

Template 2

Fit for the Future

Council Improvement Proposal

(Existing structure)



Getting started . . .

Before you commence this template, please check the following:

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

Council name: Orange 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.

Orange City Council is providing a submission that demonstrates it has scale and capacity to standalone.

The Independent Local Government Review Panel (Panel) suggested Council be a member of the local Joint Organisation (JO) or **merge with Cabonne Council** and/or Blayney Shire Council.

Orange City Council (Council) worked with both Cabonne and Blayney councils to consider the Panel's recommendation. After both Cabonne and Blayney resolved to standalone, Orange's submission had to be of a similar nature.

The key issues in Orange's submission are:

- A merger proposal with Cabonne was prepared (attached) by the independent firm of Morrison Low with the brief being approved and co-funded by the Office of Local Government (OLG) (NB: Blayney resolved not to participate in this process)
- The merger business plan showed small advantages only, with lesser impact on Orange than on Cabonne
- The process highlighted the need for a higher level of due diligence before an informed decision on a merger could be taken
- Orange demonstrates in this submission its ability to be "Fit for the Future"
- The assets management planning approach taken by Orange provides a solid basis for assessing sustainability in the long term.

Council's current performance is summarised as follows:

- The outcome results are equal to the outcome result of a merger of Cabonne and Orange as prepared in the Merger business case.
- Scale and capacity assessment indicates Orange City Council is fit for the future.
- Of the seven benchmarks, Orange achieves six in 2013/14 and this result is maintained for the required period.
- The Building and infrastructure Asset Renewal Ratio benchmark is the indicator not achieved. Council considers the extensive work it has undertaken in asset planning to assess the expenditure levels derived from component based assessments of asset conditions offers a superior means to analyse performance in this area. Council has achieved full integration between the Assets Management Strategy and its systems (AMS) with the 2015/16-2024/25 [Long Term Financial Plan](#) (LTFP). The Council has modelled in the LTFP an average of \$4.7M per annum in asset renewals in each of the 10 years. This eliminates the backlog currently estimated in our Asset Management Plans over the 10 year period modelled. This approach to assets management is a critical part of the Improvement Plan Council has already commenced to achieve its fit for future status.
- In considering the merger option, Council became increasingly concerned about the level of due diligence required to consider a merger. Council commissioned additional work above the merger business case analysis which is outlined in Improvement Plan but remains convinced that further analysis is required to properly assess the risks and opportunities of a merger.
- Council has also considered options for boundary adjustments given interest from communities in the Cabonne and Forbes area that are identified in the Panel's final report (p. 91) and in correspondence received from Forbes Shire Council.

1.2 Scale and Capacity

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

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

~~Yes~~ / No

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).

The Panel's recommendation for Council is that it be a member of a JO or participate in a merger with Cabonne and/or Blayney.

Council wrote to both Blayney and Cabonne councils seeking their interest in a merger. Blayney advised they were intending to submit a standalone proposal in March 2015. Cabonne and Orange proceeded to investigate a merger option jointly funded a merger business case which was prepared by Morrison Low. A copy is attached. Cabonne advised having considered the merger business case it intended to submit a standalone proposal. Hence, Orange is submitting a standalone proposal.

In terms of the JO membership, Council has been an active member of the CENTROC and would remain an active member of the JO.

The merger business case identifies:

- Merged council would have scale and capacity
- Ratios are met over the analysed period (to 2023) albeit with some failure in achieving the benchmark in the Operating Performance ratio initially due to merger costs and in latter years a need to review allocation of expenditure on assets renewal to attain benchmark performance in the Building and Infrastructure Assets Renewal Ratio. The report notes the financial flexibility to address this issue.
- It is "unlikely" that a merger would add to the scale and capacity of Orange City Council (ML p4).

- Both Orange and Cabonne council area populations are likely to continue to increase. Cabonne's population growth projection is identified at 24.5% (ML p9) with the Panel comment on population growth in Cabonne as being partially "overspill" from Orange (Panel's final report - p85, p91).
- Net savings of \$5.4M (NPV at 7%) achieved in a merged entity (ML p34).

Scale and capacity criteria are met by Orange in its current form and are detailed in the attached Improvement Plan. The Plan identifies that with operating surpluses in each of the 10 years of the LTFP Council has financial flexibility and a robust revenue base.

Council has the scope to undertake new functions and major projects. In 2014/15 alone Council completed a \$47M (co-funded across three tiers of government) pipeline project, \$19M (also co-funded by 3 tiers of government and private sector) airport expansion, and commenced a \$17M upgrade to Suma Park Dam and the construction of a \$8M regional museum simultaneously.

Council has processes in place to provide responsible fiscal planning. Project management procedures commence when ideas are at their infancy with assessments of risk, financial and operational factors identified and assessed as part of a budget bidding process. New works are assessed against the objectives in [the Community Strategic Plan](#) (CSP) to illustrate the relevance of projects to our community's aspirations. Capital works are assessed and prioritised after assessment of need and funding sources. This enables Council to have adequate analysis of projects to prioritise its future works.

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.

Key characteristics of the Orange LGA are as follows:

- Orange is a major regional city in central NSW approximately 250km west of Sydney
- The LGA is a city based entity (90% of the population living in the urban area) with a relatively small rural area
- It is a retail hub servicing a population catchment that extends into surrounding areas, particularly Cabonne and Blayney
- NSW Planning and Environment population projections for the Orange LGA indicate 46,250 persons will reside in the area by 2031 (12% growth between 2016 and 2013). The unemployment rate was identified in March 2015 as 6.2% (DEEWR).
- Diversity in the economic base across many sectors including agriculture, health services, educational services and manufacturing
- A strong tourism sector underpinned by quality food and wine products
- Council offers facilities used by its own residents and those in neighbouring LGAs including sporting facilities regional theatre, regional gallery and is currently constructing a regional museum

The broad strategic directions identified by the community in the CSP are:

- **Our City** - The Orange community will embrace and support strong, accountable leadership to ensure effective, long-term inclusive planning and decision-making within the region.
- **Our Community** - The Orange community will support and enhance a healthy, safe and liveable City with a range of recreational, cultural and community services to cater for a diverse population.

- **Our Economy** - The Orange community will plan and grow an innovative, diverse and balanced economy while protecting the character of the City and the region.
- **Our Environment** - The Orange community will pursue the balance of growth and development with the protection and enhancement of the built and natural environment while recognising climate impacts and the diverse needs of the urban, village and rural communities.

Challenges for the region include:

- The preservation of jobs in a tightening jobs market
- Maintaining the balance and diversity of the local economy that underpins ongoing growth
- Impact on service delivery where services are used by residents of neighbouring councils who work in Orange LGA
- In a merger scenario, the Council has maintained the need to ensure there is no cross subsidisation to other areas relating to raising baseline levels of service.

2.2 Key challenges and opportunities

| Strengths | Weaknesses |
|---|--|
| <p>EXISTING</p> <ul style="list-style-type: none"> • Central location • Regional centre – servicing many surrounding localities • Quality of agricultural resources • Diversity of economy • Low manageable debt and long term financial sustainability • History of successfully completing major projects illustrating ability to work with other tiers of government • High levels of service across broad range of services • Asset management processes – high level, reliable • Internal performance improvement program already in place • Long term experienced councillors • Innovative internal business improvement program • Well-developed employee programs that includes training and succession planning and assists in attracting staff • Strong member of regional community • Leader in advocacy actions • Councillor engagement with community high through 30+ community committees and roles in community entities <p>ADDITIONAL AFTER MERGER</p> <ul style="list-style-type: none"> • Increased population base • Recognise community of interest | <p>EXISTING</p> <ul style="list-style-type: none"> • Land locked compromising capacity for growth that sees overspill into neighbouring councils as noted by the Panel • Servicing residents in other LGAs but no revenue stream to Orange City Council • Structural reform of economy due to pressure on labour markets – large manufacturer closing 2016 with loss of 500+ jobs • Gender imbalance in elected members • Affordable housing options <p>ADDITIONAL AFTER MERGER</p> <ul style="list-style-type: none"> • Impact of merger if costs underestimated due to flawed due diligence • Huge increase in footprint of LGA • Inadequate information to adequately assess all risks – particularly around assets conditions and levels of service analysis • Strong opposition from Cabonne community |

| Opportunities | Threats |
|---|---|
| <ul style="list-style-type: none"> • Future land use planning- e.g. airport business park • Cost saving investigations to enhance discretionary spending opportunities • Affordable housing initiatives • Promotion of attributes – tourism, health services • Jobs creation strategy – creation of new investment and growth of existing businesses <p>ADDITIONAL AFTER MERGER</p> <ul style="list-style-type: none"> • Relevance as regional centre enhanced by larger population • Opportunity for advocacy given large representative base • Mentoring/sharing experiences and skills across all staff • Additional revenue raising opportunities e.g. special rate variation • State Government loans facility offering lower interest rates | <ul style="list-style-type: none"> • If mergers occur elsewhere, other regional areas will have increased population – need to remain relevant • Tightening of discretionary expenditure diminishes ability to respond to emergent issues • Water services taken by State Government – large financial impact • Jobs losses across economy leading to downturn • Popularly elected mayor not having support in Chamber • Reduced Federal and State funding – HACC, FAGS <p>ADDITIONAL AFTER MERGER</p> <ul style="list-style-type: none"> • Levels of service being compromised if need to subsidise other area of lower levels of service • Different treatment of staff – Cabonne protected by rural centre provisions in Act but Orange not staff • Cultural differences in merger of 2 very different size councils • Loss of staff and corporate knowledge as GM and Directors all senior staff at Orange • State government financial assistance for merger not available if ultimately decision is for a merger |

2.3 Performance against the Fit for the Future benchmarks

| Sustainability | | | | |
|--|-------------------------|-----------------------------|--|-----------------------------|
| Measure/ benchmark | 2013 / 2014 performance | Achieves FFTF benchmark? | Forecast 2016 / 2017 performance | Achieves FFTF benchmark? |
| Operating Performance Ratio (Greater than or equal to break-even average over 3 years) | 0.065 | Yes | 0.33 | Yes |
| Own Source Revenue Ratio (Greater than 60% average over 3 years) | 65.9% | Yes | 65.76% | Yes |
| Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years) | 12.7% | No | 77.72% | No |

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.

- Large change in Building and Infrastructure Asset renewal ratio is due to the comprehensive improvements achieved in the integration of the Assets Management plans and strategy with the Long Term Financial Plan
- Asset Management Strategy and Plans confirm that Council is adequately renewing its infrastructure assets both currently and into the future and the LTFP shows implementation of funding based on assets information so that Council will achieve zero backlog in the 10 years. The reliance on this sophisticated assets information in modelling Council's future expenditure underpins Council's determination that it does deliver an acceptable

asset renewal expenditure program to show it is fit for future.

- Substantial disconnect between the Australian Accounting and Standards Board's requirements concerning the application of depreciation, requiring the over depreciation of assets, hence overstating the denominator of the Building and Infrastructure Asset ratio has been well documented in submissions on the methodology being used to assess councils' long term sustainability. Orange City Council has identified its concerns in its submissions to OLG and IPART.

2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management

| Measure/ benchmark | 2013 /2014 performance | Achieves FFTF benchmark? | Forecast 2016 / 2017 performance | Achieves FFTF benchmark? |
|---|---------------------------|-----------------------------|--|-----------------------------|
| Infrastructure Backlog Ratio (Less than 2%) | 1.07% | Yes | 0.23% | Yes |
| Asset Maintenance Ratio (Greater than 100% average over 3 years) | 130.2% | Yes | 161.67% | Yes |
| Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years) | 5.34% | Yes | 6.24% | Yes |

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

- Benchmarks achieved.

2.3 Performance against the Fit for the Future benchmarks

Efficiency

| Measure/ benchmark | 2013 /2014 performance | Achieves FFTF benchmark? | Forecast 2016 / 2017 performance | Achieves FFTF benchmark? |
|--|---------------------------|-----------------------------|--|-----------------------------|
| Real Operating Expenditure per capita <small>A decrease in Real Operating Expenditure per capita over time</small> | Increasing | No | Decreasing | Yes |

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

- 2013/14 result indicates the volatility of this ratio as:
 - o Council commissioned a new waste facility in the year with operating costs for this item increasing the overall operating costs by \$3.3M and a further \$1.5M was spent improving roads to the facility which because they are in a neighbouring LGA could not be capitalised.
 - o \$100K pa for 10 years jobs creation strategy commenced in response to a major long-term employer closing its operations in Orange with loss of 500 jobs .
- Compliance with benchmark achieved in future years.

2.4 Water utility performance

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

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

Yes / ~~No~~

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

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

| |
|-------------|
| \$1,808,000 |
|-------------|

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 |
|---|-----------|--------------|---|
| Southern Suburb Augmentation – Water | 2016/17 | \$2,659,000 | |
| Southern Suburb Augmentation – Water | 2017/18 | \$3,514,000 | |
| Orange to Blayney (Central Tablelands) Pipeline – Water | 2016/17 | \$20,000,000 | Part Grant funded, Part Contribution funded |
| Orange to Blayney (Central Tablelands) Pipeline – Water | 2017/18 | \$9,980,000 | Part Grant funded, Part Contribution funded |
| Cadia UV Design, Construct Dechlorination – Sewer | 2016/17 | \$1,000,000 | Part Contribution funded |
| Cadia UV Design, Construct Dechlorination – Sewer | 2017/18 | \$1,600,000 | Part Contribution funded |

| | | | |
|-------------------------|---------|-------------|--|
| North Orange Sewer Main | 2017/18 | \$2,216,000 | |
|-------------------------|---------|-------------|--|

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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.

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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. Continue to refine and align modelling required for Office of Water with LTFP and Delivery/Operational Plan (as per NSW Office of Local Government Integrated Planning and Reporting Framework) | 2019/20 | One model to service all requirements |
| 2. Revised Water and Sewer Strategic Business plan | 2016/17 | Ongoing improvement of water and sewer infrastructure service planning |
| 4. Mid-term review of Council's integrated Water Cycle Management Strategy | 2016/17 | Ongoing improvement of water and sewer infrastructure service planning |
| 5. Continue to work with partner councils as part of the Centroc Water Utilities Alliance to implement effective water security plans | Ongoing | Ongoing skills sharing across the regional and regional approach to assets planning |
| 6. Deliver the Orange to Central Tablelands pipeline project | 2017/18 | Regional water assets planning improvement |

| | | |
|---|----------|---|
| 7. Review and update Council's Drought Management Plan | 2017/18 | Ongoing alignment of levels of service and community need |
| 8. Update Water and Sewer Assets Management Plan annually | Annually | Ongoing alignment of levels of service and community need |

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

3.1 Sustainability

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

Council's LTFP offers operating surpluses across all years of the Plan offering financial sustainability and flexibility.

Council has identified plans to assess its level of service cost base as part of the input into the Community Strategic Plan for 2016/17 and will engage the community in discussions about their expectations and understanding on the costs of the levels of service offered.

Council has established a project management framework and the further development of the framework is a task already scheduled which is noted in the Improvement Plan. The framework assists with forward planning and prioritisation of projects in Council's financial planning processes. It captures a summary of the project, establishes how it supports the community aspiration by linking to a specific item in the CSP, estimates life cycle costs (both operational and capital) and funding sources. It also identifies how projects will be managed including how variations will be reported and approved and links to Council's Enterprise Risk Management (ERM) system which is used to formulate a common understanding of the risks associated with all facets of Council's operation. In the next enhancement phases of the Framework, stronger integration with the assets planning processes and the development of an online tool as part of a suite of tools that include online performance management, procurement, recruitment, IP&R document production, monitoring and reporting and risk management, will be achieved.

Council will continue to develop its assets management plans which are integrated into the financial planning that create the LTFP. Council contends that its condition based life cycle assessment of assets provides more relevant and detailed information to underpin the decisions on the level of assets renewal spending. The improvement plan includes a project to continue to develop the assets management system including a best practice review.

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.

Operating Performance Ratio

- Adopted LTFP for General Fund maintains operational surpluses for all years without the need for special rate variations.
- Meet benchmark in this ratio
- Wages modelled to reflect the increments in NSW Local Government Award 2014
- Grant income modelled and grant opportunities identified – matching funding included in budgets where needed for particular funding sources.
- Depreciation modelled.
- CPI modelled at 2.3% in LTFP

Own Source Revenue Ratio

- Exceeds benchmark
- Continued focus on management of blend of funding sources

Building and Infrastructure Asset Renewal Ratio

- Lifecycle and component based condition rating approach to assets information capture and assessment
- Current LTFP models zero backlog after an average of \$4.7M is expended on renewals over the 10 years of the LTFP using high level of integration with the Assets management systems information.

3.1 Sustainability

Outline your strategies and outcomes in the table below.

3.1 Sustainability

| Objective | Strategies | Key milestones | Outcome | Impact on other measures |
|---|---|----------------|--|---|
| 1. Communication with community to establish threshold levels of service and affordability. Project will establish the basis of costs and levels of service for future modelling. | <ul style="list-style-type: none"> a. Level of service assessment and full cost and benefits estimated, benchmarking unit, fees and charges reviewed cost estimation processes b. Community engagement on expectations for levels of service determined and enhanced understanding of costs to supply services by the community c. Investigation of major areas of expenditure to determine saving opportunities d. Investigation of services provided under funding arrangements to determine financial sustainability and social impact. Key analysis area will be in community services due to changing funding possibilities.. e. Review how funding is applied – operational vs capital – to ensure blend/allocation is right f. Developer contributions plan update g. New revenue streams and partners in service provision investigated including need for future special rate variation h. Integration of all findings into budget processes i. Communications plan to advise community of outcomes | July 2017 | Understanding of cost base and links to expectations of levels of service from community enhanced. | Infrastructure and Service management Efficiency |

| | | | | |
|--|--|-----------|---|---------------------------------------|
| 2. Forward planning all expenditure additions after financial analysis impacts and assets implications | <ul style="list-style-type: none"> a) Add life cycle cost assessment to project management framework b) Project management Framework online tool developed c) Linkages project management framework and assets planning enhanced | July 2018 | Cost controls and management of discretionary expenditure changes | Infrastructure and Service management |
| 3. Strategic planning – whole of council process to establish future levels of service and service planning across all functional areas over the long term | <ul style="list-style-type: none"> a) Identifying and prioritising/modelling of individual strategic initiatives (plans, strategies, community land plans of management etc.) so elements of disparate plans are brought into one assessment process b) Priority matrix Council approved projects aligned to CSP, Developer contributions plan and reflected in LTFP | July 2019 | Know forward financial and assets management implications | Infrastructure and Service management |
| 4. Land Use master planning | <ul style="list-style-type: none"> a) Village master plans b) Airport business park planning c) Entry to town planning | July 2019 | Improved land use management | Infrastructure and Service management |
| 5. Merger assessment and full due diligence process | <ul style="list-style-type: none"> a) Undertake all tasks in Merger risk plan b) Complete best practice audit all merger partners to rate assets systems, processes and data integrity c) Complete analysis of boundary adjustment requests from neighbouring council areas | July 2017 | Proper due diligence assessment of merger impacts | Efficiency |

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 meets the benchmarks in the Infrastructure Backlog Ratio, Assets Maintenance Ratio and Debt Service Ratio however Council has identified opportunities to continue to offer improvements in this area.

The cost review identified in the sustainability section above will offer outcomes for infrastructure and service management via cost management and service considerations.

Council has maintained a manageable debt service ratio of between 5.1% - 6.24% rolling 3 year averages over the 2016/17 – 2019/20 period modelled in the FFF analysis. Consideration of further opportunities for internal loans or use of the NSW Government's proposed financing service if established will be investigated to determine if alternate financial arrangement will improve council's operating position.

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

- The development of the LTFP is informed by Council's adopted Asset Management Strategy and Plans – this integration is already at a high level but will continue to offer Council advantages to ensure that the infrastructure backlog is eliminated over the duration of the Plan.
- \$4.7M on average has been applied to the renewals allocation over the 10 years of the LTFP – this offers Council a zero backlog figure within the life of the Plan.

3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

3.2 Infrastructure and service management

| Objective | Strategies | Key milestones | Outcome | Impact on other measures |
|---|---|----------------|--|--------------------------|
| 1. External review of assets management systems and data to benchmark against best practice | <ul style="list-style-type: none"> a. External review that tests Council's assets management plans and strategies against industry best practice (offer to Cabonne to participate in review made, brief developed, consultant appointed) b. Update the Assets Management Strategy c. Improve systems to achieve/approach best practice | July 2017 | Further enhancements to the assets management system | Sustainability |
| 2. Debt financing review | <ul style="list-style-type: none"> a. Assess policy position to maintain DSR under 10% b. Continue to investigate internal loan options (already | July 2016 | Flexibility in financing | Sustainability |

using internal loan facility, all have approval)
c. Review opportunity from NSW Government borrowing facility if established

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 identified a project to consider costs and levels of service to inform future efficiencies as outlined in the sustainability section above.

Council has implemented an Enterprise Risk Management (ERM) system which is fully integrated across council's processes. It is used in asset management planning, long term financial planning, project planning and forms the basis for the items reviewed by the Audit and Risk Management Committee and the resultant internal audit program. Risk levels are assessed and identified for each task listed in the Delivery/Operational plan. Every report to council include risk analysis summaries. The next step in driving this efficiency improving project is to review the risk system itself via a best practice assessment.

Council shares an internal auditor with neighbouring Bathurst and Dubbo councils. In September 2014 the Internal Auditor was tasked with finding at least 2 initiatives that can be investigated by all three councils to improve operating efficiencies.

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

Changes in funding for services, in the community sector particularly (Federal HACC funding for example), has prompted Council to plan a review of cost bases in terms of long term sustainability. The review will assist in identifying efficiency opportunities. The expected outcome is improvement in the efficiency measures. This Objective and its strategies are shown in the sustainability list above.

Council assumes that the management of risk is a key element in managing efficiency. The investment in an enterprise wide system is testament to this philosophy.

The shared internal auditor function offers an opportunity to learn from each other as the same staff member compares and contrasts the operations of each of the three councils.

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency

| Objective | Strategies | Key milestones | Outcome | Impact on other measures |
|--|---|--------------------------------|---|--------------------------|
| 1. Enterprise risk Management System review | a) Best practice system | June 2016 | Best practice service delivery opportunities identified | Sustainability |
| 2. Continued business improvement opportunities arising from shared internal auditor initiative with Bathurst and Dubbo Councils | a) Shared experiences identifies projects for investigation | Yearly program approved by GMs | Process improvements | Sustainability |
| 3. Continuation of internal process improvements | a) Dashboard reporting of management accounting information b) Maximised system integration opportunities achieved | 2019 | Process improvements | Sustainability |

3.4 Improvement Action Plan

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

Action plan

| Actions | Milestones |
|---|---------------|
| 1. Cost and levels of service project – Consultation plan written and tools designed | March 2016 |
| 2. Assets management system – best practice review and ongoing development - independent assessment | March 2016 |
| 3. Projects of business continuity improvement with Bathurst and Dubbo Councils arising from shared Internal Auditor knowledge of opportunities | July 2017 |
| 4. ERM system review - best practice assessment | August 2015 |
| 5. Costs and levels of service project – assessment community services impacted by discontinued funding | December 2015 |
| 6. Land use planning g- Village master plan – Spring Hill | July 2016 |
| 7. Strategic planning framework – establish strategic planning team | October 2015 |

| | |
|--|--------------|
| 8. Cost and levels of service project - first round of consultations – to inform 2016/17 CSP | October 2015 |
| 9. Debt financing review – review policy position of DSR 10% | June 2016 |
| * Please attach detailed action plan and supporting financial modelling | |

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.

- Long Term financial Plan (LTFP) for 2015/16 –2024/25 modeled all actions listed in the Improvement Plan – all levels of management are involved in designing and finalising their budgets and fees and charges. Councillor briefing sessions and public reports to Council plus the required exhibition of the IP&R documents engaged the council and community. Council adopted the IP&R documents on 12 May 2015 for the 2015/16 year onwards.
- Morrison Low provided independent assessment of costs and benefits of merger
- 8 public reports to council on Fit for Future
- Consultation sessions online and in public meeting resulted in:
 - o 277 visits to the “your say” online site, 218 people opened documents (eg 30 visits to FAQ page) and 21 completed the online survey
 - o Public meeting attracted 13 persons – most likely impacted by the decision week before of Cabonne not to proceed with merger
 - o Media releases were provided to local papers
 - o Social media engagement processes implemented
 - o Engagement of Council staff via intranet information, sessions run by the General Manager and engagement through the consultative committee and unions.

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. Council sought interest in pursuing a merger with the two proposed merger councils, Blayney Shire and Cabonne Council in September 2014.

Blayney advised in March 2015 it would not be pursuing a merger option.

Cabonne and Orange agreed to seek the production of a merger business plan and used the OLG program to jointly fund panel member Morrison Low to prepare the business plan. Cabonne subsequently resolved (25 May 2015) not to proceed with a merger.

Council did identify the inadequacy of the merger business case analysis due primarily to the timeframe and the reliance on data from unaudited and unregulated sources (e.g. special schedule 7 and the variability in how condition data or even depreciation can be interpreted by individual councils.) As an outcome, Council prepared a merger risk management plan that outlines the sort of investigation required to perform a suitable due diligence process. Commissioning of these investigations would occur if the NSW Government determines a merger. This is an item in the Improvement Plan attached to the submission. The risk management plan is also attached.

At one stage Cabonne Council suggested a broadly defined shared services model which Orange City Council felt did not offer a superior model than the Panel's recommended merger.

4. How will your plan improve performance?

4.1 Expected improvement in performance

| Measure/ benchmark | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | Achieves FFTF benchmark? |
|--|---------|---------|---------|---------|----------|---------|-----------------------------|
| Operating Performance Ratio (Greater than or equal to break-even average over 3 years) | 1.57% | -1.83% | 0.33% | 0.72% | 1..08% | 1.12% | Yes |
| Own Source Revenue Ratio (Greater than 60% average over 3 years) | 66.41% | 65.22% | 65.76% | 69.52% | 69.61% | 70.89% | Yes |
| Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years) | 30.09% | 53.78% | 77.72% | 73.19% | 63.54% | 60.31% | No |
| Infrastructure Backlog Ratio (less than 2%) | 0.25% | 0.26% | 0.26% | 0.23% | 0.71% | 0.48% | Yes |
| Asset Maintenance Ratio (Greater than 100% average over 3 years) | 172.01% | 156.35% | 161.67% | 153.70% | 153..05% | 152.76% | Yes |
| Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years) | 6.08% | 6.37% | 6.24% | 5.90% | 5.69% | 5.10% | Yes |
| Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time | 141.73% | 147.03% | 145.24% | 142.89% | 140.49% | 138.67% | Yes |

4.1 Expected improvement in performance

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

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

It is unlikely Council will ever achieve the Building and Infrastructure Asset renewal Ratio in its current form. Council does remain confident in the analysis and processes in place via its assets management systems and financial planning that it is adequately planning and financing assets renewals.

The attached Improvement plan offers greater detail of the range of improvement activities Council has planned in future years. Most items are already included in the LTFP and where they are not they will be added in subsequent years.

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 Plan action items are costed in the existing LTFP therefore reporting is fully integrated in the Integrated Planning and Reporting framework the NSW Government has in place.