



**Upper Hunter Shire Council**

**Fit for the Future Improvement Proposal**

**June 2015**

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## 1 EXECUTIVE SUMMARY

The Independent Local Government Review Panel recommendation for Upper Hunter Shire Council is that it remains as a standalone council with no structural or boundary changes.

Given that the starting point for “scale and capacity” is the Independent Local Government Review Panel recommendation, Upper Hunter meets the test for scale and capacity.

Based on its current Long Term Financial Plan, Upper Hunter Shire Council does not meet two of the Fit for the Future criteria established by the Office of Local Government, being operating performance ratio and buildings and infrastructure asset renewals ratio. The infrastructure asset renewal ratio did meet the criteria for the 2013/14 financial year but is not forecast to meet the requirements by 2019/20.

Council has identified a series of strategies and actions to ensure that it is able to improve its operating position to meet the benchmark, as well as ensuring sufficient expenditure on its asset renewals. This means that from 2016/2017 onwards, Upper Hunter Shire Council meets all of the Fit for the Future criteria.

Fit for the Future Criteria	2019/20 Status Quo	2019/20 Improvement Plan
Scale and Capacity as per the ILGRP Recommendation	Yes	Yes
Operating Performance Ratio	No	Yes
Own Source Revenue Ratio	Yes	Yes
Buildings and Infrastructure Asset Renewals Ratio	No	Yes
Infrastructure Backlog Ratio	Yes	Yes
Asset Maintenance Ratio	Yes	Yes
Debt Service Ratio	Yes	Yes
Real Operating Expenditure Over Time	Yes	Yes

These strategies and actions form the basis of this Improvement Proposal.

Upper Hunter Shire Council thereby submits this Improvement Proposal to IPART for its assessment as a Fit for the Future council.

## **2 FIT FOR THE FUTURE**

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However, there were various views as to how this could be achieved and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel (ILGRP) consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

IPART's proposed assessment methodology, released for consultation in April 2015, requires councils to demonstrate that they first consider making a proposal on the basis of the ILGRP's preferred option. They also must demonstrate their performance against a set of criteria for their sustainability, infrastructure and service management, efficiency; and what improvements they will make to reach the benchmarks by 2019/20.

Council engaged Morrison Low to assist Council in the development of its submission. Morrison Low undertook detailed modelling of Council's future outlook based on a strategic review of its long term financial plan and taking into account a number of opportunities to improve its performance in service delivery.

Councils are required to submit a proposal as to how they will be Fit for the Future to IPART by 30 June 2015.

## **3 SCALE AND CAPACITY**

The Local Government Review Panel report describes councils that are "fit for the future" as being those with sufficient "scale and capacity" to deliver modern, efficient and sustainable services to local communities.

The starting point for scale and capacity according to the Office of Local Government, and more recently confirmed by the IPART Assessment Methodology, is to be the Independent Local Government Review Panel recommendation for each council.

Whilst no thresholds were provided by the Panel, beyond this the demonstration of a council's "scale and capacity" is open to interpretation and therefore to be undertaken by each council proposing an alternative to the recommendation.

The Independent Local Government Review Panel recommendation for Upper Hunter Shire Council is that it remains as a standalone council with no structural or boundary changes. Upper Hunter Shire Council supports this position, although some 'tidying up' of minor boundary issues in partnership with neighbouring councils may assist all involved in being more effective.

Given that the starting point for “scale and capacity” is the Independent Local Government Review Panel recommendation, Upper Hunter Shire Council meets the test for scale and capacity.

## **4 CONSULTATION**

Given the ILGRP determined that Council already had Scale and Capacity a detailed consultation process with the community was considered to be unnecessary at this point in time. Council chose to make use of its Finance (Standing) Committee and monthly reports were provided to the committee on the progress of the submission.

Workshops were also held with Councillors at key milestone points to ensure that the submission was meeting Councillors’ expectations. Input from these workshops has been included in the submission.

## **5 FUTURE REPORTING**

Council has introduced a new performance reporting system for recording and accurately measuring its financial and non-financial performance against agreed performance indicators.

Council has also advanced its planning and redevelopment of the Community Strategic Plan and Resourcing Strategies in line with some of the proposed improvements outlined in this submission. This will ensure that our improvement strategy and reporting requirements are embedded in our IP&R framework.

## **6 COUNCIL’S CURRENT POSITION**

### **6.1 About your Local Government Area**

#### **Key characteristics**

The Upper Hunter Shire Council area is located in the Hunter Region of New South Wales, about 250 kilometres north of Sydney. The Shire is bounded by Liverpool Plains Shire Council and Tamworth Regional Council in the north, Walcha Council, Gloucester Shire Council and Dungog Shire Council in the east, Singleton Council and Muswellbrook Shire Council in the south and Mid-Western Regional Council and Warrumbungle Shire Council in the west.

The Upper Hunter Shire encompasses a total land area of just over 8,100 square kilometres, encompassing large areas of national park and nature reserves. It is a predominantly rural area and home to the largest horse breeding region in Australia.

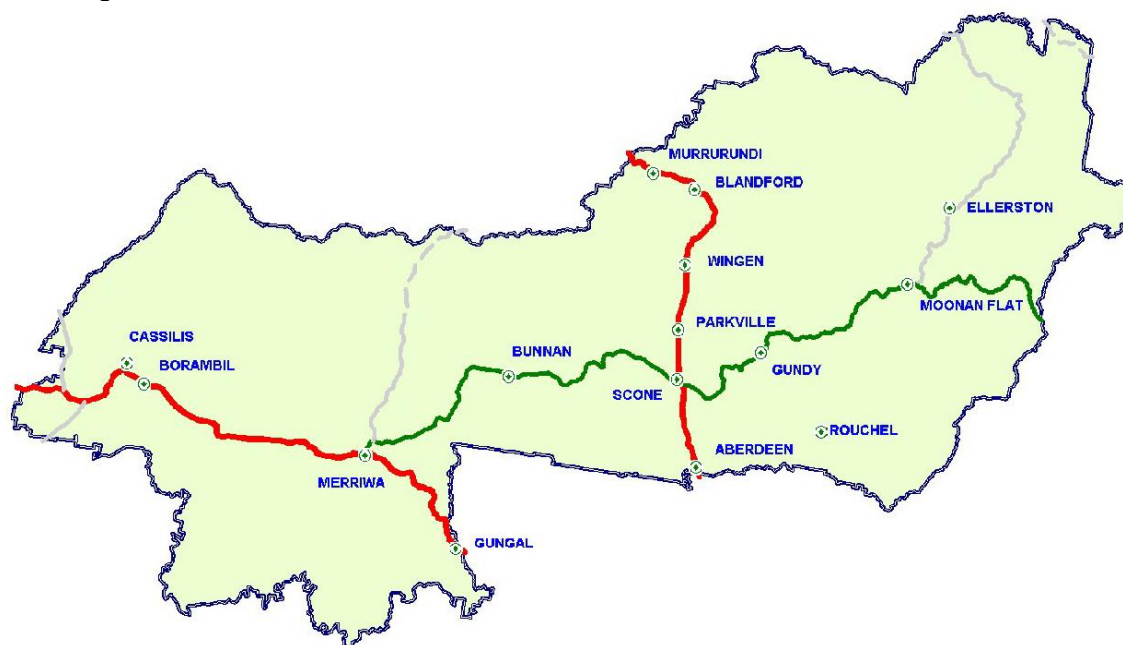
Most of the rural area is used for grazing, dairy farming, horse studs and general farming. The Shire is a major cattle, crop, pig, poultry and sheep producer, has a number of vineyards and an abattoir that supplies the Australian and overseas markets.

The Shire has a vibrant rural community that has developed its own unique character. The main township is Scone, with smaller townships at Aberdeen, Merriwa and Murrurundi.

Scone supports over 70 horse breeding studs and is home to a world-class thoroughbred breeding and racing industry. Known as the Horse Capital of Australia, Scone’s thoroughbred breeding industry is second only in the world to Kentucky in the USA. Scone is also home to the

largest veterinary clinic in the Southern Hemisphere and also hosts the long running annual 'Scone & Upper Hunter Horse Festival'.

Aberdeen is the home of the Australian Blue Heeler and host to the annual 'Aberdeen Highland Games'. Merriwa, in the west, is well known for its popular 'Festival of the Fleeces' event in June as well as claiming the title of 'Home of the Pony Club'. Murrurundi hosts one of the largest sheep dog trials in the state and more recently the annual 'King of the Ranges Stockman's Challenge'.



(Source: <http://upperhunter.nsw.gov.au/f.ashx/documents/OurShire/upper-hunter-shire-lga.pdf>)

## Demographics of the area

Census data and the NSW Department of Planning's Population Forecasts show that the population in the Upper Hunter Shire Council area will slowly increase from 14,200 in 2011 to 15,750 in 2031.

The table below shows the trend in annual average population growth rates for the same period:

2011-16	2016-21	2021-26	2026-31	2011-31
0.7%	0.6%	0.5%	0.4%	<b>0.5%</b>

This population increase can be attributed to a growing young population and increase in rate of births. The area has also benefited from net internal migration within the State.

The Shire has a median age of 38.6. It has a high ratio of children to adults of parenting age, coupled with low retention of young adults. The area also has a lower proportion of elderly residents, including a relatively low ratio of the very old to the next youngest cohort. However, age dependency or the ratio of older people (65 and older) to the number of people aged 15-64 years will gradually increase from 0.25 in 2011 to 0.41 in 2031, increasing demand for aged services in the area.

Virtually all residents in the area were born in Australia and speak English at home. The area has an Indigenous population of 3.9%, which is higher than the State average of 2.5%.

The Shire will experience an increase in couple only and lone person household types from 2011 to 2031. The other predominant household type of couples with children will remain steady, as will the less dominant household types of single parents and group households.

The predominant dwelling structure is separate houses. The Shire has a high proportion of caravans, a fairly average proportion of flats combined with moderate proportions of rental dwellings and greater outright ownership than mortgage status. Residential values are maintained by commuting. A total of 7,800 dwellings are projected to be needed to provide private housing for all projected households in 2031.

The Shire is characterised by fairly high car ownership, moderate levels of working at home, high reliance on motor vehicles to access work and negligible use of public transport.

### **Community's social and economic needs**

The Upper Hunter Shire Council area generates a Gross Regional Product of \$631.8 million per annum. In 2012, the Shire had 1,763 businesses, mostly in the Agriculture, Forestry & Fishing industry. The majority of fulltime roles in the Shire are employed in (i) Agriculture, Forestry & Fishing, (ii) Mining, (iii) Retail Trade and (iv) Education & Training.

There are lower levels of retail activity compared with other regional centres such as Tamworth and Newcastle.

The Shire's residents have an average wage of \$51,501 and are characterised as middle income. Property income is significant and there is a reasonable growth in net wealth. Business and remuneration benefits both contribute to around 10% of disposable income. These characteristics are a direct reflection of the coal boom in the Hunter region in 2011/12.



The unemployment rate is moderate sitting at 3.6%. Employment growth is slower than the surrounding centres of Muswellbrook, Singleton, Tamworth and Newcastle. However, hours worked per week are higher than other council areas and the Full Time Equivalent jobholding rate is high.

Shire residents have below the State average high school completion with the area having only small-scale TAFE facilities and secondary schools.

There are three hospitals, four medical centres and three aged care facilities. In 2013, the incidence of obesity and smoking, respiratory and cardio illness and improper eating habits were above the national average.

The population demonstrates lower levels of socio-economic disadvantage than the State Average when measured against the Socio-Economic Indexes for Areas Index of Relative Socio-economic Disadvantage, ranking 94 among 152 local government areas.

### **Community's sense of local identity**

The Upper Hunter Shire Council Strategic Plan 2013+ includes a community and Council vision of a quality rural lifestyle, in a vibrant, caring and sustainable community. The plan outlines four key focus areas and aspirations for the future:



- **Social** – support families, the disadvantaged, children, young people and the aged for an equitable and caring community; and promote wellbeing, through health, education, recreation and culture for a healthy, vibrant and fulfilling life for our community,
- **Environmental** – protect the natural and built environment and plan for a sustainable future for our Shire and our planet; and preserve the local heritage of indigenous and modern cultures for the benefit of future generations,
- **Economic** – enhance economic and employment opportunities and promote growth for a sustainable, vibrant future; and maintain and enhance civil infrastructure and community assets to meet the needs of current and future generations,
- **Civic leadership** – provide community leadership through open, accountable and efficient governance; and advocate for the community to other levels of government and non-government organisations.

The community and Council mission is:

- To enhance the quality of life of all Shire residents by the provision of appropriate services and facilities through effective and efficient management of resources,
- To serve the community through equality of opportunity and involvement,
- To build a prosperous environmentally sustainable future,
- To foster sustainable, economic and social growth

Council's is currently exhibiting its draft Delivery Program & Operational Plan 2015/16 – 2018/19. This document contains: Council's functions, activities, services and performance indicators; asset replacement program and capital projects; environmental activities; proposed rates, fees and charges; and budget, for the same period. A review of the Community Strategic Plan is also well advanced.

Council's corporate values are the foundation for its performance, reflect the attitudes and beliefs of the Councillors and staff, and guide the implementation of its Delivery Program:

- Accessibility and equity,
- Openness and accountability,
- Courtesy, honesty and integrity,
- Competent, efficient and effective service,
- Teamwork,
- Environmental responsibility.

Upper Hunter Shire Council's assets including infrastructure, property, plant and equipment are valued at almost \$500 million. Council manages:

- 7 community halls,
- 5 public library branches,
- 3 public swimming pool centres,
- 3 council branch offices,
- 2 community technology centres,
- 3 youth centres,
- 1 long day care centre,
- 1 aged care facility
- 17 independent living units,
- 3 animal shelters,
- 5 waste depots.

Council also maintains 119 hectares of public space and parks, 1,751 kilometres of local and regional roads, 21.1 kilometres of footpaths and 118.8 kilometres of kerbs and gutters. There are 93 bridges in the Shire, 26 of which are timber.



Upper Hunter Shire Council intimately understands its community and is best placed to address a number of challenges, including:

- The aftermath of the Global Financial Crisis,
- The changes in the world economy,
- The export market for raw materials and energy from coal,
- The burgeoning coal seam gas industry and associated land use conflicts with agriculture and equine industries,
- Uncertainty of investment in renewable energies and long term impacts of climate change,
- Revenue keeping pace with increasing costs, especially road and bridge maintenance and renewal,
- Community expectation for higher levels of service with limited revenue base,
- Review of the Local Government Act, the Local Government Reform and Planning Reform.

The *NSW Department of Planning & Environment State-wide Profile 2014* identifies the Upper Hunter Region as the centre for coal mining in NSW, and notes that towns like Singleton, Muswellbrook and Scone have seen strong employment and population growth in recent years. The Upper Hunter Region continues to face pressure from clearing and particle pollution caused by a range of natural and human activities.

The Upper Hunter Shire Council area is included in the State Government's Hunter Regional Growth Planning Region. Previous strategic direction for the Hunter Region considered the Lower and Upper Hunter areas separately. The current strategic directions for the Upper Hunter are set out in the *Strategic Regional Land Use Plan for the Upper Hunter 2012*.

This plan was introduced in an attempt to improve the potential land use conflicts arising from the location of high quality agricultural land, the equine industry (clusters) and the mining and coal seam gas industries.

The NSW Government has also mapped biophysical strategic agricultural land with high quality soil and water resources capable of sustaining high levels of productivity. The impacts of all new state significant mining and coal seam gas proposals on biophysical strategic agricultural land and critical industry clusters land will undergo an independent, upfront scientific assessment.

Upper Hunter Shire Council is committed to:

- Protecting the Shire's prime agricultural land, surface and groundwater resources and air quality, by opposing coal mining and at this time, Coal Seam Gas (CSG) exploration and extraction activities within the Shire.
- Protecting the Shire's agricultural and equine industries from any negative impact of extractive industries by opposing coal mining and at this time, CSG exploration and extraction activities within the Shire.
- Protecting our unique identity based around "the Horse Capital of Australia".
- Protecting our clean and green identity as a unique point of difference in attracting industry, tourism and residents to the area.
- Protecting the community's health, amenity, social and emotional well-being in keeping with its vision of a "quality rural lifestyle in a caring and thriving community".
- Protecting the wider equine industry and therefore the gazetted Equine Critical Industry Cluster in our region by opposing coal mining developments that have the potential to adversely impact upon those major thoroughbred breeding farms located outside the Shire.
- Providing a certain investment future for all sustainable industries, especially agriculture and the jobs that support and grow our unique reputation and identity.

Upper Hunter Shire Council has developed a new Local Environmental Plan 2013 to encourage the proper management, development and conservation of natural and human-made resources in the Upper Hunter.

Upper Hunter Shire Council is a member of Hunter Councils, a leader in local government resource sharing. Hunter Councils is made up of 11 councils and strives to reduce the cost of doing business through offering economies and efficiencies in the areas of: environmental management; leadership, development and training; procurement; records storage; legal and consulting services; and film production.

Hunter Region was selected as one of five successful Joint Organisation pilots to be rolled out across the State, as part of the Fit for the Future reforms to strengthen local government and communities. Through Hunter Councils, the Upper Hunter Shire Council has also sought to partner with the State Government on: regional strategic planning; land use planning and transport corridor strategies; a place based service delivery model; and the review and introduction of a new model of building tourism capacity.

This has also created opportunities to partner with neighbouring Councils on shared service programs where there is a clear benefit to Council.

## 6.2 Key Challenges and Opportunities

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Sound financial position</li> <li>• Low debt</li> <li>• Hunter Councils – Joint Organisation</li> <li>• Staff – local knowledge, experienced and qualified</li> <li>• Good working relationship with neighbouring authorities</li> <li>• Good working relationship and recognised skills with Roads and Maritime Services</li> <li>• Trust and confidence of community</li> <li>• Diversity of industry in the Upper Hunter</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Ageing Water and Sewer infrastructure</li> <li>• Sewer income base too low</li> <li>• Lack of Asset Management planning</li> <li>• Extensive road network</li> <li>• Lack of skilled resources (specialist areas)</li> <li>• Pressure on own source income</li> <li>• Reliance on grants and other funding sources</li> <li>• Small Rate Base with only (steady) small growth</li> <li>• Ageing workforce</li> <li>• Duplication of services (libraries, pools, etc.)</li> <li>• Large distance and travel time issues across shire</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Shared services &amp; collaboration (e.g, Warrumbungle, Singleton, Muswellbrook etc.)</li> <li>• Hunter Councils</li> <li>• Business development (Saleyards, airport etc)</li> <li>• Staff (diversification/multi-skilled)</li> <li>• Town redevelopment (economic)</li> <li>• Expansion of RMS contract into other LGA's</li> <li>• Asset base has potential for surplus disposals</li> <li>• Opportunities for cost savings through improved efficiencies; resource utilisation and sharing; investment in technology (eg sustainable energy initiatives)</li> <li>• Unique environment (natural beauty of the area, horse industry, good employment earning potential for mining industry but minimal environmental impacts)</li> <li>• Tourism and events</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Reliance on grants and other funding sources (FAGS etc)</li> <li>• Remote workforce</li> <li>• Rate payer perception of levels of service and expectations</li> <li>• Increased cost shifting by higher levels of government.</li> <li>• Income not keeping pace with increasing operational expenses.</li> <li>• Lower levels of regional economic activity and growth (flow-on effects for income etc)</li> <li>• Impact on core business as a result of taking on too many non-core business activities (eg medical centres, age care etc).</li> </ul>

### 6.3 Performance against the Fit for the Future Benchmarks

Based on Upper Hunter Shire Council's 2013/14 Financial Statements and draft 2015/16 Long Term Financial Plan, Upper Hunter's **current and forecast position** against the Fit for the Future benchmarks is as follows.

Fit for the Future Criteria	As at 2013/14 Current	As in 2019/20 Status Quo
Operating Performance Ratio	No	No
Own Source Revenue Ratio	Yes	Yes
Buildings and Infrastructure Asset Renewals Ratio	Yes	No
Infrastructure Backlog Ratio	Yes	Yes
Asset Maintenance Ratio	Yes	Yes
Debt Service Ratio	Yes	Yes
Real Operating Expenditure Over Time	Yes	Yes

Upper Hunter Shire Council fails one of the benchmarks in 2013/14, being Operating Performance Ratio, and two by 2019/20, being Operating Performance Ratio and Buildings and Infrastructure Asset Renewal Ratio.

This reflects the current or **status quo** position without the strategies and actions that form the basis of this Improvement Plan.

#### 6.3.1 Sustainability

##### Operating Performance Ratio – Benchmark Greater Than Breakeven, Meet By 2019/20

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Operating Performance Ratio	-11.8%	-1.6%	-1.8%	-3.2%	-2.7%
Meets Benchmark?	No	No	No	No	<b>No</b>

Whilst Council's operating position improves from the 2013/14 result, it remains below the benchmark of greater than breakeven to 2020. This is a challenge for most councils across NSW where annual increases to rate income are outpaced by rising annual operating costs.

Council has undertaken a number of initiatives to improve its operating position, including implementing shared services arrangements, however further work is required to ensure that operating income is greater than or equal to operating expenditure.

### Own Source Revenue Ratio – Benchmark Greater Than 60%, Meet By 2019/20

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Own Source Revenue Ratio	63.4%	67.7%	68.4%	72.1%	72.5%
Meets Benchmark?	Yes	Yes	Yes	Yes	Yes

### Buildings and Infrastructure Asset Renewal Ratio – Benchmark 100%, Meet or Improve in By 2019/20

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Buildings and Infrastructure Asset Renewals Ratio	107.4%	110.4%	91.9%	71.8%	74.8%
Meets Benchmark?	Yes	Yes	No	No	No

Council has not applied sufficient funding towards asset renewals of buildings and infrastructure in its current Long Term Financial Plan, and following an increase in spending in 2016/17, the ratio falls each year to 2019/2020, to below the 2013/14 result. Council will address this funding shortfall through its Improvement Plan.

### 6.3.2 Infrastructure and Service Management

#### Infrastructure Backlog Ratio – Benchmark Less Than 2%, Meet or Improve in by 2019/20

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Infrastructure Backlog Ratio	1.4%	0.0%	0.4%	1.1%	1.7%
Meets Benchmark?	Yes	Yes	Yes	Yes	Yes

#### Asset Maintenance Ratio – Benchmark 100%, Meet or Improve in by 2019/20

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Asset Maintenance Ratio	119.5%	118.1%	117.8%	117.5%	117.6%
Meets Benchmark?	Yes	Yes	Yes	Yes	Yes

## Debt Service – Benchmark Greater Than 0% and Less Than 20%, Meet by 2019/20

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Debt Service Ratio	4.4%	4.8%	4.7%	4.7%	4.6%
Meets Benchmark?	Yes	Yes	Yes	Yes	Yes

### 6.3.3 Efficiency

#### Real Operating Expenditure Per Capita

	2013/2014 Result	2016/2017 Forecast	2017/2018 Forecast	2018/2019 Forecast	2019/2020 Forecast
Real Operating Expenditure Over Time	\$1,817	\$1,753	\$1,720	\$1,727	\$1,707
Meets Benchmark?	Yes	Yes	Yes	Yes	Yes

### 6.4 Water Utility Performance

Council does achieve the requirements of the NSW State Government's Best Practice Management for Water Supply and Sewerage Framework in terms of having plans in place that make up a simplified Integrated Water Cycle Management Plan. For example Council has recently reviewed its drought management plan, algae response plans, water and sewer asset management plans.

There is a \$370,000 water and sewerage infrastructure backlog as at 30 June 14.

Proposed Works	Timeframe	Cost	Grant or External Funding
Water pipeline from Scone to Murrurundi	Initial preconstruction works 2015/16 with construction over the 2016/17 to 2018/19 financial years	\$14 million	Grant already approved by the Minister to the value of \$12.8 million with balance to be obtained by loan funds in 2018/19.
Scone water treatment works	To be constructed in the 2015/16 financial year	\$1.025 million	Grant available for \$450k with balance to be funded from Council's water reserves.

Council's water operations are managed on a break-even basis, but sewerage operations does not at this point in time.

The main reasons Sewer is not operating on a break-even basis at this point in time is that funding has not kept pace with the Asset Management requirements (capital improvements)

and the cost of upgrading this infrastructure. A shortage of appropriate skilled staff in place to assist in managing the network effectively has also impacted on delivery.

Some of the strategies to improve the performance of its water and sewer operations in the 2016/17 to 2019/20 period include:

Strategy	Timeframe	Anticipated Outcome
<b>Sewer</b>		
1. Review schedule of rates and procurement process	Jun 2016	Reduced operating costs
2. Continue increased sewer revenue structure above CPI	Jun 2017	Increased revenue
3. Continue to review cost allocation between capital and operating	Jun 2017	Correction of allocations to recognise capital works, better awareness from field staff
<b>Water</b>		
1. Review schedule of rates and procurement process	Jun 2016	Reduced operating costs
2. Improved meter replacement program	Jun 2018	Accurate water readings and more effective structure.
3. Water pipeline to Murrurundi	Dec 2018	Reduced cost in maintaining inefficient water network. Increased revenue opportunities through town connections.

The water business is an integral part of Council's structure, which has been built around providing the combined service of general works as well as water and sewer services across the shire area. As Council currently undertakes multi-functions and allocates its costs accordingly. Any reduction or removal in the provision of water and sewer services would have a detrimental impact on Council's structure and its overall scale and capacity as it relates to the general fund. It would also negatively impact Council's ability to deliver an appropriate level of services to the community.

## 7 HOW WILL COUNCIL BECOME FIT FOR THE FUTURE?

### *Improvement Plan Methodology*

Council undertook a process of identifying, investigating and testing a range of improvement opportunities.

The process was as follows:

1. Senior staff completed Improvement Opportunity templates as a 'mini business case' scenario to investigate opportunities which included ease of implementation, net financial benefit (or cost), impacts on the service and organisation, legacy issues, risk, stakeholder consultation and implementation steps.



2. The ideas considered by staff to have merit, were then collated into a list of proposals for consideration by elected Councillors for inclusion as part of Council's Improvement Proposal.
3. The identified financial benefits have been modelled into the Long Term Financial Plan to enable the impact on the Fit for the Future ratios of Council's improved position to be demonstrated.

In addition to the opportunities that are able to be modelled into the Long Term Financial Plan, staff have identified several other potential opportunities which will require further assessment to ascertain the possibility of implementing along with the estimated financial benefits. Once these are costed they can be built into future revisions of the Long Term Financial Plan.

## **7.1 Sustainability Strategies**

Upper Hunter Shire Council have identified and will implement the following strategies (Table 1) to enable it to meet the operating performance ratio benchmark of greater than breakeven. These will have direct cost saving benefit to the organisation, thereby improving its operating position.

### **7.1.1 Service Reviews**

Council has identified a number of areas in which it will undertake detailed service reviews in order to ensure that its services are efficient and effective, and deliver the outcomes the community expects. This strategy will both improve Council's operating position through identifying opportunities to deliver services more cost effectively, as well as contributing to greater overall efficiency (see section 5.3).

### **7.1.2 Implement Shared Services and Resource Sharing Initiatives**

Upper Hunter Shire Council currently participates in a range of shared services and resource sharing initiatives with its neighbouring councils, particularly Singleton and Muswellbrook Councils. There have been discussions held between the senior staff of these three councils to identify and implement further opportunities to deliver shared services or share resources.

These have the benefit of ensuring Council has access to appropriate skills and services in a cost-effective way, meaning that Council saves money in these areas. In addition to improving Council's operating position, these opportunities will impact on efficiency (see section 5.3).

Objective	Strategies	Key milestones	Outcomes	Impact on other measures
1. Achieve cost savings through reviewing services	<p>Regular review of services to ensure:</p> <ol style="list-style-type: none"> <li>1. Ongoing alignment with community priorities</li> <li>2. Whether the services are delivering the outcomes it should, such as customer satisfaction or service levels</li> <li>3. Whether it is being delivered in the most efficient way possible</li> <li>4. Opportunities for improvements, alternate service delivery methods, or changes to service levels</li> </ol>	<ol style="list-style-type: none"> <li>1. Development of program of service reviews incorporated into Council's Delivery Program</li> <li>2. Report through Council's 6 Month Delivery Program Reports</li> </ol>	<ol style="list-style-type: none"> <li>1. Services are delivered more cost effectively</li> <li>2. Customers are satisfied with Council's services</li> </ol>	Sustainability and Efficiency
2. Achieve cost savings through shared services with neighbouring councils	Identify further opportunities to undertake shared services with neighbouring councils	<ol style="list-style-type: none"> <li>1. Identify and agree services for sharing between councils</li> <li>2. Implement shared services</li> </ol>	<ol style="list-style-type: none"> <li>1. Services are delivered more cost efficiently</li> </ol>	Sustainability and Efficiency

Table 1: Sustainability Strategies

## **7.2 Infrastructure and Service Management**

Upper Hunter Shire Council have identified and will implement the following strategies (Table 2) to enable it to build on the already strong performance in infrastructure and service management, with the view of correcting the forecasted deficiency in the infrastructure renewal ratio.

### **7.2.1 Ensure sufficient expenditure to meet both benchmarks**

Council is currently spending more than it needs to on asset maintenance, as evidenced by its greater than 100% asset maintenance ratio. This means that Council is in a position to reallocate sufficient expenditure from maintenance activities to asset renewals. This will enable Council to improve its asset renewal benchmark to greater than 100% whilst maintaining its asset maintenance ratio above the benchmark requirements. This category will also have a flow on effect by reducing the already compliant asset backlog ratio and improving the operating performance ratio.

Included in this section is the review of Council owned property. The review will consider the divesting of property within the portfolio where assets are underperforming or there is an opportunity to reduce operating costs through reduced maintenance activities. The review will consider the benefit the property has to the community and other strategic factors such as cultural, heritage or environmental factors that may be associated with the properties. By divesting itself of surplus property, Council can reduce its expenditure, increase revenue (interest etc.) and in turn improve its operating performance ratio.

Objective	Strategies	Key milestones	Outcomes	Impact on other measures
1. Ensure effective asset management	1. Reallocate excess asset maintenance spending to asset renewals	1. Update Long Term Financial Plan and Asset Management Plans 2. Undertake and report program of works as per Council's Asset Management Plans	1. Council's assets are being maintained and renewed effectively 2. Council meets the Fit for the Future benchmarks	Sustainability
2. Identify opportunities for increased income and reduced expenditure on assets through property acquisition and disposal	1. Develop property acquisition and disposal plan	1. Property acquisition and disposal plan prepared 2. Communication and engagement with the community 3. Adoption of plan 4. Implementation of plan	1. Council has a better performing property portfolio that increases revenue and reduces costs	Sustainability Efficiency

*Table 2: Infrastructure and Service Management Strategies*

### **7.3 Efficiency**

In addition to the strategies in 5.1 contributing to improved performance against the operating performance ratio benchmark, both the service reviews and shared services will increase the efficiency with which Council operates, contributing to a greater reduction in real operating expenditure over time.

Table 3 outlines some of the initial strategies that will increase the efficiency of Councils services.

Objective	Strategies	Key milestones	Outcomes	Impact on other measures
1. Increase efficiency of council services	1. Regular review of services to ensure: <ul style="list-style-type: none"> <li>a) Ongoing alignment with community priorities</li> <li>b) Whether the services are delivering the outcomes it should, such as customer satisfaction or service levels</li> <li>c) Whether it is being delivered in the most efficient way possible</li> <li>d) Opportunities for improvements, alternate service delivery methods, or changes to service levels</li> </ul>	1. Development of program of service reviews incorporated into Council's Delivery Program 2. Report through Council's 6 Month Delivery Program Reports	1. Services are delivered more cost effectively 2. Customers are satisfied with Council's services	Sustainability and Efficiency
	2. Identify further opportunities to undertake shared services with neighbouring councils	1. Identify and agree services for sharing between councils 2. Implement shared services	Services are delivered more cost efficiently	Sustainability and Efficiency

Table 3: Efficiency Strategies

## 7.4 Improvement Action Plan

Opportunity	Action	Timeframe				Total Saving Target Over 4 Years	Difficulty	Impact	Increases Strategic Capacity?	Impacts Which Measures?
		2015/16	2016/17	2017/18	2018/19					
Service Review – Business Services	A review of all Council businesses should be ongoing, including considering options for leasing out some of the services	•	•	•	•	\$160,000	Medium	<ul style="list-style-type: none"> <li>• No increase in service levels</li> <li>• Possible reduction in staff (attrition)</li> <li>• Reduced overhead costs</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Efficiency</li> </ul>
Shared Services – Internal Audit/ Risk Management	Investigate shared resources with neighbouring Councils for Internal Audit and/or Risk Management		•	•	•	\$30,000	Low	<ul style="list-style-type: none"> <li>• Reduced overhead costs</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Efficiency</li> </ul>
Shared Services – Information Systems and GIS	Information systems and GIS are areas for potential shared services, with most councils already operating on similar IT platforms		•	•	•	\$110,000	Medium	<ul style="list-style-type: none"> <li>• Possible reduction in staff (attrition)</li> <li>• Reduced overhead costs</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Efficiency</li> </ul>



Opportunity	Action	Timeframe				Total Saving Target Over 4 Years	Difficulty	Impact	Increases Strategic Capacity?	Impacts Which Measures?
		2015/16	2016/17	2017/18	2018/19					
Shared Services – Building Certification and Animal Control	Investigate shared service with neighbouring councils for building certificates and other regulatory functions		•	•	•	\$75,000	Medium	<ul style="list-style-type: none"> <li>Improved service level</li> <li>Possibly increased user costs</li> <li>Reduction in staff numbers (current vacancy review)</li> </ul>	Y	<ul style="list-style-type: none"> <li>Sustainability</li> <li>Efficiency</li> </ul>
Shared Services – Waste Services	Investigate shared service with neighbouring councils for Waste Management functions. Council already has a joint contract with Muswellbrook Shire Council for kerbside collection disposal at the Muswellbrook landfill site. An review of this service could be beneficial		•	•	•	\$300,000	Medium	<ul style="list-style-type: none"> <li>May result in closure of some current waste sites</li> </ul>	Y	<ul style="list-style-type: none"> <li>Sustainability</li> <li>Efficiency</li> </ul>

Opportunity	Action	Timeframe				Total Saving Target Over 4 Years	Difficulty	Impact	Increases Strategic Capacity?	Impacts Which Measures?
		2015/16	2016/17	2017/18	2018/19					
Property Acquisition and Disposal	Take a strategic review of our property portfolio and where necessary consider disposing of Council owned property and/or businesses that are of little benefit to the community and/or that are better managed by the private sector	•	•	•	•	\$1,350,000	Medium	<ul style="list-style-type: none"> <li>• Some user impacts</li> <li>• May be reduction in staff numbers through natural attrition</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Infrastructure and Service Management</li> </ul>
Service Review – Community Services	Ongoing review of current and future community needs for community services		•		•	Unknown	High	<ul style="list-style-type: none"> <li>• Reduced overhead costs</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Sustainability</li> </ul>
Shared Plant	To ensure and maintain good utilisation rates for specialist plant through sharing with Singleton and Muswellbrook Councils			•	•	\$100,000	Medium	<ul style="list-style-type: none"> <li>• More efficient utilisation of plant</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Infrastructure and Service Management</li> <li>• Sustainability</li> <li>• Efficiency</li> </ul>

Opportunity	Action	Timeframe				Total Saving Target Over 4 Years	Difficulty	Impact	Increases Strategic Capacity?	Impacts Which Measures?
		2015/16	2016/17	2017/18	2018/19					
RMCC Contract	Seek expansion of the current RMCC contract on the Golden Highway to other areas along the Golden Highway and New England highway.	•	•	•	•	Unknown	Medium	<ul style="list-style-type: none"> <li>• Potential increase in workforce</li> <li>• Additional revenue stream for Council</li> <li>• More effective utilisation of plant and resources</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Sustainability</li> </ul>
Ensure sufficient expenditure to meet infrastructure benchmarks	Reallocate excess maintenance funding to renewals to meet benchmarks for both	•	•	•	•		Easy	<ul style="list-style-type: none"> <li>• Improved ratios of funds directed where they are most needed</li> <li>• May impact workforce roles and responsibilities</li> </ul>	Y	<ul style="list-style-type: none"> <li>• Infrastructure and Service Management</li> <li>• Sustainability</li> </ul>

## 8 HOW WILL THE PLAN IMPROVE PERFORMANCE?

### 8.1 Expected improvement in performance

If the strategies outlined in the Improvement Action Plan (Section 7.4) are implemented, then there will be a positive improvement in performance against each of the measures/benchmarks. These are outlined in the table below.

Measure / benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
<b>Operating Performance</b> (Greater than or equal to break-even average over 3 years)	-8.0%	-2.6%	2.1%	2.6%	1.9%	2.7%	Yes
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	65.6%	68.3%	67.8%	68.4%	72.2%	72.6%	Yes
<b>Building and Infrastructure Asset Renewal Ratio</b> (Greater than 100% average over 3 years)	121.0%	142.2%	131.4%	117.3%	101.4%	107.4%	Yes
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	0.006%	0.0%	0.0%	0.0%	0.0%	0.0%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	109.1%	106.8%	100.0%	100.0%	100.0%	100.0%	Yes
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	4.9%	5.1%	4.8%	4.7%	4.7%	4.6%	Yes
<b>Real Operating Expenditure per capita</b> (A decrease in Real Operating Expenditure per capita over time)	\$1,666	\$1,663	\$1,681	\$1,636	\$1,640	\$1,620	Yes

## 9 CONCLUSION

The Independent Local Government Review Panel recommendation for Upper Hunter Shire Council is that it meets the “scale and capacity” requirements and therefore should remain as a standalone council with no structural or boundary changes.

If the Upper Hunter Shire Council was to remain with the current Long Term Financial Plan, then by 2019/20, it would not meet 2 of the 8 benchmarks, which are identified in the table below.

Based on implementing a range of strategies and actions contained within this Improvement Proposal, including ensuring sufficient expenditure on its infrastructure renewal, Upper Hunter Shire Council will meet all of the Fit for the Future benchmarks and criteria by 2019/20.

The Upper Hunter Shire Council thereby submits this Improvement Proposal to IPART for its assessment as a Fit for the Future council.

Fit for the Future Criteria	2019/20 Status Quo	2019/20 Improvement Plan
Scale and Capacity as per the ILGRP Recommendation	Yes	Yes
Operating Performance Ratio	No	Yes
Own Source Revenue Ratio	Yes	Yes
Buildings and Infrastructure Asset Renewals Ratio	No	Yes
Infrastructure Backlog Ratio	Yes	Yes
Asset Maintenance Ratio	Yes	Yes
Debt Service Ratio	Yes	Yes
Real Operating Expenditure Over Time	Yes	Yes