

# **Shoalhaven City Council**

## **Fit for the Future Template 2 submission**

### **1.1 Executive Summary**

Shoalhaven City Council has undertaken an analysis of operations in conformance with the Office of Local Government “fit for the future” guidelines and benchmarks, and this paper provides detailed support to Council’s template submission.

Council agrees with the recommendations of the Independent Panel that the Shoalhaven has scale and capacity to function as a vibrant and sustainable local government organisation. Shoalhaven is the result of previous amalgamations which now covers an area of 4,660 square kilometres, a permanent population of 96,043 located in 49 towns and two major administrative/commercial centres. During holiday times the population is suggested to peak at 300,000. Shoalhaven is located on the coast equidistance from Canberra and Sydney, and experiences a healthy growth rate. It has demonstrated excellent collaboration with regional, state and federal agencies/governments, and currently participates in a pilot regional Joint Organisation. Shoalhaven City Council also successfully operates one of the largest water supply authorities in NSW, which further enhances its scale and capacity.

Council has found that it currently meets four of the benchmarks, Own Source Revenue Ratio, Debt Service Ratio, Infrastructure Backlog and Real Operating Expenditure per capita. However it should be noted that the Real Operating Expenditure is currently achieved but is at risk in the future when Council improves service levels by increasing maintenance spend by over \$10m in the coming years. This measure is not effectively measuring the operational efficiencies Council will achieve in the future as they are offset by the requirement to spend more on maintenance to achieve required maintenance levels.

Council has also determined it can meet the additional three benchmark requirements by 2020 by implementing the strategies contained within this report, in conjunction with other Illawarra Councils, the community, Council staff and Councillors. The Breakeven for Operating Performance Ratio reached by 2020, the Building and Infrastructure Asset Renewal Ratio improves from 53.2% to 66.5% in 2020 (100% will not be achieved

in the medium to long term due to the actual whole of life asset condition methodology being incongruent with the depreciation methodology, to achieve this ratio by 2024/25 Council would need to spend an additional \$133m over and above the \$24m additional spend already added for FFTF), and the Asset Maintenance Ratio sees improvement year on year. The final strategies are a product of a rigorous analysis of all strategies available to Council, and include current and future organisational improvements.

A summary of the proposed strategies is as follows:

- Implement a special rate variation;
- Move cost of providing services to those who use them and to reflect actual costs;
- Staff management improvements;
- Corporate continuous improvement;
- Improve use of technology;
- Introduce zero based budgeting;
- Savings on procurement processes;
- Asset rationalisation and utilisation;
- Improve asset management systems;
- Install Civica's "AUTHORITY" software;
- Review input and methodology of Backlog Ratio data;
- Increase maintenance expenditure;
- Continue Transformation Task Force recommendations (See Attachments 1 & 2 Confidential)

Council's strategies were discussed with the community during April and May 2015. Some of the final strategies were adopted by Council as part of the DPOP 2015-2017, however with the subsequent changes to the evaluation criteria, Council has had to revise their strategies to achieve the operating performance ratio by 2020, which resulted in a change to the timing of the special rate increase, which was originally modelled at 5% for 3 years from 2017/18 and has subsequently been modelled at 7.5% for 2 years from 2017/18.

## **1.2 Scale and Capacity**

Council agrees with the recommendations of the Independent Local Government Review Panel that Shoalhaven has the scale and capacity to function as an efficient and effective local government organisation in NSW.

The Independent Local Government Review Panel placed Shoalhaven in Group G, which is likely to be sustainable in its current form for several decades, and has a low potential for merging with other Councils. The NSW Treasury Corporation Financial Assessment and Benchmarking Report for Shoalhaven City Council found overall that Council has been well managed to date.

In 1948 the Council of the Shire of Shoalhaven was formed by the amalgamation of seven Councils:

- Broughton Vale Municipal Council;
- Berry Municipal Council;
- Nowra Municipal Council;
- South Shoalhaven Municipal Council;
- Ulladulla Municipal Council;
- Cambewarra Shire Council, and
- Clyde Shire Council.

The amalgamations formed a Council with a significant size of 4660 square kilometres, with 49 towns and villages, which provides consistent management and service provision over a large geographically and socially contiguous area. In 1979 the Shire of Shoalhaven was proclaimed the Council of the City of Shoalhaven due to its size, growth and change in function.

The Shoalhaven has a current population of 99016<sup>1</sup> and increasing at a rate of 1.39%. It has 7113 active businesses and a rating base of 55,747 assessments. In the past, this has provided Council with a scale and capacity to provide efficient and effective facilities and services to its residents. The high growth rate experienced in the Shoalhaven has provided a robust revenue base, and with four lanes of highway to be completed to Jervis Bay from Sydney, it is expected to provide continued growth.

The recently approved Shoalhaven Local Environmental Plan facilitates an additional 7,500 new residential dwellings with a population increase of 17,800 people. The planning strategy envisages an increase in population of 22% by the year 2036. The Shoalhaven Community Strategic Plan key result area 2 reinforces this.

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<sup>1</sup> Department of Planning

The large number of towns require equitable advocacy to ensure fair representation across the city to all sections of the community. Council operates three wards to achieve elected representative advocacy, with 12 Councillors and a popularly elected Mayor. The Shoalhaven is also divided into 5 planning areas to ensure equitable provision of facilities. Council also employs a number of community development officers to provide services and advocacy for children, aged, disabled, young people and aboriginal sectors within the City. The Shoalhaven Community Strategic Plan Key Result Area 1 reinforces equity and advocacy with a number of strategies to ensure sustainable, resilient and adaptable communities across the diverse settlements of the City, and provides services and facilities that enhance equity, social inclusion and cultural diversity, enhanced lifestyle opportunities and community engagement.

To provide facilities and services to residents, Shoalhaven City Council employs approximately 759 staff (FTE). Due to the Shoalhaven's location in relation to large population centres of Sydney, Illawarra and Canberra, and improving access, attracting highly experienced and qualified staff has not been a problem. Good working conditions have led to an average turnover of a healthy 9%. The high quality of staff has provided advanced skill sets in strategic planning and policy development. This is evident in Council's ability to develop, implement and monitor an integrated strategic planning framework, with long term Community Strategic Plan which sets the framework for the Delivery Program and Operational Plan. These are also based on 38 asset management plans, 190 public policies and a raft of internal policies and procedures.

Council also manages Shoalhaven Water, one of the largest local government water authorities in NSW, which provides a unique opportunity for attraction, advancement and career diversity for employees within Council. It provides a capacity and infusion to undertake major projects and improve staff knowledge, creativity and innovation. Shoalhaven Water reinforces Council's capability for partnerships with NSW and Federal government agencies. Through Shoalhaven Water's active involvement in the NSW Water Directorate, it provides effective regional and state collaboration with other local government organisations. Shoalhaven Water provides robustness to Council's revenue base and enhances strategic planning capabilities, and generally contributes to Council's overall sustainability. Council's Director Shoalhaven Water, Carmel Krogh is also a Ministerial appointed Director on the Board of NSW Water.

Due to Shoalhaven's size and location it has been a contributing member of regional collaboration through the Southern Councils Group, Illawarra

Region of Councils, Libraries Coop and the Water Directorate. It has the advantage of being close to Councils to the north, with exchange of information at professional level, with General Managers, Planners, Economic Development, Engineers, Accountants, Natural Resources, Human Resources and IT all being involved with regional groups and Council partnership in Southern Councils Group (now Illawarra Pilot Organisation), contributes to a higher level of expertise and knowledge sharing. Appendix B shows the relationship between Shoalhaven Community Strategic Plan objectives and strategies and the Regional Plans.

Shoalhaven has undertaken collaborative discussions with Wollongong, Kiama and Shellharbour Councils with a view to extend opportunities for joint regional partnerships. Agreement has been reached to form a Joint Organisation, which was selected as one of the pilots for the State, and agreement to prioritise the following regional services:

- Regional procurement;
- Regional training opportunities;
- Shared internal services, i.e., code of conduct, ;
- Asset management service procurement, e.g., fire safety, building maintenance, cleaning;
- Professional services.

Shoalhaven has enjoyed a good working relationship with State and Federal Governments. A successful partnership with State Government includes Country Town and Water Supply Schemes (over 2 decades), determination of Part 3A development applications, and representation on a number of committees. Appendix A shows the relationship between Shoalhaven Community Strategic Plan objectives and strategies and the relevant State Plans.

Shoalhaven General Fund has demonstrated that it has the capacity to react to new functions or major changes. On a number of occasions during the past three decades Council has resolved to undertake major road upgrading programs and large scale infrastructure projects well beyond the normal yearly works program. All projects were successfully completed within the time frame and budget. These include a \$26 million Entertainment Centre. Shoalhaven Water has demonstrated capacity in completing the \$45 million Regional Effluent Management Scheme and the provision of the \$60 million sewerage scheme for the Lake Conjola Region.

Council is also a licenced “Self Insurer” in compliance with Work Cover Legislation. Council surveys its community on a regular basis, the most recent survey being completed in June 2014. Overall, 82.9% of Shoalhaven residents recorded medium to high satisfaction with the performance of Council. This level of satisfaction was consistent across all demographic groupings, with statistical testing unable to identify any significant differences across segments of the resident population.

Normative data from the Australian Unity Wellbeing Index indicates that the average Personal Wellbeing Index for Australians is approximately 75. Shoalhaven LGA’s Personal Wellbeing Index was calculated as being 77.13 which is considered above average for Australian communities. Approximately 70% indicated they were highly satisfied with feeling part of the community.

Geographically, if Shoalhaven were to merge with adjoining Councils the distances for effective management would be excessive, and social and economic mixes would be quite different.

Council believes it has an appropriate scale and capacity to provide efficient and effective facilities and services to its residents and ratepayers into the future, and will be completing Template 2.

## **2. Shoalhaven City Council- current position**

### **2.1 Details of Shoalhaven Local Government area.**

#### **Shoalhaven built and natural environment.**

The Shoalhaven is located between the coast and the escarpment, approximately 160 Kilometres south of Sydney, and one hour drive from Wollongong. Canberra is within 2 hours drive to the west. Shoalhaven City Council is one of the largest regional coastal Local Government areas in the NSW, covering 4660 square kilometres and approximately 120 kilometres long and 40 kilometres wide.

Shoalhaven's picturesque coastline covers approximately 170 kilometres and comprises 19 major water catchments including rivers, bays, lakes and major creeks. Nearly 70 percent of the land in Shoalhaven is National Park, State Forest or vacant Crown land.

Nowra/Bomaderry is the major population centre of the city, providing industrial, educational, administrative, commercial, recreational and other high order services for the area. The Shoalhaven River runs through Nowra/ Bomaderry, across a major floodplain to the sea at Crookhaven Headland.

Milton/Ulladulla is also a major administrative and commercial centre located in the south, with Jervis Bay/St Georges Basin area located in central Shoalhaven and is becoming a third regional commercial and population centre.

The remainder of Shoalhaven comprises of 49 towns and villages, with most located east of the Princes Highway providing accommodation for tourist activities.

Shoalhaven City's significant environmental qualities stem from its extensive natural areas, vast biodiversity and relatively small area of settlement. The natural and rural landscapes form part of the cultural heritage and 'sense of connection' for the community, and are an important tourism and economic asset.





### Shoalhaven community

The local community has a higher average age than many other areas in NSW (30.9% over 60 years of age in 2012/13, Group average 26.4%<sup>2</sup>). An ageing population is a typical feature of coastal locations in NSW, given the high retiree population and the fact that younger people often migrate to other locations for educational or work pursuits. Approximately seven in every 10 Shoalhaven City households are a family, with two in 10 a single person households. Nearly all occupied dwellings in the City are single houses, with most of the population living in detached low density housing.

Shoalhaven City has a rich Aboriginal cultural heritage, almost one in 20 residents identify as Aboriginal or Torres Strait Islander. These strong links with Aboriginal culture are further reflected in Council's recognition of

<sup>2</sup> LG Comparative Data 2012/13



the strong spiritual ties that the traditional owners continue to have with this land.

Due to the close proximity to the major population centres of Sydney, Illawarra and Canberra and the pristine natural environment, the Shoalhaven is a major tourist destination, with 2.7 million tourists per year, which triples the population over the Christmas/New Year period. It is also a very desirable place to live. As a result, the Shoalhaven has experienced significant population growth during the past 50 years, and it is expected to continue to grow in future years.

### **Shoalhaven prosperity**

The Shoalhaven economy features a varied range of small to large businesses located within the major town centres, with tourism and smaller businesses generally located in the rural and coastal areas.

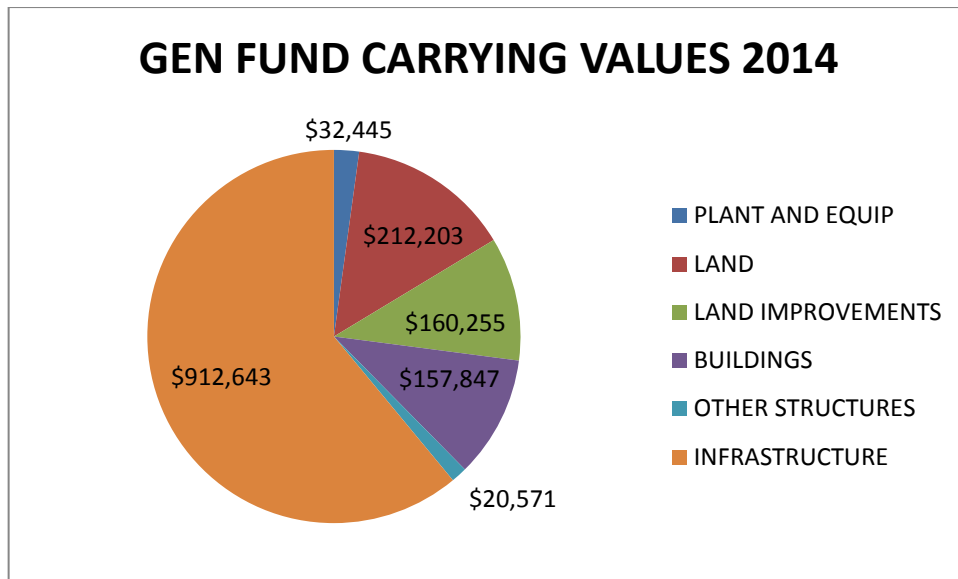
The main employment sectors are defence, tourism, manufacturing, government services, agriculture, education and health.

### **Council's Facilities and services**

Due to the spacious and rural nature of the Shoalhaven, the provision of infrastructure and services is spread over a large area, with small populations and individual villages requiring equitable facilities and services. A large number of facilities are provided to service smaller populations, normally only provided to service much larger populations in larger regional centre. Therefore many facilities have low utilisation but the communities consider these as extremely important for wellbeing and sense of community. A few statistics are:

- Sealed road length = 1,366 Kilometres
- Unsealed roads =341 Km
- Swimming pools =12
- Public Halls =27
- Open public spaces =2,029 (ha)
- Bridges =212, total length 3,875 metres
- Tennis courts =79
- Netball/basketball courts =50
- Footpaths/cycle ways =100 Km
- Parks and reserves =1550 Ha at 862 locations (maintained only).

The break-down of the carrying value of \$1.5 billion of Council's General Fund assets is as follows:



Source: Shoalhaven Annual Financial Statements (General Fund less Shoalwater Assets)

## 2.2 Key challenges and opportunities

The Shoalhaven is typical of a coastal Council in NSW with significant population growth, low revenue base, spatially separated towns by rural lands, and a community expectation of high levels of facilities and services.

The following is a SWOT analysis to identify the key drivers working within Council and the environment.

### Shoalhaven Strengths

- A large Council which provides a good economy of scale;
- Rate base of 55,747 growing on average at .5% per annum;
- Experienced and qualified staff with a high retention rate;
- Situated close to the major population centres of Sydney, Illawarra and Canberra;
- Highly desirable tourist destination during holiday periods;
- Will continue to see growth due to proximity and improved transport networks to Sydney and Canberra. The “sea change” phenomenon is also contributing to growth;
- A strong tourism sector, rural sector and a naval base;
- Good collaboration with Illawarra Councils at professional levels;
- Strong bias towards strategic business and community management.

### Shoalhaven Weaknesses

- Increasing community expectation of Council's facilities and services;
- Increasing aging population and demand for services, particularly transport to towns and villages. This may impact on higher pension rates deferrals and reduce revenue in the longer term (unless policy changes are adopted by Council);
- High unemployment rate, 7.2% compared to 6.1% group average, means less disposable income and less ability to pay for services;
- Multiple duplicated assets to serve a thinly spread population and isolated villages, and the need to maintain and renew assets;
- Significantly greater lengths of road per ratepayer, requiring maintenance from a lower base;
- Forecast operating deficits for a number of years without a rate increase;
- Backlog of infrastructure work required to bring assets to a satisfactory standard of \$10m;
- Aging workforce with a loss of knowledge and experience on retirement;
- Population density is only 0.22 persons/hectare, spread over 49 towns and villages and separated by environmentally sensitive areas;
- Unfunded Section 94 and other liabilities, such as asbestos affected properties and gas remediation requirements on contaminated lands.

It should be noted that many of the weaknesses are external factors beyond the direct control of Council and the wider community.

### **Opportunities for the Shoalhaven**

- Capacity to increase borrowings to fund infrastructure works;
- Develop systems to provide better information to manage assets and provide management data;
- Implementation of "AUTHORITY" to bring technology improvements and efficiencies;
- Borrowing rates may reduce if Local Government NSW establishes a pooled borrowing vehicle for NSW Councils (estimated to be .5% below market rates);
- Positive position to offer service provision to smaller Councils;
- Good proximity for resource sharing with Illawarra Councils;
- Increase of commercial development in the smaller villages may reduce the transport needs of isolated residents;

- Shoalhaven average rates are 77% of the average rates of surrounding Councils, therefore capacity for an increase;
- Increasing use of technology based communication by residents may provide a closer relationship with Council, and overcome the tyranny of distance and also improve cost of postage and communications.
- Improved asset reporting and management with a new system
- Improved financial knowledge and understanding for all staff
- Resource sharing/regional collaboration
- Continuous improvement opportunities with regard to internal processes and procedures

### **Threats to the Shoalhaven**

- Further cost shifting from State and Federal Governments;
- Further reduction in grant funding;
- Increases in Consumer Price Index impacting on current cost structures;
- Further reduction in the Australian dollar will impact on costs;
- Deteriorating condition of infrastructure due to inability to fund appropriate level of service;
- Inability to meet higher community expectations for service delivery;
- Further reduction in interest rates resulting in decreased income from investments;
- Reduced dividends from Shoalhaven Water.
- Inability to attract suitably qualified staff at current remuneration levels
- Potential impact of climate change and sea level rises

To meet these challenges Council operates using a number of strategic plans in accordance with the Integrated Planning and Reporting framework, as shown below;



## 2.3 Performance against “Fit for the Future” benchmarks

The following is an analysis of Shoalhaven’s current position in relation to the “fit for the future” benchmarks.

### 2.3.1 Sustainability

SUSTAINABILITY					
Measure	Benchmark	2013/2014 performance	Achieve FFTF benchmark?	Forecast 2016/2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio	Break even over 3 years	-8.9 %  -5.4% (3 years average)	<b>NO</b>	-6.00%	<b>NO</b>
Own Source Revenue	>60%	81.6%	<b>YES</b>	80.2%	<b>YES</b>

<b>Building and Infrastructure Asset Renewal</b>  Renewals - \$18.8m/Depreciation - \$27.2m	>100% (3 year av)	69.2%  48.8% (3 year average)	<b>NO</b>	56.3%	<b>NO</b>
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### **Operating Performance Ratio**

Council does not achieve the Operating Performance Ratio benchmark, therefore will formulate appropriate strategies to ensure compliance. Section 3.1.1 outlines the analysis undertaken to determine appropriate strategies for improvement. Council considers this as one of the most significant under-performing Ratios, and hence has devoted significant analysis to strategies.

### **Own Source Revenue Ratio**

Council captures **44%** of its revenue from rates and charges and achieves the Own Source Revenue Ratio measure/benchmark, and hence no further detailed analysis will be undertaken in this document. Further improvements to this ratio will eventuate with the change to Accounting Standards to include revenue through 355 Committees of Council, which is approximately \$1m in additional own source revenue which will be reported from the end of 2015 financial year. (This has not been included in Councils revenue numbers at this stage)

### **Building and Infrastructure Asset Renewal Ratio**

Council does not currently achieve the Building and Infrastructure Asset Renewal Ratio benchmark, and will need to formulate appropriate strategies to ensure improvements by 2020. Section 3.2.2 outlines the analysis undertaken to determine appropriate strategies for improvement.

## 2.3.2 Infrastructure and Service Management

INFRASTRUCTURE AND SERVICE MANAGEMENT					
Measure	Benchmark	2013/2014 performance	Achieve FFTF benchmark?	Forecast 2016/2017 performance	Achieves FFTF benchmark?
<b>Infrastructure Backlog Ratio</b>  Cost to bring to satisfactory \$44.7m/WDV infrastructure \$1,232.3m	<2%	3.64%	<b>NO</b>	0.9%	Yes
<b>Asset maintenance Ratio</b>  Actual Maint - \$13m/Requirement Maint - \$17.3m	>100% (3 year av)	75.5%  91% (3 year average)	<b>NO</b>	80.4%	<b>NO but shows improvement</b>
<b>Debt Service Ratio</b>	0<DSR>20%  (3 year av)	5.9%  5.69% (3 year av)	<b>YES</b>	6.3%	<b>YES</b>

### Infrastructure Backlog Ratio

Council does not presently achieve the Infrastructure Backlog Ratio benchmark, but it will be met by 2016/17. Section 3.2.3 outlines the analysis undertaken to determine appropriate strategies for continuous improvement.

### Asset Maintenance Ratio



Council does not currently achieve the Asset Maintenance Ratio benchmark, therefore will formulate appropriate strategies to ensure compliance. Section 3.2.4 outlines the analysis undertaken to determine appropriate strategies for improvement.

### **Debt Service ratio**

Council achieves the Debt Service Ratio benchmark and hence no further analysis will be undertaken in this document. Council has a number of principles which were adopted in October 2014 for management of debt levels, as shown below, which will be continued to be utilised:

- NEVER borrow to fund operating deficits
- Only borrow to fund activities core to Councils agreed priorities (i.e. they must be in the Long Term Financial Plan) unless under circumstances of emergency
- Each funding request needs to be supported by full life cycle costing analysis
- Only fund to borrow if interest repayments are less than the cost of maintaining the existing asset requiring renewal
- The term of debt funding should never exceed the life of the asset it is used to fund
- The specific capital project should only be considered for loan funding, if it is to be beneficial to the majority of ratepayers.
- Debt servicing cost should not exceed 2% of annual general income.
- Loans should not be taken out over more than 20 years
- All loans should be taken out in accordance with relevant statutory requirements as contained in the Local Government Act (1993) and the Local Government (General) Regulations 2005.
- Three written quotes should always be sought or a loan tender called
- No borrowing from any source outside the Commonwealth of Australia nor in any currency other than Australian currency

### 2.3.3 Efficiency

EFFICIENCY					
Measure	Benchmark	2013/2014 performance	Achieve FFTF benchmark?	Forecast 2016/2017 performance	Achieves FFTF benchmark?
Real operating Expenditure per capita	Decrease over time	\$1,434 Decreasing	YES	\$1,428	YES in the short term

#### Real Operating Expenditure per capita

Council achieves the Real Operating Expenditure per capita benchmark. During recent years Council has undertaken an Organisational Transformation Project and produced significant annual savings (\$4,900,000 to date) and efficiency gains, implementing tough measures and causing organisational upheaval during the process. The improvements are now gaining momentum and further upheaval to achieve short term improvement in “fit for the future” ratios is not considered a positive action until the improvements are bedded down. There are a number of projects discussed in Section 3.3 which are designed to improve operational efficiency and included in the “fit for the future” suite of strategies. However this ratio is impacted by the fact that significant savings have already been achieved, so Council is starting from an already lower base, and with increases in maintenance spend to achieve the asset maintenance ratio will be adversely impacted in future years, although community expectations will be met.

## 2.4 Water Utility Performance

### 2.4.1 Do we achieve Best Practice?

Shoalhaven Water achieved compliance with the NSW Office of Water's Best Practice Guidelines a number of years ago. This compliance has been audited and reported to Council each year. The annual audit is based on the latest Best Practice Guidelines from the relevant Minister (as at 2015 the latest guidelines are dated 2007). The table below summarises the current status of each of the Best Practice compliance elements.

ELEMENT	STATUS AS AT 2015
1. Strategic Business Planning	Strategic Business Plan current
2. Pricing	
2.1 Full Cost Recovery without significant cross-subsidies	Comply
2.2 Compliant residential charges with pay-for-use water pricing independent of land value	Comply
2.3 Complying non-residential charges	Comply
2.4 Development Servicing Plan, commercial developer charges	Comply – State Government has not yet released new guidelines so an interim policy based on current DSP has been adopted.
2.5 At least 75% of residential water revenue from usage charges	Comply
2.6 Complying trade waste fees and charges	Comply
2.7 Complying trade waste policy and approval for all dischargers	Comply
3. Water Conservation	Demand management plan adopted
4. Drought Management	Drought Management Plan adopted
5. Performance Monitoring	Comply with NSW and Federal annual requirements
6. Integrated Water Cycle Management	IWCM Plan adopted in 2009

**2.4.2 How much is 2013/14 water and sewerage infrastructure backlog?**

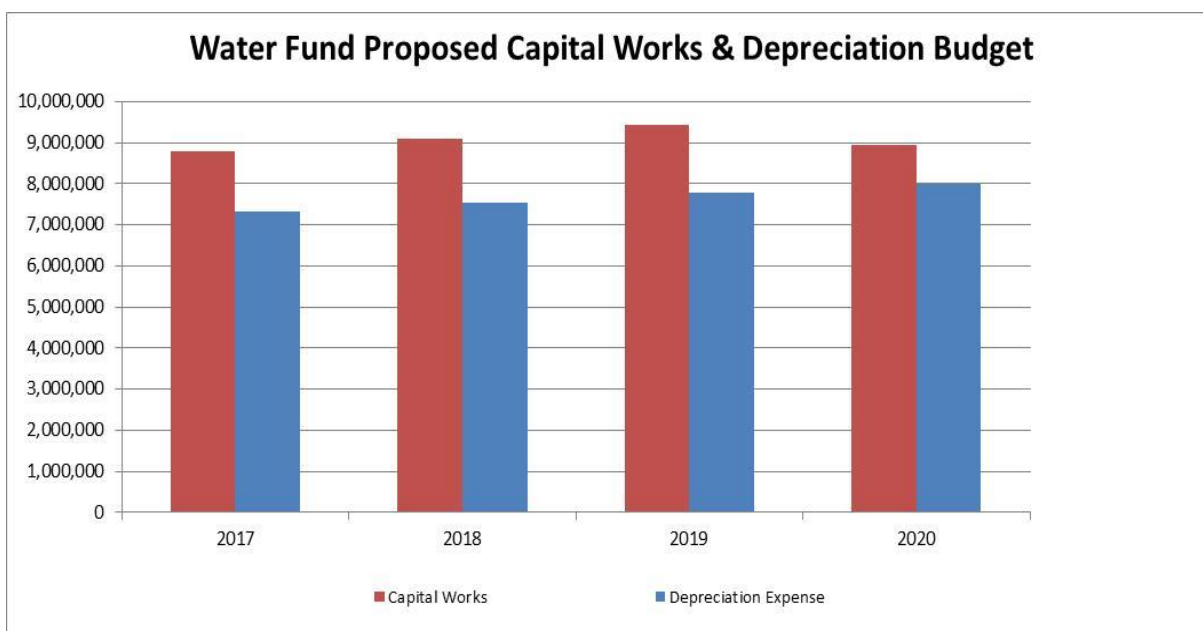
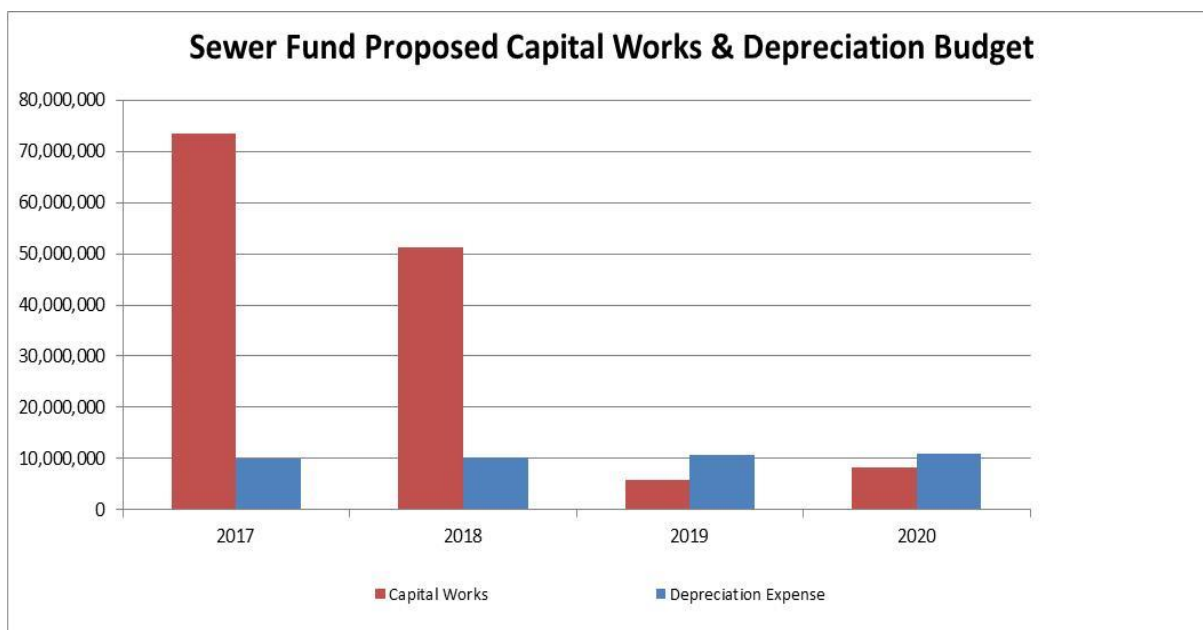
The backlog for water and sewerage is nil. This is based on the definition that backlog is defined as the total unfunded cost to renew all high residual risk assets in the current risk register.

**2.4.3 Significant Capital works program (>\$1m) for 2016-17 to 2019-20 and grants or external funding.**

The water and sewer funds provide for capital programs each year for renewal/replacement works, new works for growth and new works for asset enhancement. The “building fundamentals” or drivers of these programs are given in the diagram below.



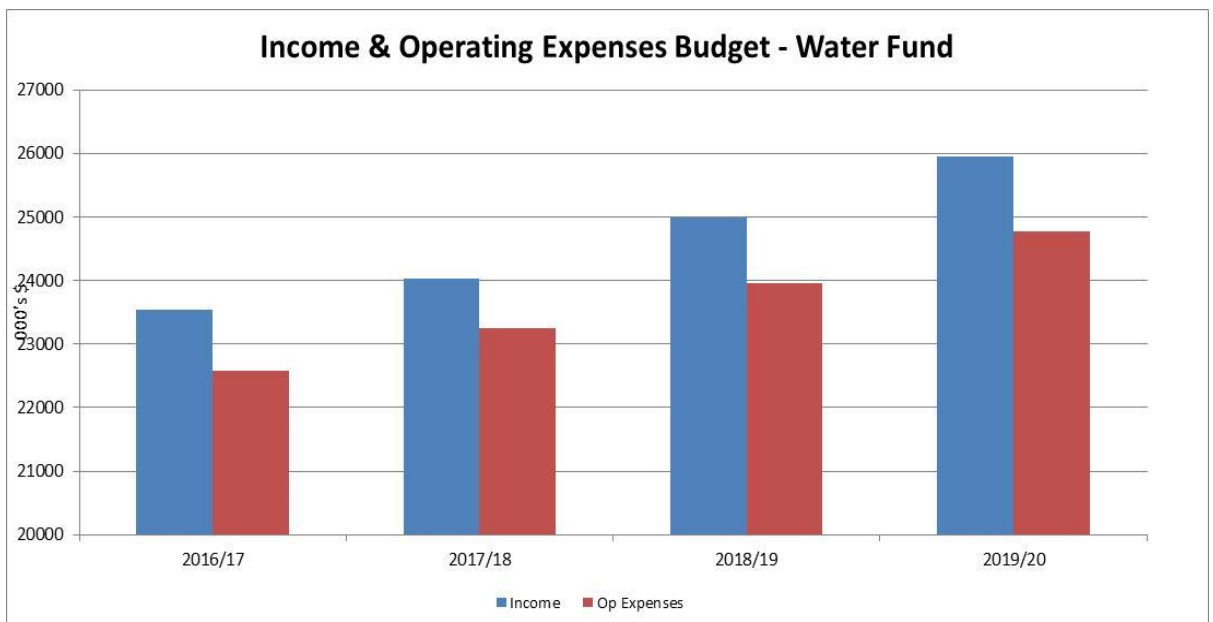
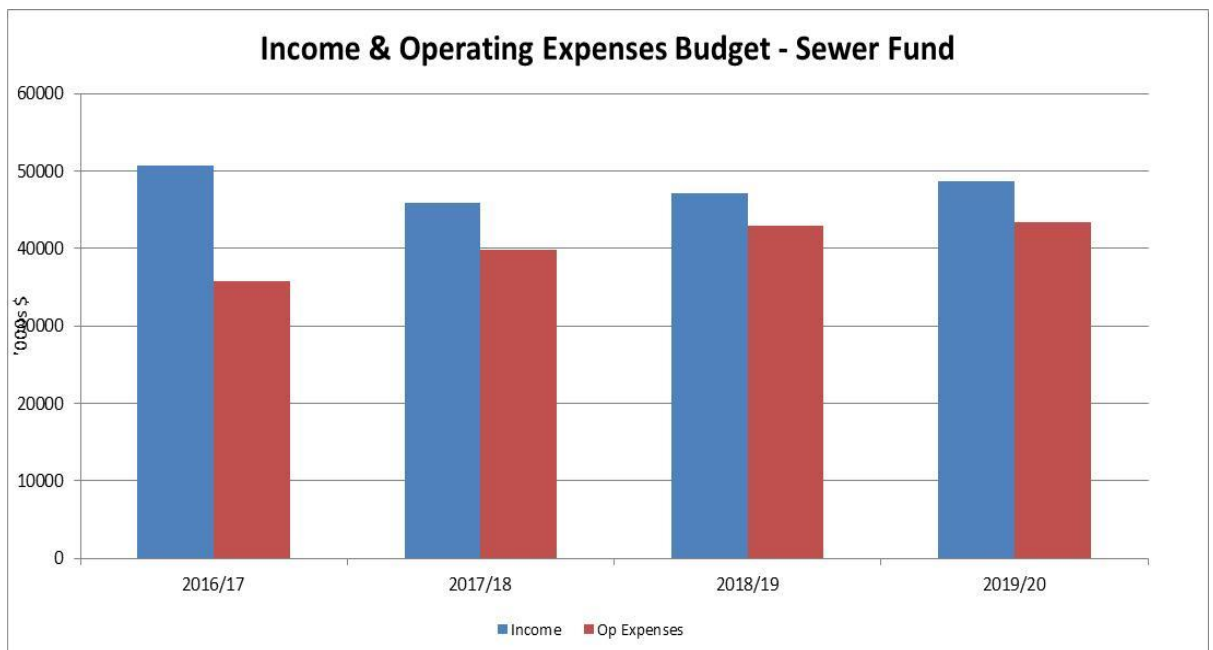
The water and sewer funds 4 year capital works programs and depreciation expenses for the period 2016/17 to 2019/20 are summarised in the graphs below. Funding for these works are provided through revenue, reserves, loans and a state government subsidy of \$10M. The major capital activity in the sewer fund is the construction of the next stage of the Recycled Water Management Scheme (ReMS). The water fund major capital works includes an upgrade of Porters Creek dam and major pipeline renewal programs.

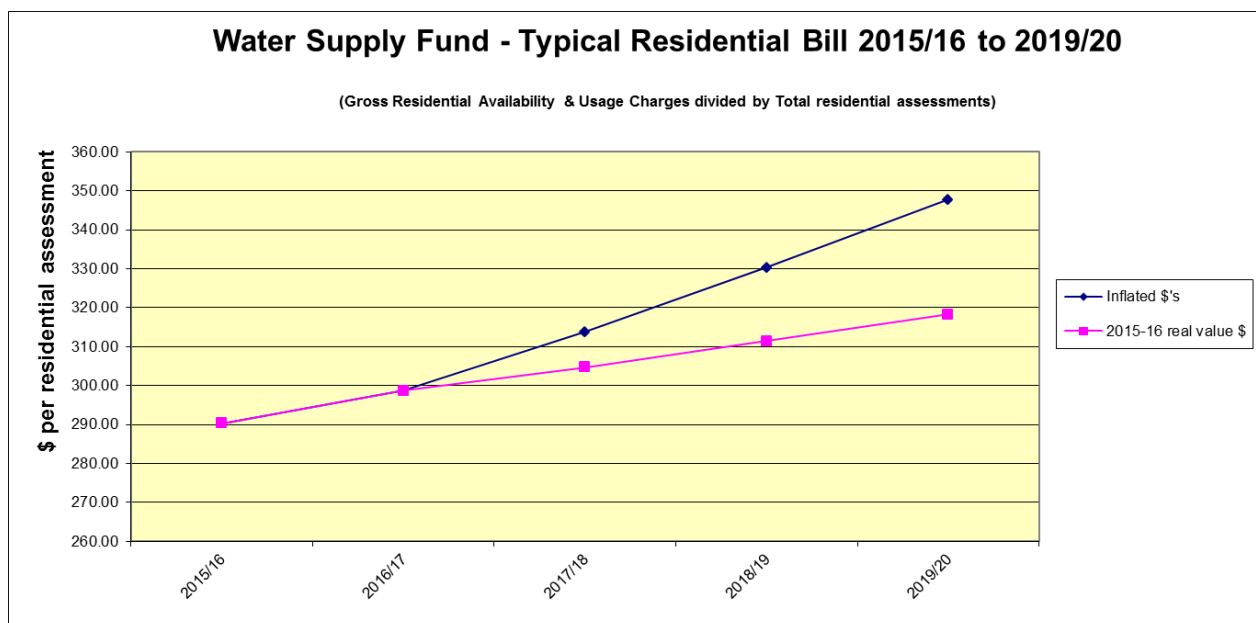
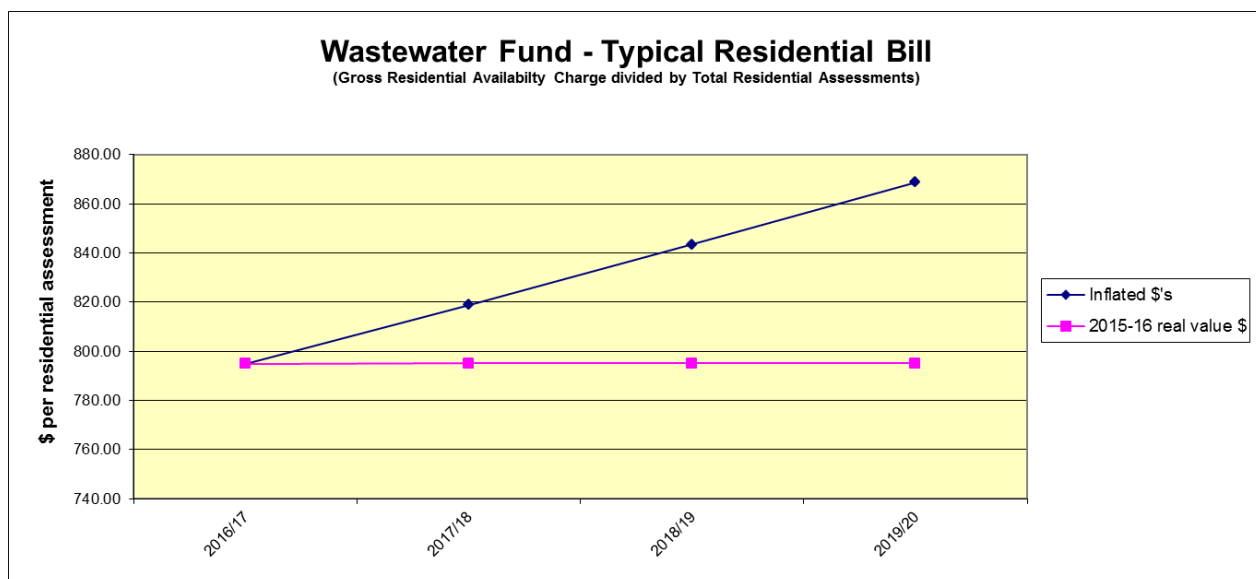


#### 2.4.4 Do we manage water and sewerage on at least a break-even basis?

The water and sewer funds are managed in a manner to achieve an operating surplus in each fund. Dividends have been paid to Council's General Fund in accordance with Best Practice allowances since 2003/04. The amount of dividend paid to General Fund is approximately \$2.5m per annum and supports General Funds Scale and Capacity. The graphs below show the budget estimates for operating income and expenditure for the 4 year period, based on current price path within the financial

models. Typical residential bills correlating to these models are also provided below.





#### 2.4.5 Identify some strategies to improve performance in 2016/17 to 2019-20.

All strategies are included in the Water and Sewerage Strategic Business Plans which are forwarded to state government agencies. See Attachment 3 – Shoalhaven water Strategic Business Plan.



## 3. How will Shoalhaven become “fit for the future?”

### 3.1 Sustainability

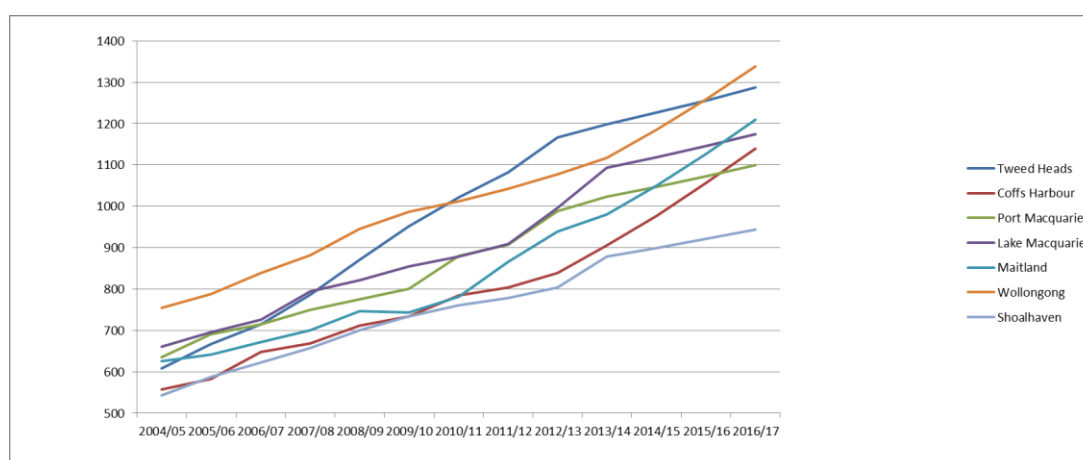
The following analysis investigates deficiencies in Council’s current performance, identifies potential actions and formulates strategies to improve the performance measures and benchmarks for the next 10 years.

#### 3.1.1 Operating Performance Ratio

Shoalhaven City Council currently has a negative Operating Performance Ratio which is partly due to historical circumstances. 40 years ago the Shoalhaven was a series of small coastal villages primarily visited for fishing, weekends and camping, and hence started with a low socio-economic base and a low community ability to pay.

Since that time, the Shoalhaven has developed into a thriving community with a diverse socio-economic spread of residents, and a higher level of expectation for facilities and services. However, Shoalhaven experiences low average youth representation and a high aged population, with sectors of low socio-economic residents. During this transition Council has attempted to balance the annual rate and charges with community ability to pay and hence the Shoalhaven rates are the lowest in the Illawarra and in the Group 5 Councils.

The Graph below provides a comparison of rates in Group 5 Councils, showing Shoalhaven rates as substantially lower than all comparative Councils.



Note:

- Years 2003/04 to 2013/14 obtained from OLG website
- Years 2014/15 to 2016/17 calculated by adding rate peg limit other than SRVs approved by IPART for:

Coffs Harbour	7.9% (2014/15)	8.14% (2015/16)	7.75% (2016/17)
Maitland	7.25% (2014/15) another 4 years)	7.25% (2015/16)	7.25% (2016/17) (+7.25% for
Wollongong	6.13% (2014/15)	6.23% (2015/16)	6.24% (2016/17)
Ratepeg	2.3% (2014/15)	2.4% (2015/16)	2.5%(est) 2016/17)

The Shoalhaven also has the largest area (4660 square kilometres) and highest number of isolated villages compared with all Illawarra and Group 5 Councils. This geographical area increases costs of providing services and facilities to the 49 towns and villages, with service and administrative costs, due to travelling, fuel costs and facility duplication costs higher than comparable local government organisations. Add to this the geography of the region; the number of waterways, which require extensive flood and risk studies and plans; and natural resources which need to be maintained and for which services are provided and the fact that the population density (i.e. residents per km<sup>2</sup>) is 21.39 against a Group average of 224.36 all add to increased costs per capita and a greater challenge for the operating performance ratio.

To achieve a sustainable long term Operating Performance Ratio (OPR), Council undertook a review of all the drivers for revenue and expenses, and determined which were likely to provide a significant improvement in the OPR. Council has two options, either increase revenue or decrease expenditure. A break-down of the operating expenditure and revenue average over the two years is shown below, which shows high level percentages

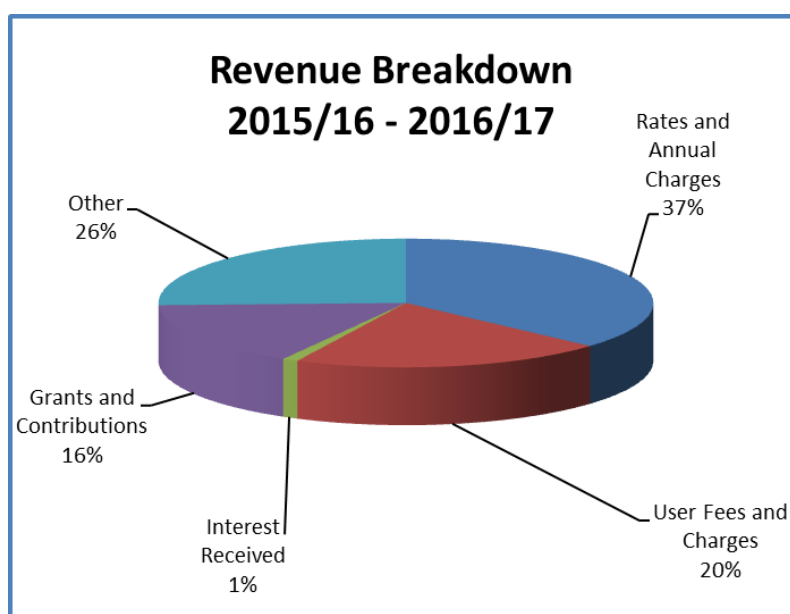
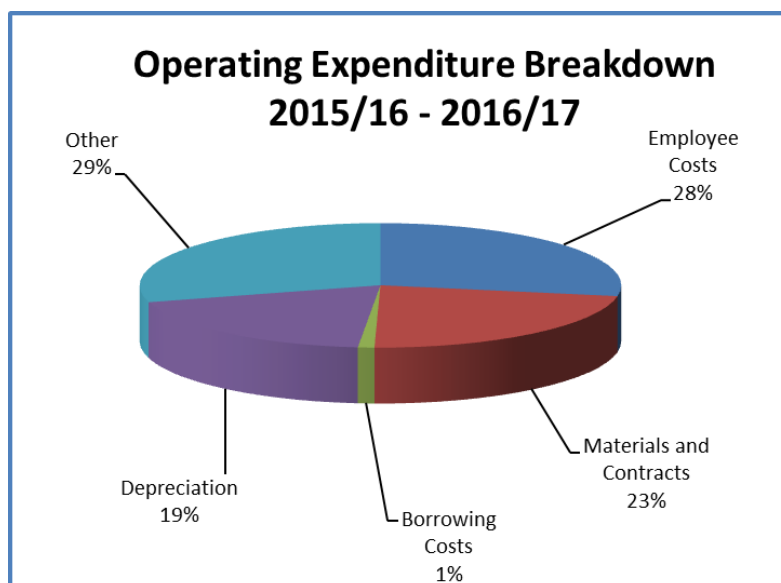


Table 1 is a summary of Council's analysis of the potential action or strategies to either increase revenue or decrease expenditure, showing those areas where potential improvements were considered.

**Table 1: Opportunities for improvement of the Operating Performance Ratio**

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
<b>Revenue</b>		Introduce a Special Rate variations to improve long term financial performance	<p>Provide significant improvement to revenue, long term modelling indicates Council would achieve a positive Operating Performance Ratio with other measures implemented. Shoalhaven rates are 77% lower than the average of adjoining Councils.</p> <p>It should be noted that Tweed Council rates are 36% higher than Shoalhaven.</p>	\$53mil	15%= \$9.4mil (incl. rate peg)	90%-On a number of occasions the community has agreed with a special rate increase to achieve a community need, e.g. road improvements, environmental improvements. Only 9 submissions were received to the proposed increase of 15% over 3 years.	7.2	<b>1</b>
		Increase in assessments above estimated	Shoalhaven will continue to experience population growth, and the number of assessments will also grow accordingly. The recently approved Local Environmental Plan provides	\$53mil	1% per annum above predicted I= \$.53mil	10%- Highly unlikely. At this stage pop projections seem reasonable.	0.053	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement -likelihood score	Rank
			for 7,500 new assessments in the next 30 years. With the construction of a 4 lane Hwy from Sydney to Jervis Bay completed within future years, increased growth may be experienced.					
		Pensioner deferral policy	The current policy allows pensioners to defer payment for 17 years. There is currently \$3mil outstanding. If the policy was changed to no deferral, there is a potential to increase cash-flow by \$800,000 each year.	\$800k cash pa		This does not impact on FFTF Ratios but does improve our cash position	0	-
	Fees and Charges	Move cost of providing services to those who use them and to reflect actual costs	This strategy has the potential to improve revenue due to the large number of community facilities and services provided. The ultimate aim would be full cost recovery and commercial rates for community building and facilities. This would need to be monitored and balanced to ensure fees and charges don't exceed the community's ability or willingness to pay.	\$48.2mil in total fees and charges income 2013/14	.5% year on year for 10 years = 3.2mil	50%- Fees and charges have increased above CPI with acceptance by the community, however, various sections of the community are generally sensitive to increase. Due to large number of	1.2	<b>2</b>

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
			For 2015/16 a 1% increase was presented to the community, without major objections which raised an additional \$500k in revenue			small communities, each demanding the same facilities, utilisation is low and commercial rates would be unaffordable, compared with denser population centres. The community has indicated that local public halls are vital for the heart and spirit of small communities and are seen as a basic need and right.		
	Interest	Increase investment income	A return of 3.25% has been included in the 10 year financial plan. In 2014 investment advisers were appointed which has improved operating	\$2.98mil	1% increase in medium term= \$0.03mil	30%- With current interest rates low and unlikely to increase in long term, very difficult to	.009	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement -likelihood score	Rank
			performance by \$192k in this financial year alone			predict. This is already factored into the DPOP, so no further improvement.		
		Pensioner policy-increase interest	Set by State Government – introduce change to Pensioner rates deferral – whereby interest will be charged for outstanding rates	\$800k per year in pensioner rates outstanding-	Assume 5% unpaid accumulating interest = \$3.5k	Policy still to get through Council – minimal impact	0	-
	Dividend	Increase dividend income	An increase in dividend from Shoalhaven Water is unlikely, as it is paid at maximum level eg approximately \$2.5m pa			0%-	0	-
	Other	Parking Fees	As traffic increases around the major centres and popular tourist areas, parking demand will increase and “pay for use” parking will become a viable strategy to increase parking turnover. This would require some implementation costs		\$0.05mil perhaps offset by implementation costs	10%- increasing in the future as demand increases.	0.005	-



Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement -likelihood score	Rank
		Increase leases and licences rental income	Council received a report in October 2014 to consider the increase in leases and licences.	\$0.925 mil	1% above CPI= \$0.0093mil	20%- Council considered a report but reluctant to increase at this point in time.	0.0019	-
		Facilities income	Council is currently heavily subsidising income from the use of a significant number of Council facilities, for community use.	\$0.251mil	1% above CPI=\$.0025mil	50%- Extensive community consultation is required.	.0013	-
		Increase user fees for use of Council facilities	Increase user fees to a % of maintenance costs. Will require a complete review of charging policy.		0.5% above CPI	0%- Further work is required.		-
<b>Expenses</b>	Employee costs	Reduce employee cost increases	Productivity improvements could reduce employee cost by 0.25% below CPI. Although the recent LG Survey shows SCC staff costs at 33% of expenses when the survey population average is 36%	\$30.43mil	Reduce by 0.25% below CPI= \$0.076mil	80%-	0.061	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
		Improve management of overtime and casuals	Council has completed a review of overtime and casuals, which indicates potential for savings. For this financial year Council have achieved a reduction in casual spend of \$250k and for overtime of \$142k	\$6.28mil	8%= \$0.5mil  Potentially lower when capital works exclude.	100%- Has been reported to Transformation Task Force, and now requires implementation. 50% already included in financials	0.5	<b>4</b>
		Organisational restructure and better manage FTEs	Council has undergone a complete restructure of the organisation during the last two years, with reductions of \$2.5mil achieved already which has also been included in the financial plan.  Further restructure is underway and additional savings are expected, by natural attrition.		\$0.5mil	80%-	0.4	<b>5</b>
		Better manage Fringe Benefit Tax	A recent investigation revealed potential to reduce FBT, by increasing lease back fees Council has reduced the liability by \$50k with more improvements achievable.	\$0.195mil	\$0.07mil	100%-	0.07	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
		Improved use of technology	<p>Council is currently investigating the use of better technology for:</p> <ul style="list-style-type: none"> <li>• time and attendance;</li> <li>• asset management;</li> <li>• financial management;</li> <li>• Advertising costs.</li> </ul>		\$0.4 mill after 4 years	90%-	0.36	<b>6</b>
		Reduction in allowances	Council has recently undertaken a review of the use and extent of allowances, and identified small potential saving.	\$0.471 mill	\$0.186 mil	95%-	0.18	<b>9</b>
		Long service and annual leave management	Untaken leave is an increasing cost, and better management has the potential to reduce the liability.	\$4.53 mill	4.4% reduction= \$0.2 mill	100%- Report completed and requires implementation and management.	0.20	<b>3</b>
		Continuous improvements	There are a number of strategies currently underway in the Transformation Project in relation to process improvement. The main ones are discussed under section		Total amount to be quantified – only \$200k included in the	80%	.16	<b>-</b>

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
			<p>3.3, Efficiency, with a summary below</p> <ul style="list-style-type: none"> <li>• HR - Recruitment</li> <li>• Financial Quarterly Budget Reporting</li> <li>• Purchase/Credit Cards</li> <li>• Booking/Approval &amp; Payments – Council facilities</li> <li>• Electronic Certificates Delivery</li> <li>• Cash Receipting</li> <li>• IT Support &amp; Call Logging Approach</li> <li>• Mobile Hardware &amp; Services Purchasing</li> <li>• Mobile Billing – Staff usage cost recovery</li> <li>• IT have identified a further 9 processes to be reviewed</li> <li>• Advertising Process – internal approach &amp; approval</li> </ul>		plan to date.			

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
			<ul style="list-style-type: none"> <li>Consistent Point of Sale approach &amp; inventory management across Council – leveraging existing agreements</li> </ul>					
	Borrowing Costs	Decrease borrowing/ loan costs	Lower interest rates for Local Government through TCorp could provide a small reduction in expenditure.	\$2.26 mill	A 0.5% reduction= \$0.0113mil	50%- Dependent on more information from TCorp.	0.006	-
		Less borrowing	<p>Historically Council has embarked on a reduced borrowing program, and if this was again mandated, it could reduce yearly repayment costs, but some capital work would need to be deferred in the short term. This may cause concern within the community.</p> <p>Also there are some advantages to providing less</p>	\$38.96mil	Further review will be required.		0	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
			turbulence in yearly spending by increasing loans for specific projects.					
		Internal borrowing	In the past, Council has borrowed from the water fund, and this is still a viable option in the long term for up to \$5 million. Water may be able to loan funds to Sewer fund for REMS	\$5.0 mill	Savings on the 50% of the differential between borrowing and investment rates – say .05% - \$25k	100% but minimal savings depending on interest rates	0.025	-
		Reduction in unrestricted cash	There is a small opportunity to reduce the unrestricted cash, but would need to be managed very carefully.		Potential saving of 0.4% but does not help operating result.	10%-	0	-
	Contracts and Materials	Investigate efficiencies	It has been identified that further work will be required to fully investigate contracts administration, and there may be potential for reduced costs as population grows and				0	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement -likelihood score	Rank
			commercial enterprises provide more competition in the Shoalhaven. This will be dealt with under procurement strategies.					
		Introduce zero based budgeting	Currently yearly budgeting is based on historical costs. A complete re-start of the internal budgeting process has the potential to reduce duplication and inefficiencies. For 2015/16 DPOP CPI increases were cut from all discretionary spend which resulted in savings of \$1.8m		\$0.25mil	100%-	0.25	<b>7</b>
		Reduce service levels and/or services	There are a number of services provided to the community which Council could consider reducing, such as partly funded special projects officers. Extensive community engagement is required before including this strategy. Eg Pools, library etc.		\$200,000	50%-	0.1	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
		Procurement savings	<p>Shoalhaven, Kiama, Shellharbour and Wollongong Councils have agreed that “regional procurement” is the highest operational priority for the Joint Organisation. Potential savings areas have already been identified.</p> <p>Recent reports indicate that savings resulting from the management of internal procurement methods and stores have also been identified.</p>		\$0.05 per year for 6 years = \$300k	80%- All Councils have agreed. Internal report finalised regarding internal stores/ procurement savings.	0.24	8
		Fuel efficiencies	Council operates a large fleet of vehicles, and there may be opportunity to reduce costs in this area. Savings to date have been approximately \$50k in fuel costs	\$2.097mil	0.5 % savings= \$0.0105	50%-	0.0052	-
	Depreciation	Improve data for depreciation	This item is a major driver for Building and Infrastructure Asset Renewal Ratio and the Operating Performance Ratio and will be discussed below.					-



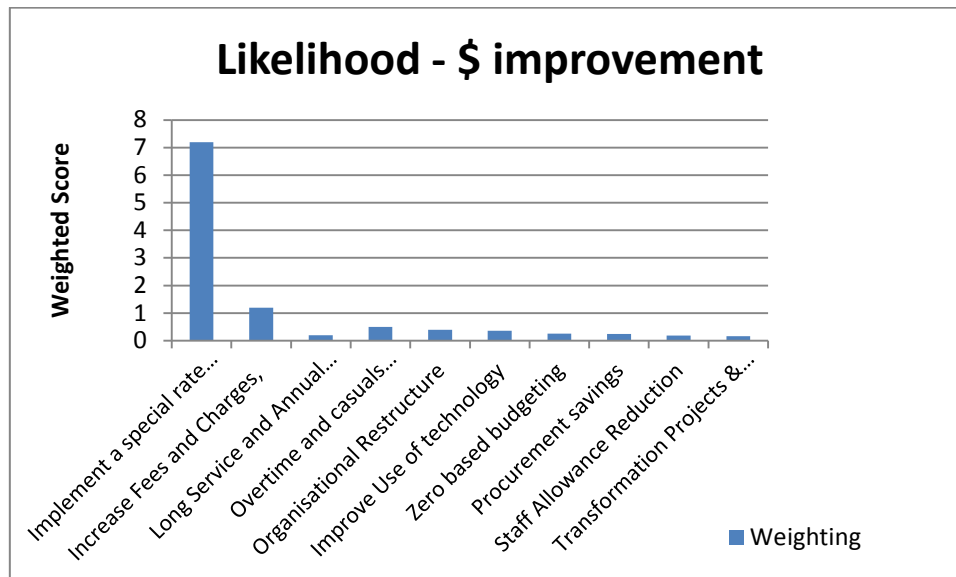
Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
	Other	Online advertising and use of social media	With increasing use of social media, there may be opportunities to harness computer use. The recent survey indicated that the most common methods of contact with Council is telephone (40.8%), personal visit to the Council office (36.4%) and email (7.2%). This indicates a potential for increasing use of the internet for business and customer contact. This has been included in the “improved use of technology” and customer service strategies.		Not quantified at this stage	50%-	0	-
		Energy efficiency	Council has an adaptation plan and undertakes energy efficiency programs. Due to the scale of expenditure in this area, there may be opportunity to reduce expenditure. Savings this year with the Carbon Tax repeal and efficiency gains is approximately \$360k	\$3.94 mill	2% one off= \$0.079mil	70%-	0.055	-

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
		Reduce donations	There are a large number and variety of community organisations in the Shoalhaven, and many of these rely on Council donations.	\$0.418mil	Reduce by 1% below CPI= \$0.004mil	20%-	.0001	-
		Reduce expenditure where cost shifting or matching grant funding is evident	The funding such as Rural Fire Service is being driven beyond Council's control and financial capabilities.	\$0.821mil	40%= \$0.34mil	5%-	0.016	-
		Asset utilisation	<p>Historical circumstances have led to many assets being used by only one community group resulting in significant under-utilisation. A more efficient use of resources would be a shared use of facilities.</p> <p>This will require a long term change in community attitude, and may be resolved as existing assets reach the end of economic life or new</p>	Public halls cost \$ 1 mill each.	\$0.33mil over 10 years plus maintenance costs	60%- There will be some reluctance by small sections of the community.	0.19	<b>10</b>

Primary Driver	Secondary Driver	Strategies for potential change	Impact of Potential change to increase revenue	Quantum	Potential increase to revenue-improvement	Likelihood of success (chance)	improvement-likelihood score	Rank
			assets are constructed. Council is currently undertaking a complete review of asset utilisation and rationalisation.					
		Asset rationalisation	Historical circumstances have led to some facilities becoming duplicated or redundant, with potential savings in maintenance and renewal.  Such facilities as swimming pools, small libraries, amenities buildings and community halls are recent examples.	\$1.2bil of assets	This is a long term strategy and hasn't been quantified at this stage	Include in Asset utilisation above.		-

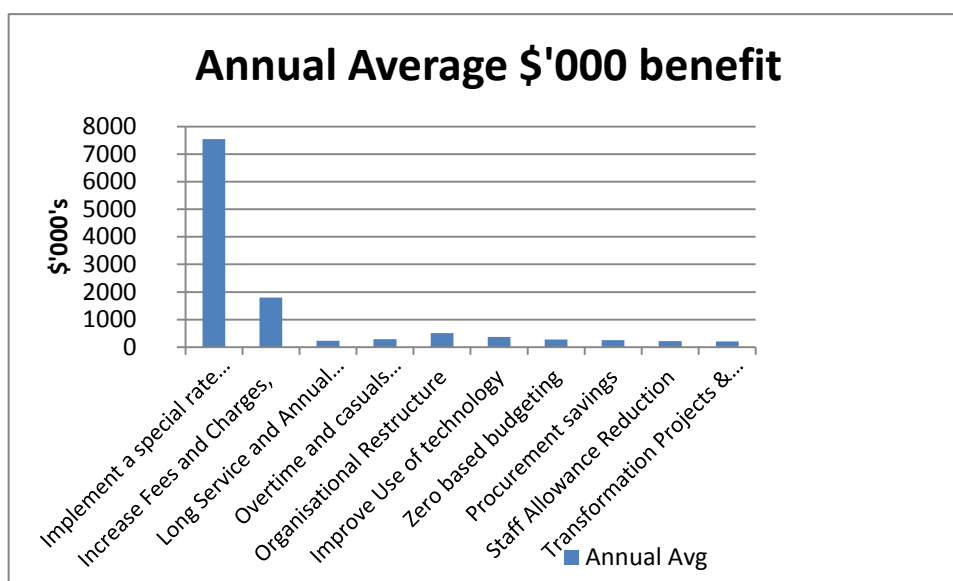
The highest ranking Improvement-Likelihood scores are graphed below to determine the most effective strategies to improve Council's long term operating performance. The "likelihood" includes consideration of community, policy and political realities. The first graph (Graph 1) shows the comparison of dollar improvement/likelihood of the highest ranking strategies.

**Graph1**



The second graph (Graph 2) shows the dollar magnitude benefit (on an average annual basis) of the highest ranking strategies. The graphs indicate that the strategy of introducing a Special Rate increase provides the greatest improvement in the Operating Performance Ratio, with other highest ranking strategies decreasing rapidly with diminished returns.

**Graph 2**



From the above, Council has included the highest ranking strategies as the most effective strategies to improve long term Operating Performance Ratio.

### **3.1.2 Others strategies**

Other strategies which have an immediate benefit on the Operating Performance Ratio and will continue to provide long term improvements include:

1. Optimise investment income by continued appointment of investment advisor;
2. Target grants for operating purposes (limited but will continue); and
3. Ensure full life cycle costing is captured on capital grants which will generate high operating costs in the future eg CCTV projects

### **3.1.3 Summary of Key strategies and outcomes**

The key strategies from the above analysis are:

**Strategy 1.** Implement a Special Rate variation;

**Strategy 2.** Move cost of providing services to those who use them and to reflect actual costs (work has already started on fees and charges)

**Strategy 3.** Staff management improvements

- a. Improve management of Long Service and Annual Leave;
- b. Improve management of overtime and casuals;
- c. Reduce allowances;

**Strategy 4.** Organisational continuous improvement;

- a. Restructure to next level;
- b. Service reviews, competitive tendering and outsourcing;

**Strategy 5.** Improve the use of technology;

**Strategy 6.** Introduce zero based budgeting;

**Strategy 7.** Saving on procurement processes; and

**Strategy 8.** Review asset utilisation and rationalisation;

### **3.1.4 Key assumptions that underpin strategies and expected outcomes**

The development of the above strategies has included the “likelihood” or community, policy and political realities. This assumes that all input such as population growth, grants, CPI and interest rates are consistent with current predictions. It also assumes that current

improvement measures will continue, and the financial improvements outlined in the report will continue to be supported by the future community, Council and staff.

General assumptions used for sensitivity analysis in the Shoalhaven Resourcing Strategy include:

- Rate increase of 1% equates to an additional revenue increase \$500,000;
- Investment Interest increase of 1%, increases revenue by \$390,000;
- Financial Assistance Grant increase of 1%, increase revenue by \$101,900;
- Loan Interest Rate increase by 1%, increases on a \$1,000,000 loan \$6,589 additional cost of repayments per year;
- Employee Costs increase by 1% additional, increases expenditure by \$511,000.

Strategy 1, a special rate variation, has already received good community exposure with a report to Council in October 2014, (See Appendix D) followed by newspaper coverage and subsequent public debate. On two occasions, all Council's Community Consultative Bodies (CCBs) have been briefed, with opportunities for comments. See Appendix C for an example of a newspaper article from October 2014. Further community briefings were undertaken during May 2015 as part of the annual Draft Delivery Program/Operating Plan community consultation process. There were only 9 submissions in response to the proposed rate increase of 5% for 3 years, with the main issues raised being that Council should address options internally in the first instance, which Council have been doing as part of the Transformation program and will continue to do as part of the rollout of Lean. The second issue raised was with regard to reducing Capital spend, which does not impact on the operating ratio for the full amount of the capital spend. Regardless of this Council has been reviewing its capital spend for some time and focusing on renewal spend rather than new, along with optimisation and rationalisation of assets where Council approval can be gained. Principles adopted are below:

### **Asset Rationalisation Principles**

The Asset must be:

- Fit for purpose – does it meet the needs of the service?
- Fit for use – is it in an acceptable condition?
- Fit for the future – will the asset meet future needs of the service?

### **Core Principles**

- Is there a need for the asset, is the asset still providing a required service to the community. Is the service provision what the customers expect?
- Is there a more cost effective way to provide that service?
- If an asset is underutilised, then prior to any decisions to construct another similar asset, the potential for using the existing under-utilised asset, should be considered. What does demand forecasting look like?
- Where an asset is under-utilised or under-performing, an assessment must be made about continuing to fund the asset.

- Any rationalisations should be undertaken within the IPR framework that takes account of service delivery needs, corporate objectives, financial and budgetary constraints and the Council's overall resource allocation objectives.
- Are there alternate methods of service delivery through other Council facilities, providers and levels of government or the private sector or regional opportunities?
- Are there disposal options including transfer for alternative use, rental, sale and/or leaseback, and demolition should be considered when reviewing acquisition plans.
- Does the asset have high operational costs with little income producing opportunity, if so a review of similar assets close by should be carried out before any further monies are sunk into the existing asset?

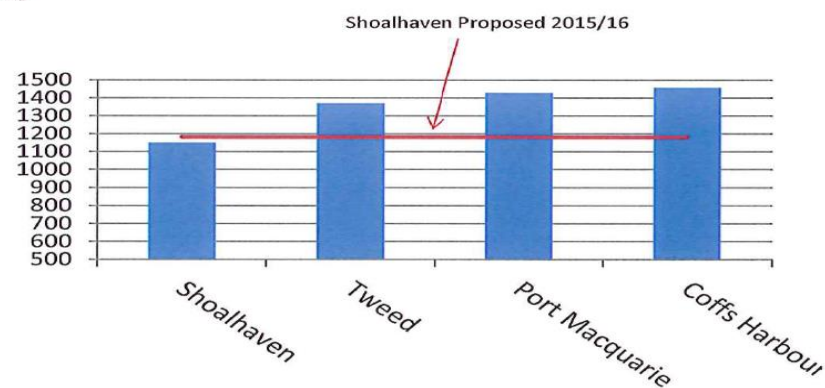
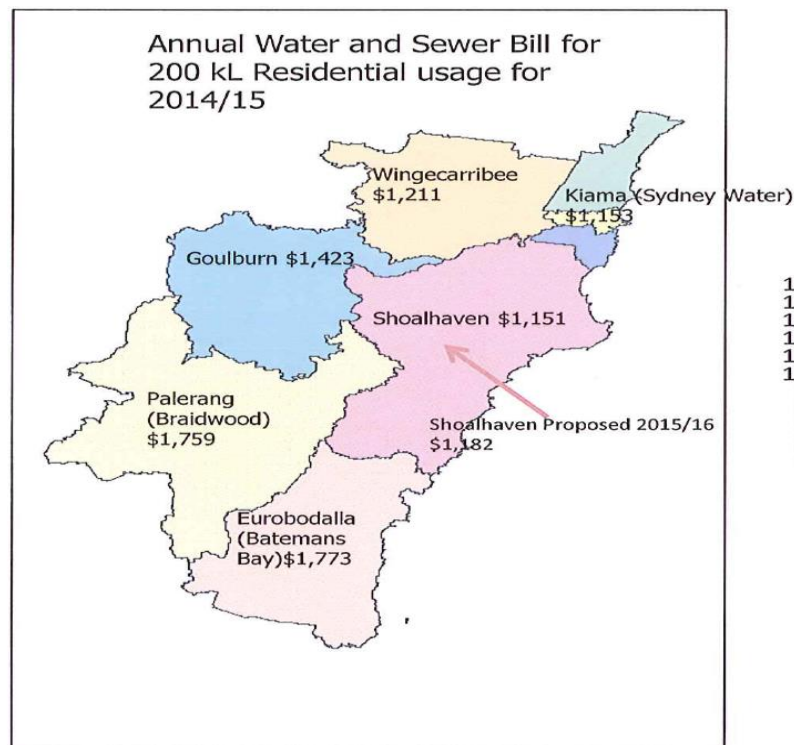
The commencement of Strategy 2 was included in 2014/15 Management Plan presentations and exhibition to the community and will continue during 2015/16. This increase in fees and charges equated to \$500k and has had minimal feedback from the community. There was only 1 external submission with regard to fees and charges in relation to specifics for one organisation.

A significant amount of work has preceded Strategies 2 to 7, and implementation will be part of a continuing program of improvement.

Strategy 8 Asset Utilisation and Rationalisation will require finalisation of a recently commissioned report (Ross) to review community infrastructure requirements, and extensive community consultation which is beyond the timeframe for this report, but will be a focus into the future

There was some concern that an increase in general rates as proposed by Strategy 1 may make the total rates, including water and sewerage, greater than comparable Councils. The graph below shows that Shoalhaven water and sewerage rates are lower than comparable Councils and therefore the total rates increase will still remain well below those Councils.

## How Do We Compare?



2014/15 Bills for Group 5 Councils with Water and Sewer Responsibilities (for 200 kL usage)



The main issue regarding progress of the strategies into the future is the willingness of a future elected Council to support their continuation. The community may also change its attitudes, priorities and expectations, and hence the suite of strategies is considered a dynamic program.

### 3.1.5 Strategies to improve the Operating Performance Ratio and outcomes

**Table 2**

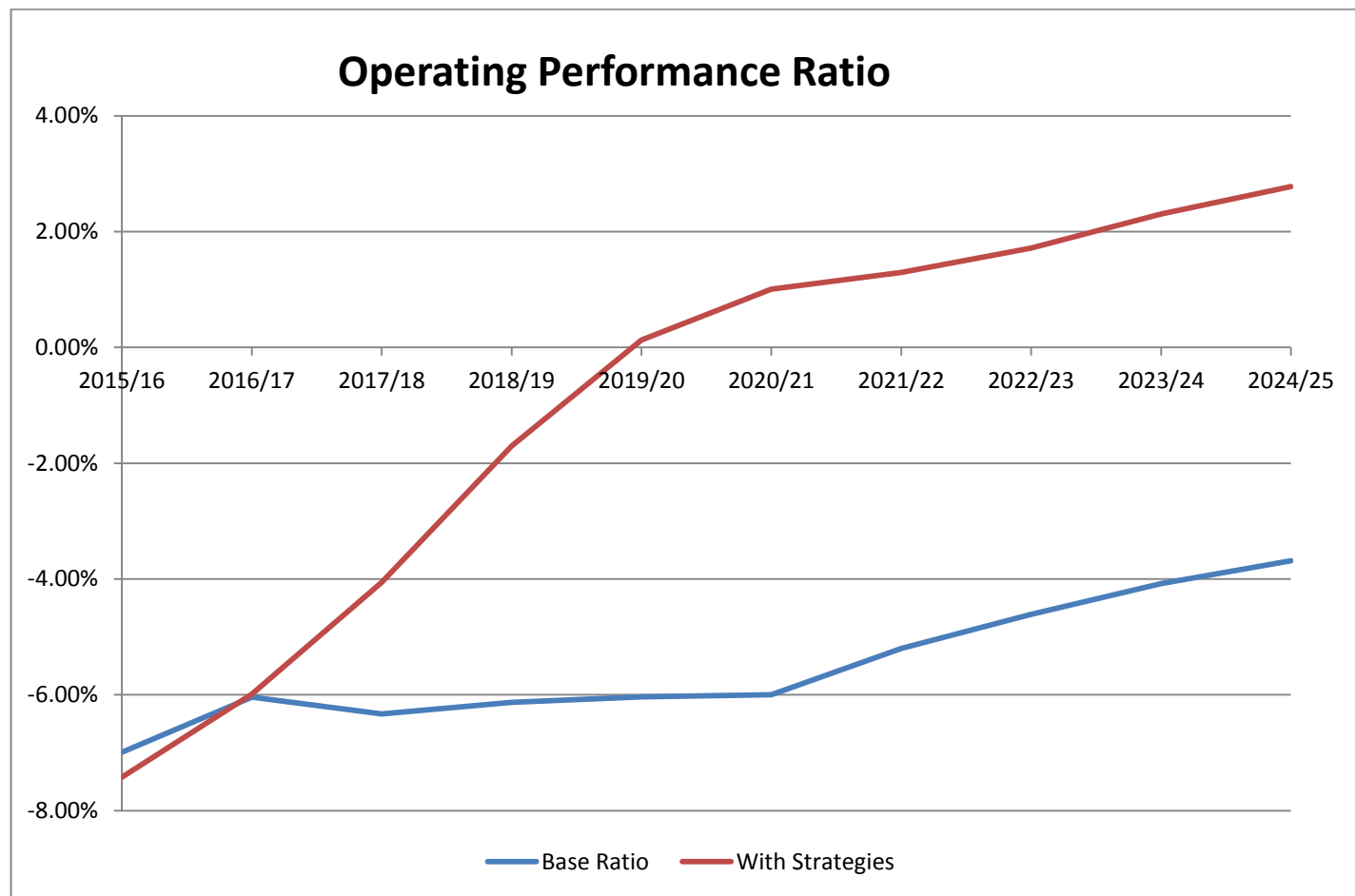
Objective	Strategy	Key milestones	Outcomes	Impact on other measures
1. Improve revenue	Implement a Special Rate variation of 7.5% pa for 2 years.	<ul style="list-style-type: none"> <li>Community support following consultation through Management Plan process;</li> <li>Ongoing community dialogue;</li> <li>Approval by IPART.</li> </ul>	<p>Improve Operating Performance Ratio (OPR) by \$9.4mil cumulative increase in revenue over 2 years. (incl. rate peg)</p> <p>7.5% in year 1 (17/18) 7.5% in year 2 (18/19)</p>	<p>Will provide funding for additional renewal and maintenance, hence improve Asset Maintenance Ratio and Renewal Ratio.</p> <p>Expenditure will impact on the Real Operating Expenditure per Capita Ratio.</p>
2. Improve revenue	Increase fees and charges by moving towards full cost recovery over long period. 2% above CPI in year 1 and 1% above CPI thereafter.	<ul style="list-style-type: none"> <li>Identify opportunities;</li> <li>Gain community support following consultation;</li> <li>Staff education on systems and cost pricing.</li> </ul>	<p>Improve Operating Performance Ratio.</p> <p>\$500,000 in year 1; \$250,000 in future years;</p>	<p>Will provide funding for additional renewal and maintenance, hence improve Asset Maintenance Ratio and Renewal Ratio.</p> <p>Expenditure will impact on the Real Operating Expenditure per Capita Ratio.</p>

Objective	Strategy	Key milestones	Outcomes	Impact on other measures
3. Decrease expenditure	Staff management Improvement:  1. Improve management of Long Service and Annual Leave; 2. Improve management of overtime and casuals; 3. Reduction in staff allowances.	<ul style="list-style-type: none"> <li>Finalise policy;</li> <li>Undertake consultation with staff;</li> <li>Manage under the Award,</li> <li>Train staff to implement policy.</li> </ul>	<p>Improve Operating Performance Ratio by a one-off:</p> <ol style="list-style-type: none"> <li>\$200,000, and decrease ongoing liability by \$200,000 per year;</li> <li>\$232,000;</li> <li>\$186,000.</li> </ol>	Reduced expenditure will improve the Real Operating Expenditure per Capita Ratio.
4. Decrease expenditure	Corporate continuous improvement:  1. Organisational restructure; 2. Continuous Improvement; a. Service reviews, b. Competitive tendering; c. Outsourcing.	<ul style="list-style-type: none"> <li>Staff training;</li> <li>Implementation.</li> </ul>	Improvement in Operating Performance Ratio by: \$500,000 over 3 years;	Reduced expenditure will improve the Real Operating Expenditure per Capita Ratio.
5. Decrease expenditure	Improve the use of technology	<p>Implementation program for new systems:</p> <ul style="list-style-type: none"> <li>time and attendance;</li> <li>asset management;</li> <li>financial management;</li> <li>Advertising;</li> <li>Better use of social</li> </ul>	<p>Improve Operating Performance Ratio by a \$400,000 decrease in expenditure.</p> <p>Annual improvement of \$100,000 for 4 years</p>	Reduced expenditure will improve the Real Operating Expenditure per Capita Ratio.

Objective	Strategy	Key milestones	Outcomes	Impact on other measures
		media/ ecommerce		
6. Decrease expenditure	Introduce zero based budgeting	<ul style="list-style-type: none"> <li>Implement system.</li> </ul>	Improve Operating Performance Ratio by a decrease of \$250,000 one-off expenditure.	Reduced expenditure will improve the Real Operating Expenditure per Capita Ratio.
7. Decrease in expenditure	Savings on procurement processes	<ul style="list-style-type: none"> <li>Finalise Joint Organisation (JO) arrangements with Wollongong, Kiama, Shellharbour Councils;</li> <li>Undertake JO of procurement of major supplies;</li> <li>Implement recommendations of internal report on procurement practices.</li> </ul>	<p>Improve Operating Performance Ratio by a \$300,000 decrease in expenditure.</p> <p>\$50,000 every year for 6 years.</p>	Reduced expenditure will improve the Real Operating Expenditure per Capita Ratio.
8. Decrease in expenditure	Asset utilisation and rationalisation	<ul style="list-style-type: none"> <li>Finalise rationalisation (Ross) report;</li> <li>Undertake community consultation;</li> </ul>	Improve OPR by \$200,000 pa for 10 years.	Improvement in the Asset Maintenance Ratio, Building and Infrastructure Asset Renewal Ratio and Real Operating

Objective	Strategy	Key milestones	Outcomes	Impact on other measures
		<ul style="list-style-type: none"> <li>Include in long term financial plan.</li> </ul>		Expenditure per Capita Ratio.

The implementation of the above strategies will provide an improvement in Operating Performance Ratio, achieving 0.1% by 2019/2020, as shown in the Graph below. It should be noted that increases in maintenance and backlog expenditure will adversely impact the Operating Performance Ratio and the Real Operating Expenditure per Capita. Further due to the inclusion of one offs such as Council elections at a cost of \$574,000 (2015/16 and 2016/17), \$650,000 (2019/20 and 2020/21) and \$740,000 (2023/24 and 2024/25) every four years the operating performance is adversely impacted.



## **3.2 Infrastructure and Service Management**

### **3.2.1 Current Asset management planning status**

The principles of asset management (AM) have been embraced by Council over the last 15 years. Initially, this was by the development of a suite of AM plans, supported by a simple asset management system. Subsequent progress included the development and adoption of an asset management Policy; asset management Strategy and asset management Improvement Plan. Shoalhaven Community Strategic Plan key result area 5 also reinforces Council's commitment to asset management.

In 2012, the then DLG NSW arranged an Infrastructure Audit of Councils to assess their competencies in asset management. The results of Shoalhaven's on-site audit was an assessment of a 'core' level of competence in the asset management areas of asset data; asset processes; asset planning; work practices; and information systems.

During an organisational restructure in 2013, it was highlighted that asset management was critical for financial sustainability and for achieving necessary community outcomes. Consequently, an asset management framework was established to better define roles and responsibilities for asset management within the organisation.

The organisational restructure and Infrastructure Audit assessment recommendations have been included in the asset management Improvement Plan to ensure Council's asset management capabilities and competences are developed and progress tracked, in the future.

#### **Current Council strategies**

Council has adopted a number of strategies and policies which support the asset management process:

- Asset management policy;
- Asset management plans;
- Community Strategic plan: a 10 year plan which provides clear sense of how we can retain the values and character of the City while meeting the needs of future growth will enable Council to ensure that we create a better future for the residents, businesses and visitors to our City;.
- Resourcing Plan: a high level, strategic view of the means by which Council can achieve the objectives and strategies set out in its CSP, and integrate the resource needs and priorities identified by asset management planning and workforce planning;
- Financial Plan (LTFP);
- Fair Value Valuation methodology.

### 3.2.2 Building and Infrastructure Asset Renewal Ratio (BAIARR)

Key asset management assumptions and practices in Shoalhaven are;

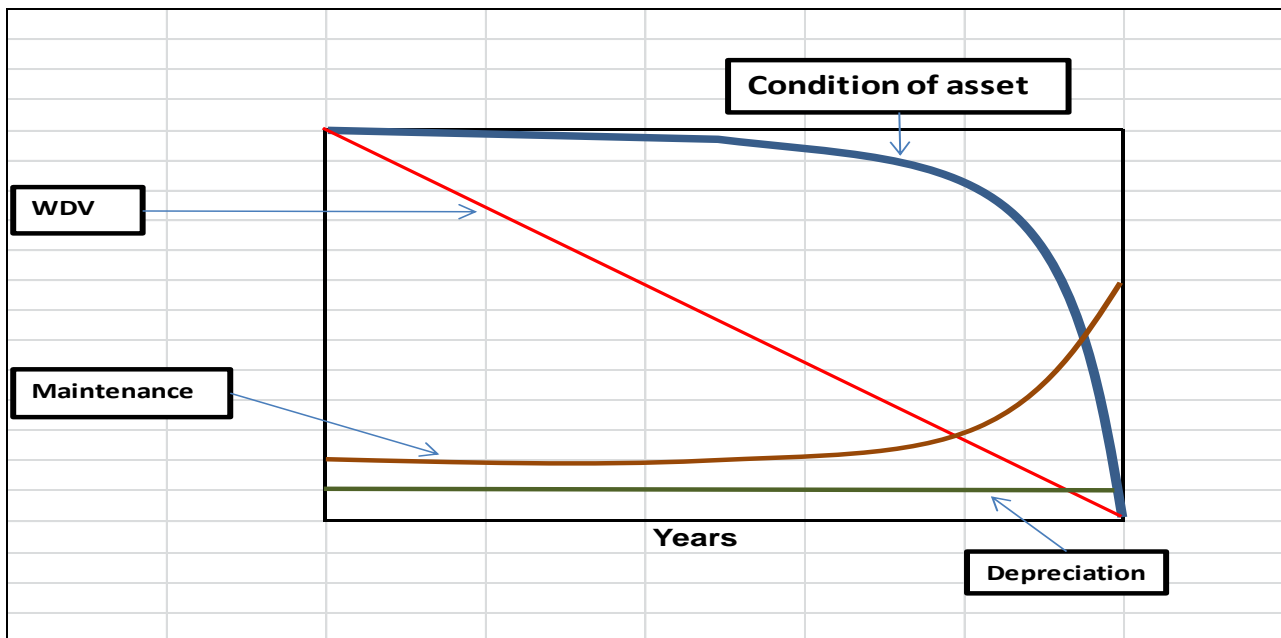
- Assets are depreciated in a linear fashion;
- Asset condition is a non- linear function of time;
- Service use of assets are normally linear
- Community consultation is undertaken on a regular basis;
- A significant amount of data is collected and used;
- Data is kept in separate locations:
  - Asset register;
  - Asset spreadsheets;
  - Financial systems and data;
  - Actioning / request system;
  - Mapping system;
  - Record management Systems;
  - Programming of works; and
  - Job cost/worksheets/timesheets;
- Inability to relate actual costs to individual assets or service levels;
- Most assets (except roads) are still within the first cycle of use, and have not been replaced. Many large asset are still in the early phase of life;
- The community has different expectations and importance for different asset classes.

OLG Building and Infrastructure Asset Renewal Ratio key assumptions:

- Assets are depreciated in a linear fashion;
- Asset condition is a linear function of time;
- If no community consultation is undertaken regarding asset standard, assume all at condition 2;
- A fully integrated asset management system is available and used;
- All asset classes have assets which are equally spread through- out their life cycles.

The graph below shows the difference between the annual linear depreciation and actual condition non-linear curve.





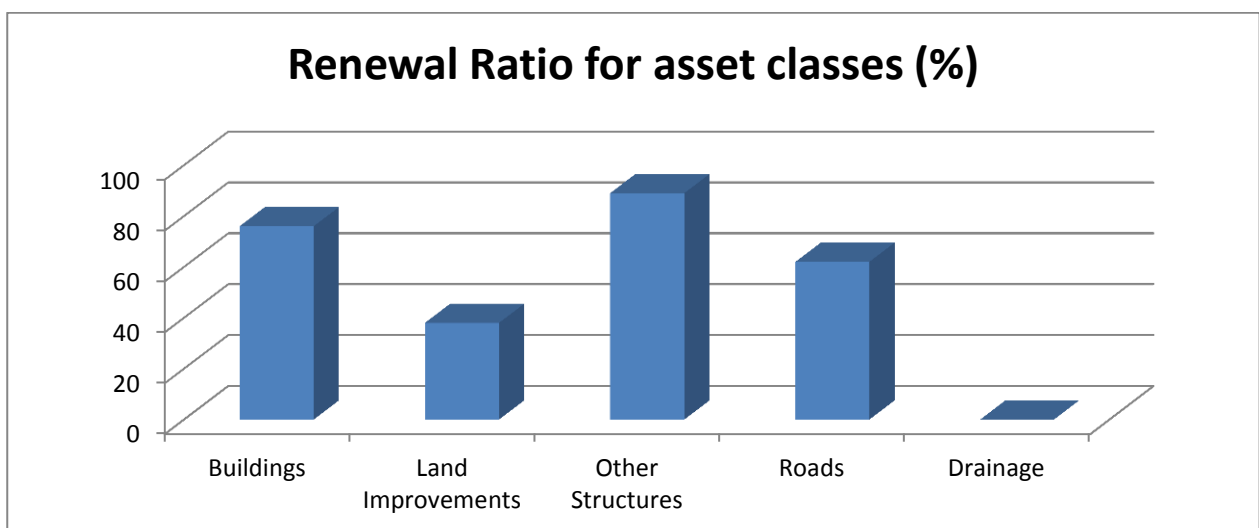
The 2013/14 Building and Infrastructure Asset Renewal Ratio (BAIARR) indicates that Council will need to improve by either increasing expenditure for asset renewal or decreasing depreciation. The bench mark does not reflect Council's true renewal expenditure requirement and this is discussed below. The improvement would need to be in the order of \$8,000,000 in 2013/2014.

Shoalhaven's current BAIARR is 69.2% (2013/14) and there are a number of reasons why this ratio is significantly below the 100% benchmark at this point in time. It should be noted that:

- Shoalhaven has assumed that the value of depreciation (\$ consumption) is linear throughout the life of the asset, however, most assets deteriorate in a non-linear fashion as shown in the above graph. This is particularly noticeable for assets such as drainage, coastal and land improvements where renewal or significant maintenance expenditure is not required until almost the end of the life of the asset. These assets still provides a satisfactory level of service and the community is generally satisfied until replacement;
- The Shoalhaven has experienced enormous growth rates during the previous 3 decades (now reducing) and Council has undertaken substantial capital work to provide adequate infrastructure required to meet the expectation and demand of the growing community during this time. Consequently, Council manages a large number of assets with lives beyond the current financial planning horizon, and hence do not require renewal in the medium term. This is expected to skew the Shoalhaven's Building and Infrastructure Asset Renewal Ratio for a number of decades. For example, Council's Administrative Building (\$20mil) and the Shoalhaven Entertainment Centre (\$30mil) have significant building values and lives of 60-80 years, and will not require renewal for decades. Building depreciation is almost 20% of total depreciation;
- As construction costs have been greater than CPI, the revaluation of assets over a short time frame (5 years) increases depreciation compared with the actual initial cost, and reduces the short term BAIAR Ratio and increases volatility of the Ratio;

- Council has generally only included residual values for roads, and hence for all other assets the BAIAR Ratio will be skewed;
- Many older assets such as the Berry Museum, Nowra School of Arts and Berry School of Arts are more than 100 years old, and hence are beyond the original expected life. As heritage items and valued by the community these structures will not be demolished and rebuilt. These assets are revalued and depreciated every year, skewing the BAIAR Ratio;
- The calculation of depreciation is not a precise science, with a number of inputs requiring review or more detailed work. For example, more detailed componentisation of assets provides greater confidence but increases expense to service and maintain systems. Also the life of an asset changes over time as additional maintenance and backlog work is undertaken or components are renewed, and it has been found that Council will need to improve its condition monitoring and data analysis to be more confident in the outputs;
- Historically, Council has not demolished assets as they reach the end of economic life, but tend to allow community groups to use for a lower valued purpose;
- For long life assets, the actual residual value is unknown until toward the end of the asset life;
- Many assets are built to service Shoalhaven's peak population which triples during holiday periods, with many assets being under-utilised during winter time. It may be for this reason that many assets appear to be remaining in good condition for longer periods, and the economic life of the asset may be underestimated. As assets are generally "young", further monitoring will be required to understand actual asset lives;
- Improvement of Shoalhaven's asset management systems will be necessary to provide a more confident Ratio, including more accurate and timely data for input into the depreciation calculation.

The table below shows the 2014/15 renewal Ratio for different asset classes.



Council's asset condition monitoring program, at this point in time, does not indicate a substantial problem with assets requiring renewal; however, it is acknowledged that this will change in coming decades. It is therefore considered that additional

expenditure for renewals needs to be slowly increased, as a major immediate injection is not considered warranted.

As renewal expenditure and depreciation are the significant drivers for the BAIAR Ratio, a sensitivity analysis was undertaken to determine appropriate strategies. Four scenarios were investigated as follows:

- 1. Strategy BAIAR 1. Continue to increasing the renewal expenditure by 10% above projected yearly expenditure;
- 2. Strategy BAIAR 2. Assume that improved asset management systems will increase/decrease depreciation by 10%;
- 3. Strategy BAIAR 3. Assume 10% increase in renewal expenditure and asset rationalisation would remove \$500,000 yearly depreciation;
- 4. Strategy BAIAR 4. Moderate increase expenditure level to ensure improvement.

Figure 1 - Graph showing asset renewal ratio with a 10% increase in expenditure – Strategy 1

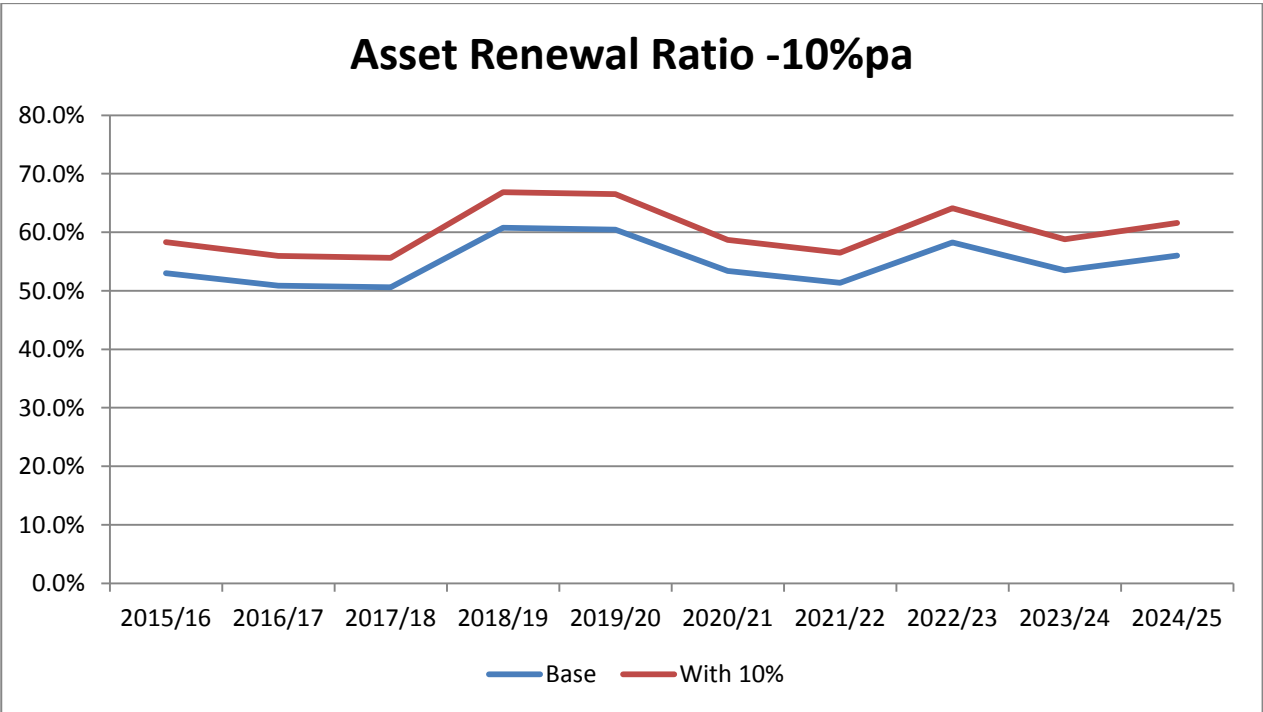
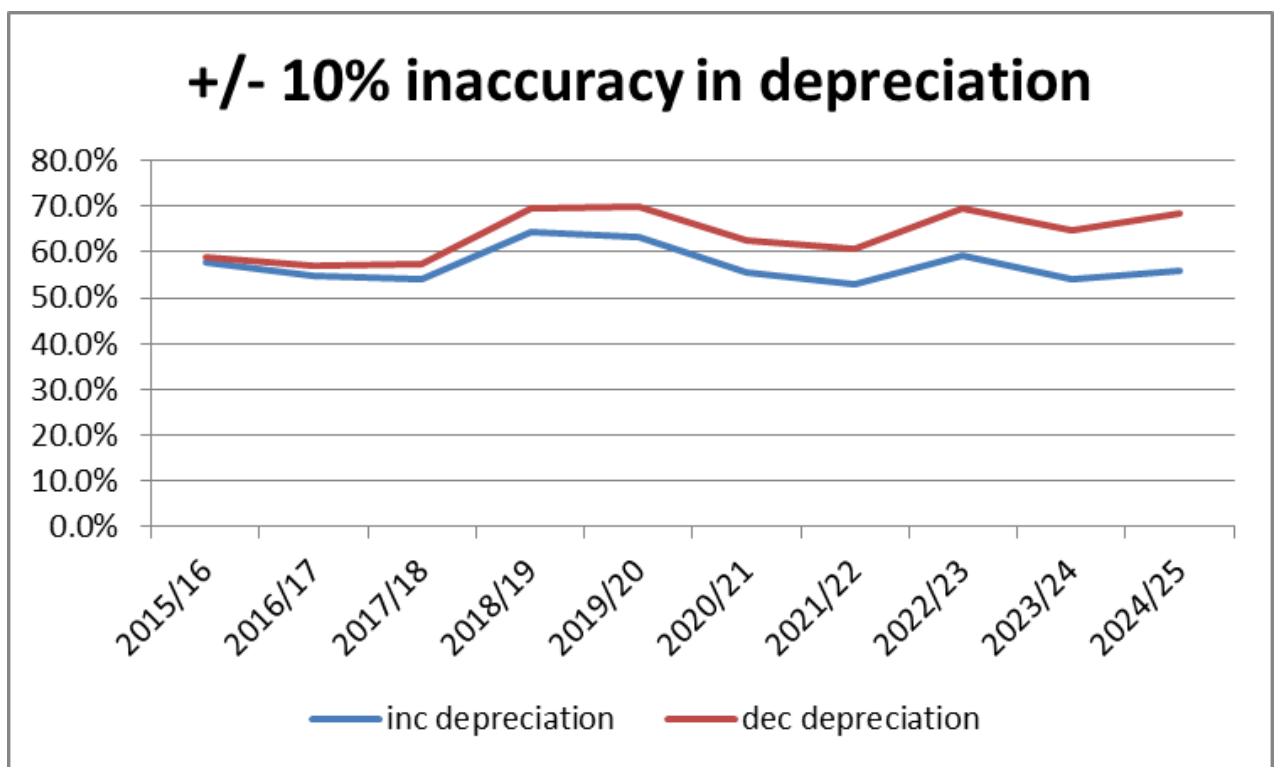
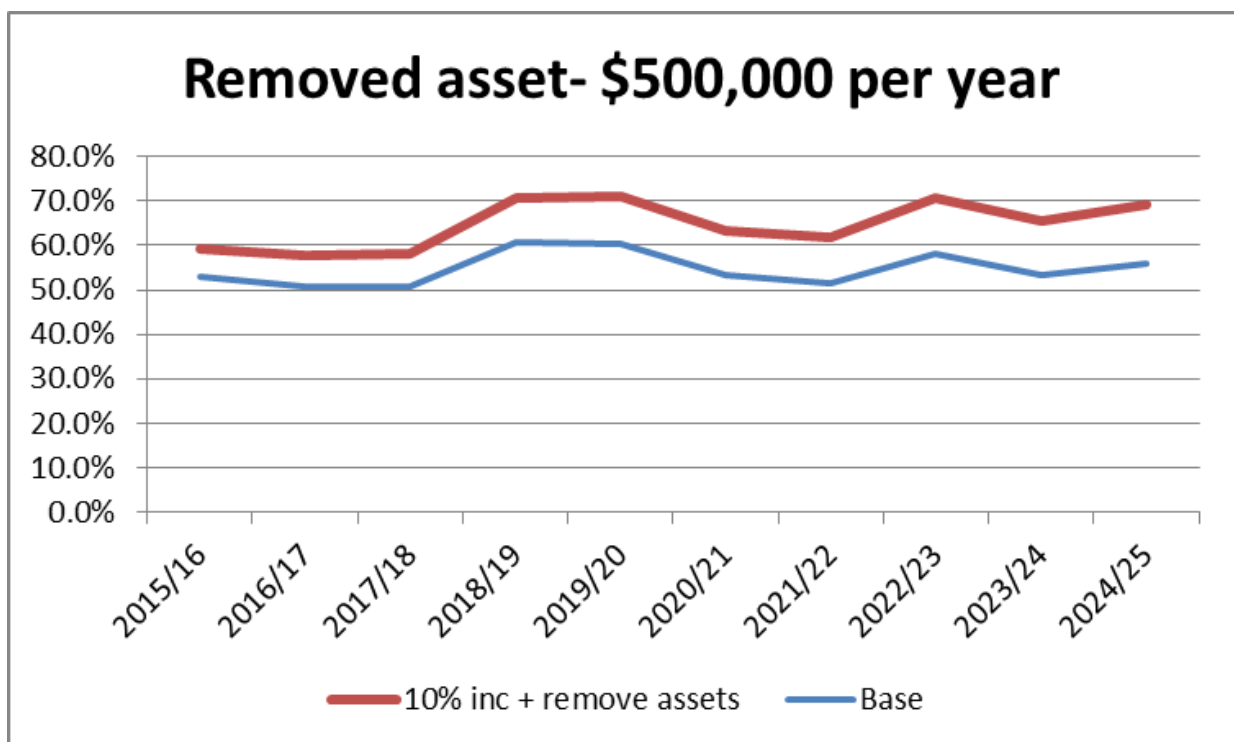


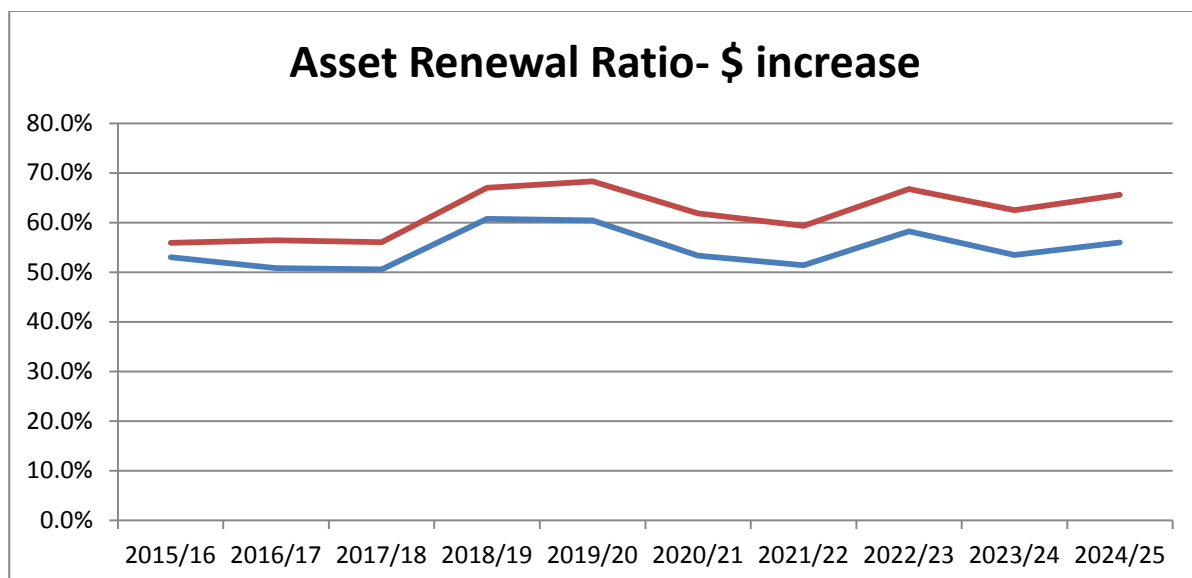
Figure 2 - Graph showing asset renewal ratio with a 10% decrease in depreciation estimates – Strategy 2



**Figure 3 - Graph showing asset renewal ratio with a 10% increase in expenditure and asset rationalisation to decrease depreciation by \$500k – Strategy 3**



**Figure 4 - Graph showing asset renewal ratio with a moderate increase in expenditure year on year – Strategy 4**



The Graphs above show that continuing Council’s current strategy (BAIAR 1) of increasing renewal expenditure by 10% per year above proposed expenditure will not achieve a long term improvement.

The strategy BAIAR 2 of reviewing depreciation methodology and data has the potential to improve the ratio and this will be included as a strategy. Strategy BAIAR 3 shows that increasing the renewal expenditure by 10% in addition to removing assets would decrease depreciation by \$500,000 per year (see strategy 8 above) and would improve the Renewal Ratio, but would require significant community consultation which is beyond the time frame set out in the “fit for the future” guidelines.

The final strategy BAIAR 4 shows that modest and increasing renewal expenditure will provide long term improvement, and hence will be adopted as the appropriate strategy.

It would be expected that the Ratio will improve in coming decades, with 100% being an altruistic aim, bearing in mind that a Ratio of greater than 100% is a potential over servicing and inefficient use of community funds.

The current level of renewal appears sound, and a recent survey indicates general community satisfaction except for roads and carparks. Council is reluctant to significantly increase expenditure immediately without more detailed analysis.

From the above analysis there are good reasons why the Shoalhaven may not meet the BAIAR Ratio in the short term, and considers the **best short term strategies** to improve the renewal ratio are:

1. **Strategy 9.** Increase renewal expenditure moderately over a period of time as follows:
  - 2015/16 \$966,667;
  - 2016/17 \$1,919,267;

- 2017/18 \$4,026,523;
- 2018/19 \$5,544,174;
- 2019/20 \$2,660,522;
- 2020/21 \$2,392,427;
- 2021/22 \$2,649,376;
- 2022/23 \$2,986,863;
- 2023/24 \$2,834,299;
- 2024/25 \$3,191,979.

2. **Strategy 10.** Improve asset management and systems;

- Review the actual life of assets; most assets are subject to seasonal use due to the huge increase in tourists during peak periods and little use during winter periods;
- Review the level of service and community satisfaction, a recent community survey has provided Council with new information that indicates that some assets may be over serviced;
- Componentise asset to a lower level;
- Review of asset values;
- Review replacement costs and residual values;
- Review future use of assets,
- Review life cycle management;
- Improve the condition assessment monitoring and reporting;
- Review currency and accuracy of asset register;
- Review residual valuation;
- Review maintenance costs;
- Review longer term trends of asset condition; and
- Implement asset management systems across the whole of organisation; and,

○ **Strategy 8.** Review asset utilisation and rationalisation, see above 3.1.1 above.

The depreciation calculation relies heavily on a large amount of engineering and financial data. Council is currently moving toward the implementation of Civica “AUHORITY” software which will provide a more functional computer system to integrate the asset management systems with financial systems, and provide impetus for the organisation to improve data collection and use for asset management.

It is expected that the implementation of this strategy will improve the accuracy of the BAIAR Ratio, and hence:

- **Strategy 11.** Continue to install Civica’s “AUTHORITY” software for improved integration between asset and financial management systems.

### 3.2.3 Infrastructure Backlog Ratio (IBR)

The 2013/14 Infrastructure Backlog Ratio (IBR) indicates that Council will need to increase backlog expenditure or decrease total asset value. Shoalhaven's current IBR is 3.6%; however, general community feedback is that assets, except for roads, are generally providing a satisfactory level of service.

As a result of this discrepancy, Council investigated the assumptions and data used to determine the "estimated cost to bring assets to a satisfactory condition". It was found that the assumption was all assets had to be operating at level 2 (good condition) and hence the backlog quantum was calculated on this basis. It was also found that the Local Government Code of Accounting Practice and Reporting (guidelines) updated in June 2014 (update number 22) provided further guidance on the method to estimate the cost to bring to a satisfactory standard (BTS) as follows:

*"Unless Council has undertaken consultation with their community and has agreed to a level of service from Councils assets the BTS should be measured against the second rating of Good....."*

Shoalhaven City Council has undertaken extensive community consultation regarding 36 Asset Management Plans (AMP) with formal exhibition and comment from July 2013 to October 2013, and extension till January 2014. During this time, staff visited all of Community Consultative Bodies (CCBs) and provided a presentation and question session particularly focussing on levels of service and community expectations regarding assets. The main feed-back theme from the sessions was a low satisfaction rating for roads, which provided input into the AMPs. The use of focus groups was also included in community engagement for input into the AMP. The participation in the focus groups was widely advertised between July 2013 and October 2013. Focus groups proved to be poorly attended but provided further publicity for the AMPs. Previous feedback from the community on reviews of the Resourcing Strategy, Asset Management Strategy, Community Strategic Plan and Delivery Program is also considered as part of the AMP process. Feedback from the December 2012 on-line survey and May 2013 telephone survey regarding the provision of infrastructure is also considered for inclusion in the AMPs. The AMPs were adopted by Council on the 22 April 2014.

The strategy of rationalisation and utilisation of facilities will reduce the total value of assets, and hence reduce the Backlog Ratio.

Recent community surveys have provided Council with a current view of the community's satisfaction and asset importance, which again will inform the asset management planning process. If Council was to assume that it has undertaken full and proper consultation with the community regarding acceptable asset condition levels and levels of service, then the backlog expenditure (according to the Local Government Code of Accounting Practice and Reporting guidelines) would require bringing all assets up-to condition 3, except for those assets where the community is not satisfied.



A recent community survey indicated that unsealed and sealed rural roads scored a low satisfaction rating and high importance; however, 59% of roads are in “excellent” or “good” condition. This is expected, as there are still 341 kilometres of gravel road or 20% of total length, all of which are uneconomic to bitumen seal due to low density of properties served. A gravel road, even after full gravel re-sheet will generally not satisfy local road users. Further work will be required to confirm the community’s view regarding the level of service for roads components.

It is therefore intended to assume that roads will require backlog funding to bring up-to condition 2, and in accordance with the recent community survey and Local Government Accounting Guidelines, all other assets will require backlog funding to bring up-to condition 3. As a result, the “estimated cost to bring up to a satisfactory standard” is \$10,409,000 and equates to an **IBR** of 0.9% which is less than the Fit for the Future benchmark of 2%. Council will continue to monitor the backlog figure to ensure this remains within the guidelines.

### 3.2.4 Asset Maintenance Ratio (AMR)

The 2013/14 Asset Maintenance Ratio (AMR) of 75.5% indicates that Council needs to increase the amount of maintenance to ensure that assets provide an adequate level of service and are efficiently managed to ensure they reach their expected life.

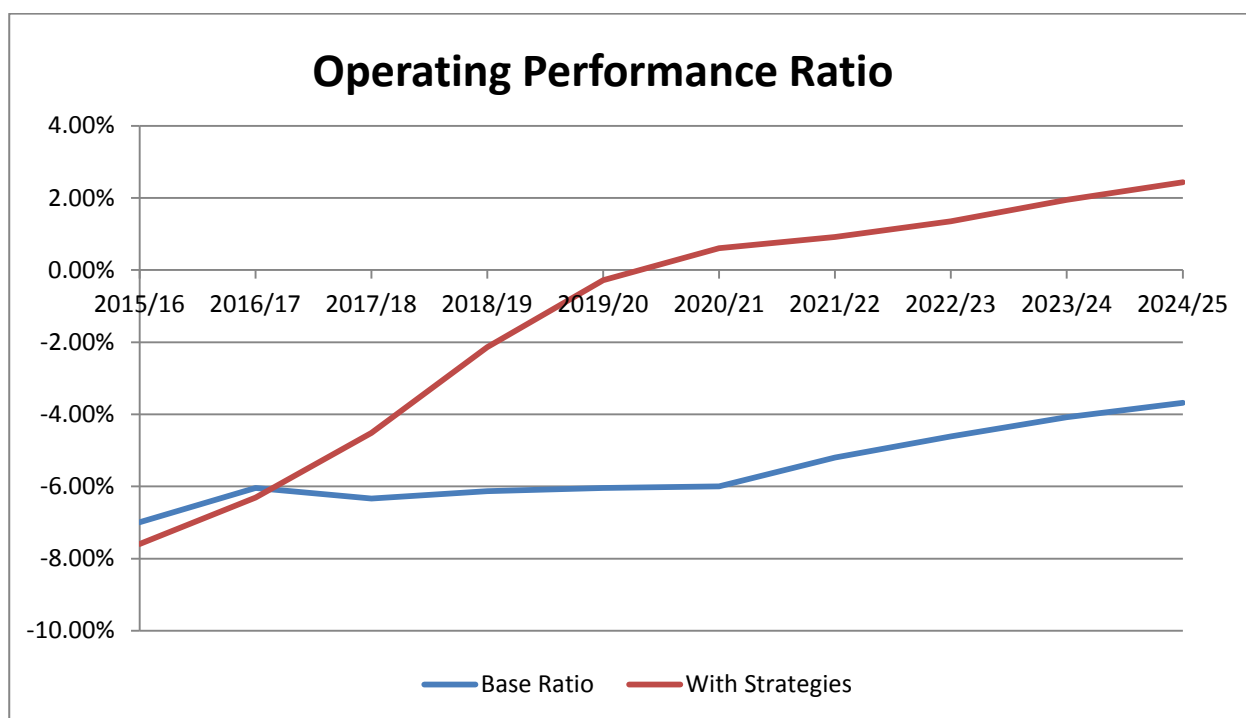
The “required maintenance” has been derived from asset management plans, and is not a precise measure when projected into the future, as community attitudes change as do asset conditions and use. Although the AMR is low for the Shoalhaven, a recent community survey indicated that all high valued assets (except roads) have a reasonable level of satisfaction. This hiatus will require further investigation to ensure Council is not inefficiently over servicing some assets.

The “actual maintenance” may also require review to ensure all maintenance expenditure is captured. Council operates a significant number of community management committees for a myriad of facilities, with a significant amount of work being undertaken by volunteer labour to maintain these facilities. This work is not captured as Council maintenance expenditure and hence will lower the AMR. If this work was captured (at additional expense) the **AMR** could be improved.

To analyse the quantum of maintenance expenditure increase without impacting on the Operating Performance Ratio, an additional annual \$750,000 for maintenance was tested (Strategy AMR 1). The graph below shows that this increase would reduce Council’s ability to achieve the 100% Operating Performance Ratio until 2020/21, which is beyond the IPART timing of 2019/20.

**Figure 5 - Operating Performance with an increase in maintenance of \$750k pa from 15/16**



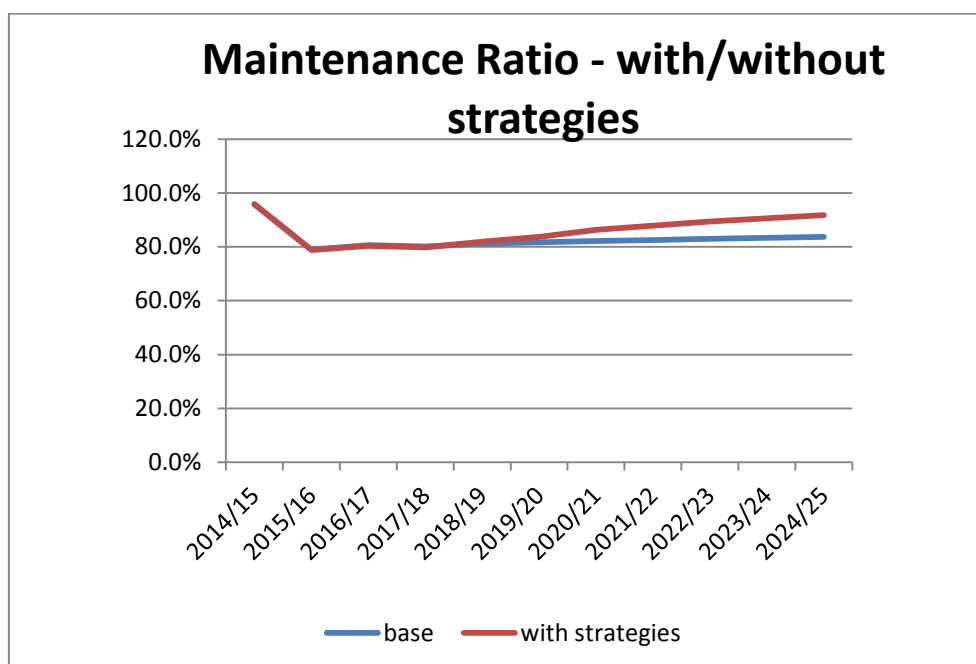


A more conservative strategy (AMR 2) was tested as follows:

1. An additional \$700,000 in 2018/19 for maintenance;
2. Gradual increases over subsequent years until additional spend of \$2m is achieved by 2024/25.;

The following graph indicates that Strategy AMR 2 ensures an improvement in the Asset Maintenance Ratio and an upward trend is sustainable, therefore this option will be adopted by Council as **Strategy 13**.

**Figure 6 - Impact on Maintenance Ratio with AMR Strategy 2**



### 3.2.5 Summary of Key strategies to improve Infrastructure and service management ratios

The key strategies resulting from the analysis above are:

**Strategy 9.** Increase renewal expenditure moderately over a period of time by:

- 2015/16 \$966,667;
- 2016/17 \$1,919,267;
- 2017/18 \$4,026,523;
- 2018/19 \$5,544,174;
- 2019/20 \$2,660,522;
- 2020/21 \$2,392,427;
- 2021/22 \$2,649,376;
- 2022/23 \$2,986,863;
- 2023/24 \$2,834,299;
- 2024/25 \$3,191,979.

**Strategy 10.** Improve asset management systems; by

- Improving processes and data accuracy/efficacy, for improved use, reporting and monitoring; and
- Implement whole of organisation understanding and use of the asset management systems.

**Strategy 11.** Continue to install Civica's "AUTHORITY" software to provide a functional platform to integrate asset register, asset management system with the financial system;

**Strategy 12.** Review methodology of Backlog data to provide confidence in outputs.

**Strategy 13.** Increase asset maintenance expenditure by:

- 2017/18 - 0;
- 2018/19 - \$700,000;
- 2019/20 - \$730,000;
- 2020/21 - \$1,400,000;
- 2021/22 - \$1,500,000;
- 2022/23 - \$1,530,000;
- 2023/24 - \$2,060,900;
- 2024/25 - \$2,092,727.

### 3.2.6 Assumptions that underpin strategies and expected outcomes

Council has an asset management strategy, system, processes and plan. The system is sophisticated, however, there is varying levels of data confidence and accuracy, data is also found in a number of repositories, some of which are not directly linked. The assumption is that the introduction of an integrated computer system will drive the improvement in asset management and the use of the system within the whole organisation.

A further assumption is that future Councils and communities will embrace the proposed strategies into the future.

### **3.2.7 Strategy to improve infrastructure and service management ratios and outcomes**

**Table 3**

Objective	Strategies	Key milestones	Outcomes	Impact on other measures
9. Increase renewals expenditure	<p>Increase renewal expenditure moderately over a period of time as follows:</p> <ul style="list-style-type: none"> <li>•2015/16 \$966,667;</li> <li>•2016/17 \$1,919,267;</li> <li>•2017/18 \$4,026,523;</li> <li>•2018/19 \$5,544,174;</li> <li>•2019/20 \$2,660,522;</li> <li>•2020/21 \$2,392,427;</li> <li>•2021/22 \$2,649,376;</li> <li>•2022/23 \$2,986,863;</li> <li>•2023/24 \$2,834,299;</li> <li>•2024/25 \$3,191,979.</li> </ul>	Undertake community consultation in conjunction with the yearly management plan process;	This strategy will see a significant increase in renewal expenditure, and although the benchmark will not be achieved by 2020, it will have improved by almost 20% by that time. The Building and infrastructure Asset Renewal Ratio will not change substantially during the next 5 years, and will require further work into the future.	
10. Obtain accurate data for monitoring Ratios	Improve asset management systems,	<ul style="list-style-type: none"> <li>• Formalise all asset management systems and procedures;</li> </ul>	Will ensure robust, accurate and timely data and outputs for Special schedule 7, annual	Will improve confidence and reliability of data

Objective	Strategies	Key milestones	Outcomes	Impact on other measures
including depreciation	by: <ul style="list-style-type: none"> <li>• Improve processes and data accuracy/efficacy, for improved use, reporting and monitoring; and</li> <li>• Implement whole of organisation understanding and use of the asset management systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Train staff regarding the Asset Management systems, processes and procedures;</li> <li>• Organisation wide implementation and use.</li> </ul>	reporting, monitoring of Fit for future Ratios and feed back into Asset management Plans..	for Building and Infrastructure Asset Renewal Ratio, Infrastructure Backlog Ratio and the Asset Maintenance Ratio.
11. Implement Civica's AUTHORITY software	Continue to install Civica's "AUTHORITY" software for improved integration between asset and financial management systems.	<ul style="list-style-type: none"> <li>• Implementation of "Authority" computer software;</li> <li>• Train staff;</li> <li>• All staff embracing and using asset management systems.</li> </ul>	Will provide a functional platform to integrate asset register, asset management system and financial system. This will improve the confidence, timing and reliability of Fit for the Future Ratios.	Will improve reliability of asset management Ratios.
12. Improve Backlog Ratio	Review input and methodology of Backlog Ratio data.	<ul style="list-style-type: none"> <li>• Further community consultation regarding levels of service levels and condition of assets;</li> <li>• Review Asset Management Plans to</li> </ul>	Significantly improve confidence and reliability of backlog \$ quantum. Initial calculation would see the backlog change from \$45mil to \$11mil.	Potential to reduce Maintenance Ratio.

Objective	Strategies	Key milestones	Outcomes	Impact on other measures
		<p>ensure community expectations are included;</p> <ul style="list-style-type: none"> <li>Review input data.</li> </ul>		
13. Improve Asset Maintenance Ratio	<p>Increase yearly maintenance expenditure:</p> <ul style="list-style-type: none"> <li>2018/19-\$700,000;</li> <li>2019/20-\$730,000;</li> <li>2020/21-\$1,400,000</li> <li>2021/22-\$1,500,000;</li> <li>2022/23-\$1,530,000;</li> <li>2023/24-\$2,060,000;</li> <li>2024/25-\$2,092,727.</li> </ul>	<ul style="list-style-type: none"> <li>Review the “maintenance required” data;</li> <li>Community consultation in conjunction with annual management plan;</li> <li>Review Asset Management Plans to ensure community expectations are revised and included.</li> </ul>	Improve the gap between actual and required maintenance levels, providing more efficient asset management and level of service.	Negative impact on the Operating Performance Ratio and the Real Operating Expenditure per Capita Ratio.

## 3.3 Efficiency

### 3.3.1 Real Operating Expenditure per capita

Shoalhaven City Council is currently within the required range for the **Real Operating Expenditure per capita**, and there are a number of existing/proposed strategies which will be undertaken to improve the efficiency and effectiveness by which Council delivers facilities and services to the community.

In 2012, the newly elected Councillors resolved to undertake an efficiency review of the organisation. In response, in February 2013 Blackadder Associates Pty Ltd prepared a report with emphasis on savings, efficiencies and improvement to customer service. The review highlighted 8 improvement areas, identifying 40 actions and strategies. The project is called the Transformation Project and lead by a Transformation Task Force (TTF). As a result of the TTF and operational efficiencies, Council has improved its financial efficiency by \$4,900,000 annually. Unfortunately these improvements pre-date the timeframe required by “fit for the future” improvements, and hence Council is now being asked to demonstrate further improvements in efficiency, in addition to significant gains already achieved. These efficiency gains were made by significant impact on the organisation, and to continue the massive gains in order to meet a benchmark (which is inconstant with Council’s timeframe) would be detrimental to the organisation.

Although Council meets the benchmark for Real Operating Expenses per capita in the short term, it does not believe it is an objective measure for the efficiency of an organisation, or whether the organisation is providing relevant, effective and timely services to the community. When Council spends more money on maintenance, this measure will be negatively impacted. It is therefore intended to include strategies that will provide meaningful improvement in efficiency within the organisation.

Therefore, in addition to the strategies outlined above in this report, a number of strategies are currently in progress as a result of Council’s Organisational Transformation Program which relate directly to efficiency, cost reductions and financial sustainability. Many are continuing or still to be commenced in accordance with a five year program. Many of these strategies and actions relate to improving efficiency and operating expenditure, but difficult to assign a monetary value. The table below provides a summary of Council’s on-going strategies as a result of the Transformation Task Force recommendations:

**Table 4**

Theme	Strategy	Details/Status	Improvement
<b>Organisational Culture</b>	Leadership development	Develop leadership capability framework and development program to ensure constructive and consistent leadership across organisation.  Continuing implementation of program.	Improvement to efficiency and delivery of services.
	Roles and accountability regarding business planning	Development of a business planning model which aligns with the strategic plan and yearly operation plan. This includes budget allocation, capital budgets, milestones and performance indicators.	Improvement to efficiency and delivery of services.
	Staff climate survey	Undertake bi-annual staff climate survey of the organisation to: <ul style="list-style-type: none"> <li>• identify the key corporate priorities to be incorporated into the Transformation Program</li> <li>• establish a base line against which progress on improving organisation culture can be measured every two years <ul style="list-style-type: none"> <li>○ develop performance indicators relating to organisation culture which can be measured at: organisation; group; section; and unit level</li> </ul> </li> <li>• develop localised action plans for cultural</li> </ul>	Improvement in staff efficiency and service delivery.



Theme	Strategy	Details/Status	Improvement
		improvement for inclusion in the annual business plans Another survey will be undertaken during the next 18 months.	
<b>Efficiency and Effectiveness</b>	Project Management methodology	The development of a project planning and management methodology for management of both capital and non-capital projects, consistently applied across the organisation. Project commenced.	Improvement in project management and operational costs.
	Review of leases and licenses	To determine appropriate policies; <ul style="list-style-type: none"><li>• Current arrangements;</li><li>• Annualisation of costs;</li><li>• Net returns;</li><li>• Market values; and</li><li>• Subsidies.</li></ul> Project continuing.	Improved management of Council buildings, and increased revenue by way of review of peppercorn rentals and below market value lease arrangements for commercial properties
	Capital works carry-overs	To review the effectiveness of: <ul style="list-style-type: none"><li>• Project planning processes;</li><li>• Budget bidding processes;</li><li>• Budget decision processes;</li><li>• Capital project cash flow planning;</li><li>• Project management capability;</li><li>• Staff training;</li><li>• Milestone tracking and reporting; and</li></ul>	Improve management of capital expenditure, and more efficient use of money and resources.  Decrease expenditure

Theme	Strategy	Details/Status	Improvement
		<ul style="list-style-type: none"> <li>Project expenditure tracking and reporting.</li> </ul> <p>Project complete and implementation in progress.</p>	
<b>Customer Service</b>	One stop shop	<p>Development of a one-stop approach to customer service and establish a call centre with the view to answer 80% of queries at the first point of call. In addition the project will:-</p> <ul style="list-style-type: none"> <li>Develop a customer service policy for use across the organisation;</li> <li>Develop a training and development program for all staff who have face to face contact with customers;</li> <li>Establish a series of feedback loops on customer satisfaction by way of customer surveys etc. to be integrated into the performance management methodology</li> <li>Development of a Customer Service Charter; and</li> <li>Utilise the new software system to provide relevant information to customer service staff.</li> </ul> <p>Project to be implemented during the next 12 months.</p>	Improvement in customer service.
	Business rules and standards	To develop a Project Plan to systematically review and document all relevant business rules and standards for corporate systems (as part of the CIVICA roll out) so that customer service standards can be improved because:	Improvement in efficiency and ultimately reduced operational costs.

Theme	Strategy	Details/Status	Improvement
		<ul style="list-style-type: none"> <li>• Workflows and standards are established and enforced;</li> <li>• Performance of corporate systems can be measured; and</li> <li>• Problems can be rectified in a timely manner.</li> </ul>	
	Branding and marketing	<p>To complete a review of Council's branding and marketing approach so that:</p> <ul style="list-style-type: none"> <li>• There is a centralised '<i>whole of organisation approach</i>' to Council's image, identity and brand across all services and associated logos, publications and communications;</li> <li>• Marketing is appropriately targeted at the right demographic; and</li> <li>• Council's printing expenditure is scrutinised and where possible reduced.</li> </ul> <p>Further business improvement to be implemented.</p>	Efficiency improvement and customer relationship.
	Service Reviews	<p>A number of service reviews have been undertaken, with actions to now progress, including:</p> <p>Shoalhaven Entertainment Centre, including Council catering and the Visitor Information Centre</p> <p>Information Technology</p>	Efficiencies in services provided, multiskilling of staff where appropriate, improved technologies and cost reductions

Theme	Strategy	Details/Status	Improvement
		Payroll Mechanical Services Bereavement Services Procurement and Stores Fleet and Plant Services Flora and Fauna inspections Graphic Design Further reviews will be undertaken in the future including: Village cleaning and mowing Noxious weeds spraying Family Day Care Corporate Training Records	

### **3.3.2 Summary of key efficiency strategies and outcomes**

The main efficiency improvement strategies which relate to Fit for the Future, and have not been included in strategies above, are as follows:

**Strategy 14.** Continue to implement the Transformation Task Force recommendations

- Capital works carry-overs;
- Leadership development;
- Implement project management methodology and processes;
- One stop customer shop;
- Business planning, rules and standards;
- Staff survey;
- Branding; and
- Review leases and licenses
- Service Reviews

### **3.3.3 Assumptions that underpin efficiency strategies and outcomes**

The Transformation program has been implemented in recent years and has proven successful in reducing operational costs and improving efficiencies. The main assumption is that further improvement will continue as the programs are infused into the organisational culture. Council will also be implementing Continuous Improvement in conjunction with the Transformation Projects which will continue to improve the Real Operating Expenditure per capita Ratio, along with improvements in the efficiency and effectiveness of the organisation.

### 3.3.4 Strategies to improve efficiency and outcomes

**Table 5**

Objective	Strategy	Key milestones	Outcome	Impact on other measures
14. To improve the efficiency of the organisation	Continue to implement the Transformation Task Force recommendations.	Implementation of: <ul style="list-style-type: none"> <li>• Capital works carry-overs;</li> <li>• Leadership development program;</li> <li>• Implement project management methodology and processes;</li> <li>• One stop shop;</li> <li>• Business planning, rules and standards;</li> <li>• Staff survey;</li> <li>• Branding;</li> <li>• Review lease and licenses.</li> <li>• Service Reviews</li> </ul>	Improvement in efficiency and reducing expenditure, along with improvements in customer service	Improve Operating Expenditure per capita Ratio and Operating Performance Ratio.

### 3.4 Improvement Action Plan

The following table summarises the key improvement actions that will be achieved in the first year.

**Table 6**

Actions	Milestones
1. Implement a Special Rate variation of 7.5% pa for 2 years.	Include in community consultation and Management Plan for implementation.
2. Increase fees and charges by moving towards full cost recovery, increase by 1% above CPI.	Include in community consultation and Management Plan for implementation.
3. Staff management Improvements.	<ul style="list-style-type: none"> <li>• Finalise policies;</li> <li>• Undertake consultation with staff;</li> <li>• Manage under the Award;</li> <li>• Train staff to implement policy.</li> </ul>
4. Corporate continuous improvement.	Undertake service level reviews and competitive tendering in accordance with TTF.
5. Improve the use of technology.	Undertake action in accordance with strategy.
6. Introduce zero based budgeting.	Complete zero based budgeting for 2016/2017 Management Plan.
7. Saving on procurement processes.	Regional JO operational. Finalise report and implement recommendations.
8. Asset utilisation and rationalisation.	Complete the “Ross Report” and commence implementation of recommendations.
9. Increase renewal expenditure moderately over a period of time as follows: <ul style="list-style-type: none"> <li>• 2015/16 \$966,667;</li> <li>• 2016/17 \$1,919,267;</li> <li>• 2017/18 \$4,026,523;</li> <li>• 2018/19 \$5,544,174;</li> <li>• 2019/20 \$2,660,522;</li> <li>• 2020/21 \$2,392,427;</li> <li>• 2021/22 \$2,649,376;</li> <li>• 2022/23 \$2,986,863;</li> <li>• 2023/24 \$2,834,299;</li> <li>• 2024/25 \$3,191,979.</li> </ul>	Include in community consultation and Management Plan for implementation.
10. Improve asset management systems,	Complete review of asset management system

processes and data accuracy/efficacy.	and implement to whole of organisation.
11. Install Civica's "AUTHORITY" software.	Finalise implementation.
12. Review input and methodology of Backlog Ratio data.	Finalise review and check Backlog Ratio to determine whether further strategies are required.
13. Increase yearly maintenance expenditure: <ul style="list-style-type: none"> <li>• 2018/19-\$700,000;</li> <li>• 2019/20-\$730,000;</li> <li>• 2020/21-\$1,400,000;</li> <li>• 2021/22-\$1,500,000;</li> <li>• 2022/23-\$1,530,000;</li> <li>• 2023/24-\$2,060,000;</li> <li>• 2024/25-\$2,092,727.</li> </ul>	Include in community consultation and Management Plan for implementation.
14. Continue to implement the Transformation Task Force recommendations.	Implementation as per TTF recommendations.

### 3.4.1 Processes that underpin the development of the action plan

This plan has been prepared as a result of the Office of Local Government initiative under the "fit for the future" program. The submission and the background analysis has a focus on achieving the "fit for the future" benchmarks and includes the Council adopted strategies to improve Council's compliance with the benchmarks.

The strategies, outcomes and milestones were conceived by an internal working party, and included discussions with other Illawarra Councils. Councillors were involved with the selection of strategies and undertook discussion on the merits of each strategy. The local media have been briefed on Council's strategies and the ramifications of the package. Council have formally considered and adopted this submission for upload to IPART's website on the 23<sup>rd</sup> June 2015.

Council included the major strategies in the community consultation process during May 2015 as part of the Delivery Program and Operating Planning process, to ensure the community were fully briefed and had a formal forum for comment. It is also proposed to discuss the submission and strategies with a meeting of all Community Consultative Bodies. This will be the start of the consultative process and it is envisaged that it will continue until implementation commencement in 2016/17.

The action plan has provided a balanced improvement in the Ratios. Council will achieve Operating Performance, Own Source Revenue, Debt Service Ratio and Infrastructure



Backlog Ratio. The focus to improve the Asset Maintenance Ratio has had a negative impact on the Real Operating Expenditure per Capita. And additional funds will be provided to improve the Building and Infrastructure Asset Renewal Ratio.

### **3.5 Other Actions considered**

Council also considered additional strategies for improved performance, which are shown in Table 1 and the reasons for not pursuing these options are covered in these tables, these include:

- Effort outweighed efficiencies;
- Would require higher than anticipated population increases;
- Only preliminary work has been completed, and more detailed analysis will be required
- The cost to implement would almost outweigh the benefits and cause community backlash
- The level of community consultation required will take significantly more time than available for this report, i.e. review of assets and service levels for pools, libraries etc.
- Some initiatives are already factored in as part of Councils Transformation program;
- Savings on specific procurement items still to be highlighted;
- Cost shifting between Federal and State Governments to local Councils is beyond Councils control;

## 4. How will our plan improve performance?

### 4.1 Expected improvement in performance

The improvement Plan will address all fit for future benchmarks, however historical, constraints such as a lower rate base, duplication of community assets etc, make it difficult to achieve all Ratios by 2020. Further trade-offs between criteria ie an increase in maintenance expense has a detrimental impact on the Operating Performance Ratio and the Real Operating expenditure per capita ratio, so a longer timeframe is required to achieve the balance required.

**Table 7** shows the 5 year financial plan:

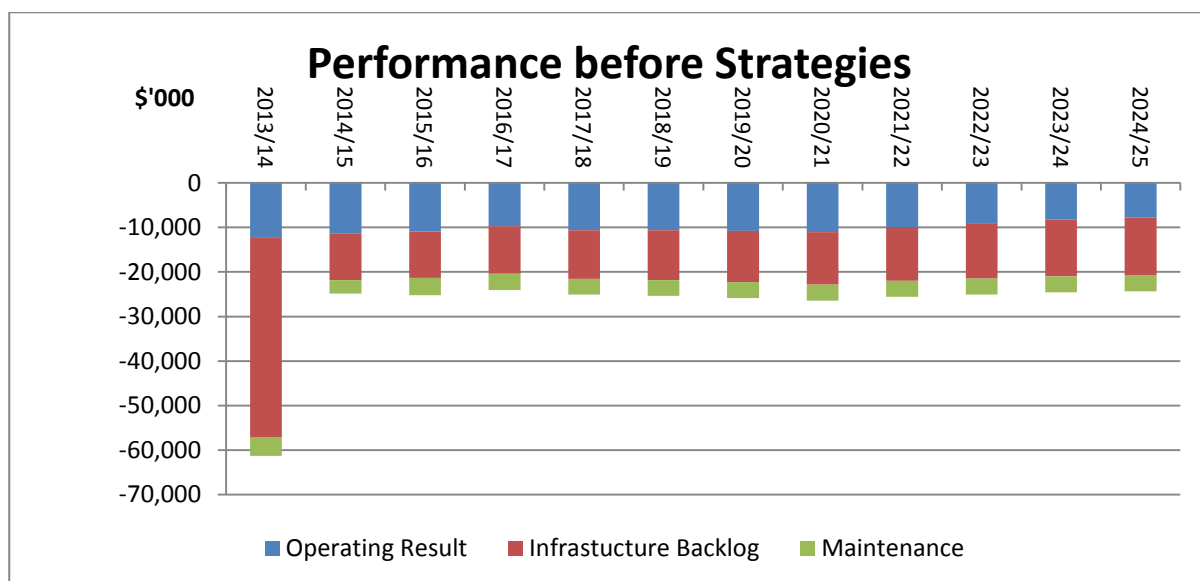
Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark
Operating performance Ratio	-6.3%	-7.4%	-6.0%	-4.1%	-1.7%	0.1%	YES
Own Source Revenue	81.0%	79.4%	80.2%	82.6%	86.0%	87.3%	YES
Building & Infrastructure Asset Renewal Ratio	64.9%	70.6%	56.3%	58.9%	62.4%	66.5%	Improving
Infrastructure Backlog Ratio	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	YES
Asset Maintenance	95.8%	78.9%	80.4%	79.7%	82.0%	83.7%	Improving
Debt Service Ratio	6.0%	5.5%	6.3%	5.9%	5.7%	4.8%	YES
Real Operating expenditure per capita	1,469	1,452	1,428	1,422	1,802	1,618	Increasing in later years due to maint spend increases

## 4.2 Expected improvement in performance

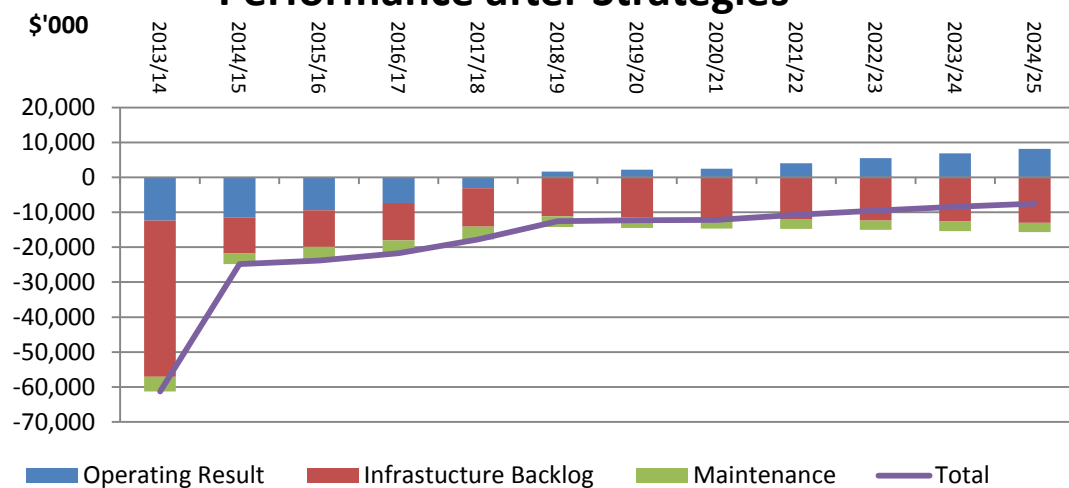
The implementation of the Action Plan will improve performance in a number of areas in accordance with “fit for the future” guidelines as follows:

- Improve the financial operating performance of Council;
- Provide more focus on the use of loan funds;
- Improve liquidity;
- Improve expenditure on asset renewal;
- Improve the focus on understanding the asset backlog;
- Improve expenditure on asset maintenance;
- Provided a greater focus on the asset management system, processes and procedures;
- Ensure a long term view of asset condition.

The first graph below shows Council's operating result without the implementation of the above strategies. The second graph shows Council's performance with the implementation of the strategies.



## Performance after Strategies



## 5. Putting your plan into action

It is assumed that the Office of Local Government will require ongoing evidence of compliance with the fit for the future benchmarks, and possibly inclusion in the Local Government Act.

Monitoring and reporting of the benchmarks will form part of the DPOP and Financial Plan reporting process, along with the Annual Report and will also be included into Council's Integrated Planning and Reporting Framework. Further to this the Transformation Task Force Committee monitors all projects on a monthly basis, so all efficiency improvements are top of mind for the organisation. The General Manager will be responsible for annual reporting progress to Council for consideration and action.

# APPENDIX A

## Shoalhaven's Community Strategic Plan alignment with State Plans

ALIGNMENT WITH NSW 2021 NSW 2021 Goal	CSP 2023 Objectives	CSP 2023 Strategies
Rebuild the economy	<p>3.2 - An economy that supports and is supported by growing, diverse and changing communities</p> <p>3.3 - Effective promotion of Shoalhaven's investment, business and job opportunities, lifestyle attractions and vision</p>	<p>3.2.4 - Plan and advocate for infrastructure improvements to support economic activity and investment</p> <p>3.3.1 - Promote a positive image of the Shoalhaven and the work, investment and lifestyle opportunities that it provides</p> <p>3.3.2 - Develop strategies and partnerships to enhance key Shoalhaven economy sectors including: tourism, defence, manufacturing, healthcare, small business and government</p> <p>3.3.3 - Identify and progress key major developments that will align with and support the CSP Vision and Objectives</p>
<p>Return Quality Services</p> <ul style="list-style-type: none"> <li>• Transport</li> <li>• Health</li> <li>• Family &amp; community services</li> <li>• Education</li> <li>• Police and Justice</li> </ul>	<p>1.1 - Diverse, united and connected communities</p> <p>1.2 - Creative, engaged and learning community</p> <p>1.3 - Healthy and active communities that feel safe</p> <p>3.2 - An economy that supports and is supported by growing, diverse and changing communities</p>	<p>1.1.2 - Develop partnerships and advocate for enhance public and community transport services</p> <p>1.2.1 - Develop programs that meet the needs of Shoalhaven's people, with particular attention to children, youth, Aboriginal people, people with disabilities, multicultural communities and older people</p> <p>1.3.3 - Integrate health initiatives into Council's strategies, policies and practices</p> <p>1.3.5 - Develop safer communities and help reduce crime in the City</p> <p>3.2.2 - Advocate for improved employment outcomes and educational facilities, programs and opportunities that help retain young people, attract new workers and improve work opportunities for the unemployed</p>
Renovate infrastructure	<p>2.4 - Community infrastructure that is environmentally responsible, ecologically sustainable</p> <p>2.5 - Major town centres that are attractive, vibrant and popular</p>	<p>2.2.2 - Create active and connected foreshores that support and promote the natural environment while encouraging appropriate community recreational use</p>

destinations

5.1 - Financially sustainable and customer responsive on-going service delivery and asset maintenance and renewal programs

2.4.3 - Prioritise the continued development of new and improved pedestrian and cycle paths to help facilitate improved transport, public health and environmental outcomes

2.4.4 - Plan for future water and sewerage network expansion and enhancements to meet City growth requirements, and implement capital works only in response to the known location, scale and timing of new development

2.4.7 - Develop priority transport networks and associated infrastructure to meet the changing needs of the city

2.5.1 - Develop the City's major town centres of Nowra, Vincentia and Ulladulla to include attractive public spaces, retail shopping, entertainment and recreation options for the community

2.5.2 - Improve the urban design and landscape appearance of City and town entrances and major thoroughfares

3.1.2 - Develop the Shoalhaven River and surrounds to meet the needs of the community and provide a showpiece and focal point for the Shoalhaven region

3.2.4 - Plan and advocate for infrastructure improvements to support economic activity and investment

5.1.6 - Increase funding of asset and infrastructure maintenance and renewal programs as the primary capital expenditure priority, directed by Council's Asset Management Policy, Strategy and Plan's

1.1.1 - Support activities, events and festivals at which communities in Shoalhaven can gather and celebrate

1.4.1 - Support the development of community leadership and local place-making initiatives

1.4.2 - Develop a volunteer management strategy to maximise the benefit of volunteering to the community

2.1.1 - Support and enable the sustainable use of the natural environment for education, research and recreation

2.6.1 - Develop management and adaption plans to mitigate and manage community exposure to coastal processes, natural hazards, climate change and resulting risks

Strengthen our local environment and communities

1.4 - Sustainable and socially responsible communities

2.1 - A City which values, maintains and enhances its natural and cultural environment

2.6 - Settlements that are resilient to the unexpected impacts of natural hazards

Restore accountability to government	4.1 - Active engagement between Council and the community and other stakeholders 4.3 - Respectful, professional, trusted and united 4.4 - A Council that is accountable and ecologically sustainable 5.1 - Financially Sustainable and customer responsible Financially sustainable and customer responsible	4.1.1 - Ensure genuine and representative community engagement in Council's decisions, based on Community Engagement Policy Principles 4.3.2 - Where possible, align Council's plans with State Plan - NSW 2021 to improve community benefits and minimise detrimental impacts 4.4.4 - Provide financially sustainable levels of resourcing for the achievement of Council's CSP Objectives 5.1.1 - Establish excellent customer service as an organisational norm, with reduced red tape and measured results 5.1.4 - Monitor and report to the community on the delivery of operational and asset maintenance and renewal programs 5.2.2 - Engage with the community about the need for additional funding of maintenance and renewal priority assets and infrastructure
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## APPENDIX B

# Shoalhaven's Community Strategic Plan alignment with Illawarra/South Coast Regional Action Plan

## Regional Priorities

	<b>CSP Objectives</b>	<b>CSP Strategies</b>
Revitalise the economy by attracting new industry, supporting business and creating jobs	3.2 - An economy that supports and is supported by growing, diverse and changing communities 3.3 - Effective promotion of Shoalhaven's investment, business tourism and job opportunities, lifestyle attractions and vision	3.1.1 - Implement strategies to support and increase agricultural production 3.2.2 - Advocate for improved employment outcomes and educational facilities, programs and opportunities that help retain young people, attract new workers and improve work opportunities for the unemployed 3.2.4 - Plan and advocate for infrastructure improvements to support economic activity and investment 3.3.1 - Promote a positive image of the Shoalhaven and the work, investment and lifestyle opportunities that it provides 3.3.2 - Develop strategies and partnerships to enhance key Shoalhaven economy sectors including: tourism, defence, manufacturing, healthcare, small business and government 2.4.1 - Develop and acquire new infrastructure and assets primarily to meet the increasing service needs of the City's growing population and economy while maintaining current asset service levels 2.4.3 - Prioritise the continued development of new and improved pedestrian and cycle paths to help facilitate improved transport, public health and environmental outcomes 2.4.4 - Plan for future water and sewerage network expansion and enhancements to meet City growth requirements, and implement capital works only in response to the known location, scale and timing of new development 2.4.6 - Manage the City's limited landfill capacity, including improved management of green waste and consideration of future
Deliver infrastructure to support population needs	2.2 - Population and urban settlement growth that is ecologically sustainable and carefully planned and managed 2.4 - Community infrastructure that is environmentally responsible and ecologically sustainable	

		landfill options 2.4.7 - Develop priority transport networks and associated infrastructure to meet the changing needs of the city
Deliver improved health and community services particularly for vulnerable communities	1.3 - Healthy and active communities that feel safe	1.2.1 - Develop programs that meet the needs of Shoalhaven's people, with particular attention to children, youth, Aboriginal people, people with disabilities, multicultural communities and older people 1.2.2 - Support initiatives that help to reduce the negative impacts of homelessness in the Shoalhaven 1.3.4 - Advocate for health care facilities that will meet the changing needs of the Shoalhaven community 2.1.1 - Support and enable the sustainable use of the natural environment for education, research and recreation 2.1.2 - Ensure that the natural ecological and biological environments and the built and cultural heritage of the Shoalhaven are protected and valued through careful management 2.2.1 - Plan and implement a corporate carbon emissions management strategy
Safeguard the natural environment	2.1 - A City which values, maintains and enhances its natural and cultural environment	

## APPENDIX C

South Coast Register    Oct. 14, 2014,    6:51 p.m.

### Shoalhaven City Council report argues 13 per cent rate hike could be justified

By ROBERT CRAWFORD



SHOALHAVEN City Council could argue for a rate rise of more than \$100 a year, an increase of around 13 per cent, according to a new report.

The possible rates hike was flagged in a report to go before Shoalhaven City Council's Policy and Resources Committee on Tuesday night, discussing a range of further cost saving and revenue-raising measures for the city.

The report states the low level of rates paid in the Shoalhaven compared to similar Councils meant Council could argue that an increase of \$103 per ratepayer was supportable.

The Financial Sustainability Shoalhaven City Council General Fund report is created by director of corporate and community services Craig Milburn and corporate and community finance section manager Pam Gokgur.

The rise in rates was among a raft of suggested cost saving and revenue raising measures.

The report said a comparison of similar sized Councils revealed Shoalhaven rates, as a percentage of household income, were low.

"Given the demographics of Shoalhaven City Council, the level of infrastructure in relation to the population such as the higher number of pools, public halls, open space and road lengths to maintain, the level of rates should be above the average," the report said.

“A special rate variation submission is fundamental to improving future sustainability.”

The report also argued Council had the opportunity to review fees, charges and leases to increase income generated from the delivery of services or hiring/leasing of properties.

“As part of fee setting the philosophy of user pay should be high on the agenda,” the report said.

Council is also considering how it charges the high influx of tourists around the summer period.

“With approximately 2.5 million tourists converging on the area within a short period of time, infrastructure is required to cater for the influx,” the report said.

“Given tourists do not pay rates in the Council area and benefit from heavily subsidised fees and charges we need to look at a mechanism to capture some revenue from this influx.”

### **Rise ‘unlikely’ says deputy mayor**

SHOALHAVEN City deputy mayor John Wells has hosed down suggestions the area could be in for another high rate rise.

While welcoming the Financial Sustainability Shoalhaven City Council General Fund report, Cr Wells said he couldn’t see rates in the Shoalhaven being increased.

“We have not decided anything, this is just an information report following a briefing we have had to be presented to Council,” Cr Wells said.

“It is the position of the staff and I don’t see Council accepting a rate rise at all.

“I have called it the MG [Milburn Gokgur] Report.

“It is a classic accountant’s warning of where we are and what may happen if we don’t heed the warning.

“It is just the report, with the sort of advice I would expect from cautious prudent financial officers.

“We are taking what they have presented on board but don’t necessarily agree with everything they say.

“These are just suggestions.”

Cr Wells said the report did point out Shoalhaven’s rates were very low in comparison to other category five Councils.

“Our asset base is very big in relation to other Councils,” he said.

“Early in the report it also mentions our deficit is rising and that is largely due to the depreciation rates.

“Depreciation is a non-cash number – it is what accountants say needs to be spent on assets to keep it in an as new condition.”

# **APPENDIX D**

## **Report on Financial Sustainability**

### **Shoalhaven City Council**

### **General Fund**

### **October 2014**

#### **Authors**

Craig Milburn  
Pam Gokgur

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## Report on Strategic Direction

### 1. Introduction

In October 2012 NSW Treasury Corporation presented a Financial Assessment and Benchmarking Report on Shoalhaven City Council. The analysis was based on historical performance, current financial position, and long term financial forecasts. Further to this it benchmarked Council against its peers using key ratios.

The review found that:

Council has been well managed over the review period based on the following observations:

- Whilst Council has incurred operating deficits (excluding grants and contributions for capital purposes), Council's underlying operating result (measured using EBITDA) has improved from \$40.3m in 2009 to \$45.1m in 2011.
- Approximately 76% of the Council's revenue base is derived from own sourced revenue (annual charges, and user charges and fees). They can rely upon these revenue streams on an ongoing basis for financial flexibility.
- The Council is facing pressure from rising employee costs, and material and contract costs above inflation but it has acknowledged the issue and is seeking to address this through expenditure review measures.

However the key observations from the review of the Council's 10 year forecasts for its General Fund are:

- The forecast shows deficit positions excluding capital grants and contributions in all forecast years; *this already has factored in Transformation Program savings year on year.*
- The Council's forecast liquidity position starts to weaken from 2015 when the Unrestricted Current Ratio falls to 1.74:1, limiting available funding.
- Council's level of fiscal flexibility, as indicated by its above benchmark Own Source Operating Revenue Ratio, is sound when excluding the impact of internal transactions.

In addition to this Council has reported \$43.1m of Infrastructure Backlog in 2011 which represents 2.3% of its infrastructure asset value of \$1,873m and this backlog is trending upwards, particularly in the roads asset category (77.9% of the backlog).

It should be recognised that the newly elected Council in 2012 made a decision to increase rates and to also introduce an efficiency review. In response to this in February 2013 Blackadder Associates Pty Ltd prepared a report after an organisational structure and associated review, with an emphasis on savings and efficiencies and improvements to customer service. Council further sought direction on achieving financial sustainability. The review highlighted eight (8) areas for improvement:

- Alignment of Strategy to Operations
- Leadership
- Financial sustainability
- Asset Management
- Corporate Systems
- Project Management
- Organisational Culture
- Customer Service

More recently the Office of Local Government has released a roadmap for Stronger, Smarter Councils, where they have also announced funding for ensuring local government is Fit for the Future.



A Fit for the Future Council should be:

- Sustainable
- Efficient
- Effectively manages infrastructure and delivers services for communities; and
- Has scale and capacity to engage effectively across community, industry and government.

Further to this the New Local Government Act will reflect that DP/OP guidelines will be amended to embed the principle of fiscal responsibility and improve financial and asset planning as part of IPR process from 2016.

The Office of Local Government sees sustainable Councils as ones which:

- Save money on bureaucracy and administration, freeing up funds for front-line services and community facilities
- Can contribute to projects and tackle issues that impact on its residents and extend beyond the Council boundary:
- Have credibility and influence across Councils, across government and with industry

This paper aims to expand on the Financial Sustainability theme by consolidating the above improvement areas and OLG direction into a strategic plan for Council in order to reduce the annual operating deficit and form a cohesive approach from all staff to be focused on this challenge.

## **2. Background statement/history**

From 1859, the demand for Local Government by residents of the widely scattered settlements within the Shoalhaven saw a number of Municipal areas declared.

On the 1<sup>st</sup> July, 1948 the Shoalhaven Shire Council was formed by amalgamating the following Councils:

- Nowra Municipal Council
- Berry Municipal Council
- South Shoalhaven Municipal Council
- Broughton Vale Municipal Council
- Cambewarra Shire Council
- Clyde Shire Council
- Ulladulla Municipal Council

Subsequent to this Shoalhaven City Council was proclaimed on 1<sup>st</sup> August, 1979.

The amalgamation of these widely scatter townships culminated in some of the current day issues encountered, with the geographic expanse of infrastructure assets, duplication of Council assets, multiple views on priorities resulting in competing priorities for where monies should be spent.

Over this time Council has encountered many changes in terms of

- complexity of operations,
- diversity of services provided,
- infrastructure requirements or expectations,
- expansion of development and requirements for services,
- demands from local communities for provision of facilities.

At the same time staffing levels have increased to support these requirements, systems have not kept up with the times and technologies are fast overtaking Council capabilities.

And now given the age of some of Councils assets, Council is in the unfortunate position that a significant infrastructure backlog is evident, and with each passing year continues to grow as Council does not have the funds to supports its maintenance.

The structure of Local Government Council hampers decision making with conflicting priorities between the elected Council (which is made up of the Mayor and 12 Councillors across 3 Wards) and Council administration, led by the General Manager, who is responsible for the day to day operations and ensuring that the decisions of the elected Council are implemented.

There are 4 Directorates reporting to the General Manager:

- Corporate and Community Services
- Planning and Development Services
- Assets and Works
- Shoalhaven Water

Currently Council employs approximately 751 staff across these directorates, with the split for indoor and outdoor staff being 380 indoor staff and 371 outdoor staff.

This report will focus on General Fund; therefore all subsequent information in this document will relate the financial sustainability of General Fund, in isolation from Shoalhaven Water.

The size and complexity of Council has led to institutional silos developing throughout the organisation, thereby adversely affecting communication and synergies for improvements.

Below is a snapshot of the Long Term Financial Plan for General Fund including Income Statement:

**General Fund Ten Year Financial Plan - Income Statement**

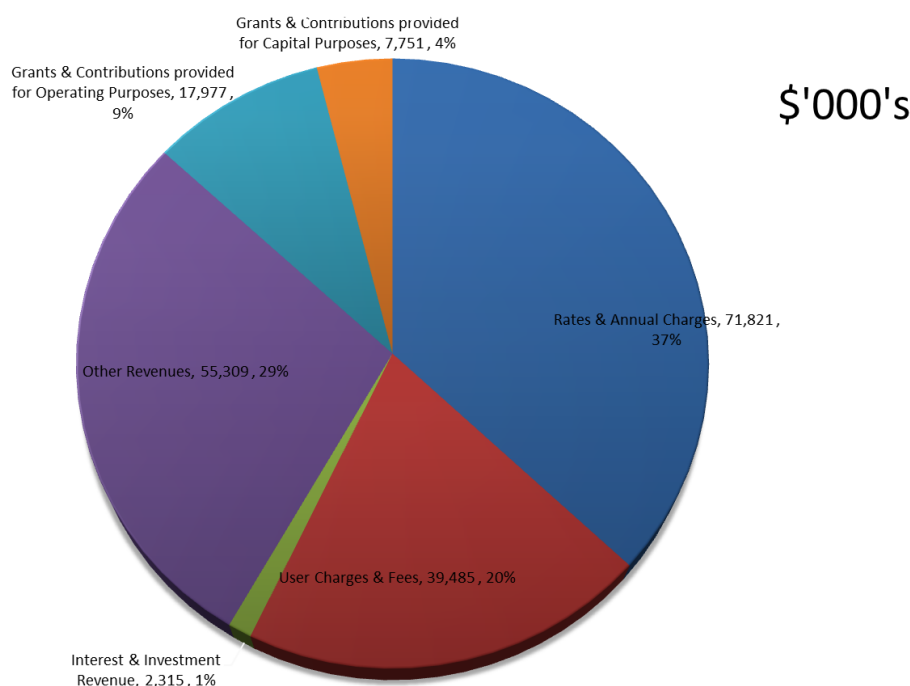
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Income from Continuing Operations</b>										
<b>Revenue:</b>										
Rates & Annual Charges	71,821	74,779	78,590	81,459	84,617	87,690	90,865	94,147	97,540	101,046
User Charges & Fees	39,485	42,205	44,451	46,162	48,086	50,136	52,207	54,289	56,470	61,514
Interest & Investment Revenue	2,315	2,136	2,026	2,023	1,993	2,079	2,147	2,253	2,391	2,555
Other Revenues	55,309	56,976	59,157	61,438	63,707	65,968	68,260	70,567	72,602	74,230
Grants & Contributions provided for Operating Purposes	17,977	18,182	18,340	18,793	19,302	19,852	20,420	21,004	21,671	22,231
Grants & Contributions provided for Capital Purposes	7,751	3,907	3,962	4,021	4,080	2,705	2,849	2,834	2,902	2,931
<b>Other Income:</b>										
Net gains from the disposal of assets										
<b>Total Income from Continuing Operations</b>	<b>194,659</b>	<b>198,185</b>	<b>206,526</b>	<b>213,896</b>	<b>221,784</b>	<b>228,431</b>	<b>236,748</b>	<b>245,095</b>	<b>253,574</b>	<b>264,506</b>
<b>Expenses from Continuing Operations</b>										
Employee Benefits & On-Costs	55,579	57,332	59,375	61,394	63,468	65,586	67,727	69,843	72,093	74,028
Borrowing Costs	2,464	2,574	2,778	2,934	3,333	3,699	3,612	3,544	3,276	2,944
Materials & Contracts	45,330	47,083	49,119	51,148	52,914	54,935	56,965	59,011	61,198	62,810
Depreciation & Amortisation	39,201	40,377	41,588	42,835	44,121	45,444	46,807	48,212	49,658	51,148
Other Expenses	55,813	58,575	62,450	64,601	67,159	69,453	72,359	74,199	76,207	77,852
<b>Total Expenses from Continuing Operations</b>	<b>198,387</b>	<b>205,941</b>	<b>215,311</b>	<b>222,912</b>	<b>230,995</b>	<b>239,117</b>	<b>247,471</b>	<b>254,809</b>	<b>262,431</b>	<b>268,782</b>
<b>Net Operating Result for the Year</b>	<b>(3,728)</b>	<b>(7,756)</b>	<b>(8,784)</b>	<b>(9,016)</b>	<b>(9,211)</b>	<b>(10,686)</b>	<b>(10,723)</b>	<b>(9,715)</b>	<b>(8,857)</b>	<b>(4,276)</b>
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	(11,479)	(11,662)	(12,747)	(13,037)	(13,290)	(13,391)	(13,571)	(12,549)	(11,758)	(7,206)

And Cashflow Statement:

## General Fund Ten Year Financial Plan - Cash Flow Statement

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Cash flows from Operating Activities</b>										
<b>Receipts:</b>										
Rates & Annual Charges	71,820	74,774	78,583	81,447	84,603	87,671	90,843	94,121	97,509	101,012
User Charges & Fees	39,485	42,205	44,451	46,162	48,086	50,136	52,207	54,289	56,470	61,514
Interest & Investment Revenue Received	2,315	2,136	2,026	2,023	1,993	2,079	2,147	2,253	2,391	2,555
Grants & Contributions	25,728	22,089	22,303	22,813	23,381	22,558	23,268	23,839	24,573	25,162
Other	55,309	56,976	59,157	61,438	63,707	65,968	68,260	70,567	72,602	74,230
<b>Payments:</b>										
Employee benefits & On-costs	(55,579)	(57,332)	(59,375)	(61,394)	(63,468)	(65,586)	(67,727)	(69,843)	(72,093)	(74,028)
Materials & Contracts	(43,683)	(46,687)	(48,601)	(50,782)	(52,535)	(54,557)	(56,532)	(58,670)	(60,830)	(62,524)
Borrowing Costs	(2,464)	(2,574)	(2,778)	(2,934)	(3,333)	(3,699)	(3,612)	(3,544)	(3,276)	(2,944)
Other	(55,813)	(58,575)	(62,450)	(64,601)	(67,159)	(69,453)	(72,359)	(74,199)	(76,207)	(77,852)
<b>Net Cash Provided (or used in) Operating Activities</b>	<b>37,119</b>	<b>33,012</b>	<b>33,314</b>	<b>34,174</b>	<b>35,274</b>	<b>35,118</b>	<b>36,495</b>	<b>38,812</b>	<b>41,139</b>	<b>47,124</b>
<b>Cash flows from Investing Activities</b>										
<b>Receipts:</b>										
Sale of Investment Securities	10,000	5,000	3,000	0	0	0	0	0	0	0
Sale of Investment Property	0	0	0	0	0	0	0	0	0	0
Sale of Real Estate Assets	1,300	1,900	1,550	3,400	2,350	3,450	3,300	4,000	1,350	1,500
Sale of Infrastructure, Property, Plant & Equipment	1,921	1,837	2,104	2,057	2,118	1,959	2,032	2,227	2,237	2,191
<b>Payments:</b>										
Purchase of Investment Securities	0	0	0	0	0	(4,000)	(4,000)	(7,000)	(5,000)	(4,000)
Purchase of Investment Property	0	0	0	0	0	0	0	0	0	0
Purchase of Infrastructure, Property, Plant & Equipment	(51,597)	(43,345)	(42,399)	(45,094)	(42,264)	(32,389)	(35,181)	(33,637)	(34,546)	(37,728)
Purchase of Real Estate Assets	(2,233)	(1,149)	(1,023)	(2,020)	(3,185)	(2,920)	(220)	(1,020)	(520)	(520)
<b>Net Cash Provided (or used in) Investing Activities</b>	<b>(40,609)</b>	<b>(35,757)</b>	<b>(36,769)</b>	<b>(41,657)</b>	<b>(40,980)</b>	<b>(33,899)</b>	<b>(34,069)</b>	<b>(35,430)</b>	<b>(36,479)</b>	<b>(38,557)</b>
<b>Cash flows from Financing Activities</b>										
<b>Receipts:</b>										
Proceeds from Borrowings & Advances	7,792	9,773	9,275	13,851	13,569	6,765	7,575	4,634	3,708	1,554
<b>Payments:</b>										
Repayment of Borrowings & Advances	(5,889)	(6,048)	(6,337)	(6,625)	(7,074)	(7,782)	(8,600)	(8,976)	(8,986)	(9,323)
<b>Net Cash Provided (or used in) Financing Activities</b>	<b>1,902</b>	<b>3,724</b>	<b>2,938</b>	<b>7,226</b>	<b>6,495</b>	<b>(1,017)</b>	<b>(1,025)</b>	<b>(4,341)</b>	<b>(5,279)</b>	<b>(7,769)</b>
Net Increase/(Decrease) in Council's Reserves	(1,588)	979	(517)	(258)	789	202	1,401	(959)	(619)	797
Net Increase/(Decrease) in Council's Accumulated Funds	0	0	0	0	0	0	0	0	0	0
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(1,588)</b>	<b>979</b>	<b>(517)</b>	<b>(258)</b>	<b>789</b>	<b>202</b>	<b>1,401</b>	<b>(959)</b>	<b>(619)</b>	<b>797</b>

Funding for the organisation comes from multiple sources as shown below:



What can be seen from these figures is that Council only captures 37% of its revenue in General Fund from rates and annual charges and a high proportion comes from user fees and charges as well as other revenue items such as fines, rental income, waste levy, etc. But the risk which is obvious from the above split is the reliance on Grant funding which is at 13% overall and equates to \$25m in total. With increased cost shifting

from Federal and State Governments to Local Government we could see this number diminish, placing more reliance on revenue Council can generate from services provided, given that our rates revenue is capped to a certain extent by IPART.

### 3. Guiding Principals

Council needs to be guided by the Integrated Planning and Reporting regime but also by a shared sense of urgency and a shared vision. It needs to break down bureaucratic walls and create some currency around processes, technology and work habits to be able to move towards a future state, in unison with the elected Council, not in opposition to. It is of utmost importance that elected Councillors are educated on the current financial situation of Council, which should guide them in decision making with the best financial outcomes in mind. Councillors are responsible for strategic planning for the whole community and a sustainable future, along with determining the financial strategy and allocating resources for Council through the budgeting process, so it is of utmost importance that each proposal for expenditure needs to be supported by a business case and needs to be justified and prioritised in order of the below criteria:

- Is it work required for statutory purposes
- Is it to address emergency situations
- Is it to eliminate hazards or eliminate risks
- Is it to meet contractual obligations
- Is it to perform necessary renovations or repairs (which will reduce ongoing operating expense)
- Is it to replace equipment
- Is it funded by state or federal government departments
- Is it a continuation of an existing project which cannot be deferred
- Is it to satisfy a community need or provide an improved level of customer service

If not and not funded then it is a desirable project for non-essential reasons and should be deferred until funds are in place to pursue.

These criteria needs to be in front of mind of staff and Councillors when approving capital budgets and needs to be incorporated into our planning cycle.

In addition to this, additional work needs to be carried out to ensure that carryover funding is kept to a minimum, below are some core principles to consider when requesting capital funding:

At “budget bid” stage a “business case” is required, covering the following:

- A delivery program, identifying each phase of the project
- A detailed cost estimate for each phase of the project
- A cashflow forecast to reflect the delivery program, so funds are allocated to the appropriate year
- Anticipated lead times for the supply of critical components
- Project relationship to the Strategic Plan or Asset Management Plan
- Design development phase needs to be undertaken preceding the financial year to which they are scheduled to be delivered
- Whole of life costs, particularly recognising any increase in future years operational expenditures need to be considered from the outset of a capital request.

A list of projects suitable for grant funding should be developed to a stage where the design documentation can be completed quickly once funding is received. These projects should have project risks identified and preliminary cost estimates and construction programs prepared.

The overall capital works program should be prepared in conjunction with the budget preparation and the following should be identified:

- The project custodian responsible for project delivery
- The extent of works scheduled in that Financial Year
- The resource requirements and whether external resources might be required
- The lead times and delivery risks

Monthly reviews should be instigated and program slippages identified and strategies developed to deliver the project on time.

### 3.1 Organisational Vision

The Vision is to “Make the Shoalhaven a great place to live, work, stay and play”. A shared vision is vital to achieve the outcomes desired. However the Vision needs to be able to be directly related to the work that employees are doing, otherwise it is not a shared vision. Further definition is required to ensure that Council staff are all working towards the same ultimate goal and that we can move away from the local government mentality, which slows progress and lets bureaucracy get in the way of progress.

A fully integrated suite of IP&R documents will help provide clarity to both the Councillors vision and the Council Strategy.

The IP&R planning cycle is shown below, and shows the integration of community engagement with the strategic plan and subsequent delivery program and operational plan for Council.

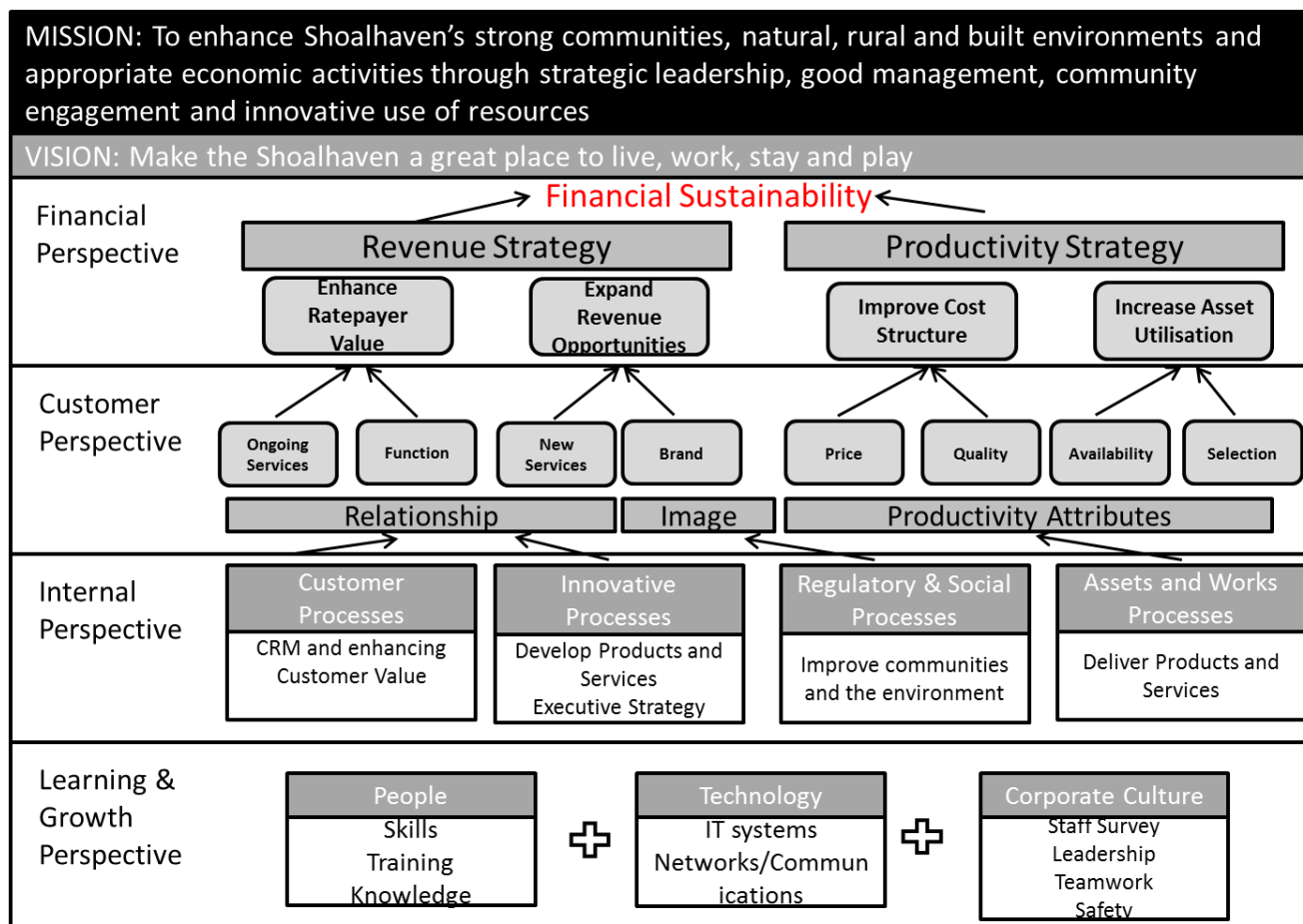


## 3.2 Mission Statement

Councils Mission is to “Enhance Shoalhaven’s strong communities, natural, rural and built environments and appropriate economic activities through strategic leadership, good management, community engagement and innovative use of resources”.

This mission statement should be driving how we behave as an organisation. The internal factors of strategic leadership, good management, community engagement and innovative use of resources have all been highlighted as part of the recent staff survey as areas which require attention. Action plans are currently being developed which should be related directly to the overarching Mission of Council.

The strategy map below tries to further drill down on Council Vision and incorporate the Business Plan, underlying philosophies and KPI’s to encapsulate what drives Council and what we are ultimately trying to achieve.



## 3.3 Values

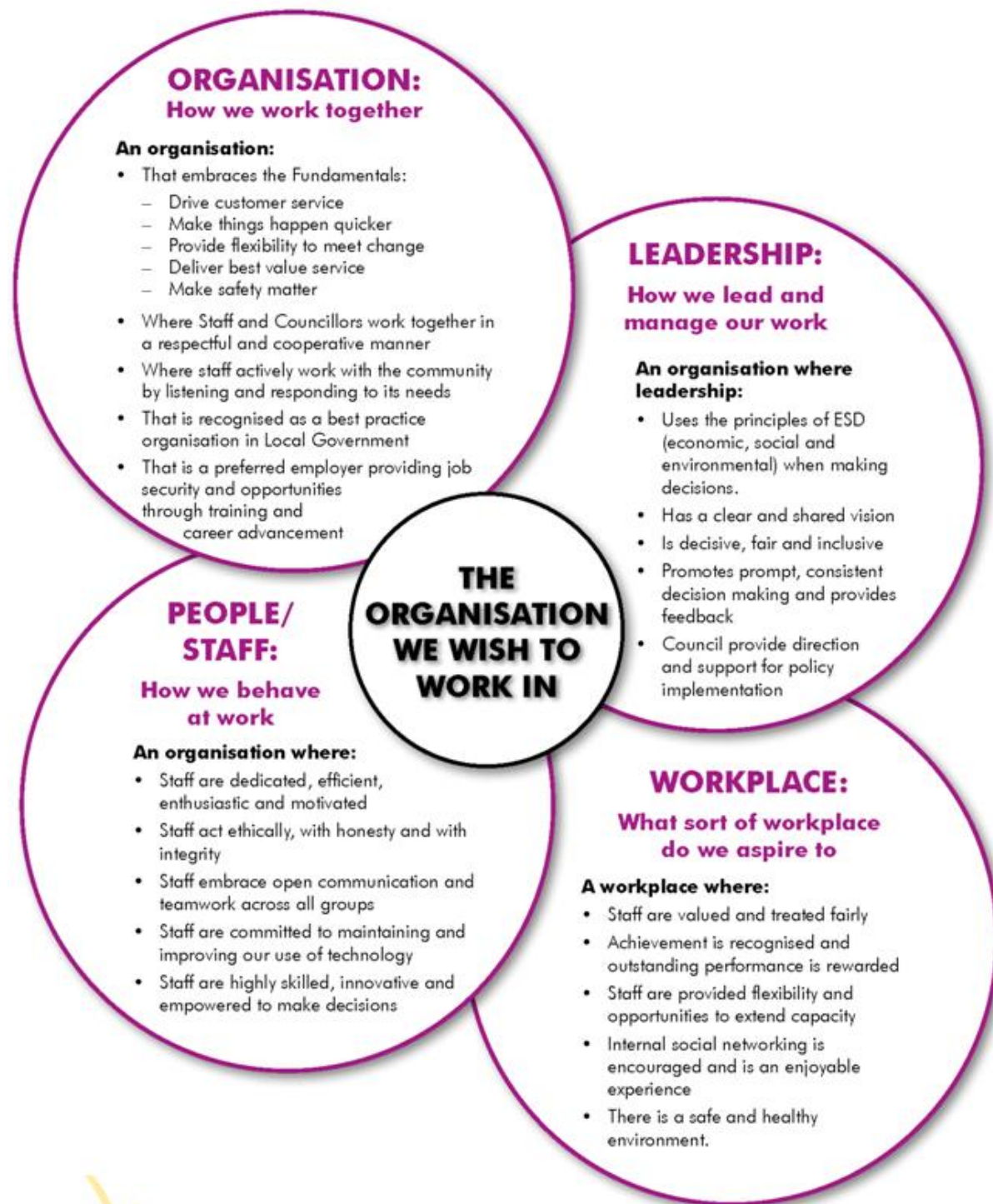
Council’s four key workplace values are aimed at driving a culture and organisation that staff wish to work for. These are:

- How we work together
- How we behave at work
- The sort of workplace we aspire to
- The way we lead and manage work

Below is a snapshot of Council Workplace Values, which are critical to implementing any changes across the organisation. Some of the values are inherent in making changes within an organisation to deliver a far



superior level of service to the community i.e. deliver best value service, best practice organisation, preferred employer, drive customer service, improving our use of technology, innovative and empowered. These values also align directly to the Strategic goals suggested further on in this paper.



#### 4. SWOT Analysis

In order to be able to implement a plan for moving forward we need to position ourselves now, what is the status quo and how do we move from the current situation to an improved position in the future?

Below is a summary of our strengths, weaknesses, opportunities and threats to help us arrive at a detailed plan to move forward.

## 4.1 Strengths

- We are a large Council and therefore have economies of Scale of which we can call on
- There are 55,000 ratepayers within the Council area
- Council has dedicated and long serving employees
- We are situated in a great location and a tourism destination
- We should see growth in future years, given the proximity to Sydney and improvements in the road network

## 4.2 Weaknesses

- We are forecasting a \$10m operating deficits for a number of years over the next 10 years, i.e. \$82.75m in total over this time
- Given the Council size we have multiple duplicated assets across the Council area – which need maintenance and renewal
- We have significantly greater lengths of road networks to maintain than other Councils in our group
- We have a backlog of infrastructure work required to bring our assets up to the standard required and this is continuing to deteriorate year on year.
- There is an aging workforce, which results in risks from a workers compensation viewpoint, and a loss of knowledge on retirement
- There is an aging rate payer base, above group average which may drive higher pension deferrals in the future and less immediate income for Council and also drive infrastructure requirements in the community
- Higher levels of unemployment, 11.4% compared to 6.5% group average means less disposable income and less ability to pay for services
- Unfunded S94 and other liabilities, such as asbestos affected properties and gas remediation requirements?

## 4.3 Opportunities

- We have the capacity to borrow more to fund infrastructure works and new projects
- Borrowing rates may reduce in the future if Local Government NSW establishes a Pooled borrowing vehicle for NSW Councils.
- We have the opportunity to develop monthly KPI's which will give us a better indication of how we are travelling in a more timely manner
- We are well into the implementation of Authority, which should bring technological improvements and efficiencies, along with the opportunity to utilise more e-commerce.
- Council amalgamations could lead to the bigger Councils absorbing smaller Councils
- We are in a better position to offer service provision to smaller Councils
- With changes to transportability of people and the culture of using cars to attend social functions, shop, take children to school, etc, etc, we have the opportunity to rationalise some facilities to reduce costs.

## 4.4 Threats

- Further cost shifting from State and Federal Governments
- Further reductions in Grant Funding
- Increases in CPI risk increases to current cost structures
- Reductions in Australian Dollar would also further push costs up.
- Increasing unplanned reduction in services as assets fail over time in the future
- Reductions in Interest Rates resulting in decreased income from investments
- Council amalgamations may result in further complexities and an increased aging asset base, from inherited assets
- Dividends from Shoalhaven Water may not always be available given some of the significant expenditures required in future years.



## 5. Major Goals

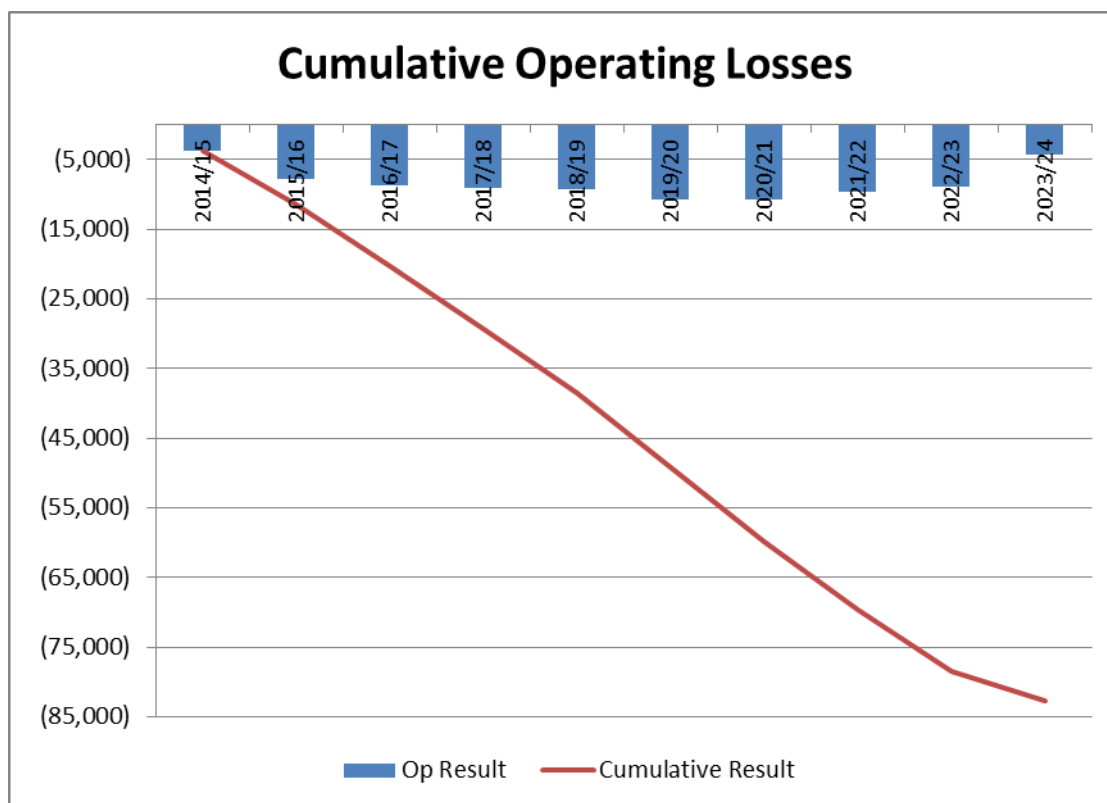
### 5.1 Overall Objective – Financial sustainability

The current operating deficit is the driving force for this strategic plan, below is a snapshot of the General Fund LTFP over the next 10 years showing operating deficits each year for the next 10 years, with some years exceeding \$10m. It should be noted that this is not a cash result but shows the effect of significant depreciation (a non cash item) as a result of asset revaluations in accordance with Accounting Standard AASB 13. When an asset is purchased it generally has a life of more than one year, so depreciation is a way of transferring a portion of the assets costs from the balance sheet to the profit and loss during each year of the assets life. It is a way of matching the cost of the asset to the revenue generated from that asset, over its useful life. Without depreciation the entire cost of the asset would need to be recognised or expensed at the time of the purchase, so it cannot be ignored in reviewing results.

#### General Fund Ten Year Financial Plan - Income Statement

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Income from Continuing Operations</b>										
<b>Revenue:</b>										
Rates & Annual Charges	71,821	74,779	78,590	81,459	84,617	87,690	90,865	94,147	97,540	101,046
User Charges & Fees	39,485	42,205	44,451	46,162	48,086	50,136	52,207	54,289	56,470	61,514
Interest & Investment Revenue	2,315	2,136	2,026	2,023	1,993	2,079	2,147	2,253	2,391	2,555
Other Revenues	55,309	56,976	59,157	61,438	63,707	65,968	68,260	70,567	72,602	74,230
Grants & Contributions provided for Operating Purposes	17,977	18,182	18,340	18,793	19,302	19,852	20,420	21,004	21,671	22,231
Grants & Contributions provided for Capital Purposes	7,751	3,907	3,962	4,021	4,080	2,705	2,849	2,834	2,902	2,931
<b>Other Income:</b>										
Net gains from the disposal of assets										
Total Income from Continuing Operations	194,659	198,185	206,526	213,896	221,784	228,431	236,748	245,095	253,574	264,506
<b>Expenses from Continuing Operations</b>										
Employee Benefits & On-Costs	55,579	57,332	59,375	61,394	63,468	65,586	67,727	69,843	72,093	74,028
Borrowing Costs	2,464	2,574	2,778	2,934	3,333	3,699	3,612	3,544	3,276	2,944
Materials & Contracts	45,330	47,083	49,119	51,148	52,914	54,935	56,965	59,011	61,198	62,810
Depreciation & Amortisation	39,201	40,377	41,588	42,835	44,121	45,444	46,807	48,212	49,658	51,148
Other Expenses	55,813	58,575	62,450	64,601	67,159	69,453	72,359	74,199	76,207	77,852
Total Expenses from Continuing Operations	198,387	205,941	215,311	222,912	230,995	239,117	247,471	254,809	262,431	268,782
<b>Net Operating Result for the Year</b>	<b>(3,728)</b>	<b>(7,756)</b>	<b>(8,784)</b>	<b>(9,016)</b>	<b>(9,211)</b>	<b>(10,686)</b>	<b>(10,723)</b>	<b>(9,715)</b>	<b>(8,857)</b>	<b>(4,276)</b>
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes	(11,479)	(11,662)	(12,747)	(13,037)	(13,290)	(13,391)	(13,571)	(12,549)	(11,758)	(7,206)

Below is a chart showing the cumulative effect of the deficit operating mode, resulting in over \$82.75m over the next 10 years.



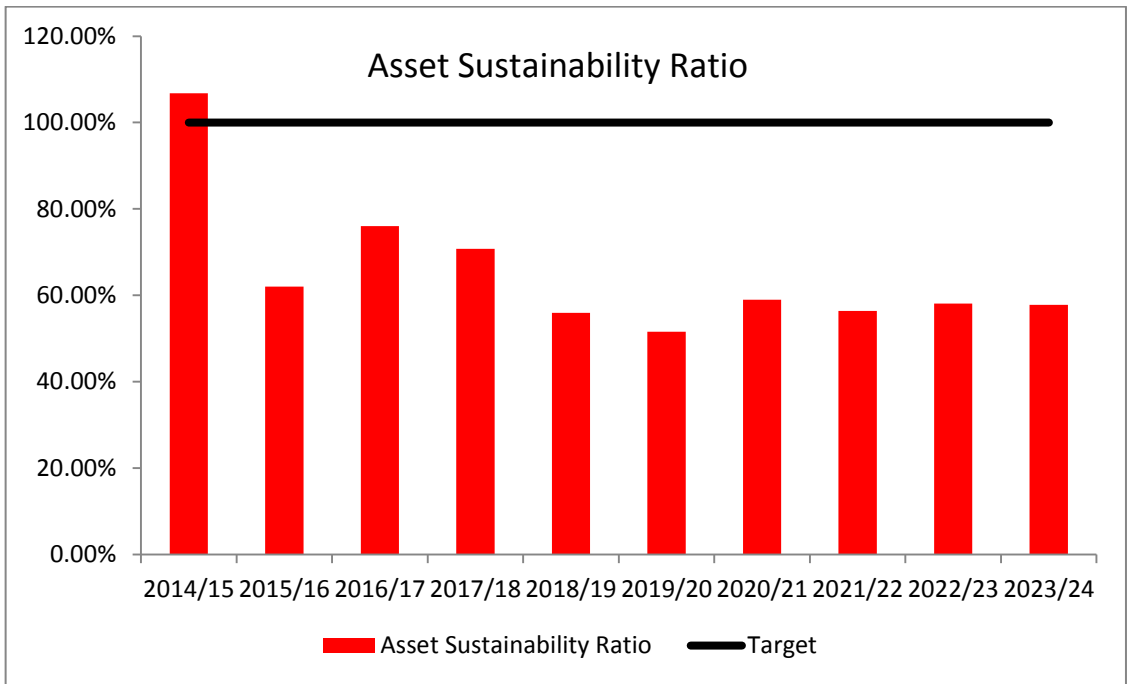
Further to this the Key Financial indicators show a number of areas of some concern, particularly the unrestricted current ratio which is deteriorating year on year, the aim is for this ratio to be greater than 1.5:1 for financial sustainability and we see it moving from over 2.23:1 in 2014/2015 to as low as 1.74:1 2017/2018. The other measure which highlights the gap in capital spending to depreciation is the Building Infrastructure Renewals Ratio which is well below the 100% target.

General Purpose Financial Report – Note 13											
Indicator	Target	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Unrestricted Current Ratio	1.5:1	2.23:1	2.07:1	1.95:1	1.74:1	1.78:1	1.88:1	1.88:1	1.87:1	1.86:1	1.88:1
Debt Service Ratio	Between 10% and 20%	4.47%	4.44%	4.50%	4.55%	4.78%	5.09%	5.22%	5.17%	4.89%	4.69%
Rates & Annual Charges Coverage Ratio	Below 50%	36.90%	37.73%	38.05%	38.08%	38.15%	38.39%	38.38%	38.41%	38.47%	38.20%
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	5%	6.53%	6.29%	6.01%	5.82%	5.64%	5.47%	5.31%	5.16%	5.02%	4.88%
Building & infrastructure Renewals Ratio	100%	48.76%	42.48%	42.57%	43.10%	44.57%	42.65%	44.60%	44.34%	45.39%	47.88%
Indicator	Target	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Additional Measures											
Operating Surplus	Breakeven operation position or better over any five year period \$,000	-11,479	-11,662	-12,747	-13,037	-13,290	-13,391	-13,571	-12,549	-11,758	-7,206
Operating Surplus Ratio	An operating surplus ratio between 0% and 15% over any five year period	-6.14%	-6.00%	-6.29%	-6.21%	-6.10%	-5.93%	-5.80%	-5.18%	-4.69%	-2.75%

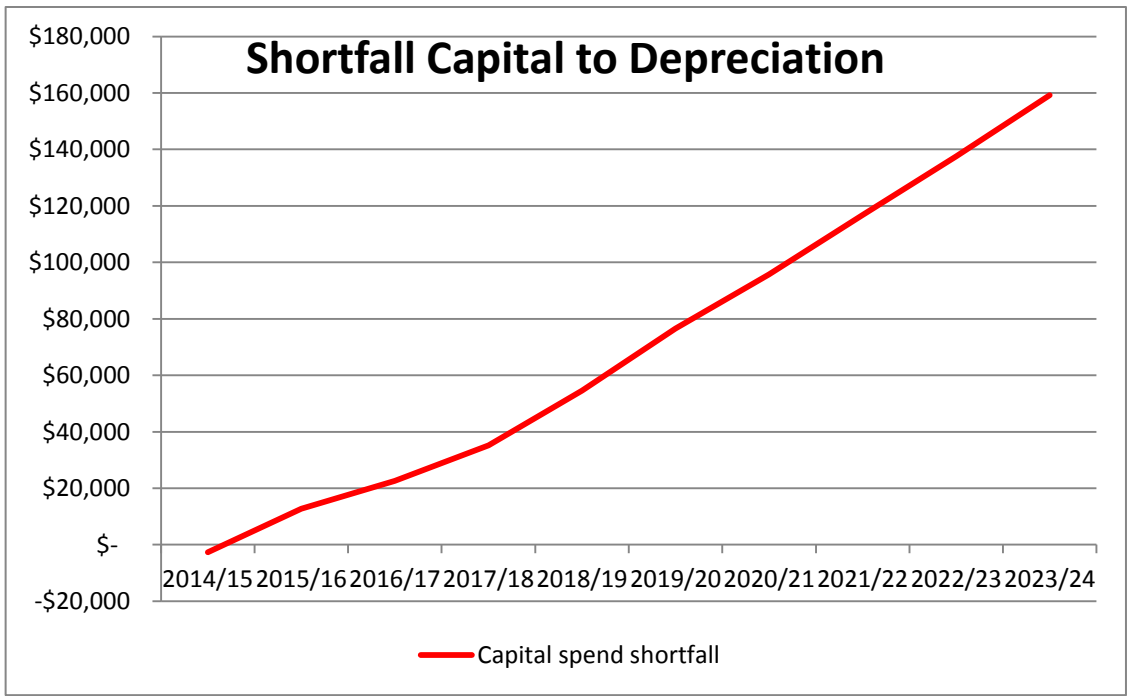
Loan Interest Coverage is averaging around 1.4% over the next 10 years, which is low in terms of the benchmark ratio of 5% of operating income, but it needs to be reiterated that unless Council can generate additional revenue or reduce its overall cost base this ratio does not give a clear picture of Council capabilities.

Asset Sustainability Ratio or the capital expenditure ratio measures the extent to which Council are replacing assets compared with the rate at which we are depreciating or consuming them. See graph below showing this measure and the issues we start to encounter from 2015/2016 onwards, when this % is substantially less than 100%. The dollar impact of this shortfall is in the table below and further analysed in the graph below:

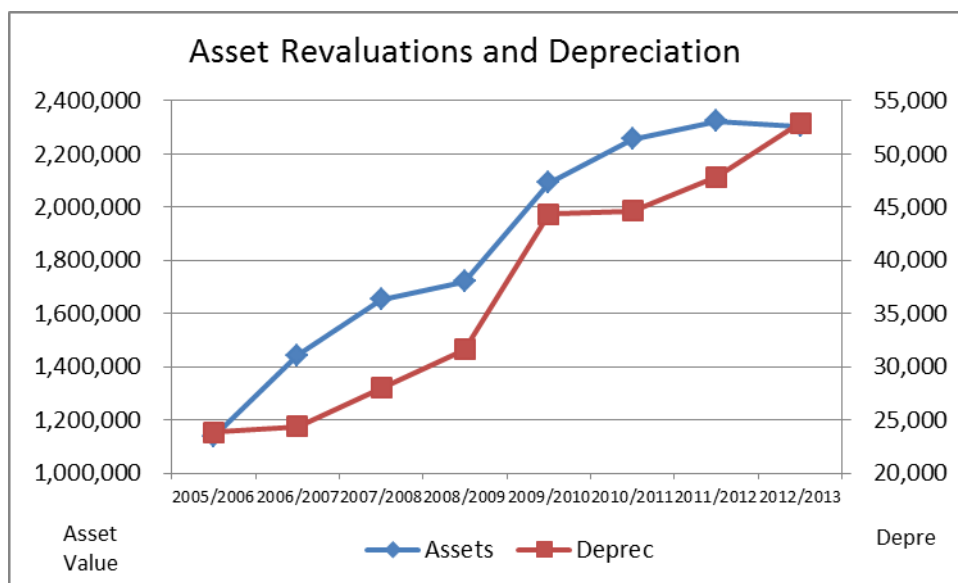
Indicator	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Capital spent	\$ 41,852	\$ 25,042	\$ 31,630	\$ 30,321	\$ 24,685	\$ 23,456	\$ 27,620	\$ 27,203	\$ 28,850	\$ 29,553
Depreciation	\$ 39,201	\$ 40,377	\$ 41,588	\$ 42,835	\$ 44,121	\$ 45,444	\$ 46,807	\$ 48,212	\$ 49,658	\$ 51,148
Shortfall	~\$ 2,651	\$ 15,334	\$ 9,958	\$ 12,514	\$ 19,436	\$ 21,988	\$ 19,188	\$ 21,009	\$ 20,808	\$ 21,595



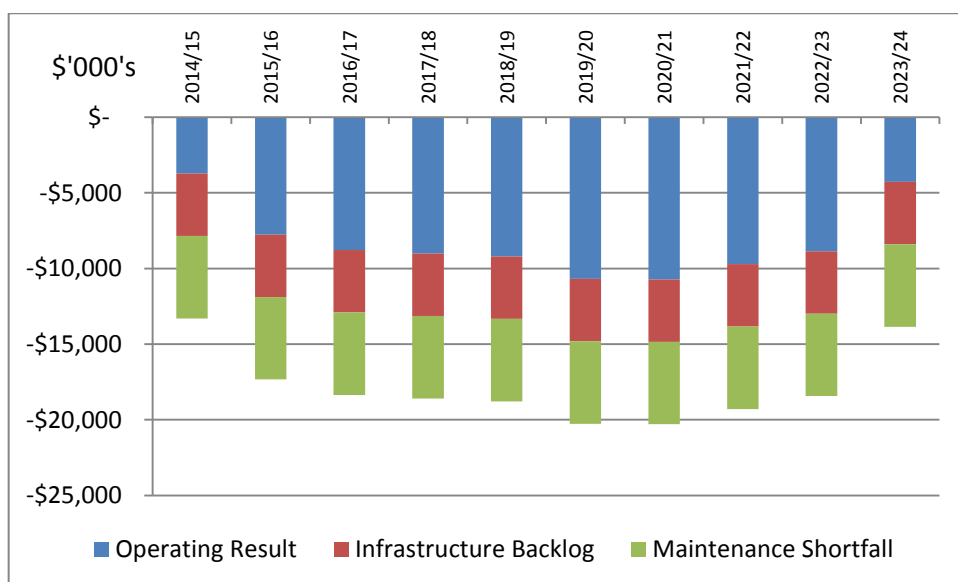
The cumulative shortfall of capital spend is shown below:



With changes to the Accounting treatment of valuation of assets, each year Council is required to make fair value adjustments to certain categories of assets. Below is a graph which shows historical asset values and the resultant depreciation increases in the subsequent years. This obviously has an impact on the overall operating result, which may further impact on our future results as assets are further increased in value and greater depreciation is required.



However if we are to also cover the annual shortfalls created from infrastructure funding deficits as well as cover the infrastructure backlog the graph for operating deficit looks like the one below:



The overarching objective is to reduce Councils overall deficit to a balanced operating plan and the subsequent objectives and recommendations will ultimately achieve financial sustainability within a 5 year timeframe.

There are a number of levers to pull with regard to achieving this goal, which are covered below in detail. It is important that Council see the urgency and importance to take the necessary action to address this issue. It is also important that the organisation take a long lens to this and put plans in place over a number of years, not just the next 1 – 2years.

In providing the required strategic leadership Council needs to take the community along this longer term journey to sustainability.

## 5.2 Increase Revenue

### 5.2.1 Rates Increase

Future rating strategies need to be considered in terms of anticipated growth in the city, future services and service levels, along with changes to Government Funding. The current proposal to introduce a Community Panel to review the rating structure will only be looking at overall allocation of rates within the current rating categories.

Further work will be required to assess the level of rating increase required in the future to assist with reducing the overall backlog of infrastructure requirements as well as enabling financial sustainability moving forward.

Any proposal for rate increases will also need to factor in growth estimates in the future, which will result in increased costs of servicing the growing community and additional stress on infrastructures already in place and in some instances additional infrastructure.

Further consideration needs to be factored in with regard to the demographics of the Shoalhaven, the education levels which are lower than National average, the level of unemployment at 13% in 2013.

On the flip side the location and lifestyle make the area a growth area in terms of population, with estimates that the population will exceed 130,000 by 2036. There is a thriving defence industry, it is a regional manufacturing centre and a growing educational hub, and natural resources and tourism go hand in hand to increase the population movement.

It has been found through studies done by the SA Centre for Economic Studies that CPI is not an appropriate indicator to consider in relation to Council rates. Secondly, Council rates are determined by more than average costs in a previous year. Local Government sets property rates in response to various factors including general price inflation affecting local government, policy decisions regarding changes in the level of services and community infrastructure provided to local communities, changes in demand for particular services and changes in financial support provided by other levels of government. It was found that a more reliable independent measure is the Local Government Pricing Index which was developed by the ABS on behalf of the South Australian Government Financial Management Group. This measure saw CPI running at 2.8% on average over the 10 year period to 2012/2013, compared to the LGPI running at 3.6% on average over the same period.

This needs to be considered when reviewing what a rate increase may look like. A further consideration is the comparison of residential rates of other Councils within our Council Group, which further shows there is scope to increase rates by more than CPI and to still be under "like" Councils rates. The Group Average for Ordinary Residential Rates is \$978.15.

Council 2012/2013	Average Rates	Average Household Income #	Ratio	At 1.8%	Differential
<b>Shoalhaven</b>	<b>\$803.29</b>	<b>\$50,363</b>	<b>1.60%</b>	<b>\$906.53</b>	<b>\$103.24</b>
<b>Coffs Harbour</b>	<b>\$837.67</b>	<b>\$54,077</b>	<b>1.55%</b>	<b>\$973.39</b>	<b>\$135.72</b>
<b>Maitland</b>	<b>\$939.12</b>	<b>\$72,514</b>	<b>1.30%</b>	<b>\$1,305.25</b>	<b>\$366.13</b>
<b>Port Macquarie</b>	<b>\$988.14</b>	<b>\$52,167</b>	<b>1.89%</b>	<b>\$939.01</b>	<b>-\$49.13</b>
<b>Lake Macquarie</b>	<b>\$997.31</b>	<b>\$57,304</b>	<b>1.74%</b>	<b>\$1,031.47</b>	<b>\$34.16</b>
<b>Wollongong</b>	<b>\$1077.96</b>	<b>\$65,926</b>	<b>1.64%</b>	<b>\$1,186.67</b>	<b>\$108.71</b>

<b>Tweed</b>	\$1167.26	\$51,220	2.28%	\$921.96	-\$245.30
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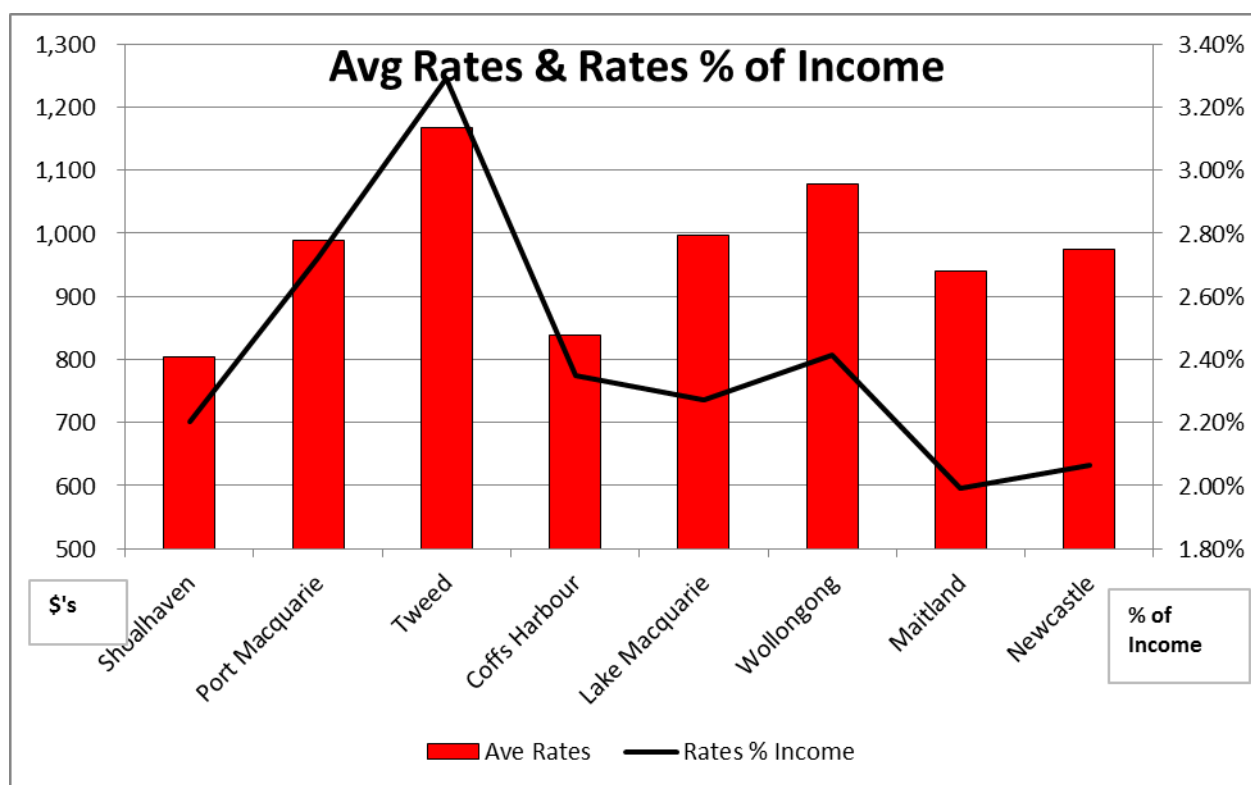
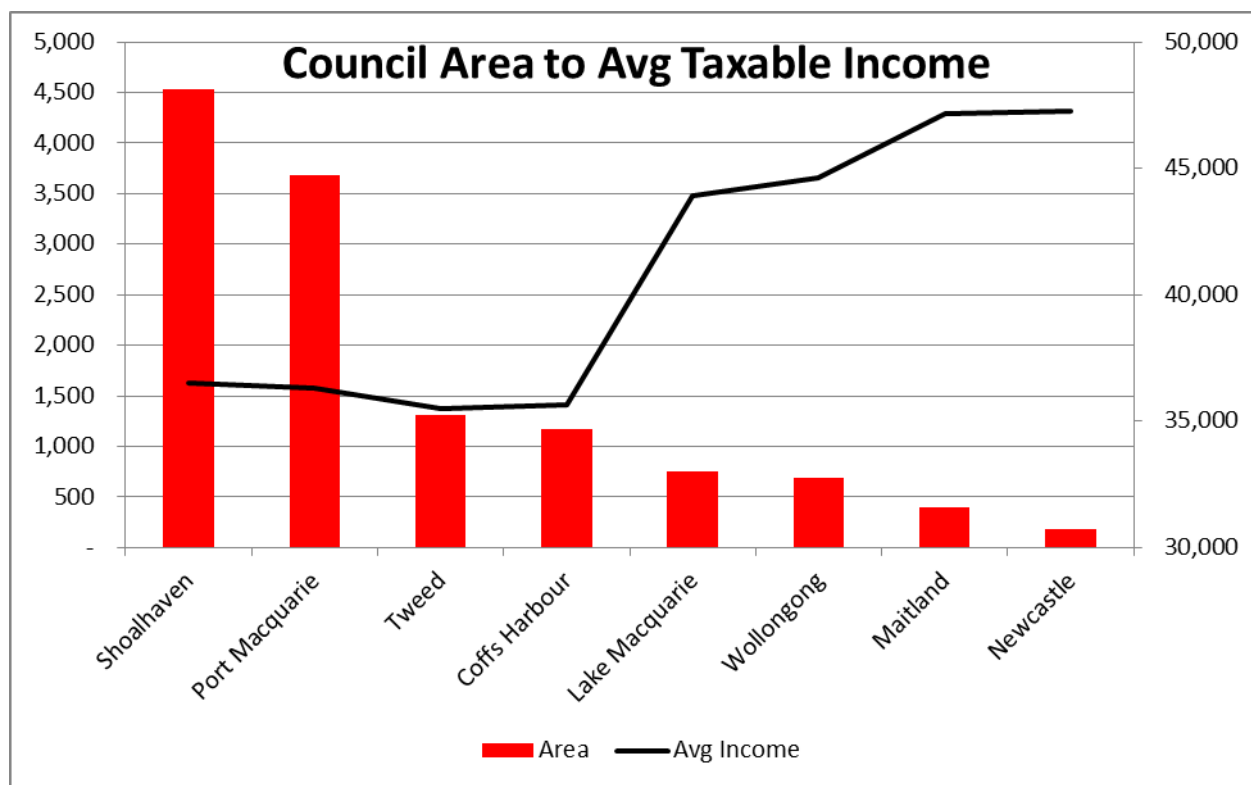
# Source- ABS Household income

This table shows a 45% difference between residential rates at Shoalhaven compared to those of Tweed Council. It also highlights that household income for the Shoalhaven is the lowest and that our rates as a percentage of household income are low compared to a number of Councils. If we looked at an average of 1.8% as a guide, i.e. ratepayers capacity to pay we could argue that an increase of \$103 per ratepayer is supportable and equates to an increase of approximately 13% in rates.

In addition to this, given the demographics of Shoalhaven City Council and the level of infrastructure in relation to the population in comparison terms, our level of rates should be above the average, given the higher number of pools, public halls, open space and road lengths to maintain. A special rate variation submission is fundamental to improving future sustainability. See table below for some of these comparative measures, which have significant impact on the overall expenditure required to maintain the infrastructure, which should warrant higher rates than some other Councils with less infrastructure:

<b>Your Public Facilities</b>	<b>LGA</b>	<b>Group Average</b>
<b>Public Pools</b>	12	11
<b>Public Halls</b>	27	24
<b>Open Public Space</b>	2029	1462
<b>Total Road length (km)</b>	1772.4	1193.0
<b>Road Length per '000 capita (metre)</b>	18.3	11.2
<b>Roads, Bridges and Footpath expenditure per capita (\$)</b>	272.32	250.05

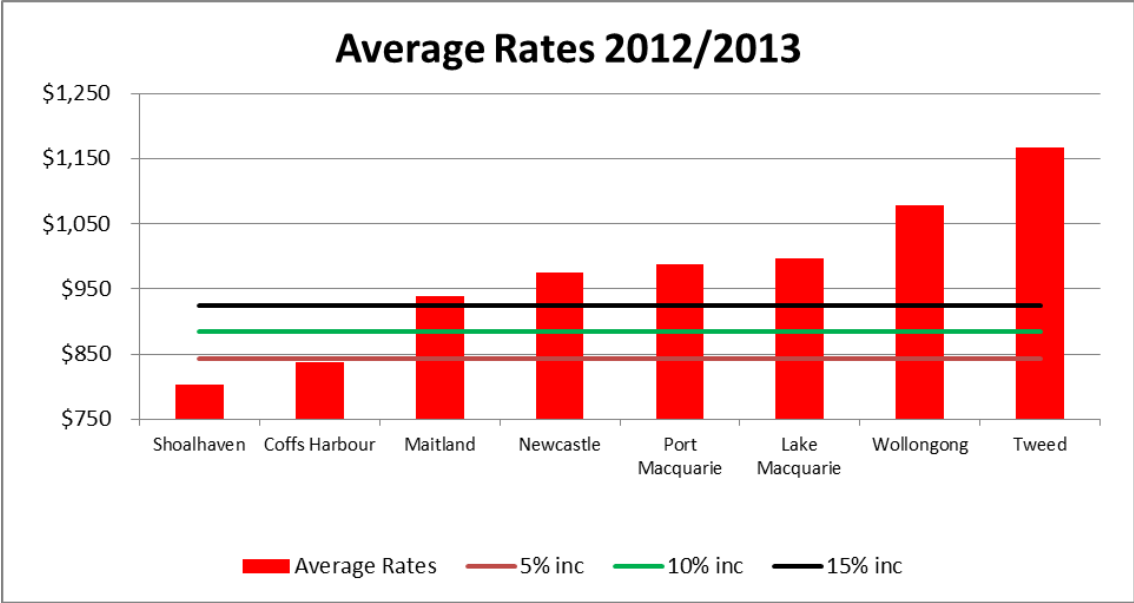
Further analysis was carried out on comparatives of Area of Council, income levels within Council and the rates being charged. The first chart below shows the relationship for Area Size and taxable income, which shows the bigger the Council area the lower average taxable income and the second chart shows a comparison of average rates to the % of rates to taxable income. This shows the percentage for Shoalhaven at 2.2% of taxable income. The only Councils with a lower percentage than Shoalhaven are Newcastle and Maitland, but if you compare their land area in the first chart, plus the level of their average taxable income, they can probably afford to hold their rates at a lower overall percentage. The lower percentage also gives them higher overall rates than Shoalhaven given the level of Taxable income in their Council Areas.



Below is a snapshot of comparatives of rates with a 5%, 10% and 15% increase in Shoalhaven Council's rates, which still shows lower rates relative to all other Councils in our Group. This is also before Wollongong submitted and received approval from IPART for an increase in General Revenue and their minimum rate



amounts of 6.23% in 2014/2015, 6.33% in 2015/2016 and 6.34% in 2016/2017, a total of 19% over the next 3 years. And also does not reflect increases to rates for Port Macquarie which were approved by IPART.



In terms of revenue these type increases would equate to the following in terms of total revenue dollars:

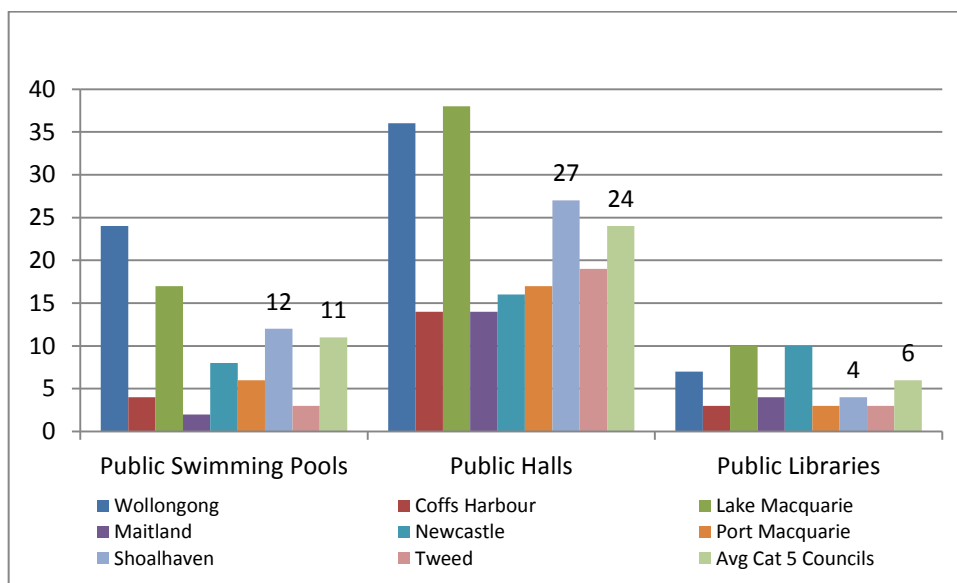
	2016/17
	\$ '000
5% inc	\$ 2,876
10% inc	\$ 5,752
15% inc	\$ 8,628

5.2.2 Fees and Charges

In addition to rates Council have the opportunity to review fees and charges, along with leases in an effort to increase the level of income generated from the delivery of services or hiring/leasing of properties. As part of fee setting the philosophy of user pay should be high on the agenda. The project team covering fees and charges are developing an actionable plan to address areas of improved revenue. Further to this the project team working on Leases is also developing a list of leases where increases might be introduced.

The number of Public Facilities obviously drives a certain cost structure and should be taken into consideration when reviewing increases to fees and charges, as well as rates.

A further consideration with the setting of fees and charges is how Council charge for the high influx of tourists around the summer period. We currently see approximately 2.5million tourist converging on the area within a short period of time and require infrastructure to cater for this influx. Given that tourists do not pay rates in the Council area and benefit from heavily subsidised fees and charges we need to look at a mechanism to capture some revenue from this influx, perhaps by setting higher fees and charges all year round and subsidising for rate payers through yearly passes, regular hirer rates etc., i.e. a discount for ratepayers



An additional way to bolster Council revenue is by promotion of these public facilities. If Council can bundle up a marketing campaign to sell the benefits of these facilities, they could attract events or conferences to the area and increase Tourism but also increase the returns on Local Council infrastructure.

### 5.2.3 Increases DA Fees and introduce value added services

An increase to DA charges has the ability to increase Council revenue, but at the same time it can hamper growth in the city. There needs to be a balance between economic development and the amount of fees being charged and these charges will rise and fall with the inherent business cycle of economic activity. These fees are also regulated by state government, so are not as easily increased as desired. In order to increase DA fees outside this cycle Council would need to consider what else we have on offer to promote business and development in the area, i.e. by developing zoning policies that support business, by economic development and tourism working towards increasing tourism, investment etc.

In addition to this Council should look into the introduction of Value add services to the community, including but not limited to Bush Fire assessments, pre-purchase inspections etc. The issues of independence in DA approvals would certainly need to be covered off if a decision was made to go down this path.

## 5.3 Reduce Cost Structure – drive efficiency

There are a number of opportunities to improve the cost structure of Council.

### 5.3.1 Continuous Improvement

Fundamental to cost reductions is the introduction to the concept of Lean or continuous improvement. This is a philosophy which needs to be driven from the top of the organisation and filtered out to all levels within the organisation. This takes commitment and dollars in terms of training and allowing time for teams to hold meetings to review processes and look for efficiencies.

Value streams are a good tool to link all horizontal processes that run across vertical organisational silos and removing wasteful activity that adds no value for the customer. All staff would need their induction to include Lean and in-house learning programs would need to be introduced to educate staff to be able to work in projects teams. Lean is also about changing culture to one where staff feel empowered, equipped and supported to improve their work as part of their everyday job.

Major areas impacted by customer calls would be an ideal starting point for review, and this could be incorporated with the introduction of the Customer Service Centre. This would review outdated practices and better utilise technology to ultimately improve customer service and at the same time reduce costs. The

introduction of e-commerce will further reduce workload, introduce a one stop shop for customers and reduce reliance on high staffing levels.

The culture of service, teamwork and continuous improvement, needs to be a journey that continues forever and becomes a way of working, it needs to be inherent in everything we do by way of quality systems, process mapping and re-engineering. The key point to make here is that a reduction in complexity will lead to reduced costs.

### **5.3.2 Outsourcing**

A second opportunity for cost reduction is to review service levels of internally provided functions and look at outsourcing those which are not competitive with outside providers. Some of the areas being reviewed at present are the SEC, payroll, printing, audit, family day care to name a few of the TTF projects on the agenda. This process needs to benchmark the services provided against the cost of providing these services and determine where benefits would be gained from outsourcing.

As an alternative to outsourcing Council could increase revenue by setting up a shared service function and taking on work of other Councils. This could lead to further economies of scale with reduced staffing requirements, particularly when system functionality is available to enable the best possible outcome for these processes.

### **5.3.3 Use of Technology**

The improved use of technology will also assist in other areas of Council, particularly in the finance area, where significant gains can be made by elimination of duplication and improvements in reporting and automation of processes. The implementation of Authority is instrumental in making these changes happen. The current systems rely heavily on individuals to hold things together and to understand the history of systems. This dependence on a few individuals leaves Council very vulnerable and does not allow for sharing of information, as people remain isolated from open and transparent information systems.

The integrated nature of an ERP system will help break down the silos in different work areas in Council and should drive further reductions in staffing levels into the future, which should ultimately reduce costs.

The use of electronic commerce will further enhance customer service to the community and allow for self-help portals which will drive further efficiencies. Considerable work is required to ensure the technology delivers as promised, so Council will need to commit dedicated resources to achieve the desired outcome.

### **5.3.4 Procurement**

Another potential savings area is in procurement. Currently we spend \$92m on our top 100 suppliers, if we could save .5% of this spend it equates to \$458k. The current Southern Councils Group procurement team are looking at options for targeting savings and this should be driven more robustly to ensure savings are achieved, by prioritising big ticket items, such as motor vehicles, asphalt, energy etc.

### **5.3.5 Staff Changes and conditions of employment**

The transformation task force team has been rolling out a restructure by Group or Section, with \$2.8m in savings already achieved in salaries and wages, but this should continue to the next levels in the organisation, with the possibility of achieving a further \$630k reduction. Other programs to review staff conditions and the use of casuals and the payment of allowances and overtime are in process and should be advanced in order to achieve a further \$500k in savings.

### **5.3.6 Energy Management**

In line with the sustainability of operations, Council should also be considering the use of solar power to further reduce operating costs, particularly with regard to big energy use sites. Energy audits carried out in 2007 should be reviewed to see that the actions to reduce costs, energy consumption, green-house gas emissions and increasing management commitment have been responded to.

Monthly KPI's should be introduced in line with the Strategic Plan, to measure performance, which will then aid in management and assist to drive improvements and cost savings.

Some KPI's which could be introduced to monitor overall cost reductions are shown in the table below, these need to be in line with Performance Management targets and compared to the IRIS survey results to determine if they will drive the desired community outcomes:

Strategy	KPI	Target
<b>Revenue – Enhance Ratepayer Value, ongoing Services</b>	Operating Profit/No of Ratepayers	➤ 0
<b>Revenue – Enhance Ratepayer Value, Function</b>	% uptake Formsport or BPAYview	➤ 10%
<b>Revenue – Expand Revenue – New Services</b>	Revenue Growth = increase in revenue/last year's revenue as %	➤ 6%
<b>Revenue – Expand Revenue – Brand – Shoalhaven area</b>	Increase in economic activity	➤ 6.2% inc
<b>Improve Cost Structure – Price</b>	Procurement Savings	➤ \$200k
<b>Improve Cost Structure – Quality</b>	Savings from Continuous Improvement efficiencies	➤ \$200k
<b>Improve Asset Utilisation – Availability</b>	Percentage Preventative Maintenance/Total Maintenance Costs	➤ 80%
<b>Improve Asset Utilisation – Selection</b>	Life Cycle Costing completed on all new assets	➤ 80%
<b>Customer Satisfaction</b>	Community Satisfaction Rating	➤ 90%
<b>Innovation – No. of new services</b>	No. of New Services No of DA's and turnaround time	➤ 2 per annum ➤ 1400 per annum < 60 days
<b>Improve Social Processes</b>	Expenditure on community health and safety/Avg population	➤ \$100 per capita
<b>Deliver Products and Services</b>	Reduction in Asset Backlog – Capex Expenditure/Depreciation	➤ 100%
<b>Training</b>	Avg Training Cost per FTE	➤ \$750 per FTE
<b>Cassi Implementation</b>	Modules go live dates meet plan	Within plan and budget
<b>Leadership Training</b>	Managers Trained	➤ 80%
<b>Health and Wellbeing of Staff – Safety</b>	LTI	Hours Lost/Total hours worked as a %

## 5.4 Service Sustainability

There should be a full review of the services Council provide and questions posed as to whether the service is broadly valued and does it align to the Long Term strategic direction of Council, is Local government the right organisation to be providing the services, what are the issues or risks with not providing the service and if Council does not provide the service, who will?

Where it is not possible to withdraw from provision of critical services, it might be prudent to review the level of support provided to some services and look at cutting the level of service if feasible. As an alternate to this a review of the delivery method may be possible, to look at other options for delivery eg are there some services we can deliver electronically as opposed to manually.

Other questions to ask are:

- Are there additional or new income producing opportunities?

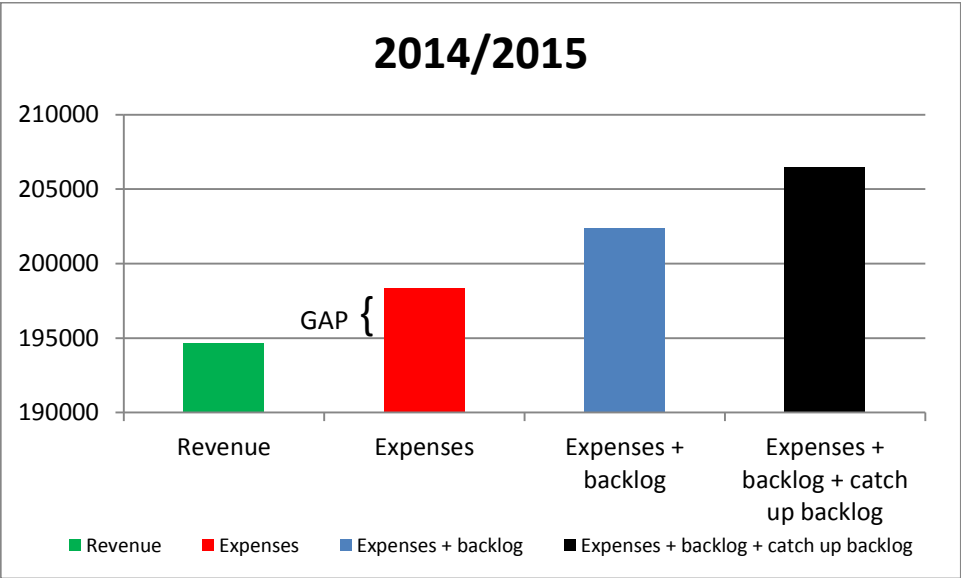
- Is there unmet demand for the service and if so how do we capture this demand?
- Is there an ability or willingness to pay for services we might be providing for free or at a subsidised rate at present?
- Are there growth areas where we are not providing services?
- Does the continuing delivery of services, maintenance or renewal works programs remain a sustainable option, supported by operations, works and projects?

5.5 Asset Utilisation

The utilisation of assets in an organisation is a critical component of return on investment, along with driving customer satisfaction in terms of reliability, cost and function. We know for Shoalhaven our assets are aging and our available funding is not sufficient to keep up with the current ongoing maintenance requirements, not to mention the backlog of infrastructure works required to bring our assets up to an acceptable level. This backlog is growing at a rate of approximately \$4m per annum, and at this rate will be another \$40m in 10 years’ time, bringing the total work required to \$80m.

The decrease in CPI increase on Financial Assistance Grant Funding will lead to a further reduction in maintenance of \$400k per year, which will impact considerably over the next 3 years totalling \$1.2m.

The Graph below shows the current gap between revenue and expenses for the coming year, i.e. approximately \$3.7m, if we add to this the run rate of backlog increase of \$4m each year this becomes an \$7.7m gap, and if we further add to this the catch up required for past years backlog this adds an additional \$4m to expenses and widens the gap to \$11.8m for the coming year. Obviously this number is totally unsustainable, and requires some drastic measures to turn things around.



5.5.1 Only commit to Justified Renewal Projects

Council needs to review opportunities to slow down this rate of deterioration, and one way to do this is to only commit capital to renewal projects which have a cost benefit, i.e. the cost of the investment is recouped from the savings made in maintenance and other operational costs to keep the asset in working mode.

When decisions are being made, with regard to investment in new capital items, a full life cycle costing should be prepared. This will ensure that the assets are not going to be an intergenerational burden on the community. Asset Management Planning needs to encapsulate all phases of life cycle costing and forecast these costs into the Long Term Financial Plan.

### 5.5.2 Selling off Under-utilised Assets

Another serious consideration is to review ownership of assets surplus to needs or costing Council money, i.e. where the rental income does not cover the costs if commercially leased. This would result in a reduction in operational expenditure i.e. less maintenance, less overheads and reduction in depreciation etc.

Further to this Council should look at selling off any land surplus to needs, once again this would reduce operating costs to maintain the land and is in line with Lean principles to reduce redundant assets and drive costs down.

There are approximately 9 properties earmarked for sale, where due diligence is still required. These properties have a combined land value of \$1.475 in total, with differing rateability and potential for use.

### 5.5.3 Asset Rationalisation/Optimisation

In order to improve the Utilisation of assets, one needs to firstly look at the rationalisation of the existing asset base. When reviews are carried out on the profitability of assets and the return on assets employed those with negative operating results and with negative returns on assets should be reviewed to see if there are other similar assets nearby which could cater for the current levels of demand. If this is the case there may be an opportunity to sell off duplicated facilities. If there are no other similar facilities nearby then we should look at increasing the use of the existing facility.

In the first instance we could look at promoting the facility to improve patronage. Secondly we should look at introducing new uses within the existing facility; this could be by introducing a gym to a pool complex or a café to a Library or a Visitor information centre to a Pool complex, similar to the arrangement at Ulladulla Civic Centre.

From financial analysis completed as part of the fees and charges TTF project team it was found that those facilities which were multi-use lost less money and had better returns on assets employed than those facilities with a single purpose.

An observation in this area is that Ulladulla Civic Centre operating budget did increase, but if like type facilities surrounding it were rationalised, the savings could more than offset this increase i.e. closing Milton library.

A further example of issues that can arise with the introduction of new or improved facilities is with the rebuilding of Nowra Pool. Whilst it will improve the pool facility at Nowra, it leaves less funds for maintenance or improvement of Bomaderry pool, it will require more funding for amenities, it will be an intergenerational burden on Council and the legacy will exist for many years to come, where a consolidated approach to improvements to the Bomaderry Aquatic Centre may have been a much more financially viable option longer term.

Below is a list of principles which should be followed when reviewing our current Asset base and any plans for future developments:

The Asset must be:

- Fit for purpose – does it meet the needs of the service?
- Fit for use – is it in an acceptable condition?
- Fit for the future – will the asset meet future needs of the service?

### **Core Principles**

- Is there a need for the asset, is the asset still providing a required service to the community. Is the service provision what the customers expect?
- Is there a more cost effective way to provide that service?

- If an asset is underutilised, then prior to any decisions to construct another similar asset, the potential for using the existing under-utilised asset, should be considered. What does demand forecasting look like?
- Where an asset is under-utilised or under-performing, an assessment must be made about continuing to fund the asset.
- Any rationalisations should be undertaken within the IPR framework that takes account of service delivery needs, corporate objectives, financial and budgetary constraints and the Council's overall resource allocation objectives.
- Are there alternate methods of service delivery through other Council facilities, providers and levels of government or the private sector or regional opportunities?
- Are there disposal options including transfer for alternative use, rental, sale and/or leaseback, and demolition should be considered when reviewing acquisition plans.
- Does the asset have high operational costs with little income producing opportunity, if so a review of similar assets close by should be carried out before any further monies are sunk into the existing asset?

#### 5.5.4 Pensioner Rates Deferral

Council currently has a policy which allows for Pensioners to defer payment of their rates and interest for a period of 17 years before Council will begin action to recover this debt. At present the total amount outstanding on Pensioner rates is approximately \$3.3m including service charges, rates and interest components. By reviewing this policy and bringing payment terms in line with other rate payers Council could gain approximately \$800k one off benefit in cash from new pensioner deferrals, along with a reduction in the overall outstanding of aged deferrals. This money could then be utilised within other Council activities.

#### 5.6 Review Capacity to borrow

There is no right or wrong level of debt, but it must be able to be supported by the income Council generates and the cash flows which result.

Whilst it has historically been prudent to keep debt levels as low as possible, borrowing is a valid way to finance ongoing infrastructure requirements. Deferral of infrastructure replacement/ maintenance is often more detrimental to the long term capabilities of Council then borrowing to finance such renewal or replacement spending. The spending may be justified now due to greater cost in the future of deferring this activity.

Generally however, a Council with an operating deficit would find it difficult to justify the additional debt, unless there is a cost benefit of replacing assets over the cost of maintaining these assets.

Council is forecasting operating deficits for the next 10 years and we should never consider funding this deficit with debt, other means need to be sought out to raise the level of additional funding required. Council should only borrow to fund activities or developments which are core to Council's activities and agreed priorities. Each request for funding should be supported by a cost benefit analysis, showing whole of life cost of the investment.

The most recent loans drawn down were taken out with a 3 year variable rate, transferring to a fixed rate after this time, or with an option to refinance. This approach was taken to ensure flexibility in refinancing if the Office of Local Government arrives at a consolidated model for borrowing for Councils, assuming that any rates they derive would be lower than those which we can currently obtain on an individual basis.

A snapshot of our Debt Service Ratio for the next ten years is shown below:



Target	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Between 10% and 20%	4.47%	4.44%	4.50%	4.55%	4.78%	5.09%	5.22%	5.17%	4.89%	4.69%

As can be seen our debt service ratio is well below the guidelines set of between 10% and 20% however industry norms suggest that for non-growing Councils the debt service ratio should remain below 10%.

Given the fact that Council expenses are in excess of overall operating income by a considerable amount year on year, Council would find it difficult to justify taking out additional loans unless the interest repayments are less than the cost of maintaining the existing asset requiring renewal. Further to this the term of debt funding should never exceed the life of the asset it is used to fund.

The important consideration to address with further debt funding is full cost/benefit analysis to ensure that there are financial gains to be had by Council in borrowing additional funds.

Below is a list of core principles to follow when decisions are being made with regard to loan funding:

- NEVER borrow to fund operating deficits
- Only borrow to fund activities core to Councils agreed priorities (i.e. they must be in the Long Term Financial Plan) unless under circumstances of emergency
- Each funding request needs to be supported by full life cycle costing analysis
- Only fund to borrow if interest repayments are less than the cost of maintaining the existing asset requiring renewal
- The term of debt funding should never exceed the life of the asset it is used to fund
- The specific capital project should only be considered for loan funding, if it is to be beneficial to the majority of ratepayers.
- Debt servicing cost should not exceed 2% of annual general income.
- Loans should not be taken out over more than 20 years
- All loans should be taken out in accordance with relevant statutory requirements as contained in the Local Government Act (1993) and the Local Government (General) Regulations 2005.
- Three written quotes should always be sought or a loan tender called
- No borrowing from any source outside the Commonwealth of Australia nor in any currency other than Australian currency

## 5.7 Cultural change

An observation is that there is no sense of urgency within Council and this appears to be driven by the mindset that Legislation and bureaucracy slow things down. The other barriers to progress appear to be antiquated systems which rely heavily on human intervention on an individual basis, which gives great power to some individuals and excludes others from taking ownership.

Overall we know that most people come to work to do a good job, but the systems and processes in place do not allow for staff to do their best work.

Even though Council is a Local Government Authority and we are guided by legislation and at times bureaucracy we need to treat Council like a business not a government agency, we need to get lean and keen.

In order to achieve “lean and keen” Council needs to make a cultural shift, from “this is the way we do things here” to “how can we do things better?” And what better time to do this than part of an organisation review, where the business is being restructured, where a new system is being implemented, where change is becoming the norm and at the same time demands for new services are increasing, with less staff to meet the demand.



This change needs to be driven from the top, with the four main principles being:

- Satisfy your customers – internal and external
- Continually improve through small steps – its evolutionary and ongoing
- Involve everyone in improvement – it will only work if everyone is on board
- Control processes through measurement and KPI's- which are displayed for all

A cultural change such as this can save an organisation considerable time and money and improve customer service, but it needs investment in staffing, training and systems.

## 6. Risks

Council has considerable risks facing them into the future on top of the main financial risk of replacing and maintaining our current asset base to the level required. The following risk factors have been taken into consideration in our Long Term Financial Plan:

- Reduction in CPI on Financial Assistance Grant – with a negative financial impact of \$1.2m over the next 3 years
- At present there are no proposed changes to the waste levy, so current rates are factored into the LTFP, but this may change in the future.

In addition to these risk factors which have been taken into consideration for future financial plans there are a number of areas where no changes have been considered:

- Increase in services such as Ulladulla Civic Centre, Nowra Pool, CCTV and other new assets and the long term financial burden from some of these
- Climate Change, will this have a positive or negative impact on our operating plans, will energy prices continue to increase, regardless of the repeal of the carbon tax, what will be the impact of waste energy and how can we harness this energy. What if we look at investing more in solar installations for energy, what will be the upfront capital cost and then ultimately the savings achieved if we go down this path.
- There is still some debate about indexation on the fuel excise and whether an annual increase will be re-introduced. If this is not the case it will have a small financial impact on Council of \$3k per year based on last year's usage rates. If the re-introduction does not go through this could mean a continual reduction year on year.
- For the majority of our financial forecasts we have continued to use a 3% increase year on year. This is not reflective of reality and does not review our cost structure year on year to understand if the increase is required or is adequate. This CPI is used equally for income as well as expense. For the next budget year a zero based budget approach will be undertaken to go back to basics for budgeting, ensuring all expenditure is justified. For rates we have tended to see that increases approved by IPART have not been consistent with the CPI and for expenses we know that for some it is inadequate and for some it is over generous.
- Our approach to interest rates has been kept very deliberately conservative. But with the appointment of an investment advisor we are finding that by extending our deposit terms we are slowly improving the interest rates achieved. But the major risk in this area is that our returns are being eroded by the overall reduction in rates, which we are trying to abate for as long as possible. Alternately interest rates on borrowings are coming down but are always at the mercy of the Reserve bank and the major banks. The one positive on the horizon is that LGNSW are investigating the use of a Pooled borrowing vehicle which should see reductions in borrowing rates compared to rates we could achieve from the major banks. This is still in the very early stages for Local Government and has no impact on our financials at this stage. The impact of a .5% decrease in borrowing interest rates on a \$10m loan is approximately \$300k over a 10 year period.

- The impact on the AUD rate of a 15% reduction in exchange rate would mean that imported costs would increase and therefore drive increases in major commodities such as oil, asphalt etc. The assumption is that the AUD will remain at the existing level and this needs to be addressed with closer scrutiny of the impact.
- The level of restricted assets continues to increase thereby limiting funds available for General Council spend. Some of this funding is from Section 94 contributions where developers provide for future infrastructure as part of their Development consents. These contributions only cover the actual cost of the infrastructure, and not ongoing maintenance and renewal costs, so in the short term we see a positive income effect, but longer term we start seeing an ever increasing liability. In some instances where there has been a Section 94 contribution Council has a requirement to match that funding, this fund matching obviously has an impact on Councils cashflows and needs to be considered into the future plans of Council, so timing and spend will need to be determined. To enable this Council needs a clear plan around infrastructure requirements. At present the total exposure to Council is in the vicinity of \$120m. Council is also currently undertaking a full review of social infrastructure requirements, in an effort to clearly define the requirements and to align this plan to the Section 94 monies currently held. This review may assist to bring into line funding requirements with available funding.
- Is there a risk/opportunity centred around structural reform for local government? There are a number of challenges facing local government and an ultimate aim of amalgamation should be to reduce the number of administrative units, encourage improve accountability and transparency and have a greater emphasis on core activities, thereby resulting in enhanced financial capability and increased resource sharing amongst Councils.
- Unfunded liabilities also pose an additional threat on Councils future financial sustainability. Currently there are contingent liabilities in the following areas:
  - Gasworks remediation and subsequent costs in relation to this work - \$395k is the current claim for acquisition of land at 76 Bridge Road, with additional remediation works yet to be assessed.
  - Asbestos issues at 180 properties with a cost to clean up estimated at \$4.2m. This figure does not include asbestos removal at Shoalwater or Holiday Haven sites.
  - Leave entitlements provision where only 22% of the liability is funded by the reserve -with an overall difference of \$20m still to be funded.
  - As mentioned above Section 94 contribution exposures could culminate in a Council liability in the vicinity of \$120m, currently we hold \$19m for this purpose in restricted assets, therefore leaving \$100m unfunded.

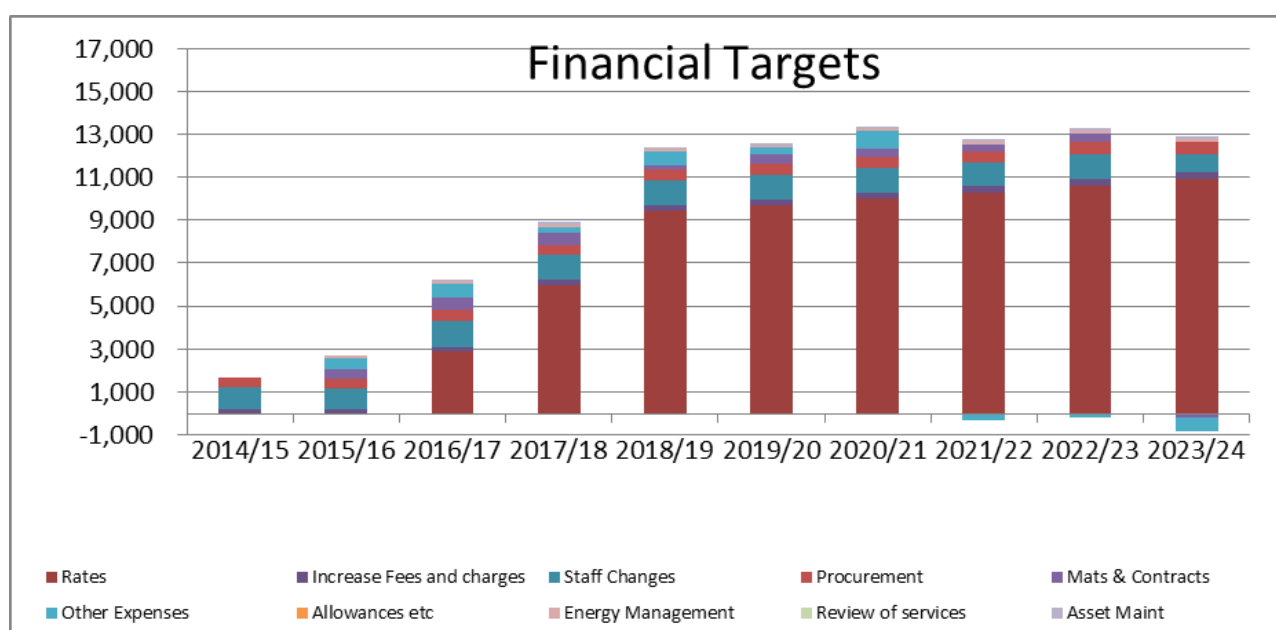
## 7. Evaluation

Reporting will play a major part in evaluating the success of this strategic direction. Council needs to put in place:

- Monthly financial reporting to show progress against plan
- Monthly KPI Indicators – showing progress against the major areas in the strategic plan
- The LTFP needs to be guided by the strategies put in place and the overarching programs Council is aiming to achieve.
- Returns on investments will continue to be reported monthly through the investment report.
- Reporting on restricted assets will continue as part of the Monthly investment report
- Reporting of actuals against targeted savings plans

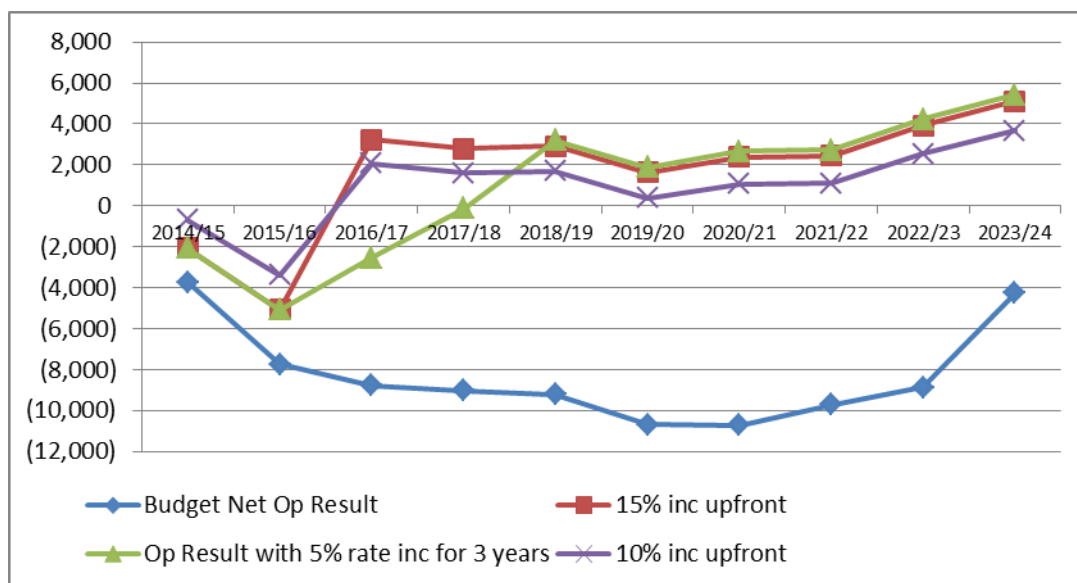
Below is a graph showing the extent of savings targets required to start turning around the deficit position for Council. The most significant requirement to ensure that this is possible is a substantial increase in rates from 2016/2017, in the vicinity of 5% year on year for 3 years. Below the graph is a report showing the savings and

revenue numbers required to achieve this outcome, with the assumptions on the left hand side of the table. These will need to be evaluated and reported monthly.



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Op Result	(3,728)	(7,756)	(8,784)	(9,016)	(9,211)	(10,686)	(10,723)	(9,715)	(8,857)	(4,276)
Rates	-	-	2,876	5,982	9,423	9,706	9,997	10,297	10,606	10,924
Increase Fees and charges	197	211	222	231	240	251	261	271	282	308
Staff Changes	1,008	952	1,212	1,148	1,165	1,169	1,153	1,087	1,182	826
Procurement	458	470	482	495	508	521	534	548	562	577
Mats & Contracts	-	393	624	555	231	434	381	337	417	- 223
Other Expenses	-	544	635	277	620	279	822	- 330	- 219	- 640
Allowances etc	-	-	-	-	-	-	-	-	-	-
Energy Management	-	100	103	106	109	113	116	119	123	127
Review of services	-	-	-	-	-	-	-	-	-	-
Adjust Revenue and borrowing	-	-	-	-	-	-	-	-	-	2,322
Asset Maint	-	-	100	103	106	109	113	116	119	123
Revised Op Result	(2,064)	(5,085)	3,223	2,786	2,923	1,618	2,369	2,437	3,914	5,110

The chart below shows the movement from forecast deficit to the revised operating surplus as a result of the implementation of the above savings plans, this will need to be charted to ensure if actions are in alignment with our plans.



## 8. Recommendations

The following recommendations are proposed to ensure a way forward to a sustainable financial future for Council:

- Start Community dialogue around a rate increase during the next Council term
- Review fee structures including discounts to rate payers.
- Introduce continuous improvement principles throughout Council, including addressing the culture
- Outsourcing where practical and where it supports financial sustainability principles
- Optimisation of the use of technology to enable reengineered processes
- Introduce procurement savings targets
- Review conditions of employment eg spread of hours
- Investigate energy management initiatives
- Rationalise assets where possible – consolidate facilities, better utilisation of facilities and sell off of surplus assets
- Cut services to reduce costs
- Review Pensioner deferral scheme and improved debtor management