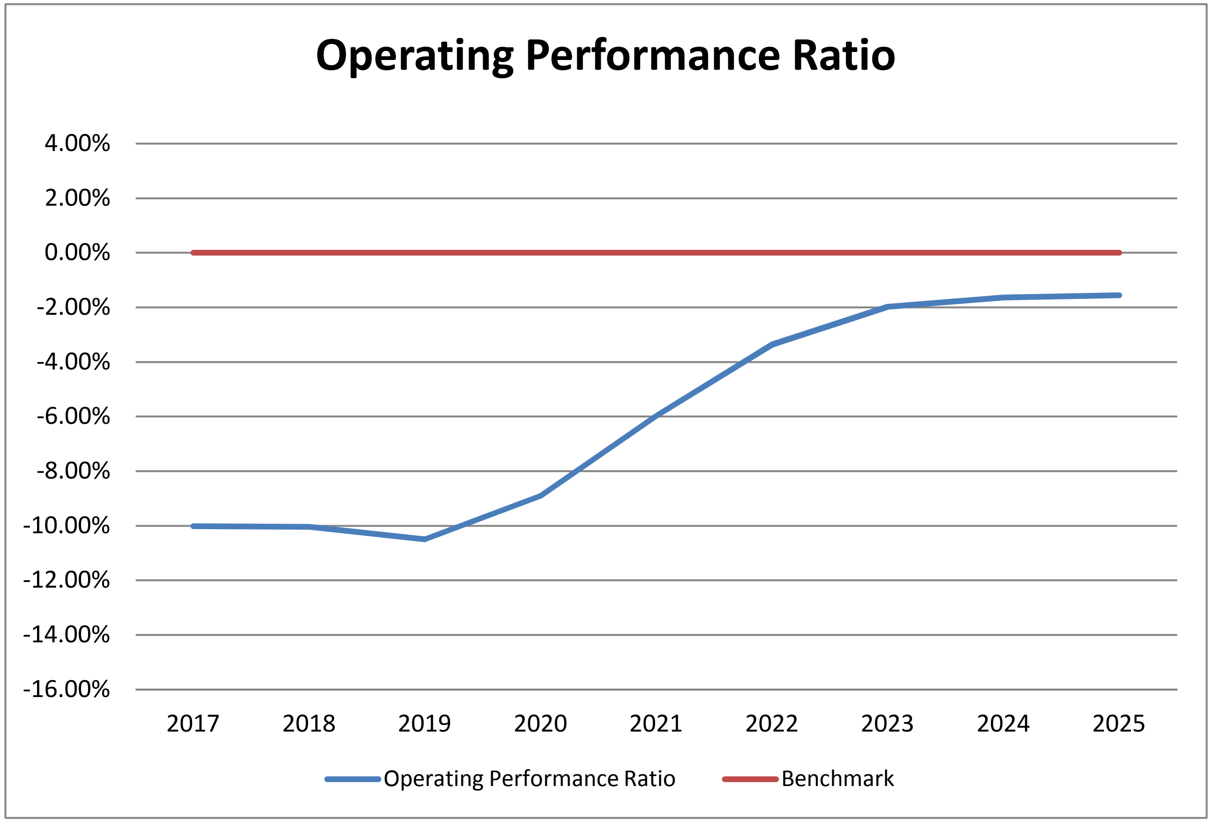
From a long term financial perspective Council considers it's position to be sound (affirmed by TCorp rating FSR moderate/ Outlook neutral). It is assumed that the combination of organisational reviews and process improvements /efficiencies as outlined above will achieve cost reductions and increased revenue that when combined, will deliver an improvement to the Operating Performance ratio. All opportunities to refine and improve internal processes to achieve efficiencies and cost savings are to be exhausted before bridging any residual gap between performance and the benchmark, through a rate rise. This is considered an optimal approach as the additional impost on the ratepayers would be avoided if possible.

The Centre of Aged Care Excellence to be developed on the Kiama Hospital site will significantly bolster revenue once fully operational (Refer Attachment Seven). The new aged care facility modelling under existing conditions suggests that by 2022 the OP ratio deficit will be -2.52% (3 year average -4.29%). This is without the proposed process improvements identified above. Once these efficiencies are identified and levels of expenditure are reduced and increased revenue is brought to account, Council will achieve an operating surplus toward the middle to latter part of the LTFP.

Council assumes that as long as the residual gap within the Operating Performance ratio is managed, the Building and Infrastructure Renewal ratio will be managed in accordance with optimal lifecycle replacements.

Council has undertaken scenario modelling and analysis as a means to identify the preferred options for managing the Operating Performance ratio to break even and a surplus. The following scenarios have been considered.

Scenario 1:

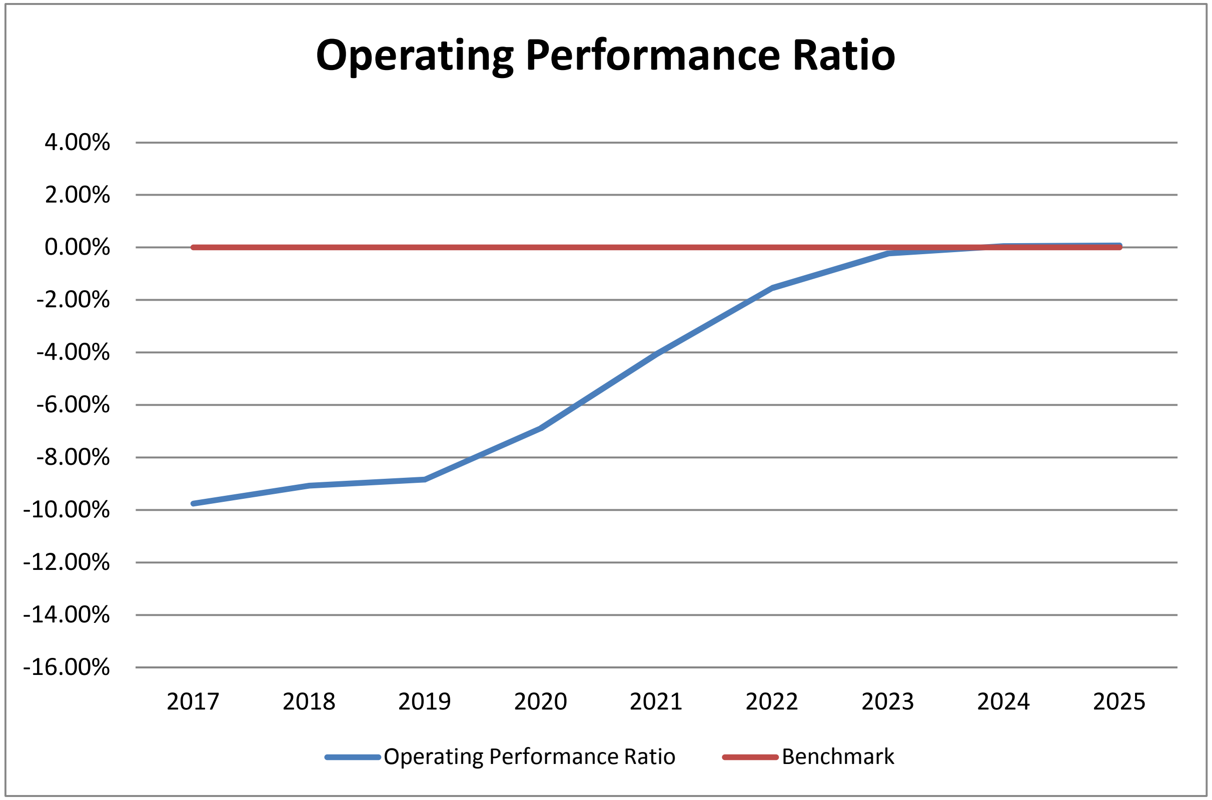


Efficiency savings

Fees & Charges – The completion of fees and charges by 2016/17 is proposed to identify the true cost of services with a view to obtaining possible increases in discretionary fees. Council is also involved in commercial activities that generate ongoing revenue and this will be one of the areas of review. The assumption is that an increase in fees charged (non statutory) in 2016/17 and a 2.5% consumer price index (CPI) increase each year over the rest of the Long Term Financial Plan (LTFP). It is anticipated a review could yield approximately $700K extra revenue over the life of the LTFP.

Employee costs - As part of the efficiency review across the organisation it is anticipated that savings will be made in the 2017/18 and 2018/19 years. This review will focus on overtime costs, casuals wages, redesign of positions and natural attrition in some positions within the organisation. The savings can be made in these two years and using an assumption of wages growth of 3% per annum, this could yield approximately $3.5M in savings over the life of the LTFP. Kiama’s involvement in the Joint Organisation of Councils is likely to generate savings in the medium to long term.

Scenario 2:



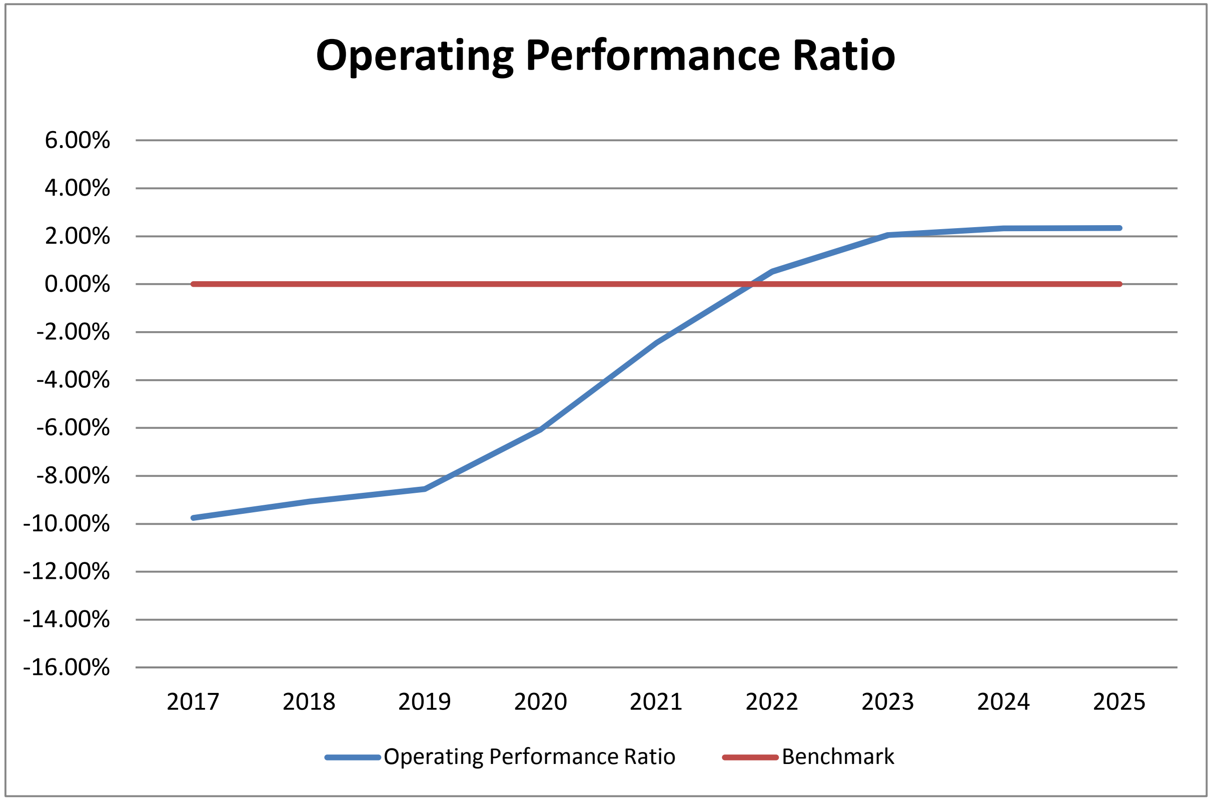
Efficiency savings

Fees & Charges – The completion of fees and charges by 2016/17 is proposed to identify the true cost of services with a view to obtaining possible increases in discretionary fees. Council is also involved in commercial activities that generate ongoing revenue and this will be one of the areas of review. The assumption is that an increase in fees in 2016/17 and a 2.5% consumer price index (CPI) increase each year over the rest of the Long Term Financial Plan (LTFP). It is anticipated a review could yield approximately $700K extra revenue over the life of the LTFP.

Employee costs - As part of the efficiency review across the organisation it is anticipated that savings will be made in the 2017/18 and 2018/19 years. This review will focus on overtime costs, casuals wages, redesign of positions and natural attrition in some positions within the organisation. The savings can be made in these two years and using an assumption of wages growth of 3% per annum, this could yield approximately $3.5M in savings over the life of the LTFP. Kiama's involvement in the Joint Organisation of Councils is likely to generate savings in the medium to long term.

Materials and contracts - Cost saving associated with Regional Procurement opportunities could yield substantial savings to Councils involved. Research undertaken in Victoria by Ernst and Young in 2008 highlighted that significant savings of up to 15 – 20% are available through improved procurement practice and increased collaboration. A conservative approach taken in Kiama in the years 2016/17 to 2019/20 compounded over the life of the LTFP would generate savings of $9M in procurements costs.

Scenario 3:



Efficiency savings

Fees & Charges – The completion of fees and charges by 2016/17 is proposed to identify the true cost of services with a view to obtaining possible increases in discretionary fees. Council is also involved in commercial activities that generate ongoing revenue and this will be one of the areas of review. The assumption is that an increase in fees in 2016/17 and a 2.5% consumer price index (CPI) increase each year over the rest of the Long Term Financial Plan (LTFP). It is anticipated a review could yield approximately $700K extra revenue over the life of the

LTFP.

Employee costs - As part of the efficiency review across the organisation it is anticipated that savings will be made in the 2017/18 and 2018/19 years. This review will focus on overtime costs, casuals wages, redesign of positions and natural attrition in some positions within the organisation. The savings can be made in these two years and using an assumption of wages growth of 3% per annum, this could yield approximately $3.5M in savings over the life of the LTFP. Kiama's involvement in the Joint Organisation of Councils also is likely to generate savings in the medium to long term.

Materials and contracts - Cost saving associated with Regional Procurement opportunities could yield substantial savings to Councils involved. Research undertaken in Victoria by Ernst and Young in 2008 highlighted that significant savings of up to 15 – 20% are available through improved procurement practice and increased collaboration. A conservative approach taken in Kiama in the years 2016/17 to 2019/20 compounded over the life of the LTFP would generate savings of $9M in procurements costs.

Rate increase - Rate increase at year 3, 4 & 5 - 2018/19, 2019/20 & 2020/21 by 3% plus rate peg of 2.5% (with 0.05% for rate growth) then revert back to annual increase of 2.55% including 0.05% for rate growth. An increase in revenue of $9M is anticipated over the life of the 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
Sustainability Benchmarks	a) further develop/introduce activity based accounting into all key operational parts of the business	Further developed within 3 years	Indentify the true cost of service provision to allow analyses of improvement options	Potentially reduces costs and improves Operating Performance ratio
Improve Council's strategic financial management – Business Process Improvement	b) implement funding allocation process	Process established within 12 months	Full life cycle cost analysis process for new projects, new infrastructure or increases to service levels	Potentially reduces costs and improves Operating Performance ratio
	c) internal efficiency improvement program (with target)	Commence 1 July 2015; complete July 2017	Targeted savings on expenditure are achieved	Potentially reduce operating expenses

	d) review Fees & Charges	Review completed and increases/new Fees and Charges identified by April 2016	New and increased revenue opportunities are identified	Potential for improved OP and Own Source Revenue ratio through increase in revenue
	e) increased commercial opportunities	Ongoing review with 6 monthly reports submitted to Council	Increased revenue opportunities are identified and explored	Potential for improved OP and Own Source Revenue ratio through increase in revenue
	f) infrastructure renewal reserve	Reserve established and endorsed by Council	Infrastructure renewal reserve established to fund future renewal without overly impacting on Councils balance sheet	Impacts and potentially benefits OP ratio and infrastructure asset renewal ratio
	g) continue budget review process	Review completed and new process adopted by June 2016	Improved budget allocation process that tightens financial control and minimises unplanned access to funds	Will benefit the Operating Performance and Real Operating expenditure per capita ratios.

Maintain a robust and fully integrated Asset Management Plan	a) review options to increase asset lives or non depreciable components for Stormwater assets	Review complete by 30 September 2015	Improved knowledge, extension of asset life and potentially lower depreciation	Potential reduction in depreciation and improvement in OP Real Operating expenditure ratios
	b) review options to increase asset lives or non depreciable components for Transport assets (Roads)	Review complete by 30 September 2015	Improved knowledge, extension of asset life and potentially lower depreciation	Potential reduction in depreciation and improvement in OP ratio and Real Operating expenditure ratios
	c) review options to increase asset lives or non depreciable components for Building assets	Review complete by 30 June 2016	Improved knowledge, extension of asset life and potentially lower depreciation	Potential reduction in depreciation and improvement in OP and Real Operating expenditure ratios

Procurement & shared service structure in place	Formalise agreed actions (above) through the pilot JO	Adoption by members of the pilot JO	JO Councils participate in shared service and regional procurement opportunities and cost savings to individual Councils are realised.	Reduction in OP and Real Operating expenditure ratios as a result of expenditure reduction
Manage the residual gap in the OP ratio	Assess need for rate increase	Analysis of need once all other 'interventions' are adopted/in place	Council has institutionalised change; quantified (cost/savings) benefits; analyses the need to close residual gap through rate increase	Improvement of own source revenue 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.

Council's infrastructure and asset management is fully integrated with the asset management plans, the Delivery Program and Operational Plan (CSP 2.10 – 2.13 & 4.11) and the Long Term Financial Plan. Full integration and reporting has been critical to Council's success in understanding and adopting better practice in asset management and asset accounting.

Infrastructure backlog ratio

Council has already planned for all required asset replacement in the ten year financial plan in the year renewal is required. The definition of unsatisfactory will be reviewed as part of Council's engagement with the community (the next Community Engagement Strategy is scheduled for late 2015).

Kiama has built its entire infrastructure backlog into the renewal program within the Delivery Program (first 4 years of the 10 year financial plan). This ratio will be maintained below 2% as all asset renewals for all classes of infrastructure are currently built into the asset management plans and long term financial plan in the year that their life cycle analysis indicates renewal is required.

The improvement action most appropriate for Council in respect of its infrastructure backlog is to ensure all renewals remain in the long term financial plan at their optimal renewal point, and ensure that all current or future assets that are deemed unsatisfactory are renewed or maintained to a satisfactory standard within the Delivery Program.

Asset maintenance ratio

Council's asset maintenance ratio is currently in the high 90 percentile. Council's position is if this ratio was above 100%, Council would be over servicing the asset (and over servicing the community). An increase in the asset maintenance budget scheduled for 2015/16 will help in improving the ratio.

Council will continue to ensure that future ten year financial plans are inclusive of the required maintenance expenditure. The process however for determining required maintenance varies between Councils. As such Council will work with Joint Organisation (JO) member

Councils to determine the appropriate method for establishing what required maintenance should be.

Improvements in purchasing power from Joint Organisation procurement with neighbouring councils will likely reduce operating expenditure and strengthen this ratio, and in addition will enable Council to maintain it in the appropriate range of the high 90 percentile.

Improving the ratio of scheduled versus unscheduled maintenance to achieve the optimal life cycle cost of infrastructure will ensure that the actual maintenance expenditure is managed at its optimum level.

Debt Service ratio

Council currently has very low debt levels and is well below the benchmark.

As the Building and Infrastructure Renewal ratio demonstrates Council is currently spending less on renewals than depreciation. In the medium to long term (2030-40) this situation will reverse and additional expenditure on assets in excess of depreciation will be required. To ensure that in the long term Council is able to fund renewals, a renewal reserve should be established and funded with a proportion of the annual difference between the amount of funds allocated to renewals and the cost of depreciation.

Loan funding will be required in the future to cater for the current accumulated depreciation that has not been funded into a renewal reserve.

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

Council's Asset Management Strategy derived from the Asset Management Plans for asset categories is the corner stone of Councils asset management framework. The plan is fully integrated with all of the Integrated Planning and Reporting documents. The key aspects of the 10 year capital renewal schedule and 10 year new capital items schedule ensures that there is full integration of the asset management capital requirements in future budgets.

Councils asset management strategy is to define a structured set of actions aimed at enabling improved asset management by the organisation. The strategy contains:

- Current asset position
- Current status of asset management practices
- 10 year Capital Renewal Program

- 10 year Capital Additions Program
- Future vision of asset management
- Asset management improvement program to facilitate the vision

Council has assumed that the community will not wish to see a change in the condition of the majority of assets provided by Council. Over the past four years Council has responded to the community's priorities identified in the most recent Community Satisfaction Survey.. The results from the most recent survey in 2012 show the community place 'higher importance' on maintenance of local roads, public amenities, sports grounds and playing fields, parks and gardens and rock pools and beaches, and its assumed that this will again be reflected in the next survey results. As an interim assumption until the next survey results, Council's approach to asset maintenance will be to plan for and continue to maintain assets at their current level.

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
Asset renewals built into LTFP	a) Improve ratio of scheduled vs unscheduled maintenance b) Review ‘unsatisfactory’ assets	Review completed; renewals appropriately scheduled ‘unsatisfactory’ assets scheduled for renewal	Renewals remain scheduled within the Delivery Program and accounted for in the 10yr plan. Optimal lifecycle of infrastructure maintained. All assets are/ or are scheduled for renewal in the DP and LTFP	The strategy helps to ensure the Infrastructure Backlog ratio is maintained within the benchmark parameters.
Define ‘satisfactory’	Community engagement to establish deemed ‘satisfactory’ (or ‘un-satisfactory’)	Community survey complete and feedback provided by June 2016	Asset renewal and maintenance can be assessed against community expectation/acceptance	

			of condition of asset	
Cost reductions through joint procurement	Continue to implement the Illawarra Procurement Roadmap and collaborate with JO and Councils to prioritise procurement activities	JO coordination of regional procurement actions for improved asset management	Cost savings achieved	Improved OP ratio
Establish required maintenance methodology	Work with neighbouring Councils to determine the appropriate methodologies for determining required maintenance expenditure	Commence November 2015 - ongoing	Regionally consistent approach to asset maintenance and cost savings due to regional procurement of asset maintenance services/activities	Improved OP ratio

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.

Some of Council's operating expenditure is a result of industrial and market forces, however a number of opportunities exist for Council to pro actively examine operating expenses and identify where opportunities lie to reduce exposure to increases. Some of these strategies are identified earlier in this submission and relate to the broadening of activity based costing across key operational areas as a means to better understand the true cost of current activities performed by Council and the introduction of a funding allocation process (both assist in better managing Council's expenses). Other expense reduction measures include a review of depreciation and an organisational efficiency review (as part of the efficiency review across the organisation it is anticipated that savings will be made in 2017/18 and 2018/19). This review will focus on overtime costs, casuals wages, redesign of positions and natural attrition in some positions within the organisation. There are also cost savings anticipated from active participation in regional procurement activities (driven largely through the pilot JO) where it's anticipated additional savings opportunities through improved scale can be achieved and hence reductions in Councils operating expenditure.

Council has resolved to commit to the expansion of it's aged care operations – to meet the needs and expectations of the ageing population in the Kiama LGA. In order to proceed with this important local and regional initiative, Council will borrow significant funds to finance the project. Whilst having short term implications, which include impacting on a number of ratios including Operating Performance ratio, Debt Service ratio and Real Operating Expenditure ratio, within a short timeframe, the revenue from the occupation of beds and Independent Living Units has a strong and beneficial impact on these ratios.

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

It is assumed that the combination of organisational reviews and process improvements /efficiencies as outlined above will achieve cost reductions and increased revenue that when combined, will deliver an improvement to the Operating Performance ratio and the Real Operating Expenditure ratio.

Borrowing represents a significant cost to Council. With Council embarking on the $62m expansion of the aged care operations Council's borrowings will increase significantly, for the short term. The borrowing rate is set at 4.25%. The true cost may be lower if Council's capacity (if deemed to be Fit for the Future) to attract lower cost finance is able to be realised.

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
a) Further develop/ broaden activity based costing	a) Further developed within 2 years	Developed within 2.5 years	Indentify the true cost of service provision to allow analyses of improvement options	
b) implement funding allocation process	b) Process established within 1 year	Process established within 1 year	Full life cycle cost analysis process for new projects, new infrastructure or increases to service levels	Improves Operating Performance ratio
c) internal efficiency improvement program (with target)	c) Commence 1 July 2015	Completed July 2017	Targeted savings on expenditure are achieved	

Review Depreciation	Review options to increase asset lives or non depreciable components for Stormwater & Road (transport) assets	Review complete by 30 September 2015	Improved knowledge, extension of asset life and lower depreciation	
Procurement & shared service structure in place	Formalise agreed actions (above) through the pilot JO	Adoption by members of the pilot JO	JO Councils participate in shared service and regional procurement opportunities and cost savings to individual Councils are realised.	Reduction in OP ratio as a result of expenditure reduction

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
Implement across key operational areas of the business activity based accounting	Commence October 2015. Implemented across key operational areas by or before October 2017.
Commence development of funding review process for new capital projects and 'significant' projects	Establishment of working group and commence process by Jan 2016. Complete by June 2016.
Business Process Improvement – identify if parts of Council may be over resourced; identify relevance of services provided and rationalise internal administration	Work commence July 2015. Report completed with recommendations for change/action by July 2017.

Undertake Community Engagement Survey (incl. targeted approach to establishing ‘satisfaction’ of assets & infrastructure)	Survey undertaken November 2015; report received; ‘satisfaction’ established.
Review Fees and Charges	Review complete by April 2016 and opportunities for increased revenue identified.
Undertake review of status of commercial interests and maximise existing and identify new revenue opportunities	Ongoing review complete and reporting every 6 months.
Maintain a robust and fully integrated Asset Management Plan which incl. Review depreciation – review options to increase asset lives:	Depending on asset class either end September 2015 or June 2016. Justified and extended life of assets and reduced depreciation costs
Collaborate in the formalisation of and participate in, the Illawarra Joint Organisation of Councils to maximise procurement opportunities	Within 6 months regional procurement purchases being made.
*** Please attach detailed action plan and supporting financial modelling**	PLEASE REFER ATTACHMENT NINE

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

The Action Plan has been developed within Council and has been informed by senior staff, the executive and Council's Audit and Risk Committee. The plan draws on a series of asset management and asset accounting recommendations made by Council's Asset Planning consultant. In addition Council's Community Satisfaction survey results and the LG Professional NSW & PwC Operational and Management Effectiveness Survey have also been used to give context to proposed actions including the need to consider various strategic financial management actions and establishing community satisfaction levels with Council services. Council staff have also worked within a 'special interest group' of employees from neighbouring Councils (as part of the existing collaboration amongst pilot Joint Organisation member Councils). Common ideas and themes were discussed over a number of meetings to consider issues faced by the councils, strategies to address a range of asset management matters and to consider joint regional procurement priorities and opportunities.

Scenario modelling particularly with respect to addressing the Operating Performance Ratio (Council considers this to be the most significant ratio as it reflects the financial resources required for asset management and maintenance; service delivery; commercial enterprises and revenue) has been undertaken with a number of different scenarios considered. In this submission Council is proposing a number of internal interventions or actions that introduce process change and improvements and which are aimed at achieving revenue increases and cost savings. The scenarios demonstrate the iterative effect of the sequencing of 'interventions' as well as the impact on rate increases (intervals and size).

Scenario 3 is considered optimal, however it does not meet the draft IPART Methodology for Assessment i.e. the benchmark is to be met by 2019-20. The benchmark (3 yr average) is met in FY22 and only marginally (-2.45%) misses the benchmark in FY21. The advantage of Scenario 3 is it offers the lowest impact to the ratepayers whilst achieving the benchmark in the short term and significantly, generating a surplus which should be used to create a 'reserve' for future asset renewal and maintenance (forecast approximately 2030) (Refer Attachment Eight – Financial Savings). Scenario 4 has been modelled to achieve the IPART assessment criteria with respect to the timeframe. In order for Council to meet the criteria, the proposed interventions will apply and the SRV required to lift the performance to meet the benchmark would be 7% above the rate peg for a period of three years commencing 2016/17. Such an increase is considered unpalatable and unacceptable particularly as the benchmark can be achieved, albeit two years later and with a considerably lower rate increase.

A number of briefings have been held with senior Council staff, with the executive as well as Councillors.

Please refer to ATTACHMENT NINE for detailed Improvement Action Plan and supporting scenario modelling.

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.

Council is confident the proposed actions identified within the action plan are necessary and based on better practice asset and financial management principles. Importantly, Council considers the proposed action plan to be a plan that will meet the expectations (and approval) of the community. Fundamental to the Improvement Plan is the awareness that a different, more strategic assessment of Council operations is required, that the actions and process improvements will create improved decision making and generate efficiencies with material benefit to Council's operating expenditure and revenue and importantly actions that will drive organisational change.

One of the catalysts for the proposed actions within the Improvement Plan is 'least impact' on the community. Council will implement the suite of actions that drive internal improvements and the efficiencies and benefits will be realised before the community is required to contribute through a rate variation. Council considers this approach to be the most responsible and appropriate way to proceed.

In developing the actions within the Improvement Plan, apart from those proposed, no other strategies or actions were considered. One caveat however is the issue of whether or not the draft IPART Methodology does in fact require us to meet the benchmarks (NOTE this is inconsistent with repeated advice from the OLG during information sessions where it was articulated that the key is for Council to be moving in the right direction/for the trend over the medium to long term to be heading toward or meeting the benchmark). With respect to the Operating Performance ratio, if Council is required to meet the benchmark by 2019-20 scenario 4 will need to be enacted. However, under scenario 3 the benchmark is achieved a year later in 2022. Given the required result of meeting the performance ratio and delivering surpluses is achieved with a reduced financial impact on the community, this is considered the most sustainable and appropriate outcome and should be supported by the Government and pursued by Council.

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)	-7.65%	-8.55%	-9.76	-9.08%	-8.55%	-6.06%	N
Own Source Revenue Ratio (Greater than 60% average over 3 years)	76.90%	77.03%	75.14%	73.96%	72.61%	73.26%	Y
Building and Infrastructure Asset Renewal Ratio (Greater than100% average over 3 years)	37.6%	40.52%	30.84%	36.56%	33.24%	35.55%	N
Infrastructure Backlog Ratio (Less than 2%)	1.66%	1.66%	1.65%	1.65%	1.65	1.66%	Y
Asset Maintenance Ratio (Greater than 100% average over 3 years)	104.3%	96.21%	97%	97%	97%	97%	N
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	2.79%	3.35%	4.85%	10.84%	16.12%	18.44%	Y
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	2.19	2.13	2.16	2.34	2.35	2.45	N

Note: IPART will assess this table in accordance with section 3.3 in the Methodology for Assessment of Council Fit for the Future Proposals
*if your council is including FAGs in this calculation please provide information for years 2020/21 to 2024/25 on the following page.

4.1 Expected improvement in performance (rural with FAGS considered*)

Measure/ benchmark	2020/21	2021/22	2022/23	2023/24	2024/25	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)						Yes/No
Own Source Revenue Ratio (Greater than 60% average over 3 years)						Yes/No

*Includes councils in OLG groups 8,9, 10 and 11 only. See page 42 of IPARTs Methodology for Assessment of Council Fit for the Future Proposals

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.

With respect to the Operating Performance ratio and applying scenario 3 (the preferred action option) the modelling indicates that Council doesn't meet the benchmark. Significantly however, the benchmark is met in FY22 and a surplus is achieved and this is sustained for the remainder of the plan.

Council can be far more aggressive in attempting to meet the benchmark however from a community perspective (minimising the financial impact) in particular adoption of scenario three is the most optimal, prudent and responsible approach. Importantly too, it is critical that Council implement and adopt the improvement plan actions. For the organisation to achieve institutional change and to truly affect the necessary process and decision making improvements, time is critical. Adoption of scenario four will achieve the OP benchmark, however if it's brought forward in tandem with an aggressive rate rise, the real underlying benefits to the organisation (as considered above and throughout this submission) may not be achieved.

Council can achieve the benchmark sooner (three year average is met under scenario 4 in FY21) however, the impost on the community is much greater.

Council's Building and Infrastructure Asset Renewal program reflects the current position of assets in their life cycles. All asset renewals for all classes of infrastructure are currently built into the asset management plans and long term financial plan in the year that their life cycle analysis indicates renewal is required. If Council were to increase infrastructure renewal it would be over servicing the community and increasing the optimal cost of asset ownership. It is anticipated that Kiama's requirement for a renewal ratio at 100% will not occur until the 2030 to 2040 long term financial plan. As a result, increased spending on asset renewals should not occur as all required infrastructure renewal/replacement has already been included in the 10 yr long term financial plan.

The most appropriate course of action at the present is to ensure all infrastructure renewals remain in the long term financial plan at their optimal renewal point, and to investigate the establishment of an Infrastructure Renewal Reserve, funded by at least part of the difference between current renewal and current depreciation. This will ensure Council has sufficient funds and available borrowings for future renewals when they arise in 20 to 30 years time.

Council’s asset maintenance ratio is currently in the high 90 percentile. Council’s position is if this ratio was above 100%, Council would be over servicing the asset (and over servicing the community).

Council will continue to ensure that future ten year financial plans are inclusive of the required maintenance expenditure. The process however for determining required maintenance varies between Councils. As such Council will work with JO member Councils to determine the appropriate method for establishing what required maintenance should be.

Improvements in purchasing power from Joint Organisation procurement with neighbouring councils will likely reduce operating expenditure and strengthen this ratio, and in addition will enable Council to maintain it in the appropriate range of the high 90 percentile.

Improving the ratio of scheduled versus unscheduled maintenance to achieve the optimal life cycle cost of infrastructure will ensure that the actual maintenance expenditure is reduced to its optimum level.

Council’s Real Operating Expenditure per capita ratio will continue to rise due to a number of factors, some out of Councils control.
The Kiama Local Government Area (LGA) average annual population growth is around the 1% per year (Source -Dept of Planning). Council’s indexation percentage for expenditure growth is in the range of 2.5% to 3% through the Long Term Financial Plan (LTFP). With such a low population growth and the needs of the community there will always be a disparity in this ratio.

Council is also embarking on the construction of the Centre of Excellence Aged Care Facility in the 2015/16 year. Council will access significant amounts of finance (borrowings and grants) to fund the development. The impact on expenditure will be significant (as evidenced in the Operating Performance ratio). The impact on the Real Operating Expenditure ratio is also significant. Revenue from the facility once operational is significant and has a material benefit to Council’s revenue. Once operational this project will have annual expenditure in the range of $8M to $11M per annum while returning revenue of $10M to $14M per annum. As a result this has widened the gap between expenditure and population in the LTFP. The facility may also result in an increase in population figures not considered by Department of Planning and Environment population estimates as there may be increased residents from outside of the Kiama LGA. The facility will accommodate 134 residential aged care places with Independent and Assisted Living Units.

Council also operates Blue Haven Care to meet the challenges of aged and disability care service delivery which provides services over four LGA’s with annual expenditure of $3M.

Although not necessarily reflected as part of these ratios, Council has significant value contained within it’s existing 200 independent living units building stock. Fair Value of the ILU’s is approximately $75million with KMC equity of $19million (the balance is held in resident equity – loan licences). Whilst not reflected in the performance ratios this further reflects a strong balance sheet and the financial position of Council particularly in relation to the broader aged care service function.

Through the development of a business process improvement plan Council is managing it's corporate risk, strengthening internal governance processes and it's strategic financial management to withstand future economic shocks. Other significant benefits to emerge from such a plan include avoidace of reactionary funding, improved management of an ageing workforce and continuing to foster a *small but multi skilled and innovative workforce* that continues to meet the needs and expectations of the community. In addition to this, the participation of Council as a key stakeholder in the Joint Organisation of Illawarra Councils is considered an important strategic opportunity for Council to be sustainable in the long term.

5. Putting your plan into action

How will your council implement your Improvement Action Plan?

The implementation of the Improvement Plan will be the responsibility of the senior staff of Council including the General Manager, members of the Executive, the Chief Financial Officer (and staff), Manager Works (responsible for asset management) and the Corporate Planner. The Executive will be required to ensure adequate resources are provided to enable the timely development and introduction of a number of key actions identified. In addition the executive (and elected Council) will have oversight in ensuring the ongoing implementation and accountability of the identified actions.

Once declared 'fit for the future', Council will execute the Improvement Plan (the Business Process Improvement Plan) and allocate roles and responsibilities within specific areas of expertise. Relevant actions will be integrated into individual work plans and the executive will ensure adequate resourcing.

The Corporate Planner will have principal responsibility for integrating actions into the IP&R documents. Where amendments or other work (implications for Resourcing Strategy documents) is required, the Corporate Planner will make the necessary adjustments consistent with current OLG/LG Act process. Currently the Operational Plan is reported to Council every quarter. This practice will continue. Internal reporting adjustments are being considered to ensure greater frequency of reporting on key organisational metrics and indicators. Reporting against the benchmark ratios as well as the underlying factors that contribute to the indicators will be included in more frequent reporting to the executive whilst being reported to the Council every six months (as part of Delivery program reporting).

In the foreseeable future, Council will continue to use the services of its asset management consultant.

The elected Council will have the overall responsibility for ensuring the actions, policies and procedures are embedded into the Delivery Program and for ensuring the rate payers and community more broadly are kept up to date with progress on delivery and effectiveness.
In a broader sense all Managers will have responsibility for the implementation of the policies and processes once adopted in their respective portfolios. Where specific actions are required these will be included in Work Plans and be subject to review under Council's annual Performance Assessment Review process.

Where actions are not already, they will be included in the next iteration of the Operational Plan. Where changes are required to be made to the current Delivery Program they will be made in accordance with current procedures for amending and exhibiting changes to the Delivery Program.

It’s anticipated the Joint Organisation will also take on a number of roles and responsibilities particularly in respect to regional procurement opportunities. Accountability for the development and coordination of regional procurement projects will be via the current governance structure of the pilot JO, with General Managers and Mayors having responsibility and oversight for JO projects and activities.