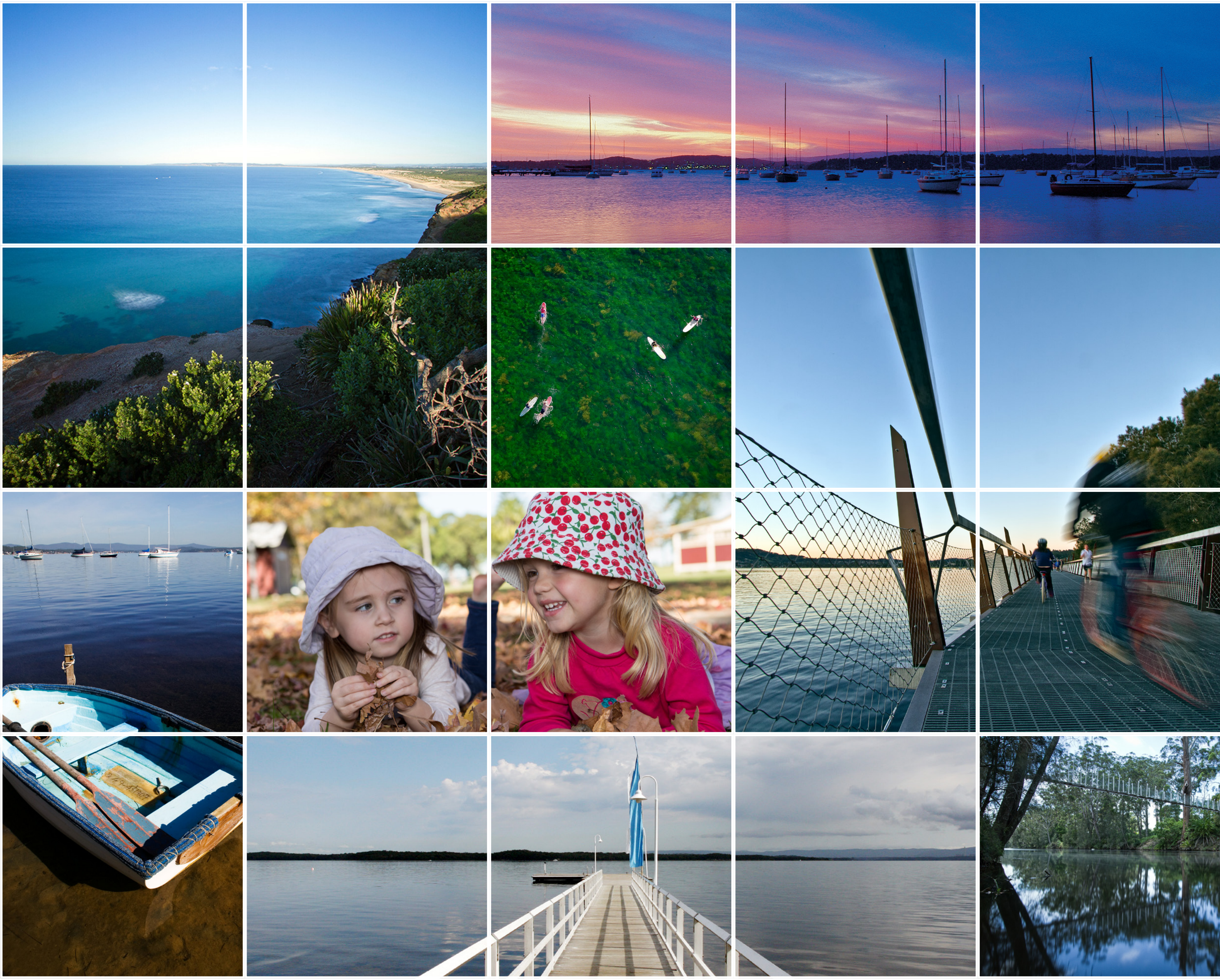
# Lake Macquarie City Council
## Our fit future



Submission in response to the
NSW Government's
Fit for the Future package

**June 2015**

Lake Macquarie City Council

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# Executive Summary

Lake Macquarie City Council is Fit for the Future (FFTF) as it has scale, strategic capacity and is able to meet or is improving in all seven financial sustainability criteria identified by the Office of Local Government (OLG) (Table E1).

Table E1 – Performance against IPART's assessment criteria (IPART 2015, Tables 3.3, 3.5 and 3.7)

| Criterion | OLG Benchmark | IPART Assessment Measure Regional Councils | Met/ Not Met |
|---|---|---|---|
| Operating Performance Ratio | ≥ 0 | Must meet within 5 years | Met |
| Own Source Revenue Ratio | ≥ 60% | Must meet within 5 years | Met |
| Building & Infrastructure Asset Renewal Ratio | > 100% | Meet or improve within 5 years | Met |
| Infrastructure Backlog Ratio (WDV method) | < 2% | Meet or improve/inform within 5 years | Met |
| Asset Maintenance Ratio | > 100% | Meet or improve/inform within 5 years | Met |
| Debt Service Ratio | 0 < x < 20% | Meet within 5 years | Met |
| Real Operating Expenditure per Capita | declining | Must demonstrate operational savings (net of IP&R supported service improvements) over 5 years | Met |

The Independent Local Government Review Panel (ILGRP) identified a merger of Lake Macquarie City Council (LMCC) and The City of Newcastle (TCoN) as one of a number of options for the Hunter. Both LMCC and TCoN have analysed this option and found it to be inferior to Improvement Proposals for both organisations.

Assessment suggests that a merger of LMCC and TCoN would cost $47 million during transition, lead to ongoing costs of some $28 million per annum (12.6% increase) for the ratepayers of Lake Macquarie. It would also diminish the region by reducing the capacity of both councils in both the short and long term, while creating a dramatic imbalance in the scale and capabilities of local councils.

LMCC has prepared an Improvement Proposal that addresses its infrastructure backlog and asset maintenance requirements, and is consistent with the expectations of the Lake Macquarie community.  The Improvement Proposal recognises the contribution that Lake Macquarie makes to the Hunter region.

The Improvement Proposals of both LMCC and TCoN will:

- strengthen each council by targeting improvements to meet their specific weaknesses;

- equitably allocate improvement costs to the ratepayers that will most benefit from them;
- allow each council to focus on the requirements of their unique communities;
- enhance the capacity of each council to effectively contribute to the state and the region; and
- continue to enhance the capacity of Hunter Councils Inc. and its member councils.

On 22 June 2015, LMCC resolved (15SP042) to submit this Improvement Proposal to IPART by 30 June 2015.

# 1 Scale and Capacity (see Attachment A for detailed response)

## 1.1 Scale

The population of Lake Macquarie City is currently 202,676. The population is expected to grow to 260,000 by 2030, putting it in the top 3% of NSW and top 7% of Australian LGAs.

LMCC has an asset base worth $2.3 billion, an annual budget of $287 million, and 996 FTE staff.

## 1.2 Capacity

A review of LMCC's performance against the 10 key elements of strategic capacity is provided in Table 1.

Table 1 –Summary evidence for LMCC's strategic capacity

| Element | LMCC's Response |
|---|---|
| More robust revenue base and increased discretionary spending | • financial sustainability rated as moderate (TCorp 2013), and is improving<br>• successful application to IPART for a seven-year special rate variation (LMCC 2012) |
| Scope to undertake new functions and major projects | • proven record of performance identifying emerging issues for the City and developing significant programs to address them |
| Ability to employ a wider range of skilled staff | • due to size and diversity of services, able to offer employment across all of the occupation categories identified by the ABS<br>• employer of choice within the region, through its commitment to its people and its recognised position as a local government leader |
| Knowledge, creativity and innovation | • strong record of harnessing staff expertise to develop creative and innovative improvements.<br>• many staff initiatives have resulted in service improvement and/or cost saving, have involved strong engagement with the community of Lake Macquarie, and have been recognised as best practice<br>• these initiatives were instrumental in 2012 AR Bluett award, 2014 Local Sustainability Award and 2015 NSW Asset Management Planning Award |
| Advanced skills in strategic planning and policy development | • developed first long-term Strategic Land Use Plan in 2000, which articulated core values of sustainability, equity, efficiency, and liveability<br>• developed first Community Strategic Plan in 2008, two years ahead of the Integrated Planning and Reporting Framework's first round<br>• developed sea level rise policy in 2008, a year ahead of the NSW Government |
| Effective regional collaboration | • major contributor to the activities of Hunter Councils Inc (an affiliation of 11 councils of the Hunter)<br>• the success of Hunter Councils has informed the Joint Organisations proposed in the FFTF package |
| Credibility for more effective advocacy | • reputation as a mature and responsible local government enhances credibility<br>• have the resources and depth of expertise to make meaningful submissions on a range of topics |
| Capable partner for State and Federal agencies | • strong record of collaboration with NSW and Australian governments<br>• specific projects include the Lake Macquarie Transport Interchange, Regional Football Facility, International Children's Games, and Lake Improvement Project |

| Element | LMCC's Response |
|---|---|
| Resources to cope with complex and unexpected change | • developed a range of KPIs that allow tracking of progress, response to challenges, and to remain resilient |
| High quality political and managerial leadership | • performance of LMCC in comparative data (Attachment B) indicates strength of political and managerial leadership<br>• high levels of level of community satisfaction with services |

## 1.3 Rationale for not supporting a merger with TCoN
**(see Section 3.5.2 and Attachment C for details)**

LMCC does not support a merger with TCoN on the basis that:

- Both Lake Macquarie and Newcastle have sufficient scale and capacity to stand alone;
- Lake Macquarie can demonstrate that it is already FFTF (see Section 4);
- Newcastle has a plan to become FFTF (Table 2 and TCoN's FFTF submission);
- The region is stronger with two large councils that have different, and complementary expertise; and
- The merger will create a weaker organisation (see Attachment C), and come at considerable expense to the residents of Lake Macquarie.

TCoN has also resolved to support an Improvement Proposal rather than a Merger Proposal for the reasons articulated in TCoN's FFTF submission.

Table 2 – TCoN assessment of financial performance with approved SRV and excluding proposed FFTF improvements (TCoN 2015)

| S3 SRV for Financial Sustainability & Revitalisation | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| For the year ended 30 June | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Operating Revenue | | 217,506 | 223,826 | 222,345 | 232,262 | 243,762 | 256,825 | 270,195 | 284,420 | 292,302 | 300,172 | 308,583 | 317,176 | 325,544 |
| Operating Expenses | | 230,911 | 223,072 | 229,930 | 240,740 | 246,519 | 253,526 | 259,698 | 266,731 | 280,873 | 286,617 | 292,330 | 299,111 | 306,117 |
| Operating Surplus (Deficit) | | (13,405) | 754 | (7,585) | (8,477) | (2,757) | 3,299 | 10,498 | 17,689 | 11,429 | 13,555 | 16,253 | 18,065 | 19,427 |
| Total Assets | | 1,548,321 | 1,577,799 | 1,573,947 | 1,722,759 | 1,723,416 | 1,729,586 | 1,742,739 | 1,762,870 | 1,965,718 | 1,977,124 | 1,994,607 | 2,015,268 | 2,037,602 |
| Total Liabilities | | 140,283 | 133,638 | 133,240 | 132,631 | 131,797 | 130,490 | 129,036 | 127,438 | 125,618 | 119,581 | 117,003 | 115,874 | 115,141 |
| Equity | | 1,408,038 | 1,444,161 | 1,440,708 | 1,590,128 | 1,591,619 | 1,599,096 | 1,613,703 | 1,635,432 | 1,840,099 | 1,857,543 | 1,877,604 | 1,899,394 | 1,922,461 |
| Borrowing | | 68,536 | 67,366 | 65,462 | 62,851 | 59,880 | 56,522 | 52,958 | 49,190 | 45,138 | 40,818 | 35,992 | 32,550 | 29,438 |
| Closing Investments & Cash | | 222,747 | 242,304 | 232,858 | 221,868 | 211,473 | 204,670 | 195,668 | 190,940 | 185,404 | 178,142 | 178,520 | 179,460 | 180,190 |
| | | | | | | | | | | | | | | |
| | Benchmark | F13 | F14 | F15 | F16 | F17 | F18 | F19 | F20 | F21 | F22 | F23 | F24 | F25 |
| Operating Position | | | | | | | | | | | | | | |
| Operating Surplus (Deficit) | Breakeven | (13,405) | 754 | (7,585) | (8,477) | (2,757) | 3,299 | 10,498 | 17,689 | 11,429 | 13,555 | 16,253 | 18,065 | 19,427 |
| Operating Surplus (Deficit) ex SRV & Airport | Breakeven | (21,678) | (6,186) | (15,063) | (16,448) | (11,249) | (5,749) | 858 | 7,414 | 851 | 2,664 | 5,038 | 6,517 | 7,536 |
| Operating Ratio | 0% or greater | -6.16% | 0.34% | -3.41% | -3.65% | -1.13% | 1.28% | 3.89% | 6.22% | 3.91% | 4.52% | 5.27% | 5.70% | 5.97% |
| Own Source Operating Revenue Ratio | > 60% | 79.16% | 83.86% | 84.94% | 86.04% | 86.84% | 87.29% | 87.88% | 88.47% | 88.59% | 88.79% | 88.90% | 89.03% | 89.29% |
| Infrastructure | | | | | | | | | | | | | | |
| Asset Backlog | | 97,680 | 90,438 | 95,181 | 99,172 | 90,034 | 75,584 | 59,455 | 41,943 | 39,032 | 31,260 | 26,151 | 20,712 | 14,990 |
| Building & Infrastructure Backlog Ratio | < 2% | 11.00% | 9.00% | 10.38% | 9.19% | 8.25% | 6.83% | 5.26% | 3.63% | 2.86% | 2.25% | 1.86% | 1.45% | 1.03% |
| Asset Maintenance Ratio | > 1X | 0.50 | 0.85 | 1.01 | 1.00 | 1.01 | 1.01 | 1.01 | 1.07 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 |
| Building & Infrastructure Renewal Ratio | > 1X | 0.31 | 0.50 | 0.84 | 1.15 | 1.16 | 1.27 | 1.30 | 1.30 | 1.10 | 1.06 | 1.00 | 1.01 | 1.01 |
| Capital Expenditure Ratio | > 1.1X | 0.79 | 0.97 | 1.43 | 1.48 | 1.43 | 1.46 | 1.51 | 1.56 | 1.39 | 1.38 | 1.35 | 1.38 | 1.41 |
| Borrowing | | | | | | | | | | | | | | |
| Debt Service Cover Ratio | > 2X | 5.17 | 4.23 | 5.83 | 6.27 | 7.01 | 7.76 | 8.89 | 10.06 | 10.08 | 10.49 | 10.66 | 14.19 | 16.11 |
| Interest Cover Ratio | > 4X | 8.77 | 10.96 | 9.83 | 10.25 | 12.33 | 14.80 | 18.03 | 21.83 | 23.93 | 27.47 | 32.53 | 37.14 | 42.16 |
| Liquidity | | | | | | | | | | | | | | |
| Cash Expense Cover Ratio | > 3 months | 1.63 | 3.96 | 3.82 | 3.70 | 3.71 | 3.67 | 3.67 | 3.65 | 3.61 | 3.63 | 3.64 | 3.64 | 3.64 |
| Unrestricted Current Ratio | > 1.5X | 1.97 | 2.24 | 2.36 | 2.24 | 2.12 | 2.03 | 1.94 | 1.87 | 1.80 | 1.82 | 1.82 | 1.80 | 1.78 |
| Reserves | | | | | | | | | | | | | | |
| Closing Investments & Cash | | 222,747 | 242,304 | 232,858 | 221,868 | 211,473 | 204,670 | 195,668 | 190,940 | 185,404 | 178,142 | 178,520 | 179,460 | 180,190 |
| Funding Surplus / (Deficit) | Surplus | 41,438 | 20,990 | (9,446) | (10,989) | (10,395) | (6,804) | (9,002) | (4,728) | (5,536) | (7,262) | 379 | 939 | 730 |

# 2 Lake Macquarie City Council's Current Position

## 2.1 About the Lake Macquarie Local Government Area

Lake Macquarie City is located in the Hunter region of NSW, approximately 150 km north of Sydney (Figure 1). The City has an area of 787.4 $km^2$. The centrepiece of the City, Lake Macquarie, is one of the largest coastal saltwater lagoons in Australia. The City boundary sensibly reflects the water catchment boundary, with 95% of the lake catchment within the City boundary.

Lake Macquarie was first inhabited by the Awabakal people more than 8,000 years ago. European settlement dates from 1826. Initially, timber production and farming dominated the local economy but coal mining, which began in the 1870s, soon dominated the local economy. Development in the south of the City in the early 1900s was aided by the construction of the railway line to Sydney.

The City's population grew most notably after the two World Wars, and steadily in between and since. It grew a modest 3.2% from 2006 to 2011; however, the workforce increased by 7.3% and 9.9% additional jobs were created in that period. The population is now more than 200,000, distributed in over 90 communities. The median household income is $1,117 per week. Approximately 40% of the population has tertiary or equivalent qualifications. A summary of key demographic data is provided in Table 3 and the ABS's snapshot of Lake Macquarie.

Table 3 – Population projections for Lake Macquarie

| Year | Population |
|---|---|
| 2011/12 | 198,598 |
| 2012/13 | 200,761 |
| 2013/14 | 202,676 |
| 2014/15 | 204,460 |
| 2015/16 | 206,259 |
| 2016/17 | 208,074 |
| 2017/18 | 209,905 |
| 2018/19 | 211,752 |
| 2019/20 | 213,616 |
| 2020/21 | 215,495 |
| 2021/22 | 217,392 |
| 2022/23 | 219,305 |
| 2023/24 | 221,235 |

Based on ABS (Mar 2015) 3218.0 Regional Population Growth, Australia, and projection of average population growth of 0.88% between 2006 and 2011 Census periods.
NB these projections differ from those provided in the OLG template

Job generation in the City's nine major commercial centres is heavily focused on knowledge and technology-based vocations. Prominent employment opportunities are in the health, community and social services area, with 29.6%, followed by hospitality and tourism (16.6%) and education and training (9.8%). The City has recently seen considerable growth in the development of commercial, retail and industrial buildings, particularly in the regional centre of Charlestown.

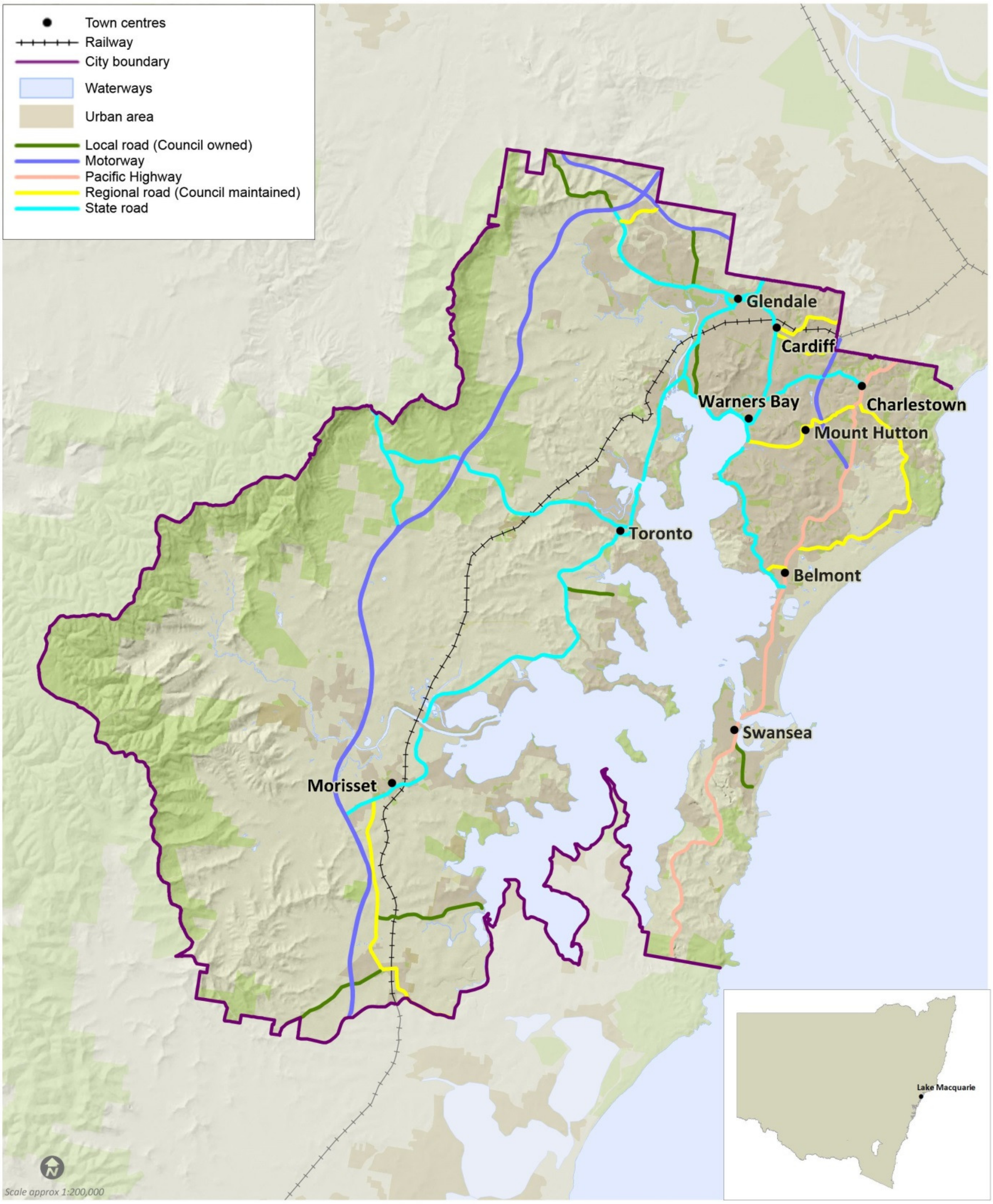


Figure 1 – Lake Macquarie Local Government Area

Local population growth will create the need for about 36,000 new dwellings and 12,200 new jobs by 2030. LMCC has developed thoroughly-researched plans to accommodate and support this growth, within the framework set by the Lower Hunter Regional Strategy (DoP 2006).

Lake Macquarie has emerged as a confident, self-sufficient city with its future in its own capable hands.

## 2.2 Key Challenges and Opportunities

The following SWOT analysis has been undertaken to help LMCC understand its current position, identify priorities and develop improvement actions.

| Factor | Aspect |
| --- | --- |
| **Strengths (internal)** | • Strong relationship between LMCC and its community, mature engagement process, community ownership of local issues and commitment to solving them<br>• Community focus on the environment consistent with natural values of City<br>• High level of community satisfaction with Council's current performance<br>• High degree of volunteer effort directed to assisting LMCC to deliver services<br>• Early adopter of the IP&R framework to help achieve LMCC's vision for the City<br>• Successful IPART application for rate variation that will see LMCC achieve financial sustainability<br>• Proven ability to manage change successfully<br>• Demonstrated willingness to collaborate (local, regional, state, national)<br>• Demonstrated ability to undertake work for other councils and government agencies<br>• Actively participates in an existing Joint Organisation (Hunter Councils) to secure economies of scale for purchasing, training, records storage, share best practices, and take a regional approach on many matters including tourism, filming approvals, and environmental strategy<br>• Participates with other regional councils in joint services (eg Hunter Resource Recovery recycling services, CapGemini information technology services)<br>• Current size gives LMCC good purchasing power, which is expected to increase over time<br>• Proven ability to deal with difficult issues (eg financial sustainability, waste management, sea level rise)<br>• Mature asset management system (ranked highest of 35 audited by DLG (2013) in NSW, and received 2015 NSW Asset Management Planning Award)<br>• Well established culture of continuous improvement<br>• Enthusiastic, well trained, customer focussed staff<br>• Able to recruit staff, through reputation as an employer of choice<br>• Commitment to staff development<br>• Proactive approach to managing future risks eg climate change, ageing population, population growth, employment generation and biodiversity conservation<br>• Alignment of rainfall catchment and LGA boundary to enable successful water quality management |

| Factor | Aspect |
| --- | --- |
| **Weaknesses (internal)** | • Requirement to duplicate infrastructure and services due to geography of the City (lake in the middle)<br>• Difficult to achieve improvement in efficiencies or service delivery due to current high degrees of efficiency and community satisfaction<br>• Community expectations that services will be delivered regardless of changes in circumstances beyond LMCC's control<br>• Limited capacity for LMCC to pursue revenue generating activities and mobilise funds held in reserve due to constraints imposed by the Local Government Act<br>• Availability of only "blunt tools", such as land use zoning, to encourage the desired urban settlement pattern<br>• Detailed planning of operations and maintenance work (DLG 2013 audit)<br>• Current infrastructure backlog |
| **Opportunities (external)** | • Expansion of service delivery capability eg training and staff development services<br>• Expansion of electronic services for the delivery of information, community engagement and requests for services following roll-out of national broadband<br>• Expansion of regional employment at Glendale following construction of the Lake Macquarie Transport Interchange<br>• Increased own source revenue and local employment as population expands |
| **Threats (external)** | • Other tiers of government changing policy settings, legislation, taxation and funding arrangements<br>• Rate capping and cost shifting<br>• Lack of development of regional infrastructure by NSW government agencies to support growing and ageing population<br>• Fluctuating (and unpredictable) market conditions (eg cash rates, lack of long-term infrastructure planning and consistent implementation of plans by other levels of government)<br>• Flood, bushfire, heat and vector borne disease risks due to climate change<br>• Legacy land contamination, particularly associated with the former Pasminco smelter<br>• Subdued regional economic outlook |

## 2.3 Performance against the Fit for the Future Benchmarks

Results for LMCC's current financial performance calculated using OLG's self-assessment tool are presented in Attachment D. Data used to calculate the results in the self-assessment tool (excluding those hard coded into the tool) are presented in Attachment E.

### 2.3.1 Sustainability

Based on its current Long Term Financial Plan (Attachment F), LMCC meets the FFTF sustainability benchmarks for operating performance and own source revenue (Table 4), and is projected to meet the benchmarks for building and infrastructure asset renewal in 2016/17.

The result for building and infrastructure asset renewal for the three-year average to 2013/14 is due to the low ratio in 2011/12 of 77.5%. In subsequent years (including 105.5% in 2012/13) the building and infrastructure asset renewal ratio has exceeded 100%. This trend is expected to continue to 2023/24 (Table 5).

LMCC's operating performance ratio is projected to be in deficit from 2014/15 to 2016/17, primarily due to external factors such as the freeze on the Federal Financial Assistance Grant and the fall in the cash rate reducing investment income. LMCC is projected to return to an operating surplus by 2017/18 and remain in surplus for the remainder of the out years (Table 5).

By 2019/20, all three sustainability benchmarks will be met (Table 4).

Table 4 – Three-year average FFTF sustainability criteria based on current Long Term Financial Plan

| Criterion | Benchmark | 2013/14* | Benchmark Achieved | 2016/17* | Benchmark Achieved | 2019-20* | OLG Benchmark Achieved | IPART Measure Achieved |
|---|---|---|---|---|---|---|---|---|
| Operating Performance Ratio | ≥ 0 | 0.014 | Yes | -0.010 | No | 0.001 | Yes | Yes |
| Own Source Revenue Ratio | ≥ 60% | 71.4% | Yes | 74.4% | Yes | 79.9% | Yes | Yes |
| Building & Infrastructure Asset Renewal Ratio | > 100% | 96.5% | No | 111.6% | Yes | 103.4% | Yes | Yes |

* average of trailing three years

Table 5 – Annual FFTF sustainability criteria based on current Long Term Financial Plan

| Criterion | Benchmark | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating Performance Ratio | ≥ 0 | 0.016 | -0.012 | -0.007 | -0.011 | 0.004 | 0.014 | 0.014 | 0.005 | 0.009 | 0.011 | 0.009 |
| Own Source Revenue Ratio | ≥ 60% | 70.2 | 70.8 | 75.9 | 76.5 | 79.3 | 80 | 80.3 | 80.5 | 80.7 | 80.9 | 81.1 |
| Building & Infrastructure Asset Renewal Ratio | > 100% | 106.4 | 108.3 | 115.4 | 111.2 | 105.3 | 101.1 | 104.6 | 102.3 | 101.9 | 106.5 | 104.1 |

### 2.3.2 Infrastructure and Service Management

Based on its current Long Term Financial Plan (Attachment F), LMCC meets the FFTF infrastructure and service management benchmark for debt service, but does not meet the infrastructure backlog and asset maintenance benchmarks (Table 6). The annual results for these three FFTF criteria are presented in Table 7.

LMCC reported an average infrastructure backlog ratio of 7.5% for the three-year average period to 30 June 2014. For the three-year period to 30 June 2017, this ratio is expected to decline to 5%. For the three-year period to 30 June 2020, the infrastructure backlog is expected to be 4.8%, which is greater than the benchmark of less than 2%.

While the OLG accounting guidance is that *'Written Down Value'* is the measure by which performance against this criterion is calculated, LMCC uses *'Replacement Cost'* as it considers this measure to more appropriately reflect commercial reality. Calculating the infrastructure backlog ratio using this measure, as recommended by LG Solutions and Local Government Finance Professionals (2014), would indicate a result of 4.16%, 2.72% and 2.65% for the three year periods to 2013/14, 2016/17 and 2019/20, respectively (Table 6).

The asset maintenance ratio for the three-year period to 30 June 2014 was 92.0% (Table 6), which is marginally short of the benchmark criterion of greater than 100%. In financial terms, this represents a shortfall in asset maintenance of $0.83 million. In its 2012 Special Rate Variation (SRV) application, LMCC requested, and the majority of the Lake Macquarie community supported, a rate increase that would have achieved an asset maintenance ratio of greater than 100% for each year from 2012/13 to the present. However, IPART's determination limited rate revenue to a lower level, noting:

> *"In making this decision, we recognise that the council will not be able to undertake the full allocation of expenditure on the purposes set out in its application, and will need to re-prioritise planned expenditures in future years."*
> *(IPART, 2012, p.3)*

Accordingly, LMCC re-prioritised its planned asset maintenance expenditure to a level consistent with IPART's determination, resulting in its current asset maintenance ratio of less than 100% (approximately 95.5% for all years from 2014/15) (Table 7). LMCC's projected performance for the forecast three-year period ending 30 June 2017 is 95.6% and for the three-year period to 30 June 2020 is 95.5% (Table 6). This level of maintenance is consistent with community expectations and IPART's advice (IPART 2015, p45) that an asset maintenance ratio of more than 100% may indicate inefficient allocation of resources through effectively 'gold plating' assets.

Lake Macquarie's debt service ratio is within the benchmark range for all years and all three-year averages. The debt service ratio is projected to increase from 4.39% in 2013/14 to 7.52% in 2023/24 (Table 7), as LMCC takes on more debt to reduce its infrastructure backlog.

By 2019/20, all three of IPART's infrastructure and service management performance measures will be met (Table 6).

Table 6 – Three-year average FFTF infrastructure and service management criteria based on current Long Term Financial Plan

| Criterion | Benchmark | 2013/14* | Benchmark Achieved | 2016/17* | Benchmark Achieved | 2019-20* | Benchmark Achieved | IPART Measure Achieved |
|---|---|---|---|---|---|---|---|---|
| Infrastructure Backlog Ratio (WDV method) | < 2% | 9.45% | No | 4.8% | No | 4.1% | No | Yes |
| Infrastructure Backlog Ratio (RC method) | <2%# | 4.16% | No | 2.72% | No | 2.65% | No | Yes |
| Asset Maintenance Ratio | > 100% | 92.0% | No | 95.6% | No | 95.5% | No | Yes |
| Debt Service Ratio | 0 < x < 20% | 4.5% | Yes | 5.4% | Yes | 6.4% | Yes | Yes |

* average of trailing three years
# assuming same benchmark as adopted by OLG for written down value calculation of infrastructure backlog
WDV is written down value and RC is replacement cost

Table 7 – Annual FFTF infrastructure and service management criteria based on current Long Term Financial Plan

| Criterion | Benchmark | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Infrastructure Backlog Ratio (WDV method) | < 2% | 7.54% | 5.05% | 4.84% | 4.54% | 4.54% | 3.99% | 3.63% | 3.13% | 3.92% | 3.74% | 3.62% |
| Infrastructure Backlog Ratio (RC method) | <2%# | 4.46% | 2.68% | 2.68% | 2.81% | 2.73% | 2.59% | 2.61% | 2.30% | 2.11% | 1.83% | 2.30% |
| Asset Maintenance Ratio | > 100% | 95.3% | 95.6% | 95.6% | 95.6% | 95.5% | 95.5% | 95.5% | 95.5% | 95.5% | 95.5% | 95.5% |
| Debt Service Ratio | 0 < x < 20% | 4.39% | 4.69% | 5.59% | 5.86% | 6.19% | 6.45% | 6.66% | 6.91% | 7.15% | 7.33% | 7.52% |

# assuming same benchmark as adopted by OLG for written down value calculation of infrastructure backlog
WDV is written down value and RC is replacement cost

### 2.3.3 Real Operating Expenditure per Capita:

Based on Lake Macquarie's current Long Term Financial Plan (Attachment F), its current three-year average real operating expenditure is $811 per capita (three year average to 2013/14) (Table 8) and declining. The annual data (Table 9) also indicate a longer-term downward trend in real operating expenditure.

By 2019/20, IPART's efficiency performance measure will be met (Table 8).

Table 8 – Three-year average FFTF efficiency criterion based on current Long Term Financial Plan

| Criterion | Benchmark | 2013/14* | Benchmark Achieved | 2016/17* | Benchmark Achieved | 2019-20* | Benchmark Achieved | IPART Measure Achieved |
|---|---|---|---|---|---|---|---|---|
| Real Operating Expenditure ($'000) per Capita | declining | 0.799 | N/A | 0.817 | No | 0.812 | Yes | Yes |

* average of trailing three years

NB: results slightly different to OLG template due to use of more recent population statistics

Table 9 – Annual FFTF efficiency criterion based on current Long Term Financial Plan

| Criterion | Benchmark | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real Operating Expenditure ($'000) per Capita | declining | 0.804 | 0.810 | 0.818 | 0.824 | 0.815 | 0.812 | 0.809 | 0.811 | 0.802 | 0.796 | 0.791 |

NB: results slightly different to OLG template due to use of more recent population statistics

# 3 How will Lake Macquarie City Council remain Fit for the Future?

## 3.1 Sustainability

### 3.1.1 Summary

LMCC has a long history of continuous improvement, sound asset management practices and community-informed decision-making around the provision of services.

LMCC recognised in 2008 that while it had a very strong and well-accepted strategic plan for future land use in the City, the connections between its own activities and how they were contributing to the vision of the community as documented in the City's strategic land use plan, Lifestyle 2020, were less clear.

In order to ensure that its own activities were consistent with, and contributing to, the goals of Lifestyle 2020, LMCC began preparing its first 10 year community plan. The plan was titled *"Lake Macquarie Community Plan 2008 – 2018 Aspirations of the people of Lake Macquarie".*

In order to be confident that LMCC was in as strong a position as possible to deliver the aspirations of the community, an organisation-wide service review commenced in 2009. In conducting this review of 65 services, LMCC considered the following questions:

- is the service necessary?
- should LMCC be delivering the service?
- can the service be delivered more effectively or efficiently?

The service review demonstrated that there were business improvement opportunities in a wide range of areas, and a number of reviews identified either significant savings or increased revenue opportunities, particularly in procurement and property management.

It became apparent that while the service review would ensure that LMCC delivered services efficiently, the identified improvements were insufficient to achieve financial sustainability or deliver the 'aspirations' of the community.

In response, LMCC embarked on the 'Securing our Future' project. The project involved working with the community to determine appropriate levels of service, and resulted in LMCC making an application to IPART in 2012 for a seven-year SRV. LMCC's application, which was supported by the majority of the Lake Macquarie community and unanimously adopted by the elected Council, was for a cumulative rise in general income of 73.24% over seven years. IPART approved an alternative amount of 57.48% over seven years.

In its determination IPART noted:

> *"The comparative productive indicators show that the council is relatively efficient compared with its peer group and NSW council's generally*".
>
> *"The council has systematically identified productivity improvement and expenditure savings, and implemented other cost containment and revenue-sourcing strategies. The comprehensive Service Review (2009-2011) identified 4.2m in ongoing savings. The council is committed to pursuing these approaches in the future".*
>
> *"It appears that significant reductions in expenditure are possible only if the scope and level of services to ratepayers are substantially reduced".*

The lower SRV increase than requested has allowed LMCC to maintain levels of service and reduce but not completely address its infrastructure backlog. Had IPART supported the requested SRV, LMCC would have been able to address both its current asset maintenance requirements and historical infrastructure backlog.

In 2014 LMCC recognised that having reviewed services in 2009-2011 and incorporated a wide range of improvements into department business plans, there was now an opportunity to progress the continual improvement across the organization at a process level as opposed to a service level. The process review project has commenced with 23 organisation-wide processes identified for review. Six of these reviews were completed in May 2015.

For many years, LMCC has adopted a sustainable approach to reviewing and delivering services. Through undertaking frequent reviews of its activities, including levels of service, LMCC has been able to change the way in which it delivers services to the community to either maintain or improve the level of service without significant increases in costs.

Each of these reviews has been undertaken in consultation with key facility users and the broader Lake Macquarie community. Each strategy demonstrates community acceptance of the documented levels of service and changes in facilities, including the decommissioning and selling of facilities.

The strategies that have been developed to date include:

- Pool Service Delivery Model (2008);
- Sportsfield Strategy 2009-2014 (revised version on public exhibition in June 2015);
- Community Facility Strategy (2011);
- Library Service Delivery Model (2011);
- Public Toilet Strategy (2011); and
- Lease Equity Model for community facilities and childcare centres (revised June 2014).

In order to reduce financial liability, LMCC has also been reviewing its land acquisition obligations. In 2007, a review of foreshore acquisition responsibilities resulted in removal of acquisition responsibilities from 'low priority' foreshore acquisition land, resulting in an acquisition cost saving of approximately $11 million. In June 2013, LMCC similarly removed its acquisition liability from land south of Swansea owned by Ausgrid, a saving of $11 million. On 9 March 2015, LMCC resolved to remove a further 22 parcels in the Morisset Planning District, saving a further $5.3 million.

There are a large number of other projects or initiatives that LMCC has implemented that demonstrate its willingness to tackle difficult and long term issues and to apply innovative and sustainable solutions to both complex and simple issues and services.

Examples of these initiatives include:

- Phase 1 of the Waste Management Strategy, which introduced a third bin for garden waste;
- User pays system for land use planning reviews;
- Operation of CiviLake (the civil engineering arm of LMCC) as a category one business;
- Creation and support of a range of arm's length organisations to run community facilities and/or provide services to the community including The Place Youth and Community Centre, Hunter Regional Sports Centre and Dantia (Lake Macquarie Economic Development Company); and
- Construction waste management strategy, which addressed waste disposal issues in Council's construction works program partly due to legacy lead contamination across the City.

### 3.1.2 Key Assumptions

All service reviews and service delivery strategies are currently developed and tested against four simple questions:

- will changes to services increase revenue to LMCC (i.e. are entrepreneurial)?
- will changes reduce LMCC expenditure or minimise increases in LMCC expenditure?
- will changes transfer responsibility for either service delivery or the cost of providing services to a third party?
- will the changes meet community expectations?

### 3.1.3 Key Sustainability Strategies

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| 1. Improve sustainability of waste services | Waste Strategy Phase 2<br>Removal of food waste from the domestic waste stream | Implementation complete by July 2016 | Operating Performance Ratio increases<br>Own Source Revenue Ratio increases<br>Building and Asset Renewal Ratio remains above 100%<br>Continued reduction in waste being transferred to landfill in the City. | Real Operating Expenditure improves | Costs subtracted to generate net benefit | Benefits to residential and business ratepayers through reduction in waste charges:<br>**2016/17**:$5,644,659<br>**2017/18**:$5,879,056<br>**2018/19**:$6,093,408<br>**2019/20**:$6,309,496<br>**2020/21**:$6,532,000<br>**2021/22**:$6,762,094<br>**2022/23**:$7,000,241<br>**2023/24**:$7,246,764 | Construction delayed. Contractor unable to find markets for product. | Savings are difference between gate fee for disposal to landfill and green waste processing facility.<br>Tonnages food waste only.<br>Assume 5% of benefits are to General Fund, remainder to Domestic Waste Management Charge. |
| 2. Improve sustainability of swim centre services | Pool Service Delivery Model continued implementation. | a) Full integration of new entry system and booking system by December 2015 | Operating Performance Ratio increases Own Source Revenue Ratio increases Building and Asset Renewal Ratio remains above 100% | Real Operating Expenditure improves | $27,800 capital costs in 2015 already incorporated in LTFP.<br>$6,000 additional annual operating costs from 2016 onwards, already incorporated in LTFP | Increased capacity to ensure no increase in the rate of subsidy by LMCC to the provision of swim centre services through increased ability to ensure appropriate level of resourcing via management and associated analytics of: membership, bookings programs | Staff and patron acceptance and compliance with the introduction of system and associated process changes. This is a low risk | Council's new corporate systems architecture (expected to be deployed in 2017) will be compatible with swim centre entry system. Data collected by entry management system will |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | | | | and kiosk inventory. | | yield business insights leading to more sustainable management of swim centres. |
| | | b) Implementation of new knowledge management and business tracking tool by June 2015 | Operating Performance Ratio increases<br>Own Source Revenue Ratio increases<br>Building and Asset Renewal Ratio remains above 100% | Real Operating Expenditure improves | No additional direct costs. The indirect cost of staff time spent on this initiative is already included in expenditure forecasts in Council's Long Term Financial Plan | Enhanced management decision-making capability, enabling better decisions, for example, regarding staffing levels, program development and marketing.<br>Ongoing productivity gains of 2% per annum commencing 2016/17.<br><br>Proportion of swim centre operating expenses funded by swim centre revenue increases from 45% to 48.2% from 2017. | Expected benefits not fully realised, due to staff culture not supporting continuous improvement.<br>Risk rating = low (likelihood = unlikely; consequence = major) | Council's new corporate systems architecture (expected to be deployed in 2017) will continue to be compatible with swim centre entry system and other key data sources. |
| | | c) Implementation of new fees and charges structure by 2017 | Operating Performance Ratio increases<br><br>Own Source Revenue Ratio increases<br><br>Building and | Debt Service Ratio remains in benchmark range of greater than 0% and less than or equal to 20%.<br><br>Real Operating Expenditure | No additional direct costs. The indirect cost of staff time spent on this initiative is already included in expenditure forecasts in | Revenue increases by $66,500 per annum from 2016<br>Greater equity in fees across leisure services. | Expected revenue gains not achieved, due to one or more of the following factors:<br>• Growth in demand for leisure | 5% increase in total centre income on the 5 year average<br>New programs set a minimum class number to ensure |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | Asset Renewal Ratio remains above 100% | improves | Council's LTFP | | services less than expected<br>• Other service providers' offerings provide better value to customers<br>• Implementation of new fees & charges structure delayed<br>• Design of new fees & charges structure is sub-optimal<br>• Promotion of new offerings is not adequate<br>• Unforseen changes to alternative service providers in terms of entry cost reduction<br>• Weather variations at seasonal centres | 100% cost recovery<br>Stated community interest in recent consultation forums and feedback channels is realised in participation<br>Detail from the new entry management system continues to provide higher level of usage details<br>Over satisfaction rates with centre users remains at current high level (95%)<br>Continued program innovation and review in line with customer feedback and demand |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | d) New admin manage-ment structure and operational review by 2015/16 | Operating Performance Ratio increases Own Source<br><br>Revenue Ratio increases Building and Asset Renewal Ratio remains above 100%<br><br>Greater focus on the business, business improvements and marketing the services. | Real Operating Expenditure improves | Introduction of Business Services Officer at Grade 15 is equivalent to $89,870<br><br>Review of casual and vacant permanent operational positions saving of $144,000 | Increase in revenue via focussed officer attention on various initiatives.<br><br>Operational efficiencies through the use of network rosters for 4 swim centres.<br><br>Development of specific training and development plan to meet business challenges.<br><br>Greater job security & permanency and reduction in casual loading | Implementation of new management structure delayed due to union obstructionism.<br><br>Additional industrial relations costs (e.g. legal representation, IRC hearings, etc) incurred during introduction of new management structure.<br><br>Expected annual reduction in employee costs not realised.<br><br>Additional industrial relations costs (e.g. legal representation, IRC hearings, etc) incurred during introduction of new management structure. | Costs are based on approved administration structure which does not include Manager Leisure Services which is currently temporary role.<br><br>Continued rate of improvement and associated performance result is maintained.<br><br>Costs associated with new staff member is recovered via continued success of program introduction and review.<br><br>Significant reduction in casual hours will be replaced with |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | permanent & seasonally temporary positions. |
| | | e) Water quality control plant upgrades complete by 2018 | Operating Performance Ratio increases<br>Own Source Revenue Ratio increases<br>Building and Asset Renewal Ratio remains above 100% | Real Operating Expenditure improves<br>Asset Maintenance Ratio improves<br>Debt Service Ratio remains in benchmark range of greater than 0% and less than or equal to 20%. | Capital costs already included in Long Term Financial Plan:<br>• **2014/15:** $1.85M<br>• **2015/16:** $1.97M<br>• **2016/17**: $2.02M<br>• **2017/18:** $1.32M | Improved water quality<br>Ongoing utility cost savings of $34,300 per annum (compared to business as usual) from 2018. | Delays to individual projects due to unforseen latent conditions at ageing facilities. (e.g. unknown problems with old subsurface pipework). | Utility prices increase in accordance with latest revision of Long Term Financial Plan. |
| 3. Sustainable Family Day Care (FDC) Business Model | Recent changes to the funding available for FDC services has resulted in LMFDC losing over $300,000 per annum in Federal Funding.<br><br>LMCC has reviewed the service and the business model and has developed a three year plan which will increase the | FDC services financially sustainable by July 2017 | Operating Performance Ratio increases<br>Own Source Revenue Ratio increases<br>Building and Asset Renewal Ratio remains above 100% | Real Operating Expenditure declines<br>Debt Service Ratio remains in benchmark range of greater than 0% and less than or equal to 20%. | Additional operational expenditure of:<br>**2015/16** : $181,364<br>**2016/17**: $50,545 | Creation of a wholly sustainable and resilient family day care service with minimum dependency of grants and funding from other levels of Government and therefore also able to withstand changes and fluctuations in this funding. | Revenue targets not achieved, if additional educators not recruited. (Risk rating = Low. Possible Likelihood x Moderate consequence)<br>Further changes to legislation and/or funding | Increase in Educator numbers and associated FTE of 55 in 2015/2016 and 35 in 2016/2017<br>Annual increase in administration levy<br>Operating costs increase with CPI |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | child care places available in the City and create sufficient income to make the service independently sustainable. | | | | | | | |
| 4. Sustainable operation of tennis courts | New lease/ licence arrangements with coaches operating businesses on LMCC tennis courts, which include annual contributions to asset replacement costs for each facility. | New lease/ licence arrangements in place for 25% of tennis courts by June 2015 | Operating Performance Ratio increases<br><br>Own Source Revenue Ratio increases<br><br>Building and Asset Renewal Ratio remains above 100% | Infrastructure Backlog Ratio reduces<br><br>Asset Maintenance Ratio increases<br><br>Debt Service Ratio remains in benchmark range<br><br>Real Operating Expenditure reduces | Nil | Capital revenue increases by $30,000 per annum from **2015/16** onwards.<br><br>Tennis court capital revenue reflects asset lifecycle costs, will be used to fund asset replacement.<br><br>Maintenance the responsibility of lessee or operating committee. Council's operating expenditure reduces by $5,000 per annum from **2015/16**.<br><br>Increased community ownership of tennis court assets.<br><br>Greater use of tennis courts | Lessees default on lease due to declining attendance. | Lessees are able to maintain existing tennis facility usage |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| 5. Sustainable Surf Clubs | Develop & implement business plans for all surf clubs to make their operations self-sustaining<br><br>Make surf club operators responsible for sourcing all operating costs, then redirect the $60,000 per annum LMCC spends operating & maintaining surf clubs into improving the facilities from 2018. | Sustainable business plans prepared for all four Surf Club facilities by 2017. | Operating Performance Ratio increases<br><br>Own Source Revenue Ratio increases<br><br>Building and Asset Renewal Ratio remains above 100%<br><br>Surf Clubs buildings will be self-sustaining.<br><br>Income generated from greater casual use of the clubs; café's restaurants and functions will increase the funds available to maintain and improve the facilities, enabling better amenities for users. | Infrastructure Backlog Ratio reduces<br><br>Asset Maintenance Ratio increases<br><br>Debt Service Ratio remains in benchmark range<br><br>Real Operating Expenditure reduces | Capital expenditure increases by $60,000 per annum from **2017/18**. | Operating expenditure reduces by $60,000 per annum from **2017/18**.<br><br>Improved amenity for community members, including Surf Clubs' members.<br><br>Asset service levels improve.<br><br>Responsibility for maintenance delegated to users.<br><br>Additional source of funds for asset replacement. | Benefits delayed due to clubs disagreeing with the proposal.<br><br>Elected Council does not endorse this approach.<br><br>Further restrictions imposed by State agencies on the way Surf Clubs on Crown Land can collect revenue. | Surf Clubs support the proposal and work with LMCC in delivering the sustainability outcomes.<br><br>Assistance is provided by Hunter Branch in realising the objectives of the initiative.<br><br>Surf Clubs do not attempt to renegotiate current lease provisions. |
| 6. Ensure Council's workforce is sustainable | E2E Traineeship Program | A combined total of 95 trainees, apprentices and cadets employed by March 2018, without an increase in | Operating Performance Ratio increases | Real Operating Expenditure reduces | No additional direct costs.<br><br>Staff time involved in managing this initiative to be funded using existing forecast operational | Continue providing current levels of service, despite 25% of its current workforce due to retire by 2025.<br><br>$60,000 reduction in operational | Fewer apprentices, cadets & trainees employed due to forced amalgamation with Newcastle City Council, | Staff turnover rates remain within the range observed in recent years, with 70-120 employees leaving each |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | staff numbers.<br><br>30-35 additional skilled workers entering the Hunter region's workforce each year from 2018. | | | expenditure. | expenditure in **2015/16**, compared to business as usual.<br><br>$120,000 reduction in operational expenditure in **2016/17**, compared to business as usual.<br><br>Ongoing reduction in operational expenditure of $175,000 per annum from **2017/18** (compared to business as usual). | after which most job vacancies would be filled by redeployment of staff that would otherwise be made redundant. | year.<br><br>Approximately 50% of positions vacated each year are suitable for conversion to an apprenticeship traineeship or cadetship. |
| 7. Ensure statutory obligations are adequately met | Review indexation of contributions to NSW Fire and Rescue | Advice of the annual statutory contribution by Ministry of Police and Emergency Services (received in approximately January each year) | Reduction in indexation from 5% to CPI (2.6%) | Operating Performance Ratio improves | Nil | Savings of:<br><br>**2015/16**: $389,565<br><br>**2016/17**: $490,060<br><br>**2017/18**: $597,687<br><br>**2018/19**: $721,857<br><br>**2019/20**: $836,003<br><br>**2020/21**: $967,581<br><br>**2021/22**:$1,108,072<br><br>**2022/23**:$1,141,954<br><br>**2023/24**:$1,464,504 | Unknown 'new' capital works undertaken by NSW Fire and Rescue, increase in plant and resources allocated to RFS and SES and change to legislative contribution rates.<br>Future contributions do not reflect 2014/15 actual contributions | That the contribution will increase by CPI in the absence of any known changes to operations, being capital or operational by any of the agencies |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| 8. Construction waste management | Minimise waste generation<br><br>Identify alternative reuse options<br><br>Achieve net environmental benefit | Complete construction of Sustainable Resource Centre by 2016<br><br>Obtain consent for quarry rehabilitation by 2015 | Reduce waste to landfill<br><br>Reduce consumption of raw materials | Operating Performance Ratio improves | Approvals for quarry rehabilitation of $70,000 in 2015/16 | Saving in landfill costs of $408,187 per annum<br><br>Savings in raw materials of $172,800 per annum<br><br>Environmental benefit from quarry rehabilitation (not quantified) | Changes to waste regulation<br>Failure to obtain consent for quarry rehabilitation<br>Changes to LMCC waste profile | All of construction waste disposal costs are General Fund<br><br>2,000 tonnes per annum are diverted from landfill<br><br>Does not allow for future increases in Waste Levy, which would increase savings<br><br>Raw material savings of $3.84/tonne are achieved on annual consumption of 45,000 tonnes |

## 3.2 Infrastructure and Service Management

### 3.2.1 Summary

LMCC will leverage its already thriving culture of customer-focused performance improvement to implement strategies to meet the NSW Government's FFTF infrastructure and service management benchmarks (see Section 4.1). The level of debt that LMCC will take on to address its infrastructure backlog effectively balances intergenerational benefits from proposed capital works, with its capacity to manage short term cash flow.

The reduction in infrastructure backlog will be achieved through modest borrowings. In practice, this will mean sourcing highly competitive loan terms and borrowing rates, with a goal of achieving savings at least as favourable as those proposed through the planned TCorp borrowing facility to be made available to FFTF councils (see efficiency improvement no. 9 in Section 3.3.3).

Reducing the infrastructure backlog will also involve deploying existing organisational capabilities to manage increases in capital asset renewal works. LMCC will use its rigorous planning, program management, and project management capability to ensure timely completion of investigation, design and construction work for more than $9 million worth of additional renewals in 2019/20, more than $3.5 million of additional renewals in 2022/23, and almost $4 million of additional renewals in 2024/25. These renewals will primarily involve roads, bridges, buildings and open space assets. LMCC routinely manages capital renewal works programs of $45-$50 million per annum, alongside new capital works programs of similar size. Additional works proposed to reduce the infrastructure backlog represent increases of approximately 5-10% to planned capital works in 2019/20, 2022/23 and 2024/25. LMCC already manages similar variations in the size of annual capital works programs. This, together with the minimum of three years' lead-time for additional backlog reduction works, will enable LMCC to deliver the additional works effectively.

Similarly, the proposed additional asset maintenance works commencing in 2019/20 represent an increase of approximately 4.5% on asset maintenance works already planned for that period. The required additional maintenance works will primarily be to road and transport assets, drainage infrastructure, open space assets and community buildings. That LMCC expects to be in a position to increase asset maintenance by an average of about $930,000 per annum for the period from 2019/20 to 2023/24, without further increases in rate revenue, attests to its ability to control costs and continuously improve service efficiency. LMCC's capacity in asset management has been independently reviewed by the then Division of Local Government (2013) and found to be the best of the 35 NSW councils audited.

### 3.2.2 Key Assumptions

Infrastructure and services management strategies outlined here are predicated on the following assumptions:

- Costs will increase in line with the Consumer Price Index, which in turn will increase by an average of 2.6% per annum, consistent with historical trends;
- Rate income will increase until 2018/19 in accordance with the SRV determined by IPART in 2012;
- From 2019/20 onwards, rate income will increase in accordance with an average rate peg of 3% per annum;
- Pensioner rate rebates will continue to grow at 1% per annum. Although this is lower than the expected growth rate of aged community residents, it is consistent with

historical trends, possibly due to increases in the proportion of self-funded retirees, and more rigorous management of eligibility for pensioner fringe benefits by Centrelink;

- Earnings on Council's investments will be in line with the forecasts of approximately 4.23% to 6.32% per annum included in the Long Term Financial Plan, which is conservative in comparison to historical performance of Council's investments;
- The number of rateable properties within Lake Macquarie City will increase by an average of 400 per year, generating $250,000 in additional rate income per year;
- Financial Assistance Grants will remain frozen until 2017/18, and resume increasing at an average rate of 2.6% per annum from 2018/19 onwards
- Income from non-statutory fees and charges will increase at an average rate of 5% per annum;
- The cost of Council's contributions to local RFS and SES increases at an average rate of 5.0% per annum;
- The elected Council will approve loan borrowings already outlined in the Long Term Financial Plan, as well as borrowings outlined below, as part of each annual Operational Plan and Budget;
- Salaries and wages will increase by 2.8% from 2016/17 (in accordance with the relevant State award);
- Electricity and gas utilities costs will increase by 2.0% per annum, and water utilities costs will increase by 1.97% per annum, based on Australian Energy Regulator and IPART determinations to 2018-19 and 2016-17, respectively;
- Street lighting operations and maintenance costs will increase by 3% per annum to 2018-19, based on recent Australian Energy Regulator determination, and 5% per annum thereafter ;
- Materials costs will increase at an average of 2.3% per annum, in line with average increases over the last 5 years;
- Insurance costs will increase at an average of 3% per annum for professional indemnity, public liability, and 5% for all other insurances;
- Plant hire costs will increase in accordance with increases in depreciation, and to a lesser extent, by assumed increases in CPI, insurance, labour, materials, etc.;
- State and Federal governments refrain from further cost shifting to local government, which is inconsistent with historical trends; and
- State and Federal governments refrain from imposing additional administrative burdens that detrimentally affect the costs of delivering local government infrastructure and services, which is inconsistent with historical trends.

### 3.2.3 Key Infrastructure and Service Management Improvement Strategies

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| 1. Reduce Infrastructure Backlog Ratio to meet Fit for the Future benchmark by 2019/20 | a) Continue implementing existing strategies until the end of 2018/19<br><br>b) Beginning in 2016/17, increase borrowings to fund additional asset renewal works. The following schedule indicates proposed additional new loans:<br>• **2016/17**: $473,000<br>• **2017/18**: $473,000<br>• **2018/19**: $0<br>• **2019/20**: $8.505M<br>• **2020/21**: $182,000<br>• **2021/22**: $182,000<br>• **2022/23**: $3.463M<br>• **2023/24**: $196,000 | **2017/18:** Engineering investigation & detailed design work complete for additional asset renewal works in 2019/20<br><br>**2019/20**: $8.51M worth of additional asset renewal works complete<br><br>**2019/20**: Infrastructure Backlog Ratio reduces.<br><br>**2021/22**: Engineering investigation & detailed design work complete for additional asset renewal works in 2022/23<br><br>**2022/23**: $3.63M worth of additional asset renewal works | a) Infrastructure backlog ratio reduced<br><br>b) Infrastructure backlog ratio reduced<br><br>c) Upward trend in community satisfaction with infrastructure assets (especially roads, pathways & open space assets) from 2019/20 onwards | Operating Performance Ratio (three year average) will remain below breakeven until 2017/18, but will be greater than breakeven – and will remain so - from 2018/19 onwards.<br><br>Building and Infrastructure Asset Renewals Ratio will improve.<br><br>Debt Service Ratio will increase marginally, but remain well within the Fit for the Future benchmark range<br><br>Real operating expenditure per capita will exhibit a downward | **2017/18:** $40,000 additional interest costs and $24,000 additional principal loan repayments<br><br>**2018/19**: $77,000 additional interest cost and $47,000 additional principal loan repayments<br><br>**2019/20**: $73,000 additional interest cost and $47,000 additional principal loan repayments<br><br>**2020/21**: $803,000 additional interest cost and $473,000 additional principal loan repayments<br><br>**2021/22**: $482,000 | No need to seek further rate increases to ensure the City's key infrastructure is sustainably renewed.<br><br>Inter-generational equity maintained with respect to infrastructure renewal costs. | Proposed additional asset renewal works delayed, due to a shortage of appropriately skilled engineering personnel. Such shortages arose during past mining and construction booms. However, less likely to occur again in foreseeable future. Risk controls: multiple programs to demonstrate LMCC's attractiveness as an employer to local engineering students, e.g. Student Scholar program, in which | Additional new loans taken to reduce the infrastructure backlog will have terms of 20 years, with twice-yearly repayments, and variable interest rates consistent with interest rate forecasts used to develop the current Long Term Financial Plan.<br><br>Planning and design costs comprise 10% of the cost of additional asset renewal works. Planning and design for additional asset renewals will be undertaken over two years preceding physical works.<br><br>Soil contamination affecting additional renewal works is consistent with contamination levels found at |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | • **2024/25**: $3.519M<br><br>c) Complete additional asset renewal works in 2019/20, 2022/23 and 2024/25 | complete<br><br>**2023/24**: Engineering investigation & detailed design work completed for additional asset renewal works in 2024/25<br><br>**2024/25**: $3.91M worth of additional asset renewal works complete | | trend between 2014/15 and 2019/20, as well as for the period 2020/21 to 2024/25. | additional interest cost and $777,000 additional principal loan repayments<br><br>**2022/23**: $491,000 additional interest cost and $751,000 additional principal loan repayments<br><br>**2023/24**: $468,000 additional interest cost and $1.01M additional principal loan repayments<br><br>**2024/25**: $674,000 additional interest cost and $965,000 additional principal loan repayments | | Engineering team hosts five engineering students per year; and Education to Employment program, which will increase the number of engineering cadets employed in the coming years. | other locations across the City in recent years. Thus waste disposal costs associated with asset renewal works will be consistent with those incurred in recent years.<br><br>Asbestos in LMCC buildings has been adequately characterised. Thus waste disposal costs associated with asset renewal works will be consistent with asbestos known to be present in LMCC buildings. This is a reasonable assumption given that Council's buildings have undergone detailed inspections, with a focus on identifying potential asbestos containing materials in recent years. |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| 2. Increase Asset Maintenance Ratio to meet the Fit for the Future benchmark by 2019/20 | a) Continue implement-ing existing strategies until the end of 2018/19<br><br>b) In 2019/20, increase asset mainten-ance expendit-ure to achieve a 100% Asset Mainten-ance Ratio<br><br>c) Continue this additional mainte-nance expendi-ture, indexed in line with other asset maint-enance expendi-ture, for each year after 2019/20 to ensure the | **2018/19:** Preparatory staff recruitment processes and plant & equipment procurement completed to enable additional maintenance works from 2019/20 onwards<br><br>**2019/20**: Increased asset maintenance commences<br><br>**2019/20**: Asset maintenance ratio increases to 100%, and is maintained at that level | a) Asset maintenance ratio increased<br><br>b) Asset maintenance ratio remains at 100%<br><br>c) Upward trend in community satisfaction with infrastructure assets (especially buildings, public trees, pathways & traffic facilities) from 2019/20 onwards | Operating Performance Ratio (three-year average) will remain below breakeven until 2017/18, but will be greater than breakeven – and will remain so - from 2018/19 onwards.<br><br>Debt Service Ratio will increase marginally, but remain well within the Fit for the Future benchmark range<br><br>Real operating expenditure per capita will exhibit a downward trend between 2014/15 and 2019/20, as well as for the period 2020/21 to 2024/25. | Additional operating costs for additional asset maintenance work as follows:<br><br>**2019/20**: $878,000<br><br>**2020/21**: $904,000<br><br>**2021/22**: $931,000<br><br>**2022/23**: $959,000<br><br>**2023/24**: $988,000<br><br>**2024/25**: $1,018,000 | Potential for future infrastructure backlogs avoided. | The cost of required annual maintenance works increases faster than anticipated in the LTFP, due to unforeseen macro-economic turbulence, e.g. oil shocks, severe recession, or changes in state or federal government policy. This presents a medium risk. Continuation of prudent investment management is expected to mean modest cash reserves are available to help mitigate the impacts of macro-economic turbulence on Council's ability to deliver infrastructure and services as forecast. | Additional plant & equipment purchases to enable additional maintenance will not exceed $285,000 (2019 dollars). This is consistent with recent plant & equipment purchases to support asset maintenance services. |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | Asset Maintenance Ratio remains at 100% | | | | | | | |
| 3. Maintain Debt Service Ratio within the Fit For the Future Benchmark range | a) Continue modelling the impact of all decisions relating to borrowings on forecast financial performance ratios as when developing recommend-dations for the elected LMCC regarding loan borrowings.<br><br>b) Continue refraining from recom-mending new borrowings that would increase the Debt Service Ratio above 20%. | **2024/25**: Debt Service Ratio reaches approximately 8.3%. No additional new borrowings are required to maintain low Infrastructure Backlog Ratio | a) Debt Service Ratio remains within Fit for the Future benchmark range<br><br>b) Upward trend in community satisfaction with infrastructure assets and services from 2019/20 onwards | As above | No direct financial costs. This initiative can be implemented using staff time already incorporated into the Long Term Financial Plan | Debt service expenditure maintained at a low enough level to sufficient cash flows for LMCC to achieve continued strategic flexibility in combating threats and taking advantage of opportunities in its operating environment. | The magnitude and speed of interest rate increases is greater than anticipated, causing the Debt Service Ratio to exceed 20%. This is not a credible risk. Although it is possible that interest rates could increase more than anticipated, it is highly unlikely that such increases would cause Council's Debt Service Ratio to exceed 20%, given the current DSR and proposed levels of borrowing. | Interest rates payable on Council's borrowings will increase approximately linearly to 8.28%p.a. by 2016/17, then increase approximately linearly from there to 8.47% per annum by 2019/20, then increase to 8.71% by 2020/21, then stabilise around 8.71%. These assumptions were developed in consultation with Council's professional financial advisors, Prudential Investment Company of Australia (PICA) |

## 3.3 Efficiency Strategies

### 3.3.1 Summary

As established in Section 3.1, continually striving to provide better value to local communities is part of the fabric of Lake Macquarie City Council's operations. In making its determination for a seven-year rate variation in 2012, IPART acknowledged Council's efficiency and the results achieved through continuous improvement initiatives.

Since 2013/14, LMCC has formalised its commitment to the Lake Macquarie community in relation to our continuous improvement efforts. The following strategy and action is included in Council's Operational Plan and progress is reported quarterly:

*Strategy 6.5.1 – Systems to manage workforce management, risks and audits, continuous improvement, workplace health and safety, and corporate reporting are implemented and operational.*

*Action 6.5.1.1 – Continuous improvement activities included in all departmental business plans.*

At any time, multiple initiatives are underway to improve Council's ability to meet community expectations. For example, six multidisciplinary staff teams have recently (May 2015) completed reviews of key internal business processes for e-services, mobile computing, procurement, cross-unit collaboration, correspondence management, and corporate planning and budgeting. These process reviews had identified improvements such as procurement, mobile technology, alignment of planning and budgeting cycles, which will be implemented over the next six months. Another example is Council's partnership with community groups and volunteers to maintain community facilities. The delegated asset management responsibilities incorporated in these partnerships represent several million dollars of avoided operating expenses every year, and are vital to the sustainability of ongoing improvement strategies.

The cumulative benefits of past and current efficiency initiatives have contributed to LMCC meeting the FFTF real operating expenditure benchmark (a decrease in real operating expenditure per capita over time). Planned future efficiency initiatives will contribute to LMCC maintaining this position.

LMCC is typically conservative in its annual financial projections and tightly controls costs throughout the year. This discipline, combined with ongoing innovation and improvement programs, has resulted in expenditure substantially less than forecast over the last three years (Table 10).

Table 10 – Budget projections versus audited financial statements 2011/12 to 2013/14

| Variable | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|
| **Budgeted net operating results ($'000)** | (18,203) | (17,064) | (8,007) |
| **Actual net operating result ($'000)** | (3,854) | 528 | (2,530) |
| **Difference ($'000)** | 14,349 | 17,592 | 5,477 |

LMCC proposes to develop a cash management strategy to assess opportunities to improve the way it manages its liquid assets, and revise the assumptions in the Long Term Financial Plan to reflect changes in the labour market, and the cost of goods and services. As part of the development of this strategy, LMCC will seek Ministerial approval to utilise externally restricted reserves more effectively to minimise borrowing costs and maximise delivery of capital works.

Many of the efficiency measures included in this section are categorised as “cost avoidance” measures and process efficiencies that in themselves do not directly translate to a tangible reduction in operating costs. That said, these measures are a clear demonstration of LMCC’s active commitment to identifying and implementing improvements wherever they exist, and while not directly reducing operating expenditures, they are effectively contributing to the constraint in the growth of our operating costs. LMCC’s culture of efficiency is reflected in its longstanding strong performance against local government efficiency measures, as explained in Attachments A and B.

### 3.3.2 Key Assumptions

In determining its Real Operating Expenditure against the nominated benchmark, the following assumptions have been adopted:

- Australian Bureau of Statistics projections have been used to estimate population growth;
- Staff productivity gains are realised through natural attrition;
- LMCC maintains its culture of continual improvement and regional collaboration; and
- LMCC is not obliged to bear additional costs to assist other councils to meet FFTF criteria.

### 3.3.3 Key Efficiency Strategies

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| 1. Identify and implement continuous improvement initiatives aimed at delivering operational savings and/or process efficiencies. | Undertake a program of cross-functional business process reviews | The following reviews completed, including business cases and implementation programs, by end June 2015:<br><br>Mobile Technology Management<br><br>Correspondence and Service Requests<br><br>E-Services for Internal and External Customers<br><br>Corporate and Budget Planning Alignment<br><br>Cross-unit Collaboration<br><br>Procurement | Real Operating Expenditure decreases by from FY 2016. | Operating Performance Ratio increases. | No direct costs (review conducted in-house) | Productivity improvements equivalent to 1800 hours of staff time each year from 2016. | Expected benefits not achieved due to large-scale organisational disruption following forced amalgamation with TCoN. | No changes to NSW's Integrated Planning and Reporting Framework affecting the processes used to prepare the annual Operational Plan & Budget.<br><br>Council's corporate information systems provider (CapGemini) continues to deliver systems enhancements within similar timeframes and costs as in recent years. |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. Identify and implement savings and/or process improve-ments in the procurement of goods and services. | a) Establish and implement a Preferred Supplier Manage-ment System<br><br>b) Implement Decision-Max Contract Manage-ment System<br><br>c) Continue program of strategic category manage-ment | a) System implement-ted by end June 2015<br><br>b) System implement-ted by end June 2015<br><br>c) Category plans developed and implement-ted as the opportunity arises | a) Real Operating Expenditure reduces by from 2016.<br><br>b) Reduction in the number of approved suppliers<br><br>c) Improved processes around contract management, supplier compliance management, supplier performance management, etc<br><br>d) Costs avoided and process improvements forecasts made and actuals tracked | Operating Performance Ratio increases .<br><br>Debt Service Ratio increases in 2016. | a) Nil<br><br>b) Costs already included in Long Term Financial Plan: $84,000 capital in 2014/15 + annual maintenance cost of $6000 pa ongoing<br><br>c) Nil | Costs avoided = $1.15M per annum from **2015/16**.<br><br>Efficiency improvements equivalent to $0.56M per annum from **2015/16**. | Expected efficiency gains not achieved due to large-scale organisational disruption following forced amalgamation with Newcastle City Council. Risk rating = high | The benefits represent estimates of costs that have been/or are to be avoided (savings) and the indirect benefit of process improvements through implementation of the procurement strategies in 2014/15.<br><br>It is assumed that the same savings and efficiencies will be delivered in subsequent years subject to the actual quantities of goods or services to be purchased in that year.<br><br>The achievement of benefits are being actively monitored as an indicator to the effectiveness of |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | the procurement strategies being employed, and do not take account of costs that may be escalating in other areas as a normal consequence of inflationary influences. |
| 3. Provide development & training to swim centre staff, & change swim centres' work culture to focus on continuous improvement | a) Implement staff training and development plan<br>b) Develop specific business sustainability indicators and action plan<br>c) Implement marketing and program development strategy<br>d) Develop specific asset maintenance plans for each centre's plant and | Recommen-dations implemented by June 2017 | Real Operating Expenditure reduces | Operating Performance Ratio increases<br><br>Own Source Revenue Ratio increases | NIL (delivered in-house) | Revenue increases by $150,000 per annum from **2016/17**<br><br>Operational cost savings of $150,000 from **2016/17** onwards.<br><br>Reduction of the subsidy provided to swim centre operations from the current 55% to 51.8% from **2016/17** onwards | Alternative private service providers enter the market | Continued engagement with team leaders and staff in striving towards continuous improvement initiatives.<br><br>Revenue achieved by fees and charges review, ongoing regular program review & consultation with patrons and user groups via intercept surveys<br><br>Local participation |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | equipment | | | | | | | trends remain on a similar trend<br><br>Cost savings include 2% efficiency realised through introduction knowledge management system, utility cost savings via plant upgrades & operational staff review |
| 4. Efficient operation of the Awaba Waste Management Facility | On-site recovery of waste cover material | Real Operating Expenditure reduces from 2015 onwards | 30% of annual demand for cover material recovered on-site | Operating Performance Ratio increases | Nil | $700,000 pa of avoided operational costs (net of implementation costs) | Landfill extension project does not identify sufficient cover material on-site<br><br>Lack of available space to store cover material on site during landfill extension<br><br>Changes to regulatory regime relating to use of cover material | Recovering material that can be used as daily or intermediate cover for waste will negate the need to import virgin excavated natural material at $12.50 per tonne plus the EPA's waste levy of $120 per tonne. LMCC currently budgets for approximately 18,000 tonnes of cover material at a cost of approximately |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | $2.38m. It is estimated that approximately 5000 to10000 tonnes of suitable material can be recovered representing a potential saving of between $662,500 to $1,325,000 in the current and future financial year. Savings against general fund and domestic waste charge |
| 5. Identify and implement efficiencies in Fleet Management | a) Review the replacement interval for passenger and light commercial vehicles.<br><br>b) Review heavy truck servicing based on the results of an oil additive trial | a) Review complete by June 2015<br><br>b) Review complete by June 2015 | Real Operating Expenditure reduces<br><br>a) Vehicle retention extended from 3yrs – $80K, to 4yrs – $100K<br>b) Current oil servicing intervals extended 10-fold, resulting | Operating Performance Ratio increases | Nil | a) Annual Capital saving = $600,000; Annual Operating Cost saving = $130,000<br>b) Annual Operating Cost saving = $80,000 | Passenger and light commercial vehicle annualised maintenance costs increase due to longer replacement interval. Risk rating = low<br><br>Price of oil additive increases, partially | Annualised life cycle costs for passenger and light commercial vehicles are lower with longer replacement interval. |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | in service cost savings | | | | offsetting cost savings derived from longer servicing intervals | |
| 6. Energy and water saving initiatives at LMCC facilities | a) Install renewable energy systems on LMCC facilities<br><br>b) Energy demand manage-ment measures<br><br>c) Fleet efficiencies<br><br>d) Water demand management measures | a) 50 kW of renewable energy installed each year<br><br>b) Annual investment program<br><br>c) Reduce greenhouse gas emissions from fleet by 3% per annum<br><br>d) Annual program implemented | a) Real Operating Expenditure reduces from 2016. This reduction compounds each year, such that a reduction in Real Operating Expenditure achieved by 2025, compared to business as usual.<br>b) 600 kW of renewable energy installed on LMCC facilities by 2023<br>c) Contribution to GHG emissions reduction of 45% by 2023<br>d) Contribution to GHG | Operating Performance Ratio increases | a) ~$1000/kW<br><br>b) ~$100,000 p.a.<br><br>c) Nil (vehicle replacement)<br><br>d) ~10,000 p.a. | a) $2,900,000<br><br>b) ~$1,200,000/ ~$100,000 invested<br><br>c) ~$200,000 p.a.<br><br>d) ~$100,000 p.a. | Changes in regulatory regime relating to renewable energy and vehicle emissions standards adversely affects market and ROI.<br><br>Availability of sites to install initiatives becomes constrained. | Savings in energy costs over the life of solar panels, so no savings reported over life of implementation |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | | | emissions reduction of 45% by 2023 compared to 2007-08 baseline<br>e) 12% potable water savings by 2023 | | | | | |
| 7. Waste Management Strategy | Reduce waste to landfill – Phase 1 | a) increase uptake of 360 litre recycling bins to 5000 by 2015<br><br>b) increase uptake of commercial recycling by 40% per annum<br><br>c) e-waste recycling program | 75% reduction in waste to landfill by 2023, resulting in a decrease of Real Operating Expenditure from 2023. | Operating Performance Ratio decreases from 2015/16 | Cost subtracted to generate net benefit | $ 2,000,000 p.a. (net of costs) | Lower than anticipated uptake of services<br><br>Container deposit scheme adversely affects contractor's viability<br><br>Changes to regulatory regime eg Product Stewardship Scheme | Benefit represented by the extension of the life of the landfill, and costs avoided in collection and processing of waste |
| 8. Effective use of mobile technology for field staff | Deliver workplace numeracy, literacy, digital literacy training to outdoor workforce. Deploy mobile | Training program delivered by June 2017.<br><br>Hardware rollout | 200 outdoor employees provided with the necessary skills and tools to effectively work with mobile | Operating Performance Ratio from 2018/19 | Training: $560,000 operating costs to be met within expenditure forecast in existing Long | Efficiency Benefit of $680K pa, arising from:<br><br>• Improved timeframes in service delivery | Mobile data service costs higher than anticipated, partially offsetting expected | Efficiency gains of 5% time savings x $68k per participant per year x 200 participants = $680k per annum. Assumes: |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
|---|---|---|---|---|---|---|---|---|
| | technology to field operations | by June 2018 | technology, leading to a reduction in Real Operating Expenditure from 2018/19. | | Term Financial Plan.<br><br>Hardware (Capital): $100,000 costs in **2017/18** to be met using existing LTFP allocation for implementation of IT&IM Strategy.<br><br>Ongoing additional operating costs for mobile data services: $36,000 pa from **2018/19** to be met from existing LTFP allocation for communications services. | to customers through electronic distribution, recording, and responses to service requests;<br>• Increased compliance and awareness of workplace procedures and safety systems<br>• Improved communication flows | efficiency gains.<br><br>Mobile data service quality lower or less consistent than anticipated, meaning expected efficiency benefits are not fully achieved. | Net-Work participants achieve 5% efficiency gains, on average, after completing the program. |
| 9. Improved cash management | Reassess assumptions in Long Term Financial Plan<br>Fund loans from internal reserves | Updated Long Term Financial Plan by December 2015<br><br>Document cash management strategy by 30 June 2016 | More accurate financial forecast<br><br>Access to cheaper finance | Improved operating performance ratio | Negligible – staff time | Savings of approx. 2.5% per annum on cost of borrowing<br><br>Savings in salaries, materials, plant hire and utilities costs from revised | Internally restricted funds are required prior to the end of the loan term<br><br>Assumptions are insufficiently conservative | Available funds from internal reserves restricted to 20% of minimum forecast balance<br>Relatively conservative risk appetite retained |

| Objective | Strategies | Key Milestones | Outcome | Impact on other measures | Costs | Benefits | Risks | Assumptions |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | | Seek Ministerial approval to utilise externally restricted reserves by 30 June 2016 | | | | assumptions | | |

## 3.4 Improvement Action Plan

### 3.4.1 Process to Prepare this Improvement Plan

**Consultation Process**

LMCC has undertaken detailed (biennial) community consultation since the early 2000s. A more detailed and extensive consultation pattern has emerged since the development of LMCC's first Community Plan in 2008. This was followed by the Securing Our Future initiative in 2011, which ultimately resulted in a successful SRV application to IPART in 2012. Building on the consultation outcomes of this process, LMCC updated its Community Plan in 2013 to realign it with the community's vision for the City and describe the strategies and actions LMCC plans to undertake to work towards that vision. LMCC's strong focus on community engagement has helped it to deliver services and facilities that the community value and deem important. In response, the Lake Macquarie community has high levels of satisfaction with the level of service provided by LMCC (Figure 2 and Attachment G).

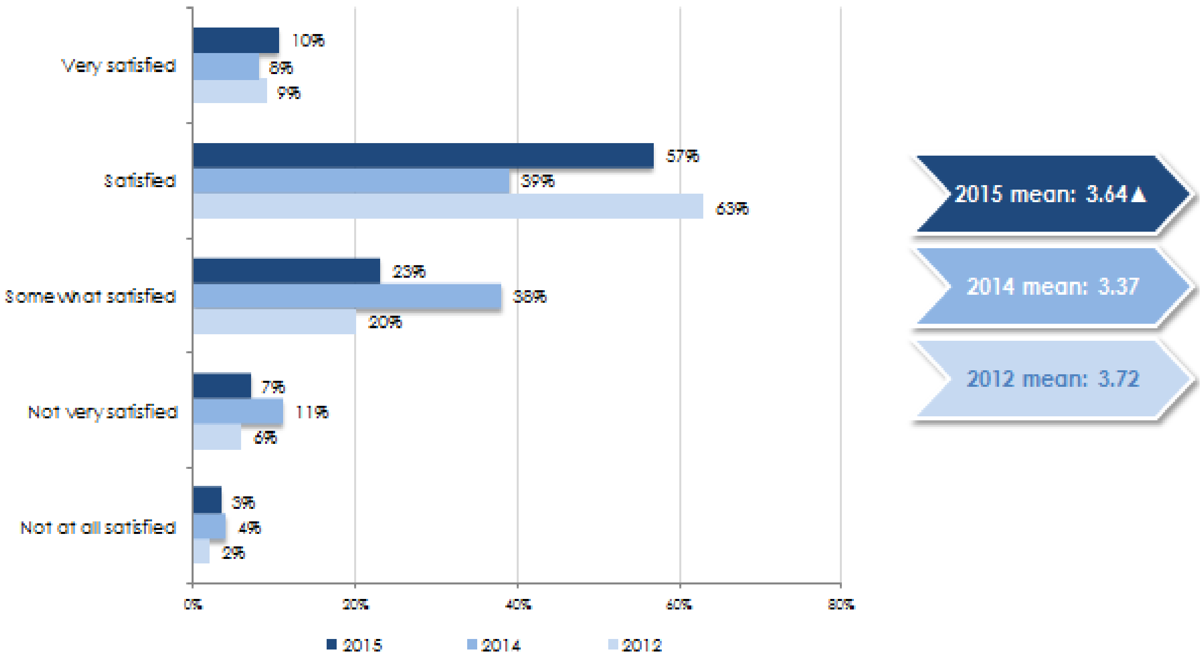


Figure 2 – Community satisfaction results 2012-2015 (Micromex 2015 (Attachment G))

Following the release of the IGRP's final report in 2013, to which LMCC submitted a comprehensive response, LMCC undertook a dedicated consultation program with the residents of southern Lake Macquarie. Two community workshops were held in February and March 2014, where more than 400 people attended, and a resolution was passed at each that:

> *"The meeting endorses the actions of Lake Macquarie City Council to date, and calls on the Minister of Local Government to consider the responses of the community in regard to boundary changes and amalgamation of councils."*

In May 2015, a random telephone survey of 402 residents was conducted to seek their views on the ILGRP's option for Lake Macquarie to merge with Newcastle. This survey (Attachment G) found that 87% of Lake Macquarie residents prefer that LMCC remains a stand-alone council rather than merge with TCoN (Figure 3).

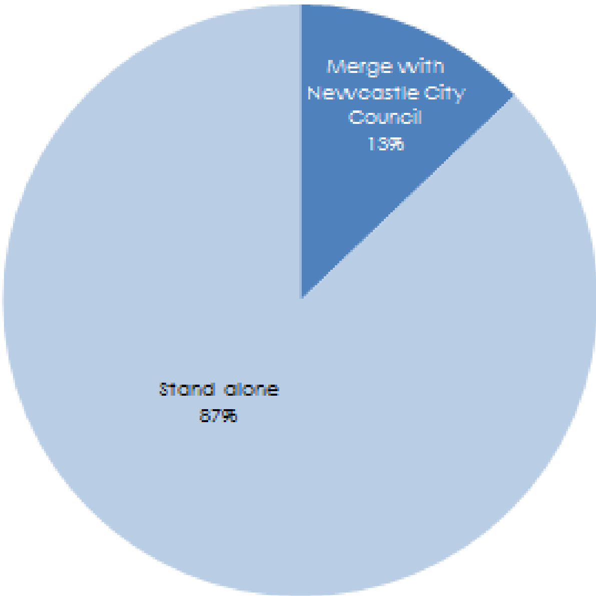


Figure 3 – Lake Macquarie residents' preferred FFTF option – random survey group (Micromex 2015 (Attachment G))

In late May 2015, LMCC distributed a FFTF information brochure (Attachment H) to all 95,000 households and business addresses within the City. This brochure presented LMCC's intention to submit an Improvement Proposal and invited local people to have their say on the proposal via the 'haveyoursaylakemac' website (haveyoursaylakemac.com.au/our-fit-future). Options to contribute feedback included completing an on line survey, directly communicating with LMCC by phone or mail, contributing to online discussions or posing questions. As of 23 June 2015, there were 1,480 unique visits to the 'haveyoursaylakemac' website and 808 responses to the on-line survey. These self-selected survey respondents shared very similar views to the randomly selected survey group, with 90% preferring that LMCC stand-alone rather than merge with TCoN (Figure 4 and Attachment I).

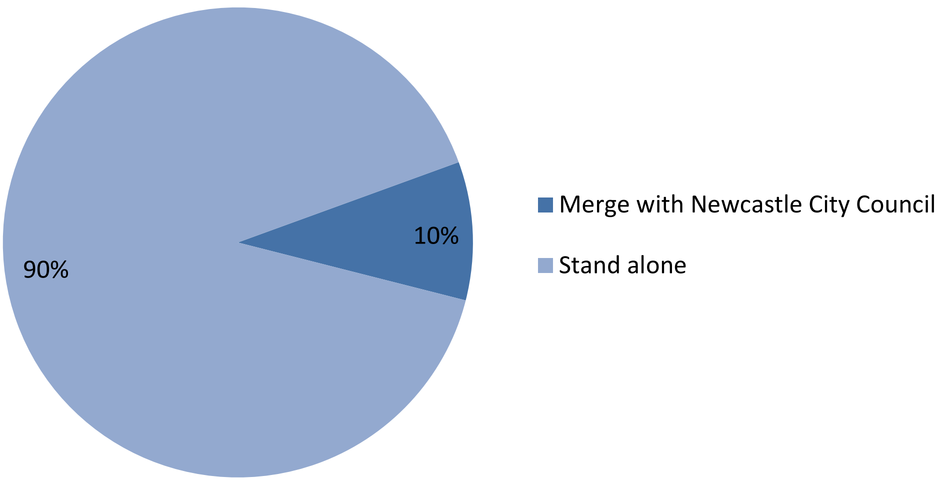


Figure 4 – Lake Macquarie residents' preferred FFTF option – self-selected survey group (Attachment I)

Given the strong community opposition to a merger of the two LGAs, the preference of both Newcastle and Lake Macquarie councils to stand alone, and the strong performance of LMCC against the FFTF benchmarks, LMCC's elected Council resolved on 22 June 2015 to submit an Improvement Proposal rather than a Merger Proposal.

### 3.4.2 Improvement Action Plan Development

As detailed in Section 3.1, LMCC has an enduring culture of improvement. Specific examples from the last seven years describe how LMCC has developed a range of specific improvement strategies. These strategies have been developed through rigorous research and consultation, and have informed the development of the latest Community Plan actions.

All of the actions proposed in this FFTF Improvement Proposal are directly linked to LMCC's Community Plan. This indicates that LMCC has already developed a successful blueprint for financial, economic, social, and cultural sustainability based on a solid foundation of community engagement.

The specific strategies described in this improvement plan were developed with reference to the extensive body of work described above by a staff team including the Executive, senior managers and subject-matter experts. The actions proposed for 2015-16 are described below. A more detailed action plan is provided in Appendix I.

The financial impact of the proposed actions was modelled by Council's Financial Strategist and key Finance staff to determine the impact of the proposed actions on Council's projected financial position, compared to the current Long Term Financial Plan. The projected financial position based on the proposed improvements is provided in Attachment K. Worksheets to support these results are presented in Attachment J. The benefits, costs and assumptions are documented in Section 3 and in the detailed action plan (Attachment L). The revised financial position was then used to calculate the FFTF criteria presented in Section 4.1.

The Improvement Proposal was reviewed by the elected Council and endorsed at its meeting of 22 June 2015 (15SP042).

### 3.4.3 Year One Action Plan (2015-16)

| Actions | Key Milestones |
|---|---|
| 1. Introduce food waste to the kerbside green waste bin | Community engagement program commenced 1 June 2016<br>Service commencement 1 December 2016<br>Contamination below 3 % by 30 June 2017 |
| 2. Implement new swim centre entry and booking system | New system operational by December 2015 |
| 3. New swim centre knowledge management and business tracking introduced | System in place by June 2015<br>Staff trained and system utilised by September 2015 |
| 4. New swim centre management structure established | New structure in place by June 2016 |
| 5. New family day care business model established | New model, with additional 55 FTE, in place by June 2016 |
| 6. Revised contributions to NSW Fire and rescue commenced | Revised indexation applied from 1 July 2015 |
| 7. Waste construction management | Development consent for quarry rehabilitation by December 2015 |
| 8. New lease and licence fees for 25% of tennis courts | Implemented from 1 July 2015 |
| 9. Continue existing strategies to reduce infrastructure backlog and increase asset maintenance | Strategies implemented by 30 June 2016 |
| 10. Continue modelling impact of borrowings, operational program, capital program and budget assumptions on forecast financial performance | Long Term Financial Plan updated by December 2015 |
| 11. Implement first round business process review recommendations | Productivity improvements of 1,800 staff hours per year achieved |
| 12. Procurement improvements in supplier management and contract management completed | Improvements completed by 1 July 2015<br>Staff trained and system utilised by August 2015 |

| Actions | Key Milestones |
|---|---|
| 13. Continue to explore opportunities for on-site recovery of cover material at landfill | Landfill extension works commenced by 30 June 2016 |
| 14. Implement recommendations of review of replacement interval for passenger and light commercial vehicles and review of heavy vehicle oil additive trial | Extended replacement interval commenced by 1 July 2015<br>Oil additive replacement program commenced by 1 August 2015 |
| 15. Annual energy and water saving program implemented | Soil and irrigation improvements at 7 sports fields by 30 June 2016<br>50 KW of solar panels installed by 30 June 2016<br>Retrofit of 3 community sites to reduce energy and water consumption by 30 June 2016<br>Uptake of more efficient vehicles to meet 3% greenhouse gas emission reduction target by 30 June 2016 |
| 16. Increase diversion of recyclables from landfill | Target of 5,000 360 litre bins reached by 30 June 2016<br>Target of 40% increase in new commercial recycling services reached by 30 June 2016 |
| 17. Cash management strategy | Strategy for improved management of cash developed by 30 June 2016 |

## 3.5 Other Actions Considered

### 3.5.1 Reviews of LMCC's operations

In October 2008, LMCC launched a service review project to identify opportunities to improve service delivery. Key objectives that were identified at the outset included:

- Assessing the financial sustainability of the LMCC against various Australian measures of financial sustainability;
- Identifying levels and standards of services that best meet the needs and expectations of the community;
- Being socially and environmentally responsible with the provision of services;
- Being viewed as a leader in achieving exceptional results and setting benchmarks in local government;
- Ensuring an efficient and effective organisation that is outcome driven;
- Maximising opportunities to increase revenue including entrepreneurial activities;
- Exploring strategic partnerships, shared services and alliances with other councils, government bodies and private enterprise;
- Exploring a greater regional approach to service delivery, and sharing services and resources;
- Identifying opportunities to engage with other levels of government to address unnecessary constraints, cost shifting, over-regulation, and a fairer distribution of funding; and
- Providing a foundation for continuous improvement beyond the timeframe of the project.

This project reviewed 65 services and identified approximately 360 options, of which 154 were identified for action. These actions have been incorporated into the regular business of the organisation.

The service reviews demonstrated that in many cases services are at optimal levels and appropriate for the funding available. The reviews have also reinforced the view that the organisation is generally lean. This reflects the positive culture of the organisation in implementing efficiency and service improvements constantly over many years.

As part of its SRV in 2012, LMCC considered a range of options to address its financial sustainability (Table 11). Detailed analysis of the levels of service able to be delivered was conducted at that time, and is presented in Part B of Council's application (LMCC 2012).

Half of the Lake Macquarie community supported the highest rate option (Option 3); however, IPART approved the mid-range option (Option 2).

### 3.5.2 Review of the ILGRP's Recommendations and Options

LMCC has considered the ILGRP's recommendations for the Hunter, which were to conduct an evidence-based review of the options for mergers identified by the ILGRP (Recommendation 47) and to pursue establishment of a Joint Organisation for the Hunter (Recommendation 49).

Council responded to Recommendation 47 by providing submissions in in February 2014 (Attachment M) and April 2014 (Attachment N). These submissions and this Improvement Proposal provide a detailed evidence-based response to the ILGRP's options for Lake

Macquarie, and conclude that there is no material benefit to the Lake Macquarie community from these proposals.

Table 11 – Options considered in Council's SRV Application 2012 (Table 2.2, Part B)

| OPTION | KEY FEATURES | AVERAGE INCREASES OVER 7 YEARS | AVERAGE WEEKLY INCREASE* |
|---|---|---|---|
| **Option 1:** Reduce Services – Maintain Rates | • Services significantly reduced<br>• Condition of our assets declines<br>• Rates increase only by rate peg amount set annually by IPART | 3% (estimated rate peg) | $0.47 per week RESIDENTIAL and FARMLAND |
| | | | $1.82 per week BUSINESS and MINING |
| **Option 2:** Maintain Services – Increase Rates | • Services largely maintained<br>• Condition of our assets maintained at current | 7.7% RESIDENTIAL and FARMLAND | $1.22 per week |
| | | 9.9% BUSINESS and MINING | $6.13 per week |
| **Option 3:** Improve Services – Increase Rates | • Services improved Delivers on Community Plan<br>• Condition of our assets improved<br>• Program of infrastructure renewal | 9.8% RESIDENTIAL and FARMLAND | $1.56 per week |
| | | 12.8% BUSINESS and MINING | $8.27 per week |

* based on residential land value of $175,000 and business land value of $400,000

In relation to Recommendation 49, Lake Macquarie strongly supports the Joint Organisation model and has been intimately involved in Hunter Councils Inc's successful nomination to pilot the Joint Organisation model.

Recommendation 33 of the ILGRP's final report was to "*Encourage voluntary mergers of councils through measures to lower barriers and provide financial support*". The merger option identified for LMCC was to merge with TCoN. This option is briefly addressed in Section 1.2 and covered in more detail below and in Attachments A, B and C. This option has been thoroughly explored by both councils, and found to offer, on balance, a less financially sustainable council than progressing improvement plans in each independent local government areas.

### Character and Capacity of the Two Cities

The characters of Newcastle and Lake Macquarie cities are quite distinct. Newcastle is a high-density regional city, with its roots in heavy industry, facilitated by the port, and will continue to be regarded as NSW's second city, with a concentrated urban environment. Lake Macquarie, by comparison, has a much more dispersed community focused around a significant natural asset (the lake), and is often known as a 'City of Villages'. The history of the two cities, as well as Census data and land uses (both current and planned), indicate that, while there are some similarities, each city is markedly different in terms of communities of interest, local identity and sense of place.

The service model required for each of these locations is distinctly different. Lake Macquarie is able to provide a much more decentralised regional approach to service delivery, and substantially improve efficiency through volunteer effort (see Attachment A). Newcastle, on the other hand, as a major regional city, requires a much more centralised approach to service delivery. The service models delivered by each council are tailored to the needs of each city, and would be diminished through a merger.

Similarly, the asset base of the two cities is markedly different: TCoN's assets are typically relatively dense, due to the compact nature of the city, and many are approaching the end of their useful lives. Lake Macquarie has a much more distributed asset base, with a major barrier (the lake) in the middle of the City. The age profile of LMCC's assets is much younger, due to continuing greenfields growth.

The Hunter region is strengthened by having two large councils rather than one. The differences in character of Newcastle and Lake Macquarie cities allow each council to develop expertise relevant to the needs and expectation of their respective communities, and share that expertise regionally. This diversity benefits the region through the strong culture of collaboration that exists through Hunter Councils Inc.

The ILGRP noted that (p108) "[Newcastle's] *southern suburbs merge seamlessly into the Lake Macquarie area to form a single metropolis that needs to be planned and managed as an integrated whole."* In reality, the boundary between LMCC and TCoN is a logical ecological one, based on the water catchment divide between Lake Macquarie and the Hunter River, and the lower Hunter is already managed in a holistic manner through application of the Lower Hunter Regional Strategy (NSW DoP 2006). This strategy provides the framework for development of new residential and employment lands across local government boundaries, and the infrastructure and services to support the communities that utilise them.

**Discussions between the Two Local Councils**

Following release of the FFTF package of reforms on 10 September 2014, LMCC and TCoN commenced discussions on 11 September on how to go forward with examining the Government's response to the ILGRP's option for amalgamation of the two councils. Discussions included:

- open book access to each other's data;
- the nomination of a small, joint working group to discuss the FFTF recommendations; and
- establishment of a meeting schedule.

A small working group was formed, which included the Mayor of Lake Macquarie and Lord Mayor of Newcastle, as well as each of their deputies. Staff also participated including the two General Managers, two Directors from LMCC and one from TCoN and a senior financial management officer from each council.

Both councils had prior determinations of their elected bodies opposing amalgamation, dating from the period of the ILGRP's initial 2013 report. Notwithstanding those resolutions, the two councils examined the proposition of an amalgamation. This included significant modelling work undertaken by Price Waterhouse Coopers (PwC) (see Attachment C) to develop an evidence-based assessment of whether amalgamation would benefit either or both cities.

Subsequent to the analysis, the two councils independently prepared draft Improvement Proposals for consideration by their elected bodies. Officers from both councils discussed each other's draft template submissions and found significant common ground in each. TCoN resolved to submit an Improvement Proposal on 16 June 2015 and LMCC adopted its Improvement Proposal on 22 June 2015.

**Assessment of Newcastle's Financial Sustainability**

The ILGRP noted that (p108):

*"The City of Newcastle faces significant challenges including forecast operating deficits, large capital works requirements and demanding issues associated with urban renewal."*

TCoN acknowledges those challenges and has developed a comprehensive Improvement Proposal to address them.

In its first Long Term Financial Plan (2011-2023) TCoN identified an increasing and unsustainable net funding deficit. TCorp undertook an assessment of TCoN's financial sustainability in 2012, and rated TCoN below its group average in key ratios (operating ratio, own source revenue, infrastructure backlog, building and infrastructure asset renewal). TCorp recommended that TCoN increase revenue sources, revise service levels, and reschedule capital expenditure and associated debt. This advice was supported by a further independent review in 2013, which identified a program of user-pays funding, reduced operational expenditure, and moderate investment in capital works.

Over the last two years, TCoN has made substantial progress towards improving its financial position. This has been achieved through:

- increasing revenue from Newcastle Airport, Summerhill Waste Management Centre, City Hall and business improvement associations;
- asset disposal;
- energy savings; and
- reduction in staff.

TCoN is currently on track to achieve, by 2021-22, a $33 million increase in operational revenue, $56.5 million in revenue from sale of assets, and $120 million in operating expense savings.

These measures have substantially improved TCoN's infrastructure backlog (from $117 million in 2011-12 to $90.4 million in 2013-14) and will see TCoN's asset maintenance ratio meet the FFTF benchmark next financial year (own source revenue and debt service ratios already meet the benchmarks).

Earlier this year, TCoN submitted an application to IPART for a five-year, 8% per annum SRV to address its infrastructure backlog and building and infrastructure asset ratios. This SRV, which was subsequently approved by IPART in May 2015, will see TCoN reach all FFTF benchmarks by 30 June 2023 (most are met by 30 June 2018) (Table 2).

The measures proposed by TCoN in its FFTF submission will accelerate its progress towards FFTF benchmarks.

# 4 How will our Plan Improve our Performance?

## 4.1 Expected Improvement in Performance

LMCC has modelled the impact of the improvement plan described in Section 3 on its capacity to meet the FFTF benchmarks. The revised projected financial statements are provided in Attachment K, and the workings to support the statements are in Attachment J.

The results (Table 12 and 13) indicate that by 2019/20, LMCC is able to demonstrate improvement in all FFTF criteria. Based on LMCC's strategic capacity (see Section 1.1 and Attachment A) and improving financial sustainability (Table 14), it is Fit for the Future.

LMCC's operating performance will remain in surplus in all years except 2014/15.

The own source revenue criterion is met in all years modelled and is projected to increase to 81% by 2023/24.

The building and infrastructure asset renewal benchmark is also able to be met in all years modelled. After peaking in 2015/16 at 115%, the magnitude of the ratio is projected to decrease over time as additional funds are invested in renewal programs.

While LMCC demonstrates a progressive reduction in infrastructure backlog, it will not meet the benchmark criterion of 2% during the review period. While continual improvement on this measure is demonstrated, it is not operationally feasible to make large one-off reductions in the backlog, but rather a planned continual reduction in backlog is achievable, funded by additional borrowings.

LMCC will commence a systematic review of programmed maintenance. The results of this review will lead to increased maintenance programs and expenditure, allowing LMCC to achieve the asset maintenance benchmark of 100% by 2019/20.

Throughout the period modelled, LMCC's debt service ratio is projected to remain within the benchmark range, but to increase as additional debt is taken on to address Council's infrastructure backlog.

Real operating expenditure per capita will remain flat and/or reduce over time.

Table 12 – Three-year average FFTF criteria based on improvement plan

| Criterion | Benchmark | 2013/14* | OLG Benchmark Achieved | 2016/17* | OLG Benchmark Achieved | 2019-20 | OLG Benchmark Achieved |
|---|---|---|---|---|---|---|---|
| Operating Performance Ratio | ≥ 0 | 0.014 | Yes | -0.006 | No | 0.020 | Yes |
| Own Source Revenue Ratio | ≥ 60% | 71.4% | Yes | 74.4% | Yes | 79.9% | Yes |
| Building & Infrastructure Asset Renewal Ratio | > 100% | 96.5% | No | 111.6% | Yes | 103.6% | Yes |
| Infrastructure Backlog Ratio (WRV method) | < 2% | 7.6% | No | 5.3% | No | 4.5% | No |
| Infrastructure Backlog Ratio (RC method) | < 2% | 4.2% | No | 2.7% | No | 2.4% | No |
| Asset Maintenance Ratio | > 100% | 92.0% | No | 95.6% | No | 97.0% | No |
| Debt Service Ratio | 0 < x < 20% | 4.5% | Yes | 5.4% | Yes | 6.4% | Yes |
| Real Operating Expenditure ($'000) per Capita | declining | 0.799 | N/A | 0.811 | No | 0.805 | Yes |

* average of trailing three years

Table 13 – Annual FFTF criteria based on improvement plan

| Criterion | Benchmark | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating Performance Ratio | ≥ 0 | 0.016 | -0.010 | -0.002 | -0.005 | 0.012 | 0.022 | 0.025 | 0.015 | 0.017 | 0.019 | 0.018 |
| Own Source Revenue Ratio | ≥ 60% | 70.2% | 70.8% | 75.8% | 76.5% | 79.3% | 80.0% | 80.3% | 80.5% | 80.7% | 80.9% | 81.1% |
| Building & Infrastructure Asset Renewal Ratio | > 100% | 106.4% | 108.3% | 115.4% | 111.2% | 105.3% | 101.1% | 104.6% | 102.3% | 101.9% | 106.5% | 104.1% |
| Infrastructure Backlog Ratio (WDV method) | < 2% | 7.54% | 5.29% | 5.47% | 5.23% | 4.91% | 4.90% | 3.77% | 3.38% | 2.82% | 3.49% | 3.29% |
| Infrastructure Backlog Ratio (RC method) | < 2% | 4.46% | 2.69% | 2.81% | 2.71% | 2.56% | 2.56% | 1.98% | 1.79% | 1.50% | 1.86% | 1.76% |
| Asset Maintenance Ratio | > 100% | 95.3% | 95.59% | 95.59% | 95.61% | 95.54% | 95.53% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Debt Service Ratio | 0 < x < 20% | 4.39% | 4.70% | 5.60% | 5.87% | 6.18% | 6.40% | 6.62% | 6.40% | 6.66% | 6.86% | 6.98% |
| Real Operating Expenditure ($'000) per Capita | declining | 0.804 | 0.809 | 0.815 | 0.819 | 0.809 | 0.806 | 0.800 | 0.803 | 0.796 | 0.790 | 0.785 |

Table 14 – Performance against IPART's assessment criteria (IPART 2015, Tables 3.3, 3.5 and 3.7)

| Criterion | OLG Benchmark | IPART Assessment Measure Regional Councils | Met/Not Met |
|---|---|---|---|
| Operating Performance Ratio | ≥ 0 | Must meet within 5 years | Met |
| Own Source Revenue Ratio | ≥ 60% | Must meet within 5 years | Met |
| Building & Infrastructure Asset Renewal Ratio | > 100% | Meet or improve within 5 years | Met |
| Infrastructure Backlog Ratio (WDV method) | < 2% | Meet or improve/inform within 5 years | Met |
| Asset Maintenance Ratio | > 100% | Meet or improve/inform within 5 years | Met |
| Debt Service Ratio | 0 < x < 20% | Meet within 5 years | Met |
| Real Operating Expenditure per Capita | declining | Must demonstrate operational savings (net of IP&R supported service improvements) over 5 years | Met |

NB Table 14 is reproduced as Table E1

# 5 <u>Putting our Plan into Action</u>

LMCC's approach to implementing its Improvement Action Plan leverages existing institutional strengths around continuous improvement and program management. LMCC manages its ongoing performance through the IP&R framework. An early adopter of the framework, LMCC has well developed processes around the key IP&R activities. The implementation program described in Section 3.4 will tap into these processes to ensure effective delivery with minimal disruption to existing programs.

LMCC's Improvement Action Plan (Section 5.1 and Attachment L) contains elements in three key areas:

- *Sustainability*

LMCC will apply its well-developed service review process to manage implementation of proposed sustainability actions. Actions identified are primarily in the waste management, human resources and recreational services and community services portfolios. Staff in these departments (Waste, Environment and Rangers, Sustainability, Workforce Planning and Community Planning) have developed strong capability in strategic review and continual improvement (see examples in Section 3.1), and have time dedicated to these functions in their regular work programs.

LMCC uses its well-established corporate project management framework, which was introduced in 2012, to promote successful management of projects to time, cost and scope. The framework provides a basis for sound decision-making, allocation of resources, and improved stakeholder consultation, from the conception of a project to through to close-out.

The planning and implementation of the proposed actions can be achieved with existing staff resources. The majority of sustainability actions are planned for 2015-18. This will allow an organisational focus on sustainability improvements ahead of the planned infrastructure and services management actions scheduled for 2019-2025.

- *Infrastructure and services management.*

This is a targeted program of works to reduce LMCC's infrastructure backlog ratio to below 4% and maintain the asset maintenance ratio at about 100%. These levels of investment enable LMCC to maintain services at the level approved by IPART in 2012. This activity will be funded through a focussed borrowing program that preserves Council's debt service ratio at well below 20% (maximum of 6.98% projected).

The works will be broken into three packages: package 1 (ISM P1) will be delivered in 2019/20, package 2 (ISM P2) in 2022/23 and package 3 (ISM P3) in 2024/25. By this time, LMCC's standard operating model will be aligned with the key FFTF metrics.

The program will be driven by LMCC's Asset Management department, with support from the Finance department. These additional activities will form part of the standard workflow of these teams. It is expected that no material increase in staffing will be required as a result.

- *Operational Efficiency*

LMCC has recently established an Organisational Performance Unit (OPU), through a reorganisation of existing resources, to identify and drive operational improvements across the organisation. The OPU's flagship program is an annual review of business processes. LMCC officers are invited to submit processes that they think can be amended to boost performance. The best suggestions are selected and cross-unit teams assembled to conduct the business review and make recommendations for improvement.

The goal of the process review is to secure 1% in operating savings each year (post implementation). The costs of implementation are met through departmental budgets, with savings reinvested in organisational high-priority areas.

The staff involved in these teams are participating on a 'stretch assignment' basis (ie on top of existing commitments), meaning that additional resourcing at the project level is not required to realise savings. The co-ordination and management of the portfolio of projects is undertaken by the OPU.

Responsibilities, monitoring and evaluation mechanisms and timeframes for proposed improvement actions are set out in the table below. Some of these actions are already documented in LMCC's IP&R documents, but their financial impact has not yet been incorporated into the LTFP. These actions will be implemented on a business as usual basis. The next revision of the LTFP, due December 2015, will incorporate the proposed improvements, changes to underlying assumptions and the recommendations of IPART's evaluation of this proposal.

LMCC's next opportunity to refresh its full suite of IP&R documentation will occur in following the Council elections in 2016. All actions agreed through the FFTF process will be incorporated progressively into IP&R documents as they are considered by LMCC in line with statutory cycles.

## 5.1 Key Implementation Actions Responsibility, Monitoring and Evaluation

| Year | Key actions | Management responsibility | Monitoring and Evaluation |
|---|---|---|---|
| 2015/16 | ***Sustainability Actions*** | | |
| | Introduce food waste to the kerbside green waste bin | Sustainability | Annual state of environment report |
| | Implement new swim centre entry and booking system | Leisure Services | Annual report |
| | New swim centre knowledge management and business tracking introduced | Leisure Services | Annual report |
| | New swim centre management structure established | Leisure Services | Annual report |
| | New family day care business model established and additional 55 FTE provided | Community Planning | Annual report |
| | Revised contributions to NSW Fire and rescue commenced | Waste, Environment and Rangers | Annual budget<br>Annual financial statements |
| | Development consent granted for quarry rehabilitation | Asset Management | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | New lease and licence fees for 25% of tennis courts | Community Planning | Annual financial statements |
| | Continue existing strategies to reduce infrastructure backlog and increase asset maintenance | Asset Management | Annual budget<br>Annual financial statements<br>Annual report |
| | Continue modelling impact of borrowings, operational program, capital program and budget assumptions on forecast financial performance | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Implement first round business process review recommendations | Operational Performance | Report to Executive |
| | Procurement improvements in supplier management and contract management completed | Mechanical, Depot and Supplies | Annual budget |
| | Continue to explore opportunities for on-site recovery of cover material at landfill | Waste, Environment and Rangers | Annual state of environment report |
| | Implement recommendations of review of replacement interval for passenger and light commercial vehicles and review of heavy vehicle oil additive trial | Mechanical, Depot and Supplies | Annual budget |

| Year | Key actions | Management responsibility | Monitoring and Evaluation |
|---|---|---|---|
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Cash management strategy developed | Finance | Annual report |
| **2016/17** | ***Sustainability Actions*** | | |
| | Implementation of new fees and charges structure for swim centres | Leisure Services | Annual budget |
| | Sustainable business plans prepared for surf clubs | Leisure Services | Annual report |
| | Increase family day care educators by 35 | | Annual report |
| | Continue to explore opportunities for on-site recovery of cover material at landfill | Waste, Environment and Rangers | Annual state of environment report |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $473,000 to reduce infrastructure backlog | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Implement staff development, training and culture change program for swim centre staff | Leisure Services | Annual report |
| | Mobile technology training program delivered | Corporate Information | Annual report |
| | Commence internal borrowings | Finance | Annual budget |
| **2017/18** | ***Sustainability Actions*** | | |
| | Increase number of trainees, apprentices and cadets to 95 | Organisational Performance | Annual report |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $473,000 to reduce infrastructure backlog | Asset Management | Annual budget<br>Annual financial statements |

| Year | Key actions | Management responsibility | Monitoring and Evaluation |
|---|---|---|---|
| | ***Efficiency Actions*** | | |
| | Mobile technology hardware rolled out | Corporate Information | Annual report |
| | Continue internal borrowings | Finance | Annual budget |
| **2018/19** | ***Sustainability Actions*** | | |
| | Increase number of trainees, apprentices and cadets by further 35 | Organisational Performance | Annual report |
| | Conduct staff recruitment and plant/equipment procurement | Asset Management, Organisational Performance, Mechanical Depot and Supplies | Annual report |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Efficiency Actions*** | | |
| | Continue internal borrowings | Finance | Annual budget |
| **2019/20** | ***Sustainability Actions*** | | |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $8.05 million to reduce infrastructure backlog | Asset Management | Annual budget<br>Annual financial statements |
| | Complete additional asset renewal works | Asset Management | Annual budget<br>Annual financial statements |
| | Commence additional asset maintenance works | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Continue internal borrowings | Finance | Annual budget |
| **2020/21** | ***Sustainability Actions*** | | |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |

| Year | Key actions | Management responsibility | Monitoring and Evaluation |
|---|---|---|---|
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $182,000 to reduce infrastructure backlog | Asset Management | Annual budget |
| | Continue additional asset maintenance works | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Continue internal borrowings | Finance | Annual budget |
| **2021/22** | ***Sustainability Actions*** | | |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $182,000 to reduce infrastructure backlog | Asset Management | Annual budget<br>Annual financial statements |
| | Continue additional asset maintenance works | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Continue internal borrowings | Finance | Annual budget |
| **2022/23** | ***Sustainability Actions*** | | |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $3.463 million to reduce infrastructure backlog | Asset Management | Annual budget<br>Annual financial statements |
| | Continue additional asset renewal works | Asset Management | Annual budget<br>Annual financial statements |

| Year | Key actions | Management responsibility | Monitoring and Evaluation |
|---|---|---|---|
| | Continue additional asset maintenance works | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Continue internal borrowings | Finance | Annual budget |
| **2023/24** | ***Sustainability Actions*** | | |
| | Annual energy and water saving program implemented | Sustainability | Annual state of environment report |
| | Increase diversion of recyclables from landfill | Sustainability | Annual state of environment report |
| | Continue to divert construction waste from landfill and rehabilitate quarries | CiviLake | Annual report |
| | ***Infrastructure and Service Improvement Actions*** | | |
| | Increase borrowings by $196,000 to reduce infrastructure backlog | Asset Management | Annual budget<br>Annual financial statements |
| | Continue additional asset maintenance works | Asset Management | Annual budget<br>Annual financial statements |
| | ***Efficiency Actions*** | | |
| | Continue internal borrowings | Finance | Annual budget |

# 6 References


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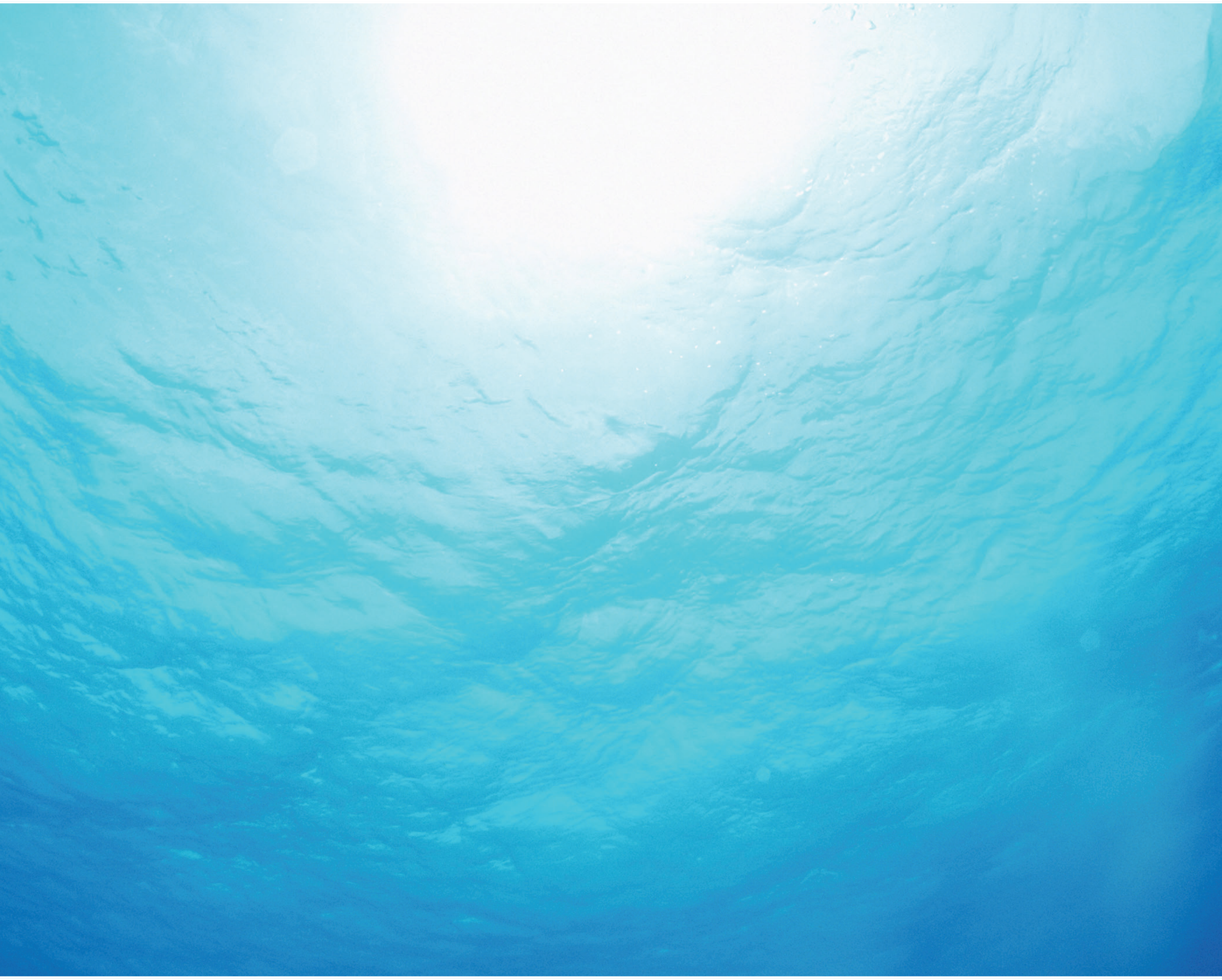
PwC (2014) NSW Local Government Operational and Management Effectiveness Report

TCoN (2015) The City of Newcastle Long Term Financial Plan

TCorp (2013) Financial Sustainability of the New South Wales Local Government Sector

# 7 Attachments

| | |
|---|---|
| **Attachment A** | **Lake Macquarie City Council's Strategic Capacity** |
| **Attachment B** | **Comparative Data 2009- 2013** |
| **Attachment C** | **Confidential Attachment** |
| **Attachment D** | **OLG Self-assessment tool results - 3 year average to 2013-14** |
| **Attachment E** | **Fit for the Future Projected Ratios - Current Long Term Financial Plan** |
| **Attachment F** | **Current Projected Financial Statements** |
| **Attachment G** | **Community Survey Report May 2015** |
| **Attachment H** | **Our Fit Future Information Brochure (May 2015)** |
| **Attachment I** | **Our Fit Future Have Your Say Survey Results** |
| **Attachment J** | **Data to Support Results presented in Section 4** |
| **Attachment K** | **Projected Financial Position with Proposed Improvements** |
| **Attachment L** | **Full Detailed Action Plan** |
| **Attachment M** | **February 2014 response to ILGRP's Final Report** |
| **Attachment N** | **April 2014 addendum to response to ILGRP's Final Report** |

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