

## Shellharbour City Council Improvement Proposal



Office of  
Local Government



# Getting started . . .

Before you commence this template, please check the following:

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

**Council name:** Shellharbour City Council

**Date of Council resolution endorsing this submission:** 23 June 2015

## 1.1 Executive Summary

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

Shellharbour City Council is pleased to present our Fit for the Future Improvement Proposal, and to demonstrate we have the scale and capacity to continue in our current form as a stand-alone Council. The Independent Local Government Review Panel did not recommend Shellharbour for amalgamation in its Final Report.

Shellharbour is a dynamic and rapidly growing city in an enviable coastal location with easy access to Wollongong, Sydney and Canberra. Our LGA is well resourced with local facilities including a hospital, TAFE, airport, major shopping centre (Stockland), bus/rail interchange, regional sporting complex and beachside recreation areas and we are close to major port facilities at Port Kembla.

Council, with its project manager Australand, is developing Shell Cove - the largest coastal tourist/residential development initiated by a local government authority in Australia. The development includes around 3000 residential lots, a 300 berth marina within an in-shore boat harbour, a golf course, parks, cycleways, and commercial, retail, tourist, and community facilities.

Council's past performance against the Fit for the Future ratios has been significantly influenced by low spending on asset renewal and a conservative approach to accounting for the infrastructure backlog and the required asset maintenance. These factors produced results below the ratio benchmarks, but which are now trending upwards.

A strong focus on asset renewal will bring substantial improvements, along with a better understanding of Council's assets and the community's expectations about asset servicing. We have introduced measures to:

- improve how we assess useful lives of assets
- ensure we undertake more preventative maintenance
- control service provision through internal service level agreements

We are confident these practices, combined with more realistic assumptions, methodology and condition assessment activities, will enable Council to meet mandatory benchmarks and improve performance against all other benchmarks.

Council is undertaking many initiatives to meet the community's current and future needs. Two-thirds of Shell Cove's residential dwellings and associated infrastructure has already been delivered, with Council to receive 50% of the net profits (profit distributions not expected before 2020). Council is developing the City Hub, which will include a city library and museum, auditorium, community meeting areas, Council chamber and new administration offices. Construction will begin in 2015/16 with the building due to be operational by mid-2017. We are proposing to develop a \$14.5m transfer station and food organics processing facility to improve waste recovery and reduce landfill at Council's key resource recovery site. We are also implementing the Libraries and Museum Strategy 2024, delivering improvements to library services across the city.

Council has a strong commitment to Integrated Planning and Reporting, and a demonstrated track record in effective community engagement. Community feedback informed the preparation and review of our IP&R documents and the application to IPART for a Special Rate Variation.

Shellharbour enjoys a positive working relationship with our neighbouring councils and has been an active participant in the Southern Councils Group. We look forward to further strengthening those ties and exploring new shared service opportunities, through the newly formed Pilot Illawarra Joint Organisation.

Council adopted the Improvement Proposal at its meeting of 23 June 2015 (**Attachment 9**).

## Scale and Capacity

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

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

**Yes – Shellharbour City Council has the scale and capacity to continue in its current form as a stand-alone Council – as identified by the Independent Local Government Review Panel.**

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

Shellharbour City Council has the scale and capacity to continue in its current form as a stand-alone Council. In its final report, the Independent Local Government Review Panel did not recommend Shellharbour for amalgamation.

Council is working toward financial sustainability and enhancing its capacity to improve services and infrastructure to the community. Many short and longer-term initiatives have been introduced to increase income and productivity, and reduce costs. Since February 2012, Council has been adhering to the initiatives of its Financial Strategy (**Attachment 1**).

Council's priorities include improving financial returns on business activities, completing the Shell Cove residential/tourist development, applying more ratepayer funding to asset renewal and investing in operational systems. As well as meeting current community needs, Council is planning for the LGA's growth and future development through key major capital projects such as the City Hub (including a city library and museum, auditorium, community meeting spaces, Council chamber and administration offices) and an organics processing facility at the Dunmore Recycling and Waste site.

The Review Panel identified that the Illawarra region's three councils - Wollongong, Shellharbour and Kiama - were rated as having a Moderate Financial Sustainability Rating and outlook by New South Wales Treasury Corporation (TCorp). Shellharbour was noted as having a Moderate-Negative outlook, and that the implementation of a Special Rate Variation approved to commence in 2013/14 "will address the issues council has been facing".

The Panel noted that in terms of economic, social, environmental and transport linkages, and for strategic planning purposes, the councils make up a well-established region with long-standing cooperation through regional organisations, although shared services activity is very limited.

The report highlights that the Illawarra faces major economic and social challenges, coupled with substantial urban growth in Wollongong and Shellharbour. The Panel considered whether a merger or mergers were necessary at this stage. It took into account four key factors:

- Each council appears sustainable for at least the medium term
- Existing boundaries do not pose significant urban management problems
- Water supply and sewerage are handled separately by Sydney Water
- Kiama has a distinctive rural and coastal setting and 'country town' character, compared to Wollongong and Shellharbour.

On that basis, the Panel considered that closer collaboration through a Joint Organisation should enable a sufficient response to regional challenges for some time to come.

Since the release of the final report the three councils, along with Shoalhaven City Council, have successfully applied to be a pilot Joint Organisation (JO). The JO will enable the four councils to consider strategic regional priorities and create a mechanism for state and local government to collaborate on agreed priorities in a more consistent, structured and effective way.

The pilot JO also provides an opportunity to explore additional shared regional services, such as the regional procurement project currently underway (under the auspices of the Southern Councils Group).

## 2. Your council's current position

### 2.1 About your local government area

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

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

The Shellharbour Local Government Area spans approximately 154 square kilometres on the Illawarra coastline and is approximately 100 kilometres south of Sydney GPO. The LGA is framed by the Illawarra Escarpment on its western side and the Pacific Ocean on the east. Our local government neighbours are Wollongong to the north, Kiama to the south and Wingecarribee to the west.

The 2011 Census showed 63,065 people living in the Shellharbour LGA. With a predicted annual growth rate of 2% over the next 20 years, the population is expected to exceed 85,000 by 2036. Most growth is likely to occur in the earlier part of the 20-year timeframe as many new release areas are completed. Of particular note is the Calderwood development, which will add around 4000 dwellings to the Shellharbour LGA.

Shellharbour has one of the youngest populations in NSW with a high proportion of young families - particularly in the new release areas of Shell Cove and Flinders. At the same time, the number of people over the age of 65 in Shellharbour is set to double over the next 20 years (a faster growth rate than the NSW and Australian average) due to the ageing population in suburbs such as Warilla, Mount Warrigal, Barrack Point and Barrack Heights. See Demographic overview on pages 8 - 11 in the Delivery Program 2013 – 2017 and Operational Plan 2015 - 2016 (**Attachment 2**).

With such a dynamic age structure, Council faces a challenge in providing facilities for a growing population, while maintaining and renewing existing assets. To address this, Council successfully applied to the IPART for a special rate variation, which commenced in 2013/14.

Council implemented Integrated Planning & Reporting in 2011, as a Category 2 Council and has established a strong framework to guide the organisation's planning, decision-making and reporting requirements. The framework ensures Council is well placed to deliver a sustainable future for the community.

The Shellharbour Community Strategic Plan (CSP) has been developed and delivered as a partnership between Council and the community and seeks to respond to community, environmental, leadership and economic challenges. The current CSP was reviewed and updated in 2013 (**Attachment 3**) and integrates with key Council documents.

Shellharbour City's vision is: "In 2030, Shellharbour City is a **dynamic** City that values and celebrates the unique diversity of our people, places and environment. We are a **connected** community working together to create a **safe, sustainable** future that provides **opportunities** for all to achieve their potential."

All IP&R documents strictly adhere to the strategies established in the Financial Strategy (**Attachment 1**) to ensure the organisation's financial sustainability remains a key focus. The Strategy identifies these principles:

1. Recurring income must exceed recurring expenditure
2. Each of Council's service delivery activities is to be cost and quality competitive
3. Asset renewal must have a higher priority than the creation of new assets, all other things being equal
4. Capital investment (expenditure) must be financed from a mix of reserves, grants, contributions and loans, but not operational income
5. Optimise returns from Council's commercial property holdings.



## 2.2 Key challenges and opportunities –

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Investment in alternative income sources – including the Shell Cove development</li> <li>• Own Source Revenue is strong</li> <li>• Commitment and implementation of a Financial Sustainability Strategy</li> <li>• Improving Asset Renewal Ratio</li> <li>• An improved Asset Management System</li> <li>• Improving Service Level Agreements</li> <li>• Environmental Leadership Program</li> <li>• Special Rate Variation in place for asset renewal</li> <li>• Proximity to Sydney and coastal location of the City</li> <li>• Long-standing regional cooperation with neighbouring councils</li> <li>• Willingness of Councillors to address necessary structural change</li> <li>• A small and manageable debt</li> <li>• Strong work ethic and positive culture among staff</li> </ul>	<ul style="list-style-type: none"> <li>• Current rate of improvement not matching Office of Local Government (OLG) targets</li> <li>• Challenge of maintaining assets within rate pegging; decision on SRV continuation</li> <li>• Public concern over the delivery of infrastructure and maintenance to older areas of the city</li> <li>• Need for further development of processes, policies and procedures</li> <li>• Asset management system requires further development</li> <li>• Previous focus on developing new assets rather than managing existing assets</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• New Illawarra Joint Organisation of Councils</li> <li>• Ongoing improvements to Asset Management System including review of the whole of life assessment; better understanding of asset base and the cost to manage it</li> <li>• Identify risk-acceptable income sources including loans</li> <li>• Positive engagement with the community</li> <li>• Establish and maintain closer links to state government</li> <li>• Undertake organisation-wide Continuing Improvement Program; rationalisation of services and assets</li> <li>• Refine internal Service Level Agreements and establish agreed levels of service for the community which are widely understood</li> <li>• Streamline infrastructure delivery process; review standards of infrastructure construction and repair</li> <li>• Improve the structure and processes associated with plant management and purchase</li> <li>• Partnering with non-government sector and through Public Private Partnerships</li> <li>• Ongoing development of Shell Cove project and realisation of revenue</li> <li>• Development of Illawarra Regional Airport precinct</li> <li>• Continued productivity gains through procurement initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in costs</li> <li>• Capacity for servicing new development infrastructure</li> <li>• Reduced grants from state and federal governments</li> <li>• Receiving inappropriate assets from organisations and developers</li> <li>• Changes in state government expectations</li> <li>• Change in planning legislation – Section 94</li> <li>• Inability to dispose of assets past their use-by date</li> <li>• Uncertainty of Council decisions during lead-up to elections</li> <li>• Changes to Local Government Act unknown</li> <li>• Little community drive for environmental improvement</li> <li>• Asset ratio requirements divert environmental focus</li> </ul>

## 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?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-13.02%	No	-4.70%	No
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	72.93%	Yes	79.66%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	29.23%	No	131.14%	Yes

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

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

#### Operating Performance Ratio

While Council's projected ratio of -4.70% or single year result of -0.40% for 2016/17 is below the break-even benchmark, significant improvement has been made from the -13.96% mark of 2013/14. This improvement can be attributed to the initiatives detailed below.

The single year Operating Performance Ratio result of -0.40% in 2016/17 represents a deficit amount of approximately \$340,000. In 2016/17, Council has included an expense item of \$883,000, for expected leaseback expenses for its current administration building. The building is being sold as part of funding for the City Hub project (refer to the description of the Hub project in the Executive Summary). This expense is considered to be an abnormal or one-off item which, when removed, results in Council having a positive single year Operating Performance ratio in that particular financial year.

It should be noted that a number of the initiatives outlined below are expected to deliver productivity gains beyond 2016/17.

### ***Initiatives for improvement from 2013/14 to 2016/17***

#### **Depreciation**

Council continues to gain a better understanding of our assets including their conditions and likely useful life. This is reflected in the depreciation estimates in the 2015/16 budget and Long Term Financial Plan 2015/16 to 2024/25 (**Attachment 4**) and the Infrastructure Assessment Report prepared by JRA (**Attachment 5**). Until this financial year, Council's view of asset condition and useful life has been very conservative, which has impacted heavily on Council's income statement result and operating performance ratio through the overstatement of depreciation.

#### **Special Rate Variation (SRV)**

Council had a SRV application approved by the IPART in June 2013. The variation was for a four year term from 2013/14, with a cumulative increase of 43% over that time. The application was based on funding for asset renewal. The increase has contributed to the improvement in Council's operating performance ratio with any expenditure associated with the approval being capitalised and not impacting on the income statement. A copy of Council's SRV application is available at <http://www.shellharbour.nsw.gov.au/default.aspx?WebPage=1666>

#### **Fees and Charges**

One of the strategies in Council's Financial Strategy is that recurring income must exceed recurring expenditure. One action identified to help achieve this principle is to clearly understand the cost of providing services, and to price them accordingly. This includes the need to identify the resources used to provide a service. As well as direct costs, appropriate allocations of indirect costs have to be incorporated to determine the full cost of providing the service.

A review of fees and charges in 2013/14 resulted in changes to the pricing for a large number of fees. This occurred over two or three years (depending on the fee) where substantial price increases were required.

## Reduction of Costs

Council's Long Term Financial Plan (including 2016/17) factors in some reductions in expenses as a result of expected productivity efficiency gains. The following initiatives will assist in achieving these savings:

- i. Service Level Agreements (SLAs) – In considering the cost of service delivery, Council has established SLAs between its Corporate Policy Directorate and the service delivery arm of Council, Shellharbour Enterprises. The SLAs detail the services to be delivered and associated resource allocation. There has been a strong focus on competitive cost and quality. This is an ongoing process which will be continually reviewed and refined. External benchmarking is in progress for some maintenance activities regularly undertaken by Council.
- ii. Special Rate Variation (SRV) – As previously discussed, Council was successful with its SRV application in 2013. The additional rate income raised through the SRV is allocated to asset renewal. As more funding is spent on renewal, we expect that expenditure on maintaining Council's assets will increase at a slower rate or decline in some areas.
- iii. Waste Management – Operating results for Council's landfill site at Dunmore have been deteriorating for a number of years as the State Government's Waste and Environment Levy has the impact of increasing the cost of waste deposited in landfill. We have reviewed and benchmarked our operations to reduce costs, through initiatives including a reduction in staffing, the introduction of new technologies, and alternate work methods to improve the placement and compaction of waste in landfill. We have also completed a review of the plant used to operate the landfill and recommendations are now being considered.
- iv. Plant/Fleet Management – A review will occur in 2015/16 and this is expected to highlight areas of improvement and lead to cost savings. The review will include acquisition and disposal, maintenance and servicing, fleet private use arrangements and Fringe Benefits Taxation.
- v. Procurement – Planned initiatives include the implementation of Category Codes as recommended by Local Government Procurement. This will enable Council to gain a better understanding of its areas of spending and create opportunities to leverage off these categories. Category codes will also increase our control of expenditure and enable collaborative procurement through a common classification system.

Council has been involved in the establishment of panels for 15 trade services across the Shellharbour, Kiama and Shoalhaven local government areas. The use of vendor panels will provide increased competition and more options when choosing pre-approved tradesman, along with reduced lead times and risk to Council and a broader spread of site knowledge.

Joint tendering through the pilot Illawarra Joint Organisation for large spend category areas will help achieve efficiency gains through pooled resources and greater buying power. Areas where this has occurred, or will in the future, include legal services, construction materials, plant and security and cash management.

We will also implement a supplier management system for new performance based contracts. This will maximise the spend reduction across the organisation.

Other initiatives will see Council's procurement team perform a systematic review of suppliers of catalogue items through price comparisons, new product opportunities and other process improvements.

### **Building and Infrastructure Asset Renewal: Performance meets benchmark in 2016/17**

Council meets the benchmark for the Building and Infrastructure Renewal Ratio in 2016/17 with a three year average of 131.14%. This can be mainly attributed to the financial years of 2015/16 and 2016/17 where there is significant renewal expenditure on a small number of capital projects including the City Hub and Dunmore Resource Recovery Centre.

This ratio compares Council's annual asset renewal spends with annual asset consumption. The asset consumption is linked to depreciation and the required average annual expenditure on the renewal of infrastructure assets. The ratio is determined by the amount of funding allocated to asset renewal in the building and infrastructure asset categories, and depreciation levels. It should be noted that asset renewal expenditure requirements don't align with annual depreciation amounts i.e. drainage assets depreciate by a certain amount each year, however it is not efficient or practical to spend the same amount on renewals each year. While depreciation informs the average annual budget requirements over the longer term, the extent of renewal work undertaken depends on the condition of the asset, the desired level of service and associated intervention requirements. The extent of renewals required varies each year.

Previously, Council allocated around \$1.5 million to asset renewal works on an annual basis. In 2013, Council successfully applied to the IPART for a four-year SRV to commence in 2013/14. Approved rate increases are 8.4% in 2013/14, 9% in 2014/15, 10% in 2015/16 and 10% in 2016/17. The original intent of applying an SRV was to undertake sufficient asset renewal works to achieve a Building and Infrastructure Renewal Ratio of 80% by 2016/17.

Since Council's approval to apply an SRV, further assessment has been carried out on the condition of the road network and part of the stormwater network. This has led to the revision of remaining useful lives for road pavements and stormwater drainage pipes. The revised useful lives will reduce Council's annual depreciation expense and increase the Building and Infrastructure Renewal Ratio. It is expected that, with further condition assessment and a better understanding of the useful lives of assets including residual values, the ratio will continue to improve.

With surpluses forecast in Council's Operating Performance result, from 2019/2020 onwards, an opportunity exists to direct some of these surpluses toward asset renewal. The additional expenditure on asset renewal would improve the Building and Infrastructure Renewal Ratio.

## 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?
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	11.16%	No	1.36%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	52.77%	No	89.99%	No
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	0.27%	Yes	0.80%	Yes

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

#### Infrastructure Backlog Ratio: Performance meets benchmark in 2016/17

In August 2012, NSW TCorp provided Council with a Financial Assessment and Benchmarking Report. The report noted Council's increasing infrastructure backlog and that Council needed to ensure adequate resources were allocated to asset maintenance and renewal to prevent the backlog from continuing to grow.



At that time, Council's infrastructure backlog was estimated at 10.2% of its infrastructure asset value, up from 7% in 2009. Asset revaluations over the last four years have seen values increase substantially, which has in turn resulted in a higher annual depreciation expense. The valuation of the backlog has also increased.

The Office of Local Government (OLG's) Special Schedule 7 guidelines define "infrastructure backlog" as the cost to return assets to a satisfactory condition. Historically, Council had previously interpreted this to mean the total current replacement cost attributed to assets with a condition rating of fair (3), poor (4) or very poor (5). Effectively, Council was reporting the cost to bring assets to "as new" condition rather than "satisfactory" condition. Those calculations meant an overestimation of the infrastructure backlog, which is currently approximately \$50m with an infrastructure backlog ratio in excess of 10%.

Continued application of this overly conservative interpretation will continue to yield inflated infrastructure backlogs.

Typically, Council does not renew an asset that is in fair condition as it is performing its intended service satisfactorily. For the purpose of future calculations, it is proposed to limit the infrastructure backlog to the cost of unfunded renewal works where immediate intervention is required. An improvement measure required for the Fit for the Future Roadmap is to determine the immediate funding gap. This is expected to significantly reduce the current infrastructure ratio to achieve the necessary benchmark.

Another contributing factor toward the ratio is how condition ratings are determined. The condition rating system outlined in the Integrated Planning & Reporting Manual for local government in NSW (IP&R Manual) covers ratings between 'as-new' (1) and 'very poor' (5). For road and drainage assets, there was a misalignment between the criteria in the IP&R manual and Council's condition rating methodology, which was more conservative. Under our methodology, many assets were rated as being in lesser condition than if rated using the IP&R Manual. Council has now aligned its methodology with the IP&R Manual – including the calculation of forecast backlog ratios. We will explore further enhancement, by way of expanded condition assessment rating criteria, over the next 12 months.

In addition, a condition rating of fair (3) has been selected as satisfactory for the purpose of calculating future backlog amounts. Feedback from our biannual community surveys indicates medium to high satisfaction with assets provided by Council that are currently assessed as being in fair condition.

These revised assumptions and methodology have been applied to forecast the infrastructure backlog ratio. We expect to reach the benchmark in 2015/16 and reduce the backlog further over subsequent years. This also assumes asset renewal will be undertaken in accordance with the Long Term Financial Plan (LTFP) and based on known asset condition and remaining useful life assessment.

Council engaged Jeff Roorda and Associates (JRA) to independently assess Shellharbour's infrastructure backlog position (see Infrastructure Asset Report at **Attachment 5**). JRA defined infrastructure backlog as the 'unfunded high residual risk associated with assets essential to achieving Council's Community Strategic Plan (CSP)'.

As a result, their calculation of backlog used a different methodology which yielded a different amount. The JRA assessment estimated Shellharbour's infrastructure backlog at approximately \$27 million in the 2014/15 financial year by eliminating the current replacement costs of assets that are not in critical need of replacement nor present an unacceptable risk. Alternatively, Council's estimate is approximately \$14 million based on the cost associated with reverting assets to a satisfactory condition, being a portion of the full current replacement cost to renew assets to as-new condition. Both methodologies demonstrate that Council's position is improving and the ratio will meet the benchmark in 2015/16.

#### **Asset Maintenance Ratio: Does not meet benchmark**

The ratio is a comparison of actual expenditure on maintenance and the average required to be spent on maintenance.

Annual maintenance budget allocations have not kept pace with Shellharbour's growth. Increases to maintenance budgets have typically not exceeded CPI and have not properly accounted for the increased costs to maintain new assets donated through private development.

Historically, maintenance costs were calculated using assumptions, based on a portion of the current replacement costs for assets with condition rating of fair (3), poor (4) or very poor (5). Ideally, they should reflect the total preventative maintenance activities needed to achieve expected useful lives, plus an allowance for unforeseen reactive works. We are working to improve our ability to accurately estimate the costs to maintain assets. To date, maintenance requirements have been detailed and costed for pools, beaches, mowable open spaces, around 25% of the footpath network, and some buildings and recreational facilities. Council is increasing its level of planned maintenance to reduce the cost of reactive work and whole of life maintenance requirements.

We plan to substantially complete these activities to coincide with Council's next iteration of the Community Strategic Plan, with planning and review scheduled to commence in late 2015.

Community engagement carried out as part of Council's SRV application showed satisfaction with existing maintenance service levels, on the basis that asset renewal will be increased. Current spending on maintenance is considered adequate, except for a funding gap recently identified for recent and predicted asset growth. We are seeking efficiencies and adjusting service levels to better align maintenance expenditure with service needs and available budgets.

Council's increased expenditure on asset renewal, aided by the SRV and loans, means the condition of Council's assets will improve and maintenance requirements will decrease.

With more community engagement about service levels and more precise predictions of the costs to maintain assets, we expect continued improvements in the Asset Maintenance Ratio.

Efficiency gains and an increasing maintenance budget will be required to eliminate the current funding gap and to cater for predicted asset growth. Maintenance budget increases have been factored into Council's Long Term Financial Plan, however are relatively conservative to minimise the impact on our operating performance. It is important that we achieve efficiency gains to lower the cost of maintenance and to narrow the funding gap. Based on recent efforts to introduce efficiencies identified during the implementation of internal service level agreements, achievement of an efficiency gain of 0.5% per annum is considered to be manageable and realistic. While we do not expect to meet the numerical benchmark within the Roadmap timeframe, the IPART's requirement to meet or improve this measure within five years will be achieved. The numerical ratio will be achieved over a 10 to 12 year timeframe and could be expedited if greater efficiencies are attained.

## 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?
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	0.98 Increasing	No	0.98 Decreasing	Yes

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

#### Real Operating Expenditure Per Capita Data: Meets benchmark in 2016/17

The dwelling forecasts used for this ratio have been prepared by Informed Decisions (.id) and are based on a 'bottom-up' (aggregated) approach, where development assumptions are made for each individual small area and the forecast for the LGA is a sum of the forecasts for each of the small areas. With a 'top-down' (disaggregated) approach, as used by the Department of Planning, a figure for NSW is calculated and then split into Sydney and the rest of the state, with growth allocated across LGAs so that it adds up to the top level figures.

.id bases population projections on a number of data sources including: net migration rates; demolitions; occupation certificates; aerial photography and building approvals; birth and death rates; and household structures (age and type). id's methodology uses three interlinked models – the cohort component method (ages the base population on an annual basis and applies fertility and mortality rates); the housing unit model (the number of new dwellings on an annual basis, including non-private dwellings) and the household propensity model (the propensity of people of certain ages to live in household types and how this changes over time).

While the dwelling and population forecasts of .id and the Department of Planning showed similar growth trends over time, the methodology used by .id is considered more accurate as it takes into account local and regional factors. The .id projections have been used in the development of Council policies, strategies and plans including the Community Strategic Plan, Long Term Financial Plan, Workforce Management Plan, Section 94 Contributions Plan, Healthy Ageing Strategy and the Economic Development Strategy.

Council's Real Operating Expenditure per Capita has an increasing trend in the current 2014/15 budget and 2015/16 budget, with a decreasing trend into 2016/17.

The 2014/15 budget has increased from the 2013/14 actual results in a number of expenditure areas, however the main cause relates to Waste and Environmental Levy expenses. Council is this year carrying out capping works on one of its landfill sites, and materials must be brought onto the tip site for the capping works. The material attracts the levy, which is then paid to the State Government. There is an additional \$600,000 or 10% cost for this item in 2014/15 compared to 2013/14.

The increase in the ratio from the 2014/15 estimate to 2015/16 mainly relates to a change in the accounting treatment for the city's domestic waste which is collected by an external contractor. A decision has been made to separate Council's Waste Depot operations from the Domestic Waste Restriction. This has resulted in the need to build disposal expenses into our overall expense budget for next year along with a corresponding increase to income, which isn't reflected in this ratio.

## 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?

**Not Applicable – Sydney Water deliver all water supply and sewerage management for the Shellharbour City LGA.**

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

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

## 2.4 Water utility performance

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

### Capital works

Proposed works	Timeframe	Cost	Grants or external funding

## 2.4 Water utility performance

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

**Yes / No**

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



## 2.4 Water utility performance

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

### Improvement strategies

Strategy	Timeframe	Anticipated outcome
1.		

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

### 3.1 Sustainability

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

Shellharbour City Council is committed to being a financially sustainable organisation with enhanced capacity to improve services to the community. On 28 February 2012, Council adopted a Financial Strategy to provide direction for prioritising and allocating financial resources. The Strategy includes five principles:

1. Recurring income must exceed recurring expenditure
2. Each of Council's service delivery activities is to be cost and quality competitive
3. Asset renewal must have a higher priority than the creation of new assets, all other things being equal
4. Capital investment (expenditure) must be financed from a mix of reserves, grants, contributions and loans, but not operational income
5. Optimise returns from Council's commercial property holdings

The Strategy was used to develop Council's current suite of IP&R documents, adopted in 2013, and to prepare annual Operational Plans (including budgets), and Delivery Program and Long Term Financial Plan reviews in 2014/15 and 2015/16.

Key initiatives that demonstrate Council's adherence to the Financial Strategy and commitment to financial sustainability include:

- Procurement initiatives to provide recurrent operational savings.
- A review of Plant/Fleet Management in 2015/16 to identify opportunities for cost savings.
- Adopting Budgeting for Outcomes, to ensure a direct link to financial data and strategies and actions in the Delivery Program and Operational Plan.
- Service Reviews to increase efficiency.

- Service Level Agreements to establish what services will be delivered and the resources required.
- Sustainable Rate Increase to sustain existing assets thus reducing maintenance expenditure requirements and improve Council's building and infrastructure renewal ratio.
- Debt Management Strategy with a focus on loan borrowing replacing operating income for capital projects.
- Optimisation of returns from Council's commercial holdings including the Illawarra Regional Airport, the Shellharbour Beachside Tourist Park and the Links Golf Course. We have reviewed the management of these assets and put strategies in place to operate them in a more commercial-like manner.
- The ongoing delivery of the Shell Cove Project (refer to the description of Shell Cove in the **Executive Summary**). Council initiated the project in the early 1990s to stimulate the local economy and create jobs. Shell Cove is being delivered via a financial and legal agreement between Council and Australand (as the project manager and financial partner).
- Review of asset useful life expectancy based on asset condition assessment in order to reduce depreciation and align with community service level expectations.
- Consider an increase in asset renewal expenditure funded from future operating surpluses.
- Improved management of waste with the redevelopment of the Dunmore Resource Recovery and Waste Disposal Depot. The review and benchmarking of Council's landfill operations and the changes made to reduce the operating costs.

Further commentary on some of the initiatives outlined below:

#### **Procurement initiatives to provide recurrent operational savings**

As previously explained, there are a number of planned initiatives in the area of procurement including the implementation of Category Codes as recommended by Local Government Procurement. Council has also been involved in establishing trade services panels across Shellharbour, Kiama and Shoalhaven and will increase its involvement in joint tendering with neighbouring councils.

We will also implement a supplier management system for new contracts, and conduct a review of catalogue items through price comparisons, new product opportunities and other improvements.

Cost reductions from these initiatives will help Council meet the Operating Performance Ratio.

#### **Service Reviews to increase efficiency**

We will continue to carry out service reviews to examine whether services are being delivered in a way that best meets community needs and provides value for money. Productivity efficiencies gained will help us meet the Operating Performance Ratio.

**Service Level Agreements (SLAs)**

As outlined earlier in this submission, Council has established SLAs between its Corporate Policy Directorate and service delivery arm, Shellharbour Enterprises. A substantial amount of work has been performed over the last two years to enable cost and quality to be competitive, and external benchmarking is currently being applied to a selection of maintenance activities regularly undertaken by Council.

These initiatives will impact positively on the Operating Performance Ratio.

**Sustainable Rate Increase to sustain existing assets and improve Council's building and infrastructure renewal ratio**

The additional rate income raised through the SRV – approved in 2013 - is allocated to asset renewal. The approval allows the additional income raised to remain within the rate base, ensuring the compounding impact of any future rate increases (eg rate peg) is greater in the future. This also ensures the Building and Infrastructure Renewal ratio will remain at higher levels in the future than it would have prior to the SRV approval.

**Debt Management Strategy with a focus on loan borrowing replacing operating income for capital projects**

Since the adoption of financial strategies in 2012, loan borrowings have replaced the use of operating income for funding capital projects. This is demonstrated through the use of borrowings for road renewal works under the Local Infrastructure Renewal Scheme. Loan borrowings have also been drawn down for renewal works at Council's sports stadium and tourist park, and Council will have a significant borrowing for the City Hub project. The use of borrowings for asset renewal allows Council to increase the Building and Infrastructure Renewal Ratio, thereby improving its performance against this measure.

**Optimising of returns from Council's commercial holdings**

Council's commercially valuable assets include the Illawarra Regional Airport, Shellharbour Beachside Tourist Park and the Links Golf Course. We have reviewed the management of these assets and put strategies in place to conduct their operations in a more commercial manner. Where possible, estimates have been included to reflect these strategies, resulting in improvements to the Operating Performance and Own Source Operating Revenue ratios.

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.*

Assumption	Description
<b>1. Inflation</b>	An assumption of 2.5% inflation has been used as per Reserve Bank forecasts. Any changes in this amount reflect growth or increases that are estimated to exceed forecast inflation.
<b>2. Revenue Forecasts</b>	The sources of funds for Council are varied. Points 2.1 to 2.4 below provide further details of the sources of revenue budgeted for in 2015/16. This is also expected to remain an indicative breakup of sources of revenue for the term of the FFTF Improvement Plan.
<b>2.1 Special Rate Variation (SRV)</b>	<p>Rating is a major component of Council's revenue base. In June 2013 Council received IPART approval for a four-year Special Rate Variation, which commenced in 2013/14. These increases have been included in the 2015/16 budget and LTFP. Approved increases are 10% in 2015/16 and 10% in 2016/17. These percentages incorporate rate peg increases.</p> <p>A 3% rate peg has been assumed for 2017/18 and beyond.</p> <p>The increase to rates will be retained permanently in Council's rate base for infrastructure renewal.</p>
<b>2.2 User Charges &amp; Fees</b>	Council provides many of its services on a cost recovery basis, applying a 'user pays' principle. Other considerations when determining user charges and fees include regulated charges, market price, community subsidisations and Section 94 Developer Contributions (discussed separately). The 2015/16 Operational Plan includes information on Council's pricing policies for its user charges and fees.
<b>2.3 Grants</b>	Council receives a Financial Assistance Grant from the Federal Government and anticipates this grant will continue. Other budgeted grants are generally for specific purposes and projects, with the grant assumed to be spent in the year it is provided. In preparing the FFTF Improvement Plan and the LTFP, Council has assumed it will continue to receive grants. If these grants and subsidies are reduced, our ability to provide the same level of service will be impacted. In the 2015/16 financial year, \$4.73million has been included for the Federal Assistance Grant (\$830,000 of this amount is related to the Roads component).

<b>2.4 Interest and Investments</b>	Based on advice from Council's independent investment advisors, interest returns have been included at 4% for 2015/16 and future years. This has then been discounted for 2.5% CPI per annum for conversion into 2015 real dollars. The balance of funds available for investment has been calculated after taking into account cash flow forecasts.
<b>3. Expenditure Forecasts</b>	The Community Strategic Plan provides an indication of the community's expectations for the future. In developing expenditure forecasts, we consider both the new expenditure in the Community Strategic Plan and Council's existing commitments, most of which are ongoing. We consulted extensively with staff in preparing the FFTF Improvement Plan and LTFP. All categories of expenditure have been examined and projections are based on varying factors, including historical averaging or staff projections.
<b>3.1 Employee Costs</b>	Wages for 2015/16 are based on an award increase and salary system movements of 3.5% before being reduced for inflation (an effective increase in 2015 real dollars). A vacancy factor (salary saving) of 3% is built into the 2015/16 budget and this is included in all later year projections. Staffing levels have been assumed as being stable, apart from new positions associated with the new City Library. Calculations of these large expenditure items are also informed by the Workforce Management Plan, as well as legislative requirements for superannuation increases and changes to workers' compensation legislation.
<b>3.2 Depreciation</b>	<p>Council is required to revalue different asset classes in line with the OLG's scheduled program of revaluations. In 2014/15, two of Council's major asset classes - Roads and Transport and Stormwater Drainage - have been revalued, including their useful lives (where appropriate) following extensive condition sampling.</p> <p>This revaluation program for roads and stormwater assets has resulted in a reduction to depreciation expense. Useful lives have been reviewed through a program of asset condition assessment. The improvement to depreciation due to revised useful lives has been partially offset by the increased cost of asset replacement, representing a moderate decrease in annual depreciation expense.</p>
<b>3.3 Borrowing Costs</b>	Section 621 of the Local Government Act, 1993 allows Council to borrow at a level determined by the Council through approval of the Revenue Policy in the annual Operational Plan. Borrowing to build, renew and upgrade community assets is recognised by the OLG as a prudent financial strategy when used to fund the cost of long life assets. Also referred to 'intergenerational equity', it spreads the cost of financing assets across generations and the community likely to use the infrastructure. In 2013/14 Council's actual borrowing costs were \$3 million.
<b>4. Major Projects</b>	In the next five years Council will continue the development of a number of major projects as outlined below at 4.1 to 4.3, to meet the needs of the community now and in the future. Each of these has been included in the FFTF Proposal and LTFP.

<b>4.1 Shell Cove</b>	<p>Construction work on the Shell Cove Boat Harbour began in 2013 and is on track to be completed in 2018. The Waterfront precinct works commenced in 2015 and are due to be completed in 2024.</p> <p>Two-thirds of Shell Cove's residential dwellings and associated infrastructure have already been delivered. Council will receive 50% of the net profits, with the profit distributions not expected before 2020. Council's FFTF Improvement Plan and LTFP include revenue from the Shell Cove Project (Administration Fees) on the sales of property, with no provision for profit distribution in this current iteration.</p>
<b>4.2 City Hub</b>	<p>In September 2012, Council gave approval for the City Hub Project to proceed to the design phase. In June 2015, Council gave approval for the project to proceed to construction. The estimated cost of the project is \$59.5 million, to be funded from the sale of assets, grants, borrowings and developer contributions. Construction will commence in 2015/16 with the building due to be operational by mid-2017. The City Hub will provide a number of city-wide facilities which are required as a result of the LGA's population increase. The majority of the facilities have been included in Council's Section 94 Contributions Plan since 1993.</p>
<b>4.3 Dunmore Resource Recovery Redevelopment</b>	<p>Council is proposing to develop a new transfer station and food organics processing facility to improve waste recovery and reduce landfill at the Dunmore Resource Recovery site. This project is estimated to cost \$14.5m. The reconfiguration of the site would improve community safety and increase business opportunities through the sale of organic material. Construction is planned to commence in 2015/16.</p>

## 3.1 Sustainability

Outline your strategies and outcomes in the table below.

All Objectives included in the following table are reflected in the 2013-2017 Delivery Program.

### 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>2.2.2</b> Operate effective and sustainable waste management for the city	a) Review and benchmark the costs of operating the Dunmore Resource Recovery and Waste Disposal (RRWD) Depot; includes landfill	<p>Implement new technologies to reduce the material required to operate the landfill which is also subject to the Waste and Environment Levy ("Levy").</p> <p>Review and refine the allocation of operational resources (staff and plant).</p> <p>Redevelopment of the Dunmore RRWD Depot to provide organics processing and greater resource recovery.</p>	<p>Reduced Levy payments and operational costs</p> <p>Reduced operational expenses.</p> <p>Waste diverted from landfill is not subject to the Levy</p>	Real Operating Expenditure per capita



	b) Maximise income through the sale of Carbon credits	Carbon Credits sold.	Maximise income.	Own Source Revenue
<b>3.2.1</b> Establish the Shell Cove Boat Harbour as a lifestyle and boating destination providing development, tourism and community opportunities.	a) Continue to deliver the development of residential, boat harbour and the Waterfront Precinct	Development is completed	Project delivered	Own Source Revenue
	b) Establish and implement a Place-making Plan, designed to ensure ongoing financial and social sustainability	Plan is prepared and implemented	Ongoing financial and social sustainability	Real Operating Expenditure per capita
	c) Determine the optimal utilisation of the Shell Cove dividend	Plan of management established	Maximise income for Council	Own Source Revenue
<b>4.2.1</b> Undertake Council activities within a clear framework of strategic planning, policies, procedures and service standards.	a) Continue to meet IP&R reporting Requirements.	IP&R documentation updated in accordance with OLG requirements.	Increase efficiencies. Demonstrated accountability and communication with Councillors and the community.	Asset Maintenance Ratio

<b>4.2.2</b> Enhance an organisational culture using resources wisely, achieving quality outcomes, providing excellent customer service and seeking continuous improvement.	a) Establish best practice policies and procedures in regard to the cost of employment.	Policy adopted  Procedure Implemented.	Reduced costs of employment.  Efficiencies achieved.	Real Operating Expenditure per capita
	b) Undertake a review of the Workforce Management Plan.	Workforce Management Plan reviewed in line with IP&R cycle	Reduction in the cost of employment.	Real Operating Expenditure per capita
	c) Continue to undertake service reviews.	Identify required Service reviews.  Service reviews undertaken.	Improved efficiencies and reduce unnecessary burden on community.	Real Operating Expenditure per capita
<b>4.2.3</b> Ensure Council's long term financial sustainability through effective short and long term financial management that is transparent and accountable.	a) Undertake initiatives to maximise income from our business activities	Continue to prepare and implement business plans.	Increase net profit from business activities.	Own Source Revenue
	b) Undertake a comprehensive review of pricing principles and fees and charges.	Review of pricing principles in line with the IP&R cycle	Maximise income for Council.	Own Source Revenue

	c) Review depreciation through continued condition assessments, consideration of residual values and benchmarking against other Councils.	Depreciation reviewed.  Associated documents updated to reflect changes.	Improved depreciation results	Infrastructure Backlog Ratio
	d) Review useful lives by componentising assets, refining condition assessment methodology and undertaking more condition assessment.	Useful lives reviewed	Improved condition rating accuracy.  Improved knowledge of remaining useful lives	Infrastructure Backlog Ratio
	e) Rationalise asset supply to align with demand assessments	Assets assessed against demand studies	Reduced assets.  Assets better align to meet community needs	Infrastructure Backlog Ratio  Real Operating Expenditure per capita  Asset Maintenance Ratio

	f) Investigate more cost effective asset renewal treatments	Alternative renewal treatments identified	Reduced expenditure on asset renewal and depreciation	Infrastructure Backlog Ratio
	g) Investigate the need for additional asset renewal	<p>Complete review of useful lives upon undertaking more extensive condition assessment</p> <p>Complete and adopt asset rationalisation plans where appropriate based on community engagement.</p> <p>Implementation of cost effective asset renewal and community service level alignment.</p>	Reduced depreciation to more accurately quantify the asset renewal gap	<p>Real Operating Expenditure per capita</p> <p>Infrastructure Backlog Ratio</p> <p>Asset Maintenance Ratio</p>
	h) Adopt the maximum rate peg each year and continue to ensure available rates are captured.	Maximum rate peg adopted.	Maximise income.	Own Source Revenue

i) Introduce monthly financial management reporting.

Implement monthly financial management reporting.

Increase efficiencies.

## 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 is the custodian of infrastructure assets valued at over \$445 million. In 2013, Council adopted a revised suite of IP&R documents including the Resourcing Strategy 2013 - 2023 (**Attachment 6**). The Strategy includes Council's Asset Management Policy and Strategy which is the framework for asset management.

### **The Asset Management Policy**

The Policy aims to ensure Council has information, knowledge and understanding about the long term and cumulative consequences of being the custodian of community assets. Council is committed to a systematic approach that applies appropriate asset management practices across all areas. These practices have a direct impact on our core business, as Council needs appropriate asset management to achieve the strategic objectives of the Shellharbour CSP and LTFP.

### **The Asset Management Strategy**

The Asset Management Strategy forms part of the Resourcing Strategy and is a structured set of actions to improve our asset management capability and projected resource requirements for the next 10 years. The Strategy sets objectives and outcomes that provide the link between the high-level aspirations and principles in the Asset Management Policy and the operational and tactical aspects of Council's asset management framework (especially the development of Asset Management Plans). It specifies outcomes and timeframes, which form the basis of the Asset Improvement Program, which is part of the Capital Works Program.

The objectives of Council's asset management system are to:

- sustainably manage all of Shellharbour City Council's assets and achieve an asset renewal ratio of 0.8 by 2016 - 17
- provide the desired level of service for the assets under its stewardship for existing and future customers.

Key Strategies in the Asset Management Strategy include:

- Establish levels of service and develop consistent work management processes that achieve these levels of service and ensure operational efficiencies
- Optimise the life of assets through better forecasting of required maintenance for the total lifecycle of the asset (i.e. from planning through to disposal)
- Enable the business to evolve from reactive to programmed maintenance where possible
- Ensure that all of Council's Assets are identified and have in place Asset Management Plans that are consistent with Council's Asset Management Policy, contemporary asset management practice and the Shellharbour CSP.
- Continue to evaluate the condition of Council's assets so that the useful life of these assets can be more accurately estimated. This may take the form of geotechnical assessments of Council's road pavements or remote video footage of Council's drainage pipelines.
- Align the level of services when maintaining Council's asset inventory with the community objectives in the CSP. This will ensure the assets Council has stewardship of are well maintained and appropriate to the community's needs.
- Identify additional sources of funding which can be used to narrow the life cycle 'gap' for Council's key assets. This may be in the form of grants or loan funds for specific renewal works.

### **Sustainable Special Rate Variation**

Council has faced a significant challenge in maintaining and operating assets within acceptable levels of service, balanced against available funding. In 2012, Council recognised existing rate revenue was no longer enough to fund asset maintenance to the level expected by the community. Continuing in this way was not sustainable. To help prevent a further decline in the condition of assets, we asked the community for feedback on their priorities and expectations about the condition of the city's assets and what they saw as acceptable service levels.

To enable us to better maintain and sustain our assets, Council resolved on 27 November 2012 to apply to the IPART for a Special Rate Variation. In June 2013 Council received approval from the IPART to increase rates under section 508A of the Act, for a four-year variation commencing in 2013/14.

The SRV will yield an additional \$18.8 million from ordinary rates between 2013/14 and 2016/17. This increase will be retained permanently in Council's income base. The additional revenue will be used to renew and maintain existing infrastructure, identified through the CSP and Asset Management Planning processes.

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

Assumption	Description
1. <b>Grants</b>	Grants are generally for specific purposes and projects, with grant money assumed to be spent in the year it is provided. In preparing the LTFP, Council has assumed it will continue to receive grants. If these grants and subsidies are reduced, our ability to provide the same level of service will be impacted. The Financial Assistance Grant and Roads to Recovery Program funding remain a vital component of our revenue to maintain current service levels.
2. <b>Depreciation</b>	<p>Council is required to revalue different asset classes in line with the OLG's scheduled program of revaluations. In 2014/15, two of our major asset classes - Roads and Transport and Stormwater Drainage - will be revalued, including their useful lives (where appropriate) after extensive condition sampling.</p> <p>This may have a significant impact on future amounts included in the depreciation expense. While useful lives have increased, estimated replacement costs have also increased. The improvement to depreciation due to revised useful lives is expected to be partially offset by the increased cost of asset replacement.</p>
3. <b>Borrowing Costs</b>	Section 621 of the Local Government Act 1993 allows Council to borrow at a level determined by the Council through approval of the Revenue Policy in the annual Operational Plan. As outlined previously, in 2013/14 Council's actual borrowing costs were \$3 million.
4. <b>Contributions</b>	Section 94 contributions make up a significant proportion of total contributions received by Council. Some of these are cash and others are assets contributed from developers on completion of subdivisions. In December 2013, Council adopted the 7th review of its Section 94 Contributions Plan 2013. Given the rate of new development in the City, an 8th review of the Plan will be carried out in 2015/16.
5. <b>Infrastructure Backlog Ratio</b>	<p>The 2016/17 Ratio will:</p> <ul style="list-style-type: none"> <li>• Assume condition 3 to be 'satisfactory' based on community feedback obtained in a 2014 survey.</li> <li>• Limit condition 5 ratings to known asset failures such as subsidence or sink holes above pipes (consistent with IP&amp;R).</li> <li>• Align Council's condition ratings with the IP&amp;R Manual for roads.</li> <li>• Write off any assets not to be decommissioned and not replaced (for example; Showground horse stables, Norris Homestead, Tom Scout Willoughby amenities, Con O'Keefe amenities).</li> </ul>



	<p>The 2017/18, 2018/19, 2019/20 Ratios will:</p> <ul style="list-style-type: none"> <li>• Deduct value of renewals (exceeding historic annual spends) from 'cost to bring to satisfactory' upon the year of programmed renewal.</li> <li>• Introduce a predictive modelling tool (Assetic or Mallony) and Asset Management Plans.</li> </ul>
<b>6. Asset Maintenance Ratio</b>	<p>Required annual maintenance has been calculated based on the amount of funded asset maintenance plus an estimate of unfunded maintenance. An estimated \$600,000 maintenance budget shortfall was calculated for 2015/16. This equates to the unfunded cost of maintenance associated with new assets contributed to Council by developers over recent years.</p> <p>The maintenance funding shortfall is partly addressed in future years in our LTFP with an additional \$200,000 allocated in 2015/16 and increases of \$60,000 per annum from 2017/18.</p> <p>To balance the ratio in future years, a 0.5% efficiency gain is proposed to reduce the costs associated with asset maintenance. Efficiency gains are expected to be made by:</p> <ul style="list-style-type: none"> <li>• Increased preventative maintenance through refining service level agreements.</li> <li>• Optimisation of maintenance to reduce possible over-servicing.</li> <li>• Capital improvements (new and renewal) to reduce maintenance.</li> <li>• Logical rationalisation of assets to improve alignment between supply and community service level expectations.</li> <li>• Improvement to Asset Management Plans and defect inspections.</li> <li>• Auditing of operational and maintenance composition within work orders.</li> </ul>
<b>7. Capital Works Projects</b>	
	The following key capital works projects have been planned over the next five years.
<b>7.1 Warilla Library</b>	Construction of a new Warilla branch library will commence in 2015/16.

<b>7.2 Shellharbour Beachside Tourist Park</b>	A new amenities block and camp kitchen is planned for installation starting in 2015/16. Further upgrades to the park are also planned from 2015/16 to 2017/18 to diversify accommodation options and increase revenue.
<b>7.3 The Links Golf Course</b>	Over the next two financial years, we will implement plans to further improve financial performance and enable the facility to become financially self-sufficient. The clubhouse will be renovated to make a larger area available for family-friendly activities, and new marketing initiatives will be aimed at families. The clubhouse will also contain a new gaming room, which will add to the club's existing offerings. The golf course will be re-routed, providing the opportunity to subdivide a portion of land next to Dunmore Road for residential development.

## 3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

All Objectives included in the following table are reflected in the 2013-2017 Delivery Program.

### 3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>3.1.1</b> Deliver sustainable management of the community's assets for current and future generations.	a) Establish clear policies and procedures for the acceptance of assets from external organisations/developers.	Policy adopted. Procedure established	Maintenance expenditure reduced for new assets.	Operating Performance Ratio
	b) Establish appropriate levels of service to meet community infrastructure needs.	Service levels defined and incorporated into Asset Management Plan.	Increase community satisfaction with service levels. Reduced expenditure.	Operating Performance Ratio
<b>3.1.2</b> Improve the city's ageing assets, infrastructure and facilities to meet the needs of the community now and into the future.	a) Redefine our condition rating to align with satisfactory condition (IP&R Guidelines)	Asset Management Plan updated to reflect IP&R Guidelines.	Decrease backlog.	Building & Infrastructure Renewal ratio

	b) Continue to address Council's infrastructure backlog.	Ongoing delivery in line with Council's capital works program	Decrease backlog.	Building & Infrastructure Renewal ratio
	c) Undertake a preventative maintenance regime to extend the useful life of assets.	Ongoing delivery of maintenance in line with schedule.	Increase life of asset.	Operating Performance Ratio  Building & Infrastructure Renewal ratio
	d) Continue to manage the Asset Improvement Program (including expenditure of SRV)	Asset Improvement Program delivered	Decrease backlog. Increase useful life of assets	Building & Infrastructure Renewal ratio
	e) Review/change the types of renewal undertaken for roads to increase useful life	Reviews undertaken.  Changes implemented	Increased useful life of roads.	Operating Performance Ratio
	f) Continue to implement the Service Level Agreements (SLAs).	SLAs implemented.	Improved accuracy in budgeting for infrastructure maintenance	Operating Performance Ratio

	g) Undertake a needs analysis when renewing infrastructure.	Needs analysis framework established.  Framework implemented.	Improved accuracy in budgeting for infrastructure renewal.	Building & Infrastructure Renewal ratio
<b>4.1.2</b> Facilitate open and positive relationships with our community.	a) Establish a community engagement strategy to determine infrastructure needs and appropriate levels of service	Communications strategy established.  Communications strategy implemented.	Service levels understood.	Operating Performance Ratio
<b>4.2.3</b> Ensure Council's long term financial sustainability through effective short and long term financial management that is transparent and accountable.	a) Establish cost effective procurement procedure for the provision of infrastructure delivery processes.	Procedure established.	Cost effective provision of infrastructure.	Operating Performance Ratio

### 3.3 Efficiency

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

Council has introduced a number of initiatives to achieve efficiency in its operations. One focus has been the procurement function; our objective is to generate productivity and cash savings estimated at more than \$1.5 million over the life of the LTFP. In 2012, we took part in a Procurement Roadmap exercise with other councils, sponsored by Local Government Procurement. The main objective was to streamline Council's procurement processes to produce long-term, significant productivity savings. As a member of the pilot Illawarra Joint Organisation, we will look for further opportunities to undertake collaborative procurement and shared service initiatives.

Other efficiency initiatives include introducing a business model and service restructures to increase revenue from Council's commercial holdings. We began a program of service reviews in 2012, and these will continue throughout the life of the Delivery Program.

In 2012 we also introduced Service Level Agreements to ensure our operations are priced competitively and delivered in a businesslike manner. Under this model the provision of Council services, such as road maintenance must be delivered at rates which are comparable to the private sector. Substantial effort has been made in 2014/15 to more accurately estimate the cost of services delivered by Council's internal service providers. Costed schedules have been developed for priority planned and cyclic maintenance activities. In 2015/16, we aim to introduce reporting to enable us to measure activity completion and actual costs to refine future schedules. We have also undertaken benchmarking by comparing unit rates and service costs with the private sector to identify future improvements to service delivery.

The SLAs have also provided an opportunity to restructure parts of the organisation to improve the efficiency of service delivery. Capital improvements have also been identified and included in the 2015/16 Operational Plan to reduce ongoing operational costs which will help to ensure adequate funding is made available to improve service provision.

#### **Reduction of Costs**

Council's LTFP factors in some reductions in expenses as a result of expected productivity efficiency gains. The following initiatives will help achieve these savings (each has been more fully explained in previous sections):

- i. Service Level Agreements (SLAs) between Council's Corporate Policy and Shellharbour Enterprises directorates. These agreements detail the services to be delivered and associated resource allocation.
- ii. Special Rate Variation (SRV), which is allocated in its entirety to asset renewal.

- iii. Waste Management: We have recently reviewed and benchmarked our operations to reduce costs, and implemented a range of initiatives.
- iv. Plant/Fleet Management: This area will be reviewed in 2015/16 to identify opportunities for cost savings
- v. Procurement: A number of initiatives have been implemented or are planned in this area.

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

Assumption	Description
<b>1. Service Priorities</b>	Council's objectives are to ensure 'value for money' for rate payers, deliver long-term financial sustainability and ensure services remain relevant and in line with community expectations. We carried out extensive consultation in developing the Community Strategic Plan, to find out the range and priority of services desired by the community.
<b>2. Increase in dwellings</b>	Residential development forecasts assume the number of dwellings in Shellharbour will increase by an average of 349 per annum to 33,467 in 2036. Informed Decisions (.id) forecast have predicted a total of 27,807 dwellings in the LGA by 2020 (.id, November 2014).
<b>3. Population Forecasts</b>	Demographic profiling was conducted by .id in November 2014. For the term of the FFTF Improvement Plan it is anticipated the population will increase to 72,680 by 2020.
<b>4. Calderwood</b>	The NSW Government has approved a concept plan for the Calderwood development, which is expected to add around 4000 dwellings to the Shellharbour LGA over the 25-year life of the project. Approval for stage 1, a 231-lot subdivision, was granted in 2013. Council has entered into a whole of project Voluntary Planning Agreement with the developer to secure local infrastructure contributions over the life of the project. .id have anticipated completed (and occupied) dwellings from 2019.

### 3.3 Efficiency

Outline your strategies and outcomes in the table below.

All Objectives included in the following table are reflected in the 2013-2017 Delivery Program.

### 3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>2.2.1</b> Undertake community education on best practice environmental sustainability and management of climate change issues.	a) Implement the Resource Recovery Redevelopment project.	Project complete.	Decrease waste to landfill.	Operating Performance Ratio
<b>4.2.1</b> Undertake Council activities within a clear framework of strategic planning, policies, procedures and service standards.	a) Establish a procedure and policy framework for the organisation	Procedure prepared. Framework prepared and implemented.	Improved efficiencies	Operating Performance Ratio
	b) Undertake organisation wide continual improvement program	Implement Quality Management System procedures. Conduct regular reviews.	Maximise efficiencies. Decrease expenditure.	Operating Performance Ratio



<p><b>4.2.3</b> Ensure Council's long term financial sustainability through effective short and long term financial management that is transparent and accountable.</p>	<p>a) Undertake collaborative procurement through the Pilot Illawarra Joint Organisation.</p>	<p>Delivery of the Supply Action Plan.</p> <p>Delivery of supply contracts through state and regional collaboration.</p>	<p>Strategic Contracts established.</p> <p>Identified savings achieved.</p>	<p>Operating Performance Ratio</p>
	<p>b) Explore opportunities for shared services through the Pilot Illawarra Joint Organisation</p>	<p>Priorities agreed with partner organisations.</p> <p>Business cases prepared and supported by the Council and partner organisations.</p> <p>Shared service arrangement established.</p>	<p>Collaborative arrangements and relationships established.</p>	<p>Operating Performance Ratio</p>
	<p>c) Continue to deliver improved efficiencies through the internal audit process</p>	<p>Audits undertaken</p>	<p>Efficiencies identified and implemented.</p>	<p>Operating Performance Ratio</p>

	d) Grant pursuit is undertaken in line with items identified in the IP&R suite of documents.	Grants pursued to meet needs identified in IP&R documentation.	Decrease in operating expenditure.	Operating Performance Ratio  Own source Revenue
	e) Improved plant management and purchase.	Plant Framework prepared and implemented.	Decrease expenditure on maintenance on fleet.  Improved fleet condition.	Operating Performance Ratio
<b>4.2.4</b> Use effective communication methods and technology to share information and provide services.	a) Continue to implement the recently adopted "One Council" technology solution.	Implementation and refinement of: <ul style="list-style-type: none"> <li>– Finance 1</li> <li>– ECM</li> <li>– Properly and Rating</li> <li>– Payroll</li> </ul>	Maximise efficiencies and outputs to community.	Operating Performance Ratio

### 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
Numbering of Actions aligns with the Revised Delivery Program 2013 - 2017 and Operational Plan 2015 - 16 ( <b>Attachment 2</b> )	
<b>1.2.2.2</b> Efficiently maintain all parklands, open spaces and recreational facilities	Quarterly Reporting Annual Reporting SLAs met.
<b>1.2.2.3</b> Efficiently maintain all sports fields	Quarterly Reporting Annual Reporting SLAs met.
<b>1.2.3.1</b> Operate and maintain a quality golf course and hotel facility while delivering Business Plan actions to improve the business viability and service delivery of The Links	Redevelopment of clubhouse and greens.
<b>1.2.3.2</b> Undertake actions to implement the agreed business and project plan for The Links	Business Plan actions delivered.

<b>1.2.3.3</b> Manage and promote the use of Shellharbour City Stadium for a range of sporting, community and exhibition activities to ensure maximum use of the facilities and increased financial return	Business Plan delivered. Achieved budget performance target. Achieve budgeted income.
<b>2.2.1.1</b> Provide educational programs to promote and support waste avoidance and resource recovery and the proper use of the waste management system	Reduced contamination.
<b>2.2.2.4</b> Investigate, design and deliver the redevelopment of the resource recovery facilities at Dunmore, including the provision of a new transfer station and a processing facility for food and garden organics.	Finalised and activated.
<b>2.3.6.1</b> Maintain the Illawarra Regional Airport in compliance with Civil Aviation Safety Authority and Aviation Transport Security regulations	Business Plan actions implemented.
<b>2.3.6.2</b> Provide support to the Business Unit Advisory Board	Regular meetings held. Airport Strategy implemented.
<b>2.3.6.3</b> Identify and plan future maintenance, renewal and upgrades for Council's buildings and facilities	Capital Works service level agreements established.
<b>3.1.1.2</b> Implement and review Council's Developer Contributions Program	Developer Contributions Program implemented. Review conducted.
<b>3.1.1.3</b> Monitor and facilitate developer contributions toward the provision of community infrastructure	Quarterly Reporting Annual Reporting

<b>3.1.1.6</b> Ensure the Shellharbour Beachside Tourist Park attracts patrons and is efficiently managed and operated as a quality and profitable business	Redevelopment completed. Upgrade of amenities completed.
<b>3.1.2.4</b> Manage the Asset Improvement Program including income from the Special Rate Variation	Asset Improvement Program delivered. SRV adopted into 2016/17 Operational Plan.
<b>3.1.2.6</b> Efficiently maintain all roads and associated assets	Quarterly Reporting Annual Reporting SLAs met.
<b>3.1.2.7</b> Update and implement Asset Management Plans	Capital Works Program delivered according to 2016/17 Operational Plan.
<b>3.2.1.2</b> Facilitate the development of the Boat Harbour platform, including the town centre, tourism facilities and residential land	Stage 2 of Boat Harbour construction is completed Stage 3 of Boat Harbour construction commenced
<b>3.2.1.3</b> Facilitate the development of The Waterfront precinct, including the town centre, tourism facilities and residential land	Retail Stage 1 is completed. Significant road construction to the Precinct is underway.

<b>4.2.1.1</b> Fulfil statutory integrated planning and reporting requirements and provide status updates to community	Community Engagement undertaken. Quarterly, Biannual and Annual review documents delivered End of Term Report
<b>4.2.2.2</b> Coordinate the delivery of a formal service review process for Council operations	Quarterly and Annual Reporting.
<b>4.2.3.1</b> Ensure the Long Term Financial Plan is provided in accordance with Statutory requirements	Long Term Financial Plan prepared and adopted by Council.
<b>4.2.3.5</b> Provide strategic financial information to Council and community.	Budget prepared and adopted.
<b>4.2.3.7</b> Implement Council's sustainable financial strategy	Provision of Quarterly Reports Provision of Annual Reports
<b>4.2.3.9</b> Implement the Fit for the Future Improvement Action Plan	Provision of Quarterly Reports Provision of Annual Reports
<b>4.2.4.3</b> Optimise and enhance business efficiency through the use of the right technology	Asset Management System implementation
<b>NEW</b> Participate in collaborative procurement and shared service opportunities relevant to Shellharbour City Council, coordinated by the pilot Illawarra Joint Organisation.	Quarterly and Annual Reporting.

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

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

The Improvement Plan was prepared by a cross-organisational working party, with members collaborating with elected representatives and executive management in developing Council's response to the Fit for the Future proposal. Our response has been significantly informed by community engagement undertaken in 2012/2013 during development of the IP&R suite of documents adopted by Council in 2013, and our successful application to the IPART for a Sustainable Special Rate Variation, introduced in 2013/14. It has also been informed by the preparation of the 2015/16 Operational Plan (including budget) and the annual review of the Delivery Program 2013/2017 and Long Term Financial Plan 2015/16-2024/25.

### ***Continuing the Conversation Community Engagement Strategy (2012-2013)***

In 2012 we developed a Community Engagement Strategy, "Continuing the Conversation", to support the community engagement undertaken in preparing Council's IP&R documents and proposed SRV.

Community engagement is an important part of Council's role in planning and delivering services and facilities, as we work towards achieving the community's long-term Vision for the city.

### **Implementation**

The community engagement strategy was delivered in four stages:

- Stage 1     Review of previous engagement
- Stage 2     Continuing the Conversation (undertake community engagement activities)
- Stage 3     Resourcing the Vision (seeking feedback on a proposed SRV)
- Stage 4     Checking in (public exhibition)

## Results

The following table shows results of the engagement undertaken during the development of the IP&R suite of documents.

### Community Engagement Results

Stage 1 - Review of Previous Engagement				
Activity	Description	Date	Number Engaged	Key Outcomes
Review of Engagement	Review engagement undertaken by staff since CSP implementation in 2011. Audit web, intranet and media files and collate results	January - March 2012	Various staff members	Key community engagement activities undertaken since the adoption of the CSP 2011-2021 were the City Hub, Aboriginal Employment Strategy, Aboriginal Culture and Heritage Toolkit and the Local Environment Plan.
Stage 2 - Continuing the Conversation (Undertake Community Engagement Activities)				
Activity	Description	Date	Number Engaged	Key Outcomes
Illawarra Regional Information Service (IRIS) Community Telephone Survey	Bi-annual telephone community survey to canvass resident attitudes and opinions about Council services and facilities	March 2012	501 randomly selected residents	<p>The information in the survey provided vital feedback about how Council and its partners are progressing in meeting the objectives in the Community Strategic Plan 2011/2021.</p> <p>Results included:</p> <p><b>53%</b> feel connected with the community</p> <p><b>72%</b> support initiatives that will reduce the impacts of global warming and climate change</p> <p><b>33%</b> would like to see more youth employment opportunities</p> <p><b>67%</b> satisfied with the general appearance of the Shellharbour City Council area</p>



Objective refinement workshop	Previous CSP workshop participants were invited to assist in the review and rewrite of the objectives. These objectives formed the basis for further engagement activities.	September 2012	11 participants at 2 workshops	The objectives of the 2011 CSP were reduced from 20 to 10. It was agreed that the community vision was still representative and would remain.
Community Strategic Plan Review and Service Level Workshops	Workshops held to identify the services and assets that are valued the most and to nominate whether participants would reduce, maintain or increase levels of services while considering the financial implications for the budget.	September - October 2012	40 participants at 4 workshops	The top rated services, programs and infrastructure were: - Road pavements (14%) -Community events and programs (9%) -Libraries , sports fields and facilities, footpaths and swimming pools (8% each) - Crime prevention and community safety programs (6%) - Economic development and tourism, storm water and drainage (5% each) In most instances participants recommended that service levels be maintained or enhanced.
Consultations with children and young people	In partnership with Community Connections staff, developed specific engagements appropriate for children and young people (high school students).	Children - August 2012 Young people - December	170 children 18 young people	Children – Through drawing, the children demonstrated that spending time with family and friends at the beach, lake or parks was what they loved to do. Open spaces where they could play sport, run around, ride bikes or walk and play with their pets were also very important.  Young People - The key priorities across the groups were crime and safety programs, road pavements and community events and programs.

### ***Fit for the Future Communication Strategy (2014-2015)***

In response to the Fit for the Future reform announcement in September 2014 a Communication Strategy was prepared to provide a framework for the communication that would be undertaken in the review and preparation of Council's response to the Fit for the Future Reforms.

The Strategy aimed to:

- Inform Council staff in regard to the Fit for the Future Reforms
- Inform Councillors in regard to the Future Reforms
- Inform the Shellharbour City community in regard to the Fit for the Future Reforms
- Deliver the community communications strategy according to the requirements of Council's Community Engagement Policy

### **Implementation**

The communications strategy was delivered in the following stages:

- |         |   |
|---------|---|
| Stage 1 | Review of previous engagement including a review of the 2014 Community Survey   |
| Stage 2 | Raising staff, Councillor and community awareness of the Fit for the Future Reforms and informing them of its purpose (undertake community engagement activities) |
| Stage 3 | Sharing with the community the outcomes of the Fit for the Future Roadmap   |

## Results

The following table provides a summary of the communication undertaken during the development of Council's Improvement Proposal.

### Fit for the Future Communication results

Communication Activities Undertaken			
Activity		Description	Result
September 2014 - June 2015	Council Meetings (Business Papers & Minutes)	Council reports have been presented to elected members, residents and staff on Fit for the Future Reforms.	3 Reports to Council
October 2014 – June 2015	Councillor Briefings	Councillor briefings have been conducted keeping elected members informed of Fit for the Future Reforms and the progress of Council's submission to IPART. These briefings also captured Councillors' attitudes and opinions about the Fit for Future reforms.	2 Briefings conducted

October 2014 - June 2015	Councillor Newsletters	Specific communication with Councillors to keep them informed and aware of Fit for the Future.	1 Councillor newsletter article.
October 2014 – June 2015	General Manager's Briefings	Presentations were made at various General Manger's briefings keeping staff informed of Fit for the Future reforms and capturing their attitudes and opinions about the Fit for Future process.	5 General Manger's briefings
February 2014 – June 2015	General Manager's Blog	Information about the progress of the Fit for the Future Reforms has been communicated with Council employees throughout preparation of the submission to IPART via the General Manager's blog.	9 blogs have been issued to date on this issue.

November 2014- June 2015	Manex Reports	Reports were prepared and presented to Manex (Mangers and Senior Executive) on the progress of the Fit for the Future reforms and Council's submission to IPART.	6 reports to Manex
April 2015 – June 2015	Media Releases	Information about the Fit for the Future reforms has been communicated to the public via various media releases.	4 Media releases
April 2015 – June 2015	Weekly Community Update in Lake Times	An advertisement has been published in the local newspaper providing updates and a reference point to Fit for the Future information available online.	8 Advertisements

April 2015 – June 2015	Online Communications	Social media tools such as Facebook, Twitter, Council's Internet and Intranet has been used to keep the public and staff informed of the Fit for the Future reforms.	8 Social media releases Fit for the Future link on Council web page (community) Fit for the Future information on Council intranet page (staff)
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### **Preparation of 2015 – 2016 Integrated Planning & Reporting documents**

The timing of the Fit for the Future proposal coincided with preparation of the 2015 - 2016 Operational Plan (including budget) and the annual review of the Delivery Program 2013 - 2017 and Long Term Financial Plan 2015/16 - 2024/25. These draft documents were endorsed by Council for exhibition and were publicly exhibited for 28 days. References to the Fit for the Future reforms were included in the documents and Council's Improvement Proposal was informed by feedback received during the exhibition period.

### 3.5 Other actions considered

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

*For example, neighbouring council did not want to pursue a merger, unable to increase rates or increase borrowing, changes in policy or service standards.*

Several other strategies and actions were considered as part of preparing the submission and as part of Council's ordinary business planning process. In early 2012, Council adopted its five principles of financial sustainability (described elsewhere in this submission). Alternative strategies and actions were tested against these five principles, as well as Council's Community Strategic Plan, Delivery Program and Operational Plan, developed consistently with the Integrated Planning and Reporting framework. These are detailed below:

Increasing Council's level of debt (which is well below the benchmark of 20%) to spend on Building and Infrastructure Asset Renewal was considered. This consideration was dismissed based on Council's short-term (out to 2020) Operating Performance deficits. This could be considered again after 2020 and when Council is in surplus.

Alternate models of delivering infrastructure such as a city library, museum, auditorium and administration building were considered by the Council. Council staff reported that the current model (delivering this infrastructure in one facility, the City Hub), presented the best business case and that no other model would have a smaller long-term financial impact on Council. Council resolved to adopt the current model on 11 June 2015.

Rationalisation and disposal of assets to reduce maintenance requirements was considered. This was dismissed as further work is required before Council could identify potential assets for disposal. Any considerations would need to be tested against the CSP, to assess how closely they aligned with what the community sees as important. As a result, this was deferred.

Bringing forward the distribution of the dividend from the Shell Cove Project (due post 2020) was considered. However Council has not yet resolved how the dividend will be used. Bringing forward distribution of the dividend at this time would potentially present a cash flow problem for efficient and timely completion of the overall project. It would also have the potential to distort capital (and other) expenditure in the absence of an adopted strategy for how to manage a large injection of capital funds. As a result, this was discounted at this time.

Alternative materials for constructing the asphaltic seal on Council roads were considered. This was dismissed as further analysis showed that while there was an attractive environmental outcome, the cost of sourcing appropriate materials was too great.

This has now been discounted.

The Fit for the Future program has highlighted the need for Council to further refine its Asset Management Planning. This will be undertaken, but not in a timeframe consistent with the Fit for the Future submission. Therefore this action will be deferred at this time.

Further expansion of Council's revenue base through other business ventures, such as another Tourist Park, was considered. This remains a possibility, however at this time it requires significant analysis and planning before it can be included in forecasts. As a result, this was deferred at this time.



## 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?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-12.16%	-9.22%	-4.70%	-2.83%	-1.08%	-0.82%	No
<b>Own Source Revenue</b> Ratio (Greater than 60% average over 3 years)	75.46%	76.03%	79.66%	80.98%	82.77%	83.21%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	50.93%	95.45%	131.14%	125.71%	93.51%	70.52%	No
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	3.10%	1.52%	1.36%	0.44%	0.00%	0.00%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	65.88%	77.60%	89.99%	92.69%	93.22%	93.78%	No*
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	0.47%	0.64%	0.80%	1.16%	1.46%	1.64%	Yes
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	1.00	1.01	0.98	0.99	0.98	0.98	Yes

\* While Council does not achieve this benchmark by 2019/2020, IPART have indicated in its document Methodology for Assessment of Council Fit for the Future Proposals that Council should 'meet or show improvement within 5 years'. Therefore IPART would deem Council as 'fit' under this criterion.

## 4.1 Expected improvement in performance

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

*For example, historical constraints, trade-offs between criteria, longer time required.*

### **Operating Performance Ratio**

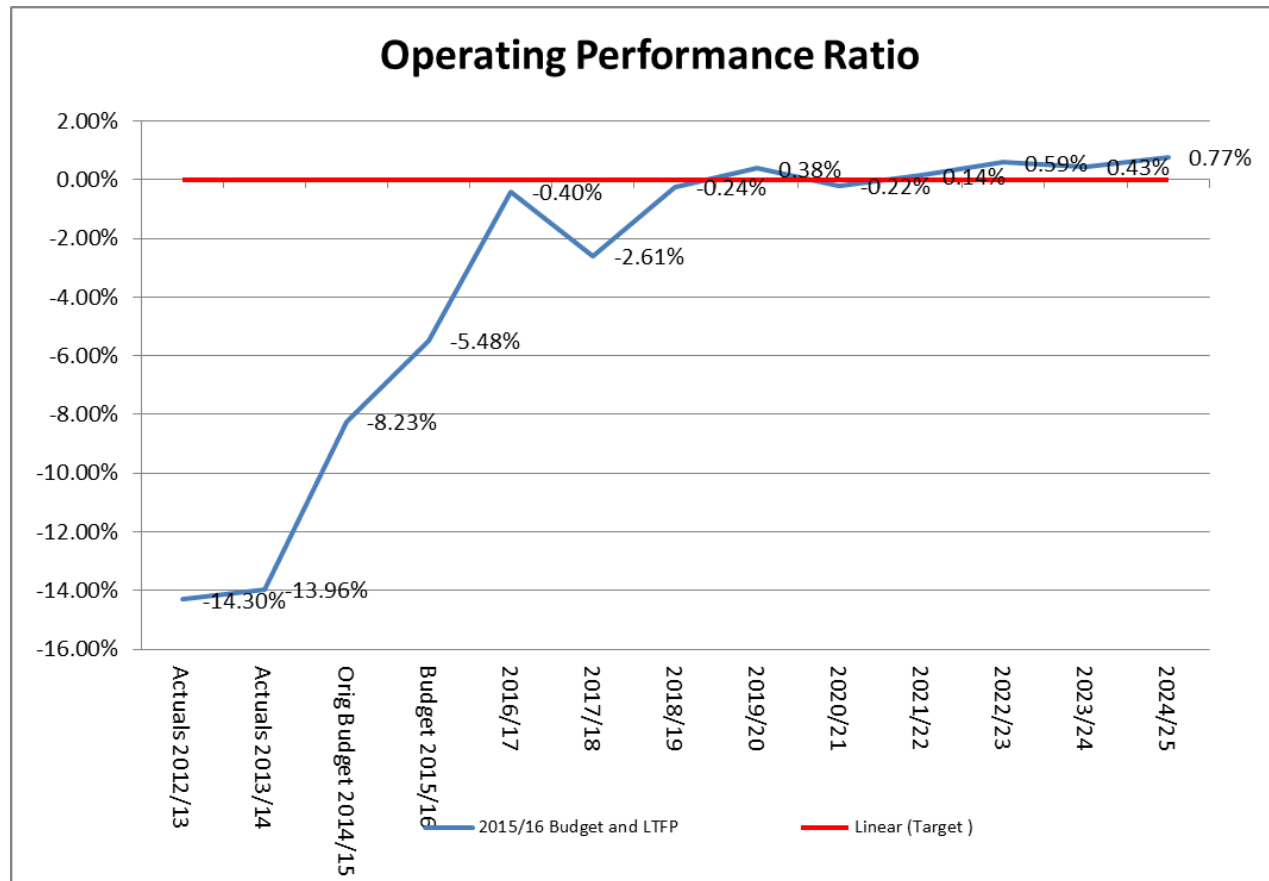
Council's expected result is consistent with the IPART's approach for all metropolitan and regional council's against this measure; that is that councils achieve greater than or equal to break even within five years. Council's single year 2019/20 result is a positive 0.38%. However the three year average up to 2019/20 is a deficit of -0.82%, whereas the benchmark calls for a greater than or equal to break even average over three years.

2017/18 will be the first year that the City Hub project has an impact on Council's income statement and Operating Performance ratio. The impact is heavy in the first year, but is then mitigated by revenue increasing in subsequent years.

The removal of anomalous additional employment costs of \$500,000 attached to the new City Library, first year of depreciation on the new building assets of \$1,140,000 and \$601,000 of borrowing costs, would result in a small surplus in the ratio.

It should be noted that these costs are ongoing at least over the term of the Long Term Financial Plan. However, as the trend of the ratio highlights, Council grows into these costs from the following year through an increasing revenue base and reduction in some expense areas. The result is that the Operating Performance Ratio is greater than break even for each of the last four years of the LTFP and trends upwards for all years from 2016/17.

**Graph 1. Operating Performance Ratio Long Term Financial Plan 2015/16 – 2024/25**



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

The ratio reflects the amount of planned asset renewal works as reported in our Long Term Financial Plan, and also accounts for the growing annual depreciation expense, which is impacted by ongoing urban development.

The SRV was introduced to increase Council's expenditure on asset renewal. At that time, Council was targeting a ratio of 80% which was considered to be the appropriate benchmark for NSW councils. The SRV is insufficient to meet the Fit For The Future (FFTF) benchmark for this ratio. The SRV will yield an additional \$18.8 million from ordinary rates between 2013/14 and 2016/17 and will be retained permanently in Council's income base. The additional revenue will be used to renew existing infrastructure, identified through the CSP and Asset Management Planning processes.

Other factors impacting our ability to meet this ratio are the increase in our asset portfolio due to urban development (significant new development in Shell Cove, Flinders and Tullimbah, with construction at Calderwood to commence shortly), the increasing cost to renew assets, and Council's assessment of asset useful lives (which impacts on depreciation).

Depreciation is higher following the movement to fair value asset accounting, which takes account of increasing replacement costs rather than historical values.

As part of Shellharbour's FFTF Roadmap, further work is planned to better understand asset life expectancies through enhanced and more extensive condition assessment and to better gauge community expectations in relation to provision of assets and services. Alignment between community service level expectation and willingness to pay through future community engagement should lead to the achievement of a sustainable result over the longer term.

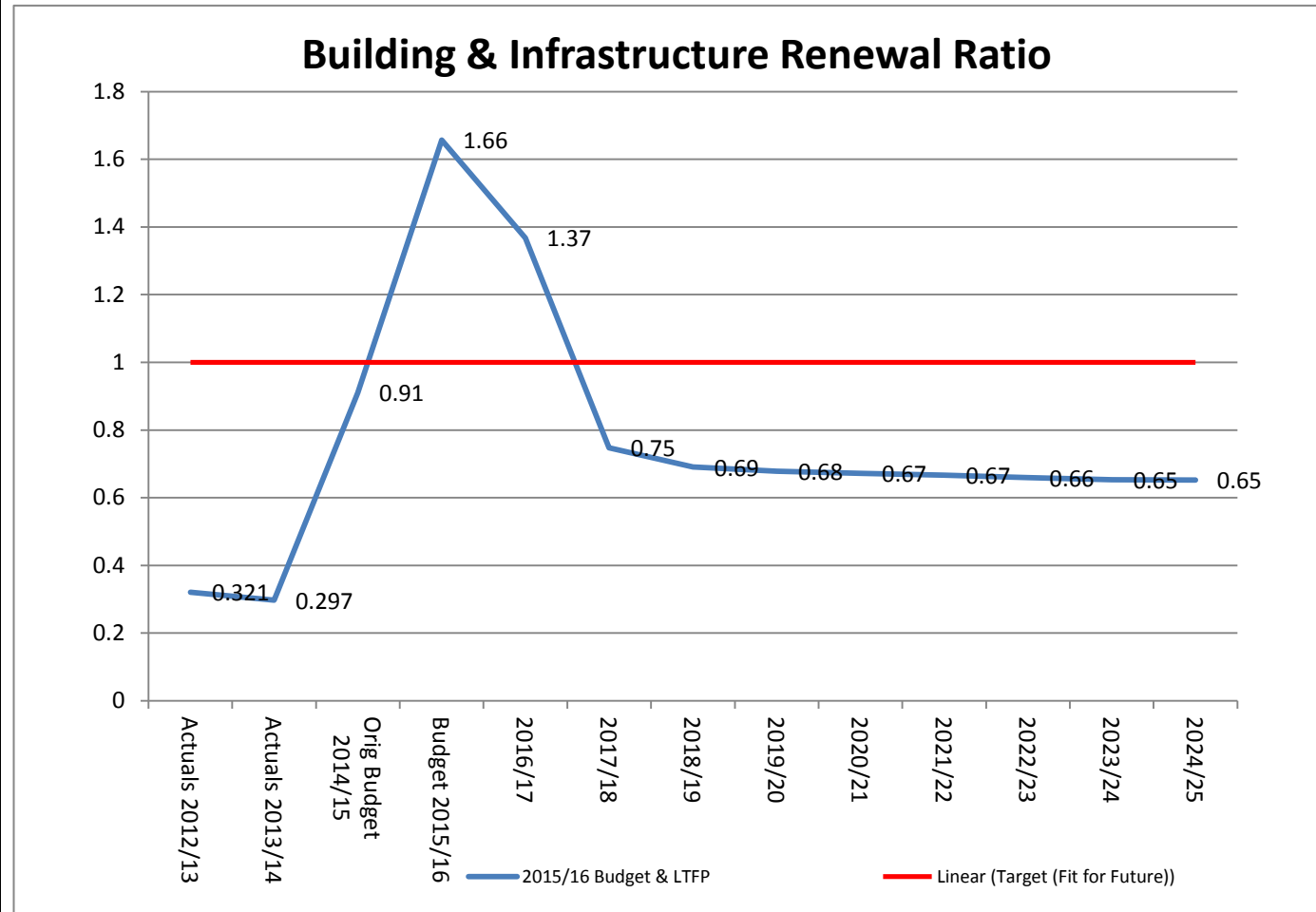
Our strategy is to further refine assumptions about depreciation, amortisation and asset life by:

1. Reviewing useful lives through:
  - a. componentising assets as recommended by Jeff Roorda & Associates (**Attachment 5**)
  - b. refining condition assessment methodology to improve accuracy
  - c. undertaking more condition assessment to better gauge remaining useful lives
2. Undertaking more preventative maintenance (e.g. road crack sealing, cleaning of roof guttering) to ensure longer useful lives can be achieved
3. Rationalising asset supply to align with demand assessments (eg. assessing assets against the Open Space Needs Study)
4. Conduct further community engagement to confirm levels of service across asset hierarchies and affordable renewal treatments (e.g. flush seals compared to re-sheeting); and
5. Investigate more cost effective asset renewal treatments.

Considering this ratio as a numerator (actual expenditure) and a denominator (necessary expenditure), the measures described above would seek to address and potentially reduce the denominator, improving Council's result.

If this does not achieve a satisfactory ratio, the numerator will then need to be addressed or at least improved, through considering increasing expenditure on asset renewal (as outlined earlier in this submission). This will require Council to identify where savings can sustainably be achieved in the years in which additional renewal expenditure is required. With surpluses forecast in Council's Operating Performance result from 2019/20, there is an opportunity to consider directing some of these surpluses toward asset renewal. However, Council has not identified the quantum or source of these funds at this time and so this has not been included in our submission.

Graph 2 Building & Infrastructure Renewal Ratio Long Term Financial Plan 2015/16 – 2024/25



### **Asset Maintenance Ratio**

Council meets the approach described by the IPART that it will be taking to assess the performance of all metropolitan/regional council's against this measure, namely that councils will meet this ratio or improve within five years. However the benchmark calls for a greater than 100% average over three years.

The ratio is a comparison of actual expenditure on maintenance and the average required spend on maintenance.

As previously outlined annual maintenance budget allocations have not kept pace with Shellharbour's growth.

Historically, maintenance costs were calculated using assumptions, based on a portion of the current replacement costs for assets with condition rating of fair (3), poor (4) or very poor (5). Ideally, they should reflect the total preventative maintenance activities needed to achieve expected useful lives, plus an allowance for unforeseen reactive works.

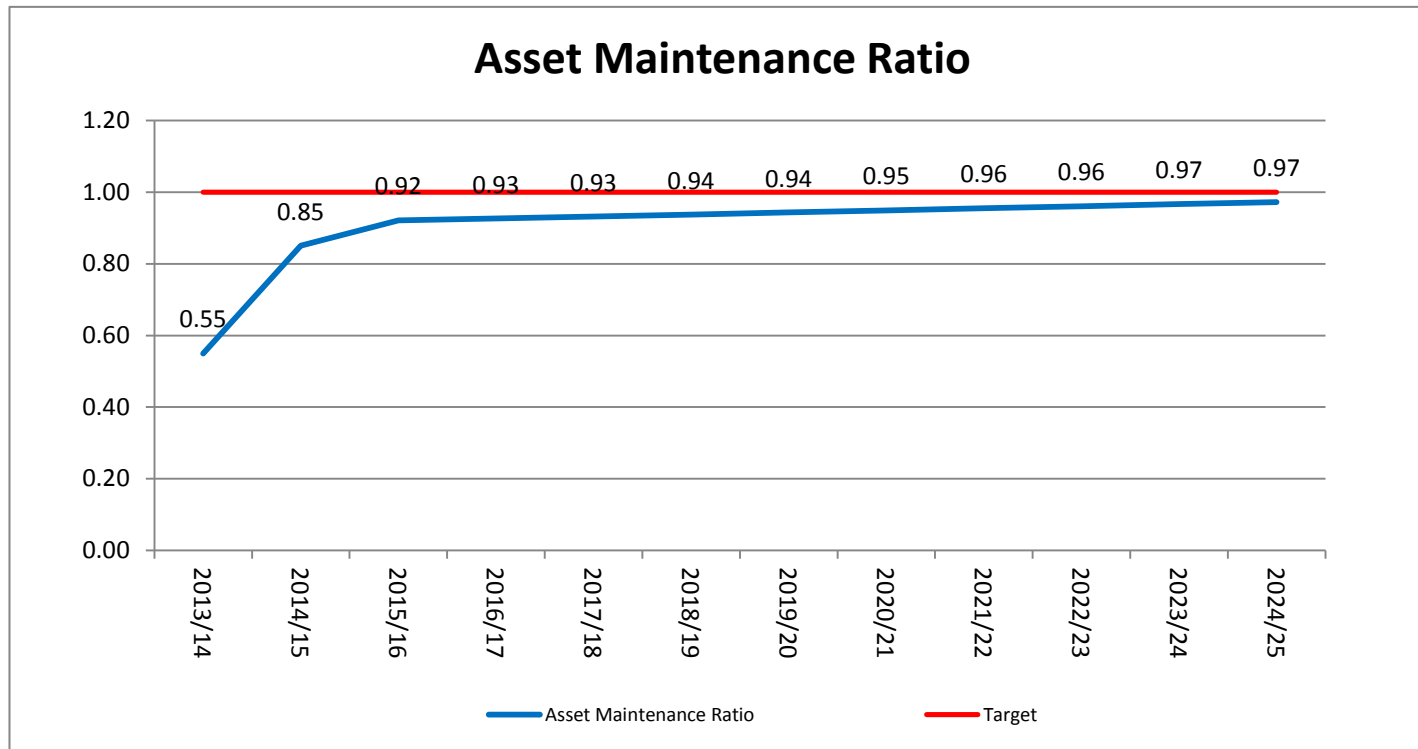
We are working to improve our understanding of maintenance requirements and more accurately estimate the costs to maintain these assets. Maintenance requirements have been detailed and costed for pools, beaches, mowable open spaces, around 25% of the footpath network, and some buildings and recreational facilities. Council is increasing its level of planned maintenance to reduce the cost of reactive work and whole of life maintenance requirements.

We plan to substantially complete these activities to coincide with Council's next iteration of the Community Strategic Plan, with planning and review scheduled to commence in late 2015.

Council's increased expenditure on asset renewal, aided by the SRV and loans, means the condition of Council's assets will improve and maintenance requirements will decrease.

With more community engagement about service levels and more precise predictions of the costs to maintain assets, we expect continued improvements in the Asset Maintenance Ratio (please refer to **Section 2.3** of this submission for more detail).

**Graph 3 Asset Maintenance Ratio Long Term Financial Plan 2015/16 – 2024/25**



- A copy of the ratio working papers is available at **Attachment 7**.
- Graphs for all ratios are available at **Attachment 8**.



## 5. Putting your plan into action

How will your council implement your Improvement Action Plan?

*For example, who is responsible, how the council will monitor and report progress against achieving the key strategies listed under Section 3?*

The Improvement Action Plan includes a range of initiatives that are aligned with Council's Financial Strategy, the 2013/2017 Delivery Program and 2015/16 Operational Plan. Council's adopted Delivery Program and Operational Plan identifies responsible officers and key performance indicators associated with each action.

Within the 2013/2017 Delivery Program and 2015/16 Operational Plan, the Fit for the Future Improvement Plan is specifically referenced under the following (see pages 79-80 of attachment 2):

Objective 4.2 Supported by a Council that is responsible, accountable and financially viable.

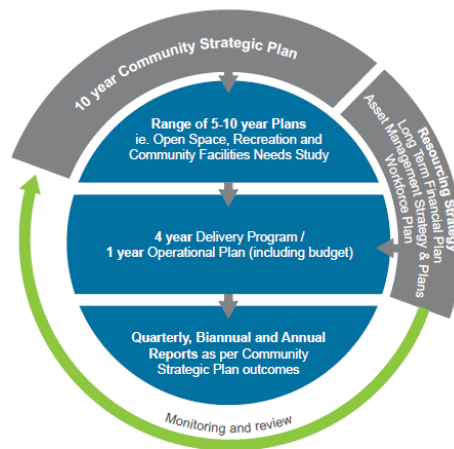
Strategy 4.2.3 Ensure Council's long term financial sustainability through effective short and long term financial management that is transparent and accountable.

Action 4.2.3.9 Implement the Fit for the Future Improvement Action Plan.

Council is due to review the Delivery Program in 2017. The revised program will reflect the Sustainability, Infrastructure and Service Management and Efficiency strategies included in the Improvement Proposal (sections 3.1 – 3.3).

### **Monitoring and Reporting Progress of the Improvement Action Plan**

Council monitors and regularly reports to the community on what has been achieved in the Delivery Program and Operational Plan and how it is progressing on the desired outcome. All reports are available to the community at Council meetings, on Council's website and at libraries.



These reports include:

Quarterly Operational Plan Review - every three months Council reports on progress in implementing the actions identified in the Operational Plan. A component of the Quarterly review is the financial Quarterly Budget Reporting Statement. This reviews actual quarterly progress against budgeted estimates including a summary of asset renewal expenditure to date by asset category.

Biannual Delivery Program Review – every six months Council reports on progress in implementing the strategies identified in the Delivery Program.

Annual Report – every year Council reports on progress in implementing the Delivery Program and Operational Plan

End of Term Report – this is a report to the community, in line with the election cycle, on progress towards achieving the objectives and community indicators in the Community Strategic Plan.

**Attachments:**

1. Financial Strategy
2. Delivery Program 2013-2017 & Operational Plan 2015 - 2016
3. Community Strategic Plan 2013 - 2023
4. Long Term Financial Plan 2015/16 – 2024/25
5. Infrastructure Assessment Report
6. Resourcing Strategy 2013-2023
7. Ratio Working Papers
8. Ratio Graphs
9. Extract of minutes of the Ordinary Council Meeting, 23 June 2015