

Template 2 Port Macquarie-Hastings Council

Fit for the Future

Council Improvement Proposal

(Existing structure)



Getting started . . .

Before you commence this template, please check the following:

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

Council name:

PORT MACQUARIE-HASTINGS COUNCIL

Date of Council resolution endorsing this submission:

17 JUNE 2015 (Council resolution & related report is attached to this submission)

1.1 Executive Summary

Provide a summary of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies and outcomes.

It is considered that Port Macquarie-Hastings Council (PMHC) is on the path to becoming Fit for the Future. Council currently meets three of the seven ratios, with infrastructure asset renewal, maintenance and backlog the primary disparity. As identified by the "Revitalising Local Government" Report (2013), this is an issue common to Mid North Coast and other regional Councils.

Council supports the Independent Panel's assessment that it has sufficient scale and capacity to remain as a standalone Council and has developed its submission on this basis. While the Water and Sewer Operations are not essential to Council scale and capacity they do contribute to the overall sustainability of operations.

Over the last 18 months Council has implemented a number of strategies to address sustainable financial management and effective infrastructure and service delivery including:

- Improving asset management by reviewing and/or developing asset management plans for all key asset classes, undertaking a business process improvement project on asset management and enhancing the capacity and capability of asset management staff and asset owners; as well as participating in an asset management project with other Mid North Coast Councils on developing consistency in the way assets are valued and reported on across the region.
- Undertaking an independent review of Special Schedule 7 (SS7);
- Improving service delivery by commencing the review of service levels for all Council operations, implementing initial improvement strategies and participating in the Local Government Professionals NSW - Price Waterhouse Coopers

Operational Management Effectiveness survey;

- Increasing financial accountability by establishing a budget working party with Councillors, applying a balanced budget preference, introducing streamlined procurement processes & continued monthly financial reporting to Council on variances, as well as implementing a financial accountability project (please see attached document titled Financial Accountability Benefit Realisation Report);
- Regular line by line expenditure reviews;
- Implementation of cost saving ideas as sought from staff and
- Implementation of the business improvement findings undertaken as part of the service review process.

Notwithstanding these strategies, Council continues to have a large infrastructure issue to address.

Assessment of FFF ratios has enabled Council to gauge the underlying drivers of the infrastructure gaps and facilitated development of an Improvement Action Plan which will deliver substantial improvement in the criteria benchmarks. The financial modelling as included in this submission and in the Improvement Action plan is based on what is known as Scenario 2C, details of which appear further in this submission. Actions will be phased in during 2016/17 - 2025/26 but are underpinned by two caveats:

- Council will be heavily reliant on NSW Government & IPART support for Special Rate Variations (SRV's), as well as all levels of government continuing to provide opportunities for infrastructure renewal or maintenance grants and/or loans plus ongoing, preferably increased levels of Federal Assistance Grant funding;
- Council will not meet all of the nominated benchmarks in the timeframe identified (i.e. 5 x years) due to the \$2.7 billion (current replacement value) worth of infrastructure under management.

Council is however committed to improving sustainability and has forecast that with a continued focus on asset management and an affordable revenue injection funded by an SRV / SRV's, Council will meet or improve performance across all seven (7) ratios within 5 years. Key strategies in the Improvement Action Plan are:

- Sale of certain assets;
- Exploring alternative revenue streams;
- Reviewing current fees and charges to quantify opportunity for a "user pays" philosophy for relevant services;
- Continued review of Council's asset base with consideration to reduction,

- Assessing with our community, the affordable level of service that meets ratepayer's expectations.
- Continuation of the business improvement strategies underway with further management scrutiny of expenditure and procurement processes;
- Improving revenue streams through SRV's.

The plan will deliver and build a strong, long term commitment across the organisation to financial sustainability and appropriate service delivery.

Water and Sewer management has also been addressed in this submission and it remains in a very positive frame in the context of the NSW Government Best Practice Management of Water Supply and Sewerage Framework and the future financial performance and asset management of Council.

It is noteworthy that there are a number of assumptions that underpin the proposed Improvement Action Plan that create a range of risks. In particular the key risks are:

- The outcome of the 2016 Council elections i.e. a new Council may not commit to the proposed Improvement Action Plan;
- Uncertainty associated with the SRV outcomes which fund the proposed works;
- The NSW Government not being committed in the long term to changing the way in which it works with local government;
- Features & benefits of becoming a Fit for the Future Council as detailed by the NSW Government are not forthcoming i.e.
 - No access to cheaper finance options;
 - No streamlined SRV process being available;
 - No additional planning powers given to local government and
 - Limited or no priority access to additional funding and grants.

1.2 Scale and Capacity

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

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

Yes (please see notes below)

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

As stated above, **in line with the recommendations of the Panel, Council is of the view that it has sufficient scale and capacity to remain a standalone entity.** This view has been formed following consideration of critical factors such as;

- **Population size:** Approximately 77,000 (est.) which is expected to grow to over 103,000 by 2036 representing an annualised growth rate of 1.3% pa. This means that the rate base will continue to increase and the development of housing will continue to provide development contributions. In the upcoming NSW Governments North Coast Regional Plan, Port Macquarie-Hastings Council is one of three centres that are to be classified as Regional Cities, with those three centres accommodating approximately 75% of the north coast's population growth to 2036.
- **Geographic size:** 3,683 sq klms, noting that all areas of the LGA can be reached within 1.5 hours of an existing Council office.
- **Robust revenue base & increased discretionary spending:** - \$84m in rates and annual charges with an additional \$29m in user fees and charges for services such as water, waste management, building and planning, animal registration, crematorium, airport and library. Projected modelling in this submission demonstrates capacity for the generation of operating surpluses into the future. Council has the capacity to fund capital works and infrastructure programs well into the future and has sound liquidity.

- **Ability to employ a wider range of skilled staff:** A significant population allows Council to attract and maintain a core of skilled and professional staff that has the capability to meet service demands and extend scope to meet new project needs. This level of staffing (an FTE of 490) means that where necessary staff can offer specialist expertise rather than cover extraordinarily broad portfolios. It has also meant that specialised procurement, ICT, HR, financial, community engagement, integrated planning and communications teams have been developed to support the organisation, which in turn leads to greater efficiency. Given the desirable location as well as limited alternative large employers in the location, Council is an employer of choice - this has been confirmed in biennial staff surveys.
- **Scope to undertake new functions and major projects:** Council will deliver a \$92m (est.) works program in 2015-2016 including several major infrastructure projects. There is demonstrated scope to undertake new functions including the establishment of a property business unit, establishment of a Place Making team, development of a Food, Soil and Water Research Centre in partnership with Charles Sturt University. A project management framework guides implementation of major projects and a governance model that encourages creation of reference groups and working parties for major internal and external projects underpinning the expectation that staff have scope for projects and new functions.
- **Knowledge, creativity & innovation:** Establishment of a Business Improvement Office in 2013 with a commitment to continuous improvement. Strong commitment by the management team to ongoing service improvement as evidenced by development of the procurement strategy, increased penetration into the community through on line engagement as well as extensive use of social media and new website development. Another innovative initiative is the WasteInfo App that helps you keep track of your bin collection days and lists which materials are suitable for which coloured bin, plus it has the ability to allow you to report problems and to set up notifications for yourself. Council has commenced works on the replacement of Stingray Creek Bridge, and has accepted an alternate design for the bridge replacement, which involves an innovative approach to both the construction methodology and the bridge substructure. Council has entered into a Memorandum of Understanding (MOU) with the Roads & Maritime Services (RMS) for the construction of a roundabout on a Council road. Historically the RMS would not undertake construction on local Council infrastructure, but due to the grant funding model applicable to this project, Council and the RMS entered into the MOU for the RMS to construct the roundabout.
- **Advanced skills in planning & policy development:** The size of Council has enabled specialist teams dedicated to planning and policy development in key areas such as integrated planning and reporting, community engagement, procurement, ICT and financial improvement.
- **Effective regional collaboration:** Council continues to participate in the Mid North Coast Regional Organisation of Councils (MIDROC) and has done since its inception. Council participates in 12 x sub-groups of MIDROC including asset management, procurement, customer service and planning. Council has entered into an MOU with Lord Howe Island and has provided assistance in the areas of compliance and financial services. Most recently Council has been a lead collaborator on a MIDROC asset management project called 'Apples for Apples' which is seeking regional alignment and consistency in the asset valuation methodology.

- **Credibility for more effective advocacy:** Council recognises the importance of assisting Not-For-Profit community groups and organisations that are interested in and working towards the enhancement of facilities and that improve the well-being of its residents. Council provides annual financial assistance in the vicinity \$1.4m to a broad range of groups to meet these aims. The Councillor Portfolio structure also allows specific advocacy on key high priority areas. Council has also made numerous submissions to the State Government on a range of issues as part of its advocacy for the area, for example in relation to local government reform, the review of the local government Act and various planning matters.
- **Capable partner for State & Federal agencies:** Council has a long history of collaboration with other levels of government and has partnered with other levels of Government and private industry to deliver to the community. Some of these projects are the development of a Food, Soil and Water Research Centre with Charles Sturt University; replacement of the Stingray Creek Bridge; upgrade of the Port Macquarie Airport; construction of the Sancrox Reservoir and development of sporting fields at Wayne Richards Park.
- **Resources to cope with complex and unexpected change:** Due to existing scale and capacity, PMHC has the ability to deal with uncertainty and unexpected change through the advanced development of the Integrated Planning & Reporting (IPR) framework that is in place, as well as the ability to rely on staff expertise. PMHC also has in place a range of actions included in the annual Operational Plan that have set measures against them and progress against these is reported to Council on a quarterly basis. This allows management and Councillors the ability to track progress against the targets set and allows Council to reprioritise works and projects in response to unexpected change.
- **High quality political and managerial leadership:** A resident survey in January 2015 (summary report attached to this submission) showed that with 90% of those surveyed being at least 'somewhat satisfied' with Council over the past twelve months, that the key contributors to community satisfaction are the leadership attributes of strong leadership, value for ratepayer's dollar and long term planning and vision. This supports the view that there is strong political and managerial leadership of Council. The current Council have implemented a Councillor Portfolio structure, which allows Councillors to focus on a particular area of interest, which also ensures an even spread of workload and influence. The current General Manager was appointed in June 2014 and a new organisational structure was unanimously adopted by Council in October 2014. This new structure saw two new Directors appointed. There is an ongoing commitment to customer satisfaction as evidenced in the recent resident survey (Jan 2015). The community size, its prime location and potential for growth has meant that the Council has been able to retain high quality political and managerial leadership.

2. Your council's current position

2.1 About your local government area

Explain the key characteristics of your local government area, your community's goals and priorities and the challenges you face in the future.

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

Council has evolved from a predominantly agricultural, timber and fishing based community to one that has a thriving tourism and retiree population situated in the mid north coast of NSW with an area covering 3686 sq klms. The estimated population is 77,000 with a forecast future annualised growth rate of 1.3% pa over the next 20 years. Each year, the area attracts over 1.6 million visitors to its beautiful beaches and hinterland. As growth has continued, there has been an increase in industries such as construction, health, disability support and aged care, education and training as well as the tourism related industries.

The Port Macquarie-Hastings community outlined its vision in "Towards 2030 Community Strategic Plan" as:

- Living in a harmonious, safe and connected community,
- Enjoying participatory local democracy,
- Accessing quality infrastructure including roads, waste, water and sewerage management,
- Benefiting from quality urban design that encourages use of open spaces and provides easy access between our towns and villages,
- Enjoying economic prosperity and having access to quality education and training,
- Actively participating in inclusive community activities, and
- Preserving and protecting our natural environment.

Council continues to build its Delivery Program, Resourcing Strategy and Operational Plans around this vision. A copy of the "Towards 2030 Community Strategic Plan", the Delivery Program and draft 2015-2016 Operational Plan are included as attachments to this submission.

In terms of demographics the Port Macquarie-Hastings SEIFA index (relative socio-economic disadvantage of an area) is 968.9. While higher than other areas in the mid-north coast region, it is not a wealthy area. Generally, the high level of retirees with fixed incomes and the rural

history and background has created an area dominated by industries related to supporting such demographics. The main employment is in lower paying industries with characteristics of high levels of casual labour and low qualifications i.e. retail and hospitality. Analysis of the qualifications of the resident population in the 2011 Census reveals that there are a smaller proportion of persons holding a bachelor or equivalent qualification together with a larger proportion of people holding no formal qualifications compared with the rest of NSW.

Compared with other areas of NSW, Council has a larger proportion of people with a disability, together with a higher than average level of ageing population. In 2011, there were small proportion of persons earning a high income (6.9%) and a larger proportion of persons earning a low income (42.7%). There are also a higher proportion of workers in the 45 - 74 age groups compared with the rest of NSW. The total employment estimate for the region is 23,206 jobs (2011 Census) and 6092 operating businesses.

The Port Macquarie town centre and industrial area are the main locations of employment in the region with many people travelling from Wauchope and surrounding rural areas and the Camden Haven to Port Macquarie for employment. The main hospitals and medical specialists are located in Port Macquarie as are the main schools, noting however that Wauchope and the Camden Haven do have primary and high schools and Wauchope has a small hospital. The UNSW has a Rural Medicine School in Port Macquarie, Charles Sturt University and Newcastle University have campuses at Port Macquarie and the TAFE has a major campus at Port Macquarie with a branch at Wauchope.

Council manages on behalf of its community, assets totalling **\$2.7 billion** based on current replacement value, including water and sewer assets. This includes a major network of roads encompassing close to 1400 klms of rural and urban roads, two thirds of which are sealed.

2.2 Key challenges and opportunities

The FFF measures have been linked to the key challenges and opportunities as follows, Sustainability = S, Infrastructure and Service Management (ISM) and Efficiency (E).

Strengths	Weaknesses
<p>Commitment to financial, efficiency and effectiveness reviews - S, ISM, E,</p> <p>Robust strategy and planning framework - E</p> <p>Growing levels of community satisfaction with service delivery- ISM</p> <p>Confidence in Councillors - shift from being under Administration- E</p> <p>Commitment to learning and development - E</p> <p>Large appropriately zoned land availability - S</p> <p>Strong commitment to improved financial and procurement management – S, E</p> <p>Strong focus on customer service - ISM</p> <p>Commitment to developing a sense of place - S</p> <p>Size allows for economies of scale – S, E</p> <p>Strong focus on community engaged with Council – ISM</p>	<p>Infrastructure backlog – ISM, S</p> <p>Asset age – ISM, E</p> <p>Reliance on rates (subject to rate pegging) for revenue source including high level of non-rateable land and exemptions - S</p> <p>Over-reliance on grants for funding of assets – S, ISM</p> <p>Ageing workforce - E</p> <p>High service level expectations of community - ISM</p> <p>Prior period of “administration” and senior executive turnover has created relative instability over several years – E</p> <p>Size of physical area to be serviced by Council – S, ISM, E</p> <p>“Competition” by areas for limited resources- S, E</p>

Opportunities	Threats
<p>Continuing population growth - S</p> <p>Strong land assets - S</p> <p>Good recent investment in hospital and education infrastructure - S</p> <p>Attractive location for tourism and retirees - S</p> <p>Increasing emphasis as education hub- S</p> <p>Prime location approx half way between Sydney and Brisbane - S</p> <p>Regional airport that can cater for 180 seat passenger aircraft (previously only 100 seat aircraft) - S</p>	<p>Uncertainty surrounding and limitations of funding framework and arrangements from State and Federal Government - S</p> <p>Changing legislative framework for local government - S</p> <p>Cost shifting between Federal and State levels of government - S</p> <p>Ageing population shifts and expands demand for services - ISM</p> <p>Over reliance on limited number of industries to sustain economic growth - S</p> <p>Continuing population growth placing pressure on existing assets while also increasing the demand for new infrastructure and services - S, ISM</p> <p>Uncertain State & Federal political environment - S, E</p> <p>Regional location has higher freight costs and fuel costs - S, E</p> <p>Coastal erosion - E</p> <p>Impact of rising sea levels - S, E</p>

Analysis of the above SWOT suggests that the key areas to be included in the improvement strategies will need to:

- Capitalise on the continuing growth of the region;
- Improve asset management on an ongoing basis;
- Increase Council revenue opportunities and establish future financial sustainability and
- Maintain or reduce expenditure.

2.3 Performance against the Fit for the Future benchmarks

Sustainability				
Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-0.10% = Average over 3 years 2011/12, 2012/13 & 2013/14	No	-14.68% = Average over 3 years 2014/15, 2015/16 & 2016/17	No
Own Source Revenue Ratio (Greater than 60% average over 3 years)	64.60% = Average over 3 years 2011/12, 2012/13 & 2013/14	Yes	71.21% = Average over 3 years 2014/15, 2015/16 & 2016/17	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	46.04% = Average over 3 years 2011/12, 2012/13 & 2013/14	No	43.39% = Average over 3 years 2014/15, 2015/16 & 2016/17	No

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

There are two benchmarks that have not been met: Operating Performance and Building and Infrastructure Asset Renewal Ratios.

Operating Performance is impacted by historical constraints as well as funding limitations. The Port Macquarie-Hastings community has high and increasing service level expectations. This does not always equate with its willingness and / or capacity to pay.

A number of factors impact on the revenue side, including rate pegging; current rates exemptions and subsidies; regulated fees or charges or charges that do not reflect a user pays philosophy; investment orders that somewhat constrain investment revenue; inability to consistently derive dividends from Water/Sewer funds; economic climate has depressed land sales impacting on Council's ability to reduce excess assets; the current grant funding model available to local government (Federal and State) and commerciality constraints associated with local government.

On the expenses side, ongoing cost shifting from other levels of government (in the order of \$9 mil pa); limitations and associated costs linked with the current Local Government Award (i.e. making Local Government uncompetitive in the market place in some circumstances); asset depreciation methodology; the physical size of the LGA and in particular the size of the road network which covers over 1400 klms of urban and rural roads (two thirds of which are sealed); together with other transport assets and the current costs of debt servicing.

Building and Infrastructure Asset Renewal is also impacted by the current depreciation and asset renewal expenditure capture and methodology and current grant funding model i.e. strong pressure to construct new assets rather than renew or maintain existing assets. There has also been strong political pressure from the State & Federal governments to direct funds to new assets rather than asset maintenance. Another factor on assets is the "inheritance" of assets without an appropriate revenue stream.

Some of these issues have been longstanding based on historical constraints as well as precedents and the opportunity that the FFF process has created is to review these factors and explore what could and should be modified.

2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management				
Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Greater than 2%)	20.51% = 2013/14	No	18.16% = 2016/17	No
Asset Maintenance Ratio (Greater than 100% average over 3 years)	33% = Average over 3 years 2011/12,2012/13 & 2013/14	No	36.72% = Average over 3 years 2014/15, 2015/16 & 2016/17	No
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	8.65% = Average over 3 years 2011/12,2012/13 & 2013/14	Yes	7.02% = Average over 3 years 2014/15, 2015/16 & 2016/17	Yes

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

Infrastructure Backlog and Asset Maintenance ratios have not been met. The factors impacting why they have not been met are similar to the benchmarks not met for the Sustainability benchmark, namely:

- There is a significant asset infrastructure base to maintain – valued at over \$2.7 billion based on current replacement value. This asset base has developed over a significant period of time, the condition of which is reflective of Council's inability to adequately fund the maintenance and renewal of this asset base. This is compounded by the fact that many of these assets were all acquired in a similar period, requiring increased maintenance and / or renewal at the same time.
- The age of the infrastructure is presenting real issues in relation to maintenance which is currently estimated at \$43m pa.
- The methodology used to assess the existing infrastructure backlog identified all assets in “below average” condition regardless of required intervention timing. Subsequently, a consistent approach between the Mid North Coast Regional Organisation of Councils (MIDROC) has been developed.
- The decision making process previously employed by Council to capture and value assets, establish appropriate and realistic levels of service (rather than aspirational) as well as estimate the backlog, have all produced an unnecessarily high asset valuation. This is currently subject to a major review being undertaken in conjunction with Jeff Roorda and Associates (JRA) and the results are progressively being implemented. This review is being undertaken in collaboration with other MIDROC Councils.

2.3 Performance against the Fit for the Future benchmarks

Efficiency				
Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	Decreasing = Five year trend data - 2009/10, 2010/11, 2011/12, 2012/13 & 2013/14	Yes	Decreasing - Five year trend data - 2012/13, 2013/14, 2014/15, 2015/16 & 2016/17	Yes

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

Meets benchmark

2.4 Water utility performance

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

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

Yes (please see notes below)

The Council Triple Bottom Line (TBL) summaries from the 2013/14 NSW Water Supply and Sewerage Performance Monitoring report indicate 90% compliance in implementation of all requirements for water supply. It is noted in the summary that the Strategic Business Plan is over 4 years old and Council needs to prepare a 30 year IWCM strategy and financial plan in accordance with the July 2014 IWCM checklist.

Council adopted strategic business plans for both water supply and sewerage services in September 2014, outside of the reporting period for 2013/14 performance reports. In addition, Council considered a report at the February 2015 meeting and resolved to accept the tender from Jacobs Group to develop the PMHC integrated water cycle management strategy. Current timetable for completion is October 2015.

Reference is also made to the need to implement appropriate residential charges (75% usage) Similarly, the TBL summary for sewerage performance references strategic business plan and IWCM, although records 100% implementation of all requirements.

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

As defined in the 2013/14 Annual Financial Statements:

Sewer fund: **\$0**

Water fund: **\$1.69m** which will be amended to **\$0** in the 2014/15 Financial Statements

2.4 Water utility performance

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

Capital works			
Proposed works	Timeframe	Cost	Grants or external funding
Granite Street 20 ML reservoir construction	2016/17	\$4,000,000	Internal
Sancrox reservoir to Area 13 trunk main	2017/18	\$1,800,000	Internal
	2018/19	\$4,896,000	Internal
Southern Arm trunk main: Cowarra dam to Pacific Highway	2016/17	\$5,500,000	Internal
	2017/18	\$2,000,000	
Wauchope water treatment plant to Yippin Creek trunk main	2016/17	\$1,350,000	Internal
Granite Street 19ML reservoir repair	2018/19	\$1,297,000	Internal

Cowarra Dam pump station	2018/19	\$1,297,000	Internal
Cowarra Dam to Sancrox DN750 Trunk main	2018/19	\$4,896,000	Internal
Area 15 : 10ML water reservoir	2019/20	\$3,358,000	Internal
Ocean Drive : Marbuk Valve to Maher Road trunk main upgrade	2019/20	\$1,141,000	Internal
Port Macquarie dam WTP facilities - prelim to construction of plant	2019/20	\$1,343,000	Internal
Area 13 sewerage treatment plant	2019/20	\$6,000,000	Internal

2.4 Water utility performance

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

Yes (please see notes below)

Four years out of five in the asset revaluation cycle the funds generally show an operating profit, however the year following will sometimes show a loss depending on the quantum of the change in the asset value.

If there is a significant increase in the asset values then the depreciation expense will increase in the following year and may result in an operating loss.

2.4 Water utility performance

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

Improvement strategies		
Strategy	Timeframe	Anticipated outcome
1. Review Strategic Business Plans (current plans adopted September 2014)	Council to adopt updated plan by end of 2018	Water and Sewerage assets are planned, managed and budgeted into the future meeting community needs
2. Review Asset Management Plans for water and sewer (last revision January 2015)	Asset Management Plans to be reviewed annually	Asset management plans are updated annually which allows appropriate management and oversight
3. Review Integrated Water Cycle Management Strategy (Programmed for adoption October 2015)	Council to adopt updated IWCM by end of 2015	Appropriate plans and actions are developed to deal with drought management, demand

		management plan, secure yield and reclaimed water. All reviewed against current trends and expectations.
4. Annual review of long term works program	Annual review	Work Program integrates customer / Govt and Council requirements.
5. Review Development Servicing Plans for water supply and sewerage (adopted September 2014)	DSP's updated and adopted by Council by end of 2019	Developer contributions remain at appropriate levels to fund future works

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

3.1 Sustainability

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

Council has assumed that it will be successful in embedding its current Special Rate Variation (SRV) of 4.43% into its future base rate and gaining ongoing increases in its base rate through future SRV processes. It has also assumed that rates income will continue to grow in line with the forecast population growth and that a viable and ongoing grants program from both the Federal and State Governments will be available to support infrastructure development, i.e. maintenance and renewal focussed, rather than for the construction of new assets.

Council is undertaking a rigorous asset management review which entails asset valuation, depreciation methodology, risk management, assessment and capture of expenditure associated with assets. It is assumed that this will be implemented in 2015/16 and will impact asset management in 2016/17 – 2019/20. Council is also implementing a range of other business improvements to increase its financial sustainability, these include implementing a procurement strategy and service reviews. A copy of Councils Asset Management Strategy is attached to this submission.

Council adopted a procurement strategy in September 2013. In recognising the critical importance of procurement and the impact that improved procurement processes can have on the organisation from an efficiency and financial perspective, the development of the procurement strategy was commenced in March 2013. It is essential for the future sustainability of PMHC to have the procurement capability to meet its needs and to be able to deliver sustainable best value for money to the community. Updates on the procurement strategy are reported to Council on a quarterly basis. During the quarter to 31 March 2015 there was a continued focus on maximising savings across Council's procurement spend. Savings are being achieved in several ways and these include:

- Existing contract review, ongoing monitoring and negotiation;
- Introduction of a competitive processes where one may not have previously existed;
- Collaborations in the procurement process;
- Retention of existing pricing (cost mitigation of CPI increases);
- Cost avoidance (efficiency);

- Staff education regarding best value available through existing contracts and procurement options.

A copy of the procurement strategy is attached to this submission.

Service reviews are part of an overall business improvement strategy currently in place at PMHC. In May 2014, Council unanimously adopted a service summary methodology that detailed the first steps in the process of undertaking full service reviews. This methodology aligned with the Australian Centre of Excellence for Local Government (ACELG) framework, noting that the ACELG were engaged by Council to assist with the service summary process. The first phase of this project is now complete and Council is about to embark on the full service review process. This process will ensure that Council is delivering services in the most efficient and effective way possible. The overarching outcome from the service reviews is to improve our service delivery to the community by ensuring Council is delivering agreed services at the agreed level to the community. A copy of the service summary methodology is attached to this submission.

Further to the above-mentioned process, Council has a long history of undertaking efficiency reviews. At the May 2012 Council meeting a report was tabled that detailed the major savings that have been achieved since 2008-2009 as follows:

- 2008-2009 (reflected in 2009-2010): **\$4.05 million** (This was a mix of redundancies and vacant roles not being filled, as well as service reductions & budget savings);
- 2010-2011 – line by line budget reviews: **\$835,540**;
- 2011-2012 – line by line budget reviews: **\$525,000**.

As can be seen from the information above, Council has undertaken a series of reviews over the years and the above-mentioned service review process is the next phase of this process.

In addition to the above, Council has agreed to the sale of certain land assets which are excess to requirements as well as the establishment of a property business unit to drive a stronger business focus on land assets. It is assumed that these initiatives will increase revenue, harvest ongoing savings and / or reduce expenditure.

Additional revenue will be derived from user fees and charges, and from deriving ongoing dividends from Water and Sewer funds.

Specific detail is outlined in Table 3.1.

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

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

In addition to the assumptions outlined above, a number of assumptions have been built into the financial modelling scenarios including:

Description	Growth	Price	Combined
Revenue			
Ordinary Rates	1.0%	2.4%	3.4%
Annual Charges (exc. sewerage and stormwater)	1.0%	2.4%	3.4%
Sewerage Annual Charge (until 2017/18)	1.0%	4.5%	5.5%
Stormwater Drainage Annual Charge	1.0%	0.0%	1.0%
User Charges (exc. sewerage)	1.0%	2.4%	3.4%
Sewerage User Charges (until 2017/18)	1.0%	4.5%	5.5%
Fees	-	-	3.0%
Other Revenues	-	-	3.0%
General Grants and Special Purpose Grants	-	-	3.0%
Contributions – Operational	-	-	3.0%
Expense			
Employee Benefits and On-Costs	-	-	4.0%
Borrowing Costs (Tip Remediation)	-	-	3.0%
Materials & Contracts	-	-	3.0%
Depreciation	-	-	4.0%
Other Expenses (exc. electricity/heating, valuation fees, payments to other levels of government)	-	-	3.0%
Electricity and Heating	-	-	5.0%
Valuation Fees	-	-	10.0%
Payments to other levels of government	-	-	5.0%

3.1 Sustainability

Outline your strategies and outcomes in the table below.

3.1 Sustainability				
Objective	Strategies	Key milestones	Outcome	Impact on other measures
1) Improve Operating Revenue (Ratio #1)	A) Retention of existing SRV and further increase rating revenue through either an SRV or equivalent process	<p>The additional revenue generated from the two SRV's on a yearly basis will be:**</p> <p>2016/2017 \$0</p> <p>2017/2018 \$6.701m</p> <p>2018/2019 \$12.012m</p> <p>2019/2020 \$17.875m</p>	Improvement in operating performance ratio through this increased revenue *	<p>Provide additional revenue to bridge gap between actual and required maintenance, improving the asset maintenance ratio.</p> <p>Will provide additional revenue for infrastructure renewals which will improve the renewals ratio and infrastructure backlog ratios</p>
	B) Review of user charges and fees and implementation of user pays philosophy more	Proposed increase in, burial fees, crematorium memorialisation fees, regulatory fees and	Improvement in operating performance ratio through increased revenue*	Provide additional revenue to bridge gap between actual and required maintenance,

	broadly	<p>parks and reserves usage.</p> <p>2016/2017 \$350k</p> <p>2017/2018 \$357k</p> <p>2018/2019 \$365k</p> <p>2019/2020 \$372k</p>		<p>improving the asset maintenance ratio.</p> <p>Will provide additional revenue for infrastructure renewals which will improve the renewals ratio and infrastructure</p>
	<p>C) Land review. Implementation of a Property Business Unit, sale of surplus residential land to seed fund development on key commercial sites to derive an ongoing revenue stream for Council.</p>	<p>Potential Impact (subject to market demand, Council resolutions) can be:</p> <p>2016/2017 \$335K</p> <p>2017/2018 \$867k</p> <p>2018/2019 \$1.393m</p> <p>2019/2020 \$1.765m</p>	<p>Improvement in operating revenue will result in achievable ongoing revenue streams of \$1.765m annually*.</p>	<p>Provide additional revenue to bridge gap between actual and required maintenance, improving the asset maintenance ratio.</p> <p>Will provide additional revenue for infrastructure renewals which will improve the renewals ratio and infrastructure</p>
	<p>D) Derive dividend revenue from Water/Sewer funds by meeting compliance obligations, managing depreciation and ensuring funds are in profitable position.</p>	<p>The revenue generated on a yearly basis from Water & Sewer fund dividends are:</p> <p>2016/2017 - \$667k sewer & \$661k water</p>	<p>Improvement in operating revenue in the amount of \$7.036m for the four year period.</p>	<p>Provide additional revenue to bridge gap between actual and required maintenance, improving the asset maintenance ratio.</p> <p>Will provide additional</p>

		2017/2018 - \$906k sewer & \$978k water 2018/2019 - \$915k sewer & \$988k water 2019/2020 - \$924k sewer & \$997k water		revenue for infrastructure renewals which will improve the renewals ratio and infrastructure
2) Reduce Operating Expenses (Ratio #1)	A) Loan review. Review of high cost loans, current break costs, and negotiation with banks to reduce interest cost.	The projected savings to be achieved through this review on a yearly basis will be: 2016/2017 - \$295k 2017/2018 - \$272k 2018/2019 - \$240k 2019/2020 - \$226k	Reduction in operating expense \$1.033m over the 4 years	The reduction in operating expenses will improve the Operating Performance ratio, provide more revenue to be channelled into asset maintenance, renewal of assets and ultimate reduction of Council's infrastructure backlog and renewals ratios This will show an improvement in efficiency.
	B) Implementation of a regional framework to field test and review asset useful lives.	Reduction in various depreciation expenses including General Fund Buildings, Stormwater and Roads, will result the following yearly savings:	Collective reduction in operating expense over the 4 periods totalling \$3.481m	Reduction in depreciation will improve the Operating Performance ratio allowing for more revenue to be utilised into areas requiring greater funding and

		2016/2017 - \$820k 2017/2018 - \$852k 2018/2019 - \$886k 2019/2020 - \$922k		attention
	C) Procurement strategy implementation and ongoing leave management.	Based on the last Procurement strategy report, savings have been achieved of approximately \$500,000 . Assuming 50% related to general fund, this is an annual saving of \$250,000 . This is the conservative approach. This approach is appropriate given that savings will be assessed on a case by case basis and many may remain in the budget as an efficiency gain. Rigorous leave management is expected to gain cost savings of \$100,000 annually.	Reduction in operating expense \$350,000 annually from procurement and leave liability strategies combined.	Reduction in operating expenses will result in additional revenue to allow Council to utilise in areas requiring greater funding and attention Improvement in efficiency ratio.

3) Building and Infrastructure Asset Renewal Ratio (Ratio #3)	<p>A) Retention of existing SRV and further increase rating revenue through either an SRV or equivalent process</p> <p>B) Review of asset methodology and useful lives</p>	Application of funds from new SRV or equivalent process for renewals and review of depreciation methodologies will see the yearly ratio improve.	<p>Improved performance of ratio each year.</p> <p>2016/2017 - from 46.29% to 47.80%</p> <p>2017/2018 - from 48.72% to 64.03%</p> <p>2018/2019 - from 44.18% to 78.12%</p> <p>2019/2020 - from 48.31% to 101.57%</p>	This review has provided Council with a stronger methodology and credibility as to how it calculates its useful lives
	B) Audit of classifications to determine that expenditure is being captured correctly eg maintenance versus renewals versus new assets	This action does not necessarily have any quantifiable milestones but is considered good practice.		

* Improvement in this ratio is the same for both strategies as it was not possible to separately identify the improvement in operating performance.

** These numbers reflect the financial impact from both the new SRV and the proposed embedding of the existing 4.43% SRV, including the yearly anticipated rate peg (of 2.4%).

It should be noted that it is difficult to determine the individual impact of each action in isolation. As a result all savings should be viewed collectively having one overall impact on the particular ratio in question.

It should also be noted that no savings have been included from the service review process due to this project being in its early stages.

3.2 Infrastructure and Service Management

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

Council will continue to review all of its asset management plans in light of the work being undertaken with Jeff Roorda and Associates (JRA). This work entails accurately identifying the infrastructure backlog and maintenance levels, including an assessment of those assets that require immediate renewal or replacement due to presenting an unacceptable level of risk to Council and the community. It is assumed that funding will be allocated to deal with this backlog on an ongoing basis by Council and the State and Federal governments. Service levels will be reviewed in light of this work which will also require engagement with the community. A detailed community engagement process to determine future service level requirements is to be undertaken from August 2015 to February 2016. A copy of the high level community engagement plan is attached to this submission. This work will feed into future assets plans which are continually updated, which will in turn inform the Resourcing Strategy and the future Delivery Program and Operational Plans.

This submission assumes that the use of debt will continue, noting that the principles of inter-generational equity and affordable service levels are retained and the fact that Council currently meets its Debt Service Ratio. Additionally the borrowing position will be monitored to ensure that the level and costs of debt conform to the specified ratio and any future borrowings will conform with this as well.

Specific detail is outlined in Table 3.2.

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

Assumptions are as outlined in Table 3.2 below, noting that:

- Additional allocations of funding will be made towards maintenance expense.
- Additional allocations of funding will be made towards renewal expense.
- Interest and principal repayment projections are based on actual loan agreements.

3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

3.2 Infrastructure and service management				
Objective	Strategies	Key milestones	Outcome	Impact on other measures
1) To reduce asset infrastructure backlog	A) Allocation of an additional \$10.439m from funds including an SRV over 2016/17 – 2019/20 to supplement the existing asset maintenance program.	Additional yearly amounts allocated to each Operational Plan budget for asset maintenance will be: * 2016/17 - \$2.5m 2017/18 - \$2.56m 2018/19 - \$ 2.637m 2019/20 - \$2.742m	To ensure asset backlog levels are maintained in each financial year and improvement in asset maintenance ratio	Increasing spend on maintenance will improve the Asset Maintenance Ratio, but negatively affects the Operating Performance Ratio and Real Operating Expenditure ratios.
	B) Allocation of an additional \$26.857m from both SRV funds over 2016/17 – 2019/20 to supplement the existing asset renewal program	Additional yearly amounts allocated to each Operational Plan budget for asset renewals will be: ** 2016/17 - \$0	Reduction in asset backlog achieved in each financial year and improvement in the building and infrastructure renewals ratio	Increasing spend on renewals will improve the Building and Infrastructure Renewals ratio.

		2017/18 - \$3.561m 2018/19 - \$8.778m 2019/20 - \$14.518m		
	C) Reduction in assets that are surplus to requirements	Ongoing review of necessity and viability of assets		
2) To maintain assets at required service level	A) Allocation of additional \$10.439m from funds including an SRV over 2016/17 – 2019/20 to supplement the existing asset maintenance program	Additional yearly amounts allocated to each Operational Plan budget towards asset maintenance will be: ** 2016/17 - \$2.5m 2017/18 - \$2.56m 2018/19 - \$2.637m 2019/20 - \$2.742m	Improved life cycle of assets and community satisfaction with asset levels of service	Increasing spend on maintenance will improve the Asset Maintenance Ratio, but negatively affects the Operating Performance Ratio and Real Operating Expenditure ratios.
	B) Ongoing review of asset management plans	All asset plans are reviewed annually	Improved life cycle of assets and community satisfaction with asset levels of service	
	C) Ongoing cyclical review of service levels with the community	Service levels are reviewed once in each Delivery Program cycle	Improved life cycle of assets and community satisfaction with asset levels of service	

3) Manage future asset acquisition	A) Establish a decision protocol regarding Council accepting an asset in the future if the income stream for future maintenance is not provided.		Available funds are directed to existing assets before acquiring new assets.	Improvement in overall Sustainability across all ratios
4) Debt Service ratio remains within benchmark	A) Continuing management of existing debt levels.	Annual review	Appropriate management of debt levels including principles of inter-generational equity and affordability.	Improvement in overall Sustainability across all ratios by using debt appropriately.
	B) Ongoing monitoring of borrowing position, including new and expiring debt facilities.	Quarterly review of borrowing position or earlier if need arises	Appropriate management of debt levels including principles of inter-generational equity and affordability.	Improvement in overall Sustainability across all ratios by using debt appropriately.

* These numbers reflect the additional revenue allocated to the maintenance budget as a result of the additional revenue anticipated from both the new SRV and the proposed embedding of the existing 4.43% SRV (inclusive of the yearly anticipated rate peg). A proportion of the revenue in the Summary Table is allocated to the maintenance budgets with the remaining new SRV revenue allocation made to the renewal of infrastructure assets.

** As noted in * above, these numbers reflect the revenue allocated from the new SRV to the renewal of infrastructure assets along with revenue received from the proposed embedding of the existing 4.43% SRV (inclusive of the yearly anticipated rate peg).

It should be noted that it is difficult to determine the individual impact of each isolated saving, particularly when offset directly by an increase in maintenance. As a result, all savings should be viewed collectively having one overall impact on the particular ratio in question.

3.3 Efficiency

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

The strategies outlined below reflect the approach that has been adopted by Council over the last 18 months to critically assess all aspects of its operations and to look to decrease expenditure while maintaining and/or improving service delivery, all whilst being a growth Council.

This approach will be pursued over the next 5 years and Council will also implement any of the learnings derived from participation in the LGNSW/PWC Operational Effectiveness Survey which is essentially a benchmarking opportunity with a range of other Councils in NSW. The prime strategy outlined below relates to improvement of service delivery. This has entailed the development of a comprehensive service review framework aligned with the Australian Centre of Excellence for Local Government (ACELG) framework and a staged review program. This work commenced approximately 18 months and is ongoing. Further details of the service review project can be found in the response to *Section 3.1 - Sustainability* above.

Specific detail of the strategies to address efficiency is outlined in Table 3.3 below.

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

- It is expected that PMHC's real operating expenses will trend downwards over time.
- Downwards growth would be much greater except for increased allocations to maintenance to assist in meeting Infrastructure and Service Management ratios.
- PMHC's population is forecast to grow in line with NSW and Local Government Area Population Projections.
- Revenue growth from supplementary valuations is forecast to be 1% per year.
- Expenses are forecast to grow as included in the following table:

Expense			
Employee Benefits and On-Costs	-	-	4.0%
Borrowing Costs (Tip Remediation)	-	-	3.0%
Materials & Contracts	-	-	3.0%
Depreciation	-	-	4.0%
Other Expenses (exc. electricity/heating, valuation fees, payments to other levels of government)	-	-	3.0%
Electricity and Heating	-	-	5.0%
Valuation Fees	-	-	10.0%
Payments to other levels of government	-	-	5.0%

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency				
Objective	Strategies	Key milestones	Outcome	Impact on other measures
1) Improve financial management	A) Line by Line budget review	Quarterly review - ongoing	Improved accountability	Improvement in Sustainability
	B) Monthly report to Executive on achievement of budget and exceptions	Monthly report to the Executive -ongoing	Improved accountability and budgeting knowledge	Improvement in Sustainability
	C) Review of assumptions in the Long Term Financial Plan (LTFP)	Integration into the Resourcing Strategy in 2016/17	Decrease in expenditure	Improvement in Sustainability
	D) Implementation of the Procurement Strategy	Implementation completed by 2015/16	Decrease in expenditure	Improvement in Sustainability

2) Improve service delivery	A) Business improvement process of reviewing all services	Cyclical review undertaken of all services every 3 years commencing 2015/16	Improvement in service delivery identified, reduction in costs	Improvement in Sustainability and Infrastructure and Service Management
	B) Staff regularly identify potential efficiency and improvements leading to costs savings	Quarterly review of all staff suggestions to assess potential for savings - ongoing	Improvement in service delivery identified, reduction in costs, improvement in staff satisfaction	Improvement in Sustainability and Infrastructure and Service Management
	C) Assessment and Performance measurement of plan delivery is undertaken on a monthly basis	Monthly performance report provided to executive with exceptions noted - ongoing	Increased knowledge of performance delivery	Improvement in Sustainability and Infrastructure and Service Management
	d) Biennial customer satisfaction survey undertaken	Conducted every two years commencing 2017	Increased knowledge of satisfaction levels	Improvement in Sustainability and Infrastructure and Service Management
3) Improve HR management	A) Improve learning and development outcomes	Implement the L & D strategy by 2015/16	Improved staff knowledge and morale	Improvement in sustainability

	B) Review cost of recruitment	Annual review - ongoing	Reduction in cost of recruitment	Improvement in sustainability
	C) Implement strategies to reduce leave liabilities	Annual Leave balances reduced to under 8 weeks -ongoing	Reduction in expenses	Improvement in sustainability
4) Improve energy efficiency	A) Assess the cost/benefit of extending solar panels to more Council owned buildings	Remaining buildings assessed by 2016/17 year	Reduction in energy expenditure, Reduction in greenhouse gas emissions	Improvement in sustainability
5) Improve asset management	See asset management plans in Infrastructure and Service Management measure			Improvement in Sustainability and Infrastructure and Service Management

It should be noted that it is difficult to determine the individual impact of each isolated saving. As a result, all savings should be viewed collectively having one overall impact on the particular ratio in question.

3.4 Improvement Action Plan

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

Action plan	
Actions	Milestones
1. Special Rate Variation to embed the current 4.43% into the base rate together with program of rate increases for the following 5 years 17/18 - 8.1%, 18/19 - 8.1%, 19/20 - 8.1%, 20/21 - 8.1%, 21/22 - 6.73%) each of which is to become part of the base rate. This will need to be consulted with the community before being lodged and endorsed.	Considerable community consultation will be needed before any new SRV application. Council already has planned a program of comprehensive community consultation on service levels, to be completed by the start of 2016-2017, which would support any SRV applications to be submitted from that year.
2. Reviews of all services to ascertain if appropriate to develop a charging regime and an assessment of current user charges and fees undertaken to ensure that they cover costs and where appropriate embrace a users pays philosophy.	All Directors and Group Managers to review all Fees and Charges. This review will occur prior within 15/16 period as part of the preparation for the 16/17 budget cycle. The impact of this being that new charges and fees will have been exhibited and endorsed for implementation within the first year of the plan. It is expected that by 2019/2020, annual savings will be \$372,000.
3. Sale of identified land assets or other excess assets	The development of a Property Business Unit and sale of 2 key parcels of land will occur prior to the first year of the plan, being 2015/16. The impact being that the associated proceeds will have already been invested and generating \$85K in interest. This will provide additional revenue for the plan and also move

	forward investigations into the generation of additional revenue opportunities for Council into the future. It is expected that, subject to market forces, that ongoing annual revenue streams may be developed by 2019/2020 of \$1,765,000.
4. Derive dividend revenue from Water and Sewer funds.	It is anticipated that the Integrated Water Cycle Management Strategy will be adopted prior to the first year of the plan, satisfying one of the key criteria to permit the drawing of dividends, when allowable. Additionally, all asset revaluation reviews will have been completed prior to the first year of the plan. In the first year of the plan, Council will continue to monitor operations carefully to ensure that any opportunity to derive a dividend from both the water and sewer funds is captured. These have the potential to be in the vicinity of \$1,921,000 by 2019/2020.
5. Current loans interest rates renegotiated	Loan review commenced in 2014/15 with completion achieved within 2015/16 year, prior to the first year of the plan. The impact will be that the current loan book will have been reviewed and any associated savings as a result will flow directly into the plan. A reduction in interest expense as a result is expected to be \$226,000 by 2019/2020.
6. Asset Management Plans reviewed annually for all infrastructure asset classes	This review will provide a stronger linkage between the Asset Management Strategy and Long Term Financial Plan.

<p>7. Major asset classes service levels reviewed in conjunction with the community and in addition all other service levels progressively reviewed</p>	<p>This process will improve the quality of existing asset management plans.</p>
<p>8. Asset valuation and infrastructure backlog calculation methodology reviewed in accordance with JRA recommendations</p>	<p>Review of asset valuation and backlog methodologies is anticipated for finalisation prior to the first year of the plan, being 2014/15. This valuation will undergo constant refinement with assets built and capitalised. The impact to the first year of plan will be that there will be confidence regarding the rigor and robustness of the asset valuations which will see an improved position impacting directly on the financial performance of Council. The effect on depreciation is expected to be \$922,000 by 2019/2020.</p>
<p>9. Allocation of appropriate asset renewal and maintenance budgets established on an annual basis as outlined in the Asset Management Plans.</p>	<p>By the first year of the plan, the Asset Management Plans will have considerable robustness and should identify the key asset renewals in addition to a comprehensive maintenance program. Based on this, the plan will ensure that appropriate amounts will be allocated within the yearly budget process to both maintenance and renewals. The impact should be that both the ratios remain improving towards their associated benchmarks.</p>
<p>10. Rigorous financial monitoring and performance reporting continues</p>	<p>This rigorous monitoring is already a monthly and ongoing commitment by Council. It is anticipated that the impact to the first year of the plan will see opportunities for savings and exploration of revenue streams be routine and not by exception.</p>

<p>11. Procurement strategy continues to be implemented, in addition to rigorous leave management to manage growth in liability (and employee costs).</p>	<p>Procurement strategy will continue to be implemented and reported to Council on a quarterly basis. Focus is on best practice and cost savings. Whilst many savings may be in efficiency gains, desktop analysis demonstrates that cash savings may exist in the vicinity of \$250,000 annually. Ongoing rigorous leave management may achieve cash savings of \$100,000 per annum.</p>
<p>12. Improvement Plan integrated into Delivery Program, Resourcing Strategy and Operational Plan</p>	<p>Should Council's submission be deemed to be fit for the future, actions listed above will be incorporated into Councils 2016/17 Operational Plan where not already included.</p>
<p>* Please attach detailed action plan and supporting financial modelling</p>	<p>The Action Plan is as detailed above and financial modelling is attached titled Fit for the Future Ratio Outcomes.</p> <p>It should be noted that AEC's report is based on previous financial modelling scenario, which has now been superseded by the modelling included in this submission. The financial modelling on which this submission is based has ensured that PMHC will meet all 7 ratio's and is more robust than the modelling reviewed by AEC. The AEC report is attached for information titled Review of Fit for the Future Strategies Final - AEC Group.</p>

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

Council has conducted an extensive process of review including independent external assistance to develop its Fit for the Future Improvement Plan. This has included the following:

- Establishment of an internal working party;
- Development of a project plan to manage the project;
- Development of a community engagement process;
- Workshops with its Councillors as well as multiple discussions with specific Councillor Portfolios dealing with efficiency and effectiveness;
- Two formal reports to Council (February and June 2015);
- Engagement of the AEC Group to review work on the benchmarks, ratios, modelling and assistance with the development of appropriate strategies to address the gaps and improve financial sustainability. A copy of the AEC Group report is attached to this submission;
- Engagement of Jeff Roorda and Associates (JRA) to review asset valuation and infrastructure backlog calculations methodology in line with the collaborative MIDROC approach;
- Worked with the Australian Centre for Excellence in Local Government (ACELG) to ensure Council's in-house developed service review methodology was consistent with its framework. ACELG also facilitated discussions on the service review methodology and service reviews with Councillors;
- Conducted meetings with MIDROC to discuss the Independent Panel's recommendations, Fit for the Future reform program and Joint Organisations;
- Engaged with relevant unions in relation to the Fit for the Future submission and action plan;
- Provided staff briefings on Fit for the Future and its implications for Council.

3.5 Other actions considered

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

The following were considered during evaluation of options, but were not finally proposed:

- Formally requesting the State (within the submission and the Improvement Action Plan) to address the issue of cost shifting, which for PMHC will equate to approximately \$8.9 million in the 2015-2016 financial year. In the context of the action plan, if cost shifting did not exist at all or to the extent that it currently does i.e. at \$8.9 million per annum, then this amount would represent a major component of the funding Council is seeking under the action plan. The point being that Council currently has a funding shortfall of around \$18 million per annum based on meeting the FFF ratios. If Council no longer had to shoulder the burden of cost shifting, this annual shortfall would be around \$9 million only, thereby impacting less on the community and on their capacity to pay.
- A number of community assets were deemed to be non-essential, under-utilised or excess to requirements however given their placement in particular locations in the local government area and the importance of 'place' to these communities, it was considered inappropriate to propose disposal of these assets.
- The full amount of a Special Rates Variation (SRV) required to remove the asset backlog in one hit was considered an unreasonable financial imposition for our community in any one year. Accordingly, a more measured approach has been proposed.
- A range of SRV rates and timing were modelled and rejected following discussions with Councillors. The supported proposed SRV arrangements are included in the Improvement Action Plan.
- Review of an Energy Management Strategy - a range of energy audits and upgrades have already been completed for some Council owned assets but has not been completed for the entire relevant asset base given its cost and the long term nature of any return on investment.
- Tourism levies and event funding. This was not pursued as a short term measure given the current focus on economic development and tourism. Without further in-depth modelling and analysis of the impact of such charges, there could be unintended consequences to the economic prosperity of the region should additional charges be levied on this industry.

The following were not included as they are already underway or have been completed recently:

- An organisation wide staff led project to identify savings and efficiencies;
- A light fleet review to introduce a standardised low cost fleet, reduce FBT and encourage novated leasing as opposed to a Council owned vehicle;
- A commercial approach to the management of the Glasshouse (performing arts and conference facility, art gallery and Visitor

Information Centre), with the adoption of a new strategic plan resulting in a significant improvement of operating performance;

- A number of financial modelling scenarios were developed to ascertain the level of SRV required to meet the FFF criteria to various extents and in various timeframes. SRV requirements were only considered after all other action plans had been incorporated into the modelling.

A range of financial modelling scenarios are attached in the document titled Financial Modelling Scenarios Summary. Some scenarios do not meet the FFF benchmarks. Scenario 4B demonstrates that Council either meets or significantly improves its financial position within a 5 year period. However under Scenario 4B, the Building & Infrastructure Renewals ratio significantly improves, but will not be met. In addition, a number of risks remain which may impede Councils' ability to meet all criteria. These include a change in the economic climate and subsequent market demand on land sales for example. It should be noted that the AEC Group have provided their review based on Scenario 4B.

Also attached is a document titled The Fit for the Future Modelling Journey, which walks through the various steps taken to arrive at the various financial modelling scenarios. This document makes reference to the various modelling scenarios found in the attachment titled Financial Modelling Scenarios. Both documents should be read together.

Scenario 2C as detailed in the Fit for the Future Ratio Outcomes attached provides additional certainty to Council in regard to mitigating the risks inherent in the Improvement Action Plan and hence it is this scenario on which this submission is based. The Fit for the Future Ratio Outcomes document attached details how under Scenario 2C, each of the Fit for the Future benchmarks will be met or show improvement by 2025-2026.

4. How will your plan improve performance?

4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	(0.063) = Average over 3 years 2012/13, 2013/14 & 2014/15	(0.064) = Average over 3 years 2013/14, 2014/15 & 2015/16	(0.086) = Average over 3 years 2014/15, 2015/16 & 2016/17	(0.047) = Average over 3 years 2015/16, 2016/17 & 2017/18	(0.026) = Average over 3 years 2016/17, 2017/18 & 2018/19	0.023 = Average over 3 years 2017/18, 2018/19 & 2019/20	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	65.81% = Average over 3 years 2012/13, 2013/14 & 2014/15	66.66% = Average over 3 years 2013/14, 2014/15 & 2015/16	69.05% = Average over 3 years 2014/15, 2015/16 & 2016/17	73.38% = Average over 3 years 2015/16, 2016/17 & 2017/18	78.48% = Average over 3 years 2016/17, 2017/18 & 2018/19	79.74% = Average over 3 years 2017/18, 2018/19 & 2019/20	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	56.65% = Average over 3 years 2012/13, 2013/14 & 2014/15	72.60% = Average over 3 years 2013/14, 2014/15 & 2015/16	73.59% = Average over 3 years 2014/15, 2015/16 & 2016/17	77.99% = Average over 3 years 2015/16, 2016/17 & 2017/18	63.32% = Average over 3 years 2016/17, 2017/18 & 2018/19	81.24% = Average over 3 years 2017/18, 2018/19 & 2019/20	No Ratio is however improving and forecast to meet in 21/22
Infrastructure Backlog Ratio (Greater than 2%)	9.59% = 2014/15	9.03% = 2015/16	9.07% = 2016/17	8.85% = 2017/18	8.20% = 2018/19	7.06% = 2019/20	No Ratio is however improving and forecast to meet in 22/23

4.1 Expected improvement in performance (Continued)

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
Asset Maintenance Ratio (Greater than 100% average over 3 years)	49.82% = Average over 3 years 2012/13, 2013/14 & 2014/15	67.23% = Average over 3 years 2013/14, 2014/15 & 2015/16	86.80% = Average over 3 years 2014/15, 2015/16 & 2016/17	91.67% = Average over 3 years 2015/16, 2016/17 & 2017/18	96.56% = Average over 3 years 2016/17, 2017/18 & 2018/19	96.67% = Average over 3 years 2017/18, 2018/19 & 2019/20	No Ratio is however improving, and forecast to meet in 25/26.
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	8.92% = Average over 3 years 2012/13, 2013/14 & 2014/15	9.67% = Average over 3 years 2013/14, 2014/15 & 2015/16	10.29% = Average over 3 years 2014/15, 2015/16 & 2016/17	10.02% = Average over 3 years 2015/16, 2016/17 & 2017/18	9.38% = Average over 3 years 2016/17, 2017/18 & 2018/19	8.46% = Average over 3 years 2017/18, 2018/19 & 2019/20	Yes
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	<i>Declining -</i> 1.058 = Five Year Trend Data - 2010/11, 2011/12, 2012/13, 2013/14 & 2014/15	<i>Declining -</i> 1.039 = Five Year Trend Data - 2011/12, 2012/13, 2013/14, 2014/15 & 2015/16	<i>Declining -</i> 1.017 = Five Year Trend Data - 2012/13, 2013/14, 2014/15, 2015/16 & 2016/17	<i>Declining -</i> 1.012 = Five Year Trend Data - 2013/14, 2014/15, 2015/16, 2016/17 & 2017/18	<i>Declining -</i> 1.012 = Five Year Trend Data - 2014/15, 2015/16, 2016/17, 2017/18 & 2018/19	<i>Declining -</i> 0.991 = Five Year Trend Data - 2014/15, 2015/16, 2016/17, 2017/18 & 2019/20	Yes

4.1 Expected improvement in performance

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

Council expects to meet four ratios and show improvement in the remaining three ratios by 2019 - 2020. It expects to meet all ratios by 2025 - 2026. The reasons for this longer period are:

- The quantum and the need to review all assets;
- Capacity of the community to pay with SRV's in order to meet these benchmarks;
- Ongoing deterioration of older assets that will continue to require increased levels of maintenance and renewal;
- Time that will be needed to engage the community to discuss service levels of all assets and their ongoing maintenance requirements;
- Engagement with the community about overall service delivery and expectations and willingness to pay for particular service delivery requirements;
- Need to be realistic about the timeframe to sell those assets excess to requirements;
- Timing associated with when Council elections will take place and the impact this will have on planning arrangements.
- Proposed allocation of additional SRV funds to maintenance and renewals balanced against the performance of other ratios

This is on the basis that the IPART and the State Government approves the approach taken in this submission in relation to SRV modifications as well as other initiatives. It is important to note that substantial improvements will be made in all benchmarks during the defined period. The last ratio will be met in 2025 - 2026 being the Asset Maintenance Ratio, which is projected to be within 4% of the benchmark by 2018 -2019. This ratio could be achieved earlier should Council nominate to place further funding into this program, which must be balanced against the impact this will have against alternative ratios. Council has assumed that a component of SRV funds will be spent on renewals. This may not necessarily be the case as in reality; renewal works often contain a component of renewal work in addition to improvement works. In a high growth location, this is considered to often be the most efficient method of delivering such projects due to economies of scale.

It should be noted that regardless of the FFF process, Council has already embarked on a platform of reform and business improvements to build financial sustainability and will continue to implement these reforms, noting that these are being done incrementally rather than necessarily within a four year cycle. Council is confident that the FFF Improvement Action Plan given its consistency with the existing direction would bring forward financial sustainability, given it had been planned to undertake this work incrementally rather than with a “big bang” approach. Council will continue with its existing program of reviewing all services, strong focus on asset management, enhanced procurement management and rigorous financial and operational performance management.

5. Putting your plan into action

How will your council implement your Improvement Action Plan?

The Improvement Action Plan will be the responsibility of the General Manager; however key elements of its implementation will rest with other members of the Executive including Director Corporate and Organisational Services; Director Infrastructure and Asset Management and Director Community and Economic Development.

It is planned to integrate the FFF Improvement Action Plan into future One Year Operational Plans and to review and update the Four Year Delivery Program and Resourcing Strategy as appropriate should IPART and the NSW State Government support the approach outlined in this submission and Council is deemed to be Fit for the Future.

This enables the standard planning and performance reporting arrangements to monitor implementation. This includes monthly performance reporting (including financials) to the Executive Leadership Team and Council, quarterly reports on progress and exceptions to Council, six monthly Delivery Program updates to Council and an annual review of the Operational Plan implementation to the Council, community and Office of Local Government.

Council will monitor progress on the pilot program of Joint Organisation implementation to enable this to be further assessed for future implementation in our region as prescribed by the NSW Government.