Fit For the Future Proposal

Template Version

Council name:

Glen Innes Severn Council

Date of Council resolution endorsing this submission:

25 June 2015

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1.1 EXECUTIVE SUMMARY

The Glen Innes Severn Council was identified as a stand-alone Council in Group F of the New England Region by the Independent Local Government Review Panel (The Panel). Since this review, Council has further strengthened its position through financial and infrastructure improvement measures.

This Fit For the Future (FFF) Proposal confirms significant improvements and the scale and capacity for remaining a stand-alone Council, through an analysis of contributing factors and by demonstrating Council's scope to undertake major projects and new functions; better resources to cope with complex and unexpected change; improved capability to inject innovation into its own functions; strong partnerships with State and Federal Government agencies; regional collaboration; and acting as an effective voice for its community.

A more robust revenue base, increased discretionary spending, the ability to employ a wider range of qualified staff with advanced skills in strategic planning and policy development, and effective political and managerial leadership also contribute to Council's capability. Other favourable factors include financial contributions to the General Fund from the Water and Sewer Funds, an acceptable level of grant dependency, and an opportunity for boundary adjustments. The impracticality of merging with neighbouring LGAs is also addressed.

Although only currently meeting one (1) of the seven (7) FFF ratios (based on 2013/14 Financial Report results), the Action Plan (AP) identifies that this does not accurately reflect savings and revenue increases in the last two (2) years, due to the three (3) year rolling average calculation methodology. The current position also excludes the full $1million per annum revenue increase from the Special Rates Variation (SRV) implementation, as well as significant savings identified as part of the SRV process.

The Proposal and AP show Council meeting all ratios from either 2015/16 or 2016/17, except the Infrastructure Backlog Ratio – which will take more years to address. However, significant progress will be made. These improvement strategies include completing advanced Asset Management Plans (to better direct the Long Term Financial Plan (LTFP) and capital projects); applying SRV and LIRS funding for infrastructure renewal; a boundary adjustment proposal in line with identified communities of interest; limiting expenditure increases, selling unused assets; identifying further internal savings and efficiencies; increasing fees and charges on a cost recovery basis; and increasing Water and Sewer charges to pay dividends and debt service charges to the General Fund.

The AP further projects that Council's Water and Sewer Funds will continue to operate profitably as sustainable enterprises; adding significantly to its scale and capacity. Glen Innes Aggregates, as a financially contributing business enterprise, also forms part of a strategy where opportunities are maximised and structural and inherent weaknesses are minimised.

The majority of Council's key Community Strategic Plan (2013 – 23) goals have been met, including infrastructure renewal and beautification of Glen Innes' CBD, positively addressing Glen Innes' Water Security and improvements in Council's road infrastructure. Weighing up the strengths, weaknesses, opportunities and threats of the Local Government Area, read in conjunction with the AP, strongly supports Council's sustainable autonomous future – which arguably presents a model case for a rural based Council.

1.2 SCALE AND CAPACITY

1.2.1 DOES YOUR COUNCIL HAVE THE SCALE AND CAPACITY BROADLY CONSISTENT WITH THE RECOMMENDATIONS OF THE INDEPENDENT LOCAL GOVERNMENT REVIEW PANEL? (I.E. THE PANEL DID NOT RECOMMEND YOUR COUNCIL TO MERGE OR BECOME A RURAL COUNCIL)

Yes.

Discussion:
Since this Panel assessed Council to be a stand alone entity, Council has further strengthened its position through financial, managerial, organisational and infrastructure measures – confirming its progression with significant improvements that support the scale and capacity for remaining autonomous.

Contributing financial factors include: a more robust revenue base; increased discretionary spending; financial contributions to the General Fund from the Water and Sewer Funds; limiting expenditure increases; selling unused assets; identifying further internal savings and efficiencies (adding to those identified as part of the SRV application process); increasing fees and charges on a cost recovery basis; maintaining its strong liquidity position as rated by TCORP; and achieving an acceptable level of grant dependency. Council's Water and Sewer Funds will continue to operate profitably as sustainable enterprises and Glen Innes Aggregates (a profitable quarry business) is a key contributing initiative.

The AP is geared to realistically lift performance to FFF required benchmarks on each ratio. The Proposal shows Council meeting all ratios within the short term, except the Infrastructure Backlog Ratio, which requires longer term strategies.

Council's 10 year LTFP corroborates with its FFF benchmark projections on sustainability of the Operating Performance, Own Source Revenue and Building and Infrastructure Asset Renewal Ratios. Factors which will positively influence improved infrastructure and service management regimes include: targeting key components of the infrastructure backlog for action, as well as assessing asset renewal expenditure (and efficiency reviews on expenditure generally) and how loan funding is applied.

Positive developments are already happening, such as a proposed flight school at Glen Innes with a potential influx of 200 workers and 600 students, and further boosts are expected from three (3) approved wind farms and continued mining exploration within the area.

Council therefore has adequate: capacity to undertake major projects and new functions; resources to cope with complex and unexpected change; knowledge, creativity and innovation potential; ability to employ a wider range of qualified staff; advanced skills in strategic planning and policy development; capacity to participate in effective regional collaboration and to be a capable partner for Government Agencies; and resources to cope with complex and unexpected change. It also has high quality political and managerial leadership and is acting as an effective voice for its community, as the majority of Council's key Community Strategic Plan 2013 – 23 goals have been met. Please refer to **pages 7 to 25** of the attached **Annexure A** for a detailed discussion on how Council meets these 10 mentioned criteria.

Going forward, key scale and capacity strategies and opportunities include: an opportunity for boundary adjustments to increase the LGA's size; completing advanced Asset Management Plans to better direct the LTFP and infrastructure projects; the application of the approved 29.19% SRV over three (3) years, and LIRS funding to reduce the infrastructure backlog. Glen Innes now has water security for water-intensive industries and town growth through an innovative off-stream water storage solution, an up-dated CBD precinct and improved road infrastructure, which together with its location on two major highways, renders it an attractive proposition for future development.

Council's ability to counteract identified weaknesses and potential threats demonstrates its scale and capacity to operate at a high operational level with sound future planning – supported by substantial financial, managerial and organisational expertise and leadership.

1.2.2 IF NO, PLEASE INDICATE WHY YOU ARE NOT PROCEEDING WITH A VOLUNTARY MERGER OR CREATION OF A RURAL COUNCIL AS RECOMMENDED BY THE INDEPENDENT PANLE AND DEMONSTRATE HOW YOUR COUNCIL HAS SCALE AND CAPACITY (UP TO 500 WORDS)

Not applicable.

2 COUNCIL'S CURRENT POSITION

2.1 ABOUT OUR LOCAL GOVERNMENT AREA

2.1.1 EXPLAIN THE KEY CHARACTERISTICS OF YOUR LOCAL GOVERNMENT AREA, YOUR COMMUNITY'S GOALS AND PRIORITIES AND THE CHALLENGES YOU FACE IN THE FUTURE

Glen Innes Severn Council, with a population of 8,965[1] that is concentrated in one town and four villages within a geographical area of 5,486.9 km², is located at the intersection of the New England and Gwydir Highways.

Glen Innes is renowned as the 'Celtic Capital' of Australia and home to the internationally recognised Australian Standing Stones, and the annual Celtic Festival. Livestock, agriculture, honey production, tourism and service sectors form the local economy. There is also sapphire mining and tin mining exploration. Recent developments include promising economic ventures; the approval of three (3) wind farms and an international flight training academy potentially catering for 600 students and 200 staff when fully completed.

Council's profitability performance is ranked in the top third of NSW LGAs; positioned 52nd of 152 councils.[2] Average rates are comparable to the Office of Local Government's (OLG) group average comparative information, and there are more active businesses and public library assets in the LGA than the group average.

The population statistics are consistent with a rural community; 30% aged over 60, and a relatively static position over the last five (5) years. The Socio-Economic Index is low at 20, with average household income lower than the group average. The challenge is viably growing the population and encouraging economic development. Council's Community Strategic Plan 2013-2023 provides a number of objectives, reflecting community desires and Council's aim to be a caring, inclusive community with excellent health services, sport and recreation facilities, cultural facilities and amenities. Community goals identified by survey include water security for Glen Innes, boosting the retail sector, improved roads and pool, and an updated/new hospital. Issues identified include security of Government funding, slow growth and an ageing population, and a relatively stagnant economy.[3]

Although the identified community goals are major issues, Council has made significant progress in addressing them. Council has increased capital works on roads by 10% annually, sourced $7.8 million in Local Infrastructure Renewal Scheme (LIRS) loan funding for bridges and roads, and has adopted best practice techniques for road rehabilitation, potentially resulting in a significantly lower whole of life cost of the road network. Council has also commenced renovations ($1.5 million) on Council's aged swimming centre, and has sourced $970,000 in grant funding and $3 million in loan funding for an off-stream water storage facility addressing water security – which will assist Glen Innes in meeting the State Government's "drought proof" criteria (the 5/10/10 rule).

Council has further lobbied for improved local medical services and encouraged better shopping facilities. Efforts to improve the local economy include a $4million infrastructure renewal and beautification of Glen Innes' CBD.

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[1]Independent Local Government Review Panel's Final Report – Revitalising Local Government, October 2013, p115.
[2]Local Government Solutions "Debits & Credits" Newsletter – February 2015 edition, annexure attached thereto titled "LG Analysis – FAG Grants adjustments and Depreciation Expense."
[3]Glen Innes Severn Council's Community Strategic Plan 2011-2021, pp 20 to 21.

Important issues highlighted as part of the FFF process for the continuous future attention of Council *inter alia* include: the annual required spend on asset renewal and maintenance to keep on meeting the set ratios, addressing the significant asset backlog of $19.8 million for the General Fund, and sustainably growing the population to 10,000.

2.2 KEY CHALLENGES AND OPPORTUNITIES

2.2.1 STRENGTHS

Summary:
By being a strong, stable Council that is willing to make tough decisions, operate in a skilled and effectively and efficiently managed environment, Glen Innes Severn Council has reached a budgeted surplus operating position for 2015/16; which if maintained, will assist to guarantee its financial sustainability into the future. Significant progress has been made in the last three years (3) towards improving Council's key financial indicators and the removal of limitations to growth; confirming its scale and capacity as a stand-alone Council.

Various factors have contributed to this positive position: approval of an SRV of 29.19% over three (3) years; developing a profitable quarry business; drought-proofing through an off-stream water storage solution; strong Water and Sewer Funds; maintaining a strong liquidity position (as rated by TCORP); success in obtaining grant revenue from State and Federal Governments; approval of LIRS funding to reduce the infrastructure backlog; improved affordability to renew and maintain its asset base; a strong community services function; and relatively low administration costs per capita when compared with the OLG group average.

Council's business units spread the governance and administration costs from other services, providing additional funds for general fund 'core functions', such as roads and rubbish. Council can provide innovative services at below benchmark unit rates[4] on major projects and has very comparable rating levels to regional neighbours and the OLG group average. Council's renewal of Glen Innes' Main Street and the development of the Glen Innes Airport by AAFT for the purpose of an international Flying Academy, are both positive developments aimed at boosting employment and the local economy. Council's relationship building and collaboration extends to the general community, local businesses, volunteers, its own workforce, neighbouring LGAs and various State Government agencies.

More detailed discussion:

- Council has already made significant progress since amalgamation in improving its financial ratios and is within reaching distance of a break-even operating position for the 2014/15 financial year.[5] **Annexure 2** to the attached **Annexure A** identifies the marked improvement in Council's position since amalgamation of the former Glen Innes Municipal and Severn Shire Councils in 2004.

- Significant progress has been made in the last three (3) years towards improving Council's financial indicators. Please refer to **Annexure 3** of the attached **Annexure A** for a comparison of these indicators prepared as part of Council's 2013/14 Financial Statements.

- Approval of a significant permanent (Section 508A) Special Rate Variation of 29.19% over three (3) years – bringing rates up to the regional average – has been obtained in 2014.[6]

- Council has an effective executive management team and the ability to attract and retain specialist staff. The organisation has been effectively managed in the last number of years,

[4] A review of Council's construction rates identifies that for a number of activities, Council is sitting well below industry benchmarks such as the Rawlinson rates (www.rawlhouse.com).
[5] The adopted March 2015 Quarterly Budget Review identifies a projected consolidated profit of $2.51million. Further, the adopted 2015/16 operational budget projects a consolidated profit of $3.174million, with a general fund profit of $897,000.
[6] IPART agreed with this conclusion as part of their assessment of Council's application (Page 4, Glen Innes Severn Council's application for a special variation for 2014/15).

as stated by TCORP in their 2013 review report of Council.[7] An OLG 'Promoting Better Practice Review' undertaken in March 2012 found that Council presents as a well-managed and efficient local government body with strong links to the local community. A number of Councillors showed a willingness to provide strategic input into decision making, and there is a good relationship between the executive management team and staff. A small number of better practices were identified within the governance, community and workforce relations areas.

- Council has a high success rate in obtaining grant revenue from State and Federal Governments (for further detail please see "1.2 Scale and Capacity" sub-section "Capable partner for State and Federal agencies" on **pages 16 and 17** of the attached **Annexure A** to the **Template Proposal Document**).

- The community has a Council that is willing to make strong decisions; e.g. implementing a Drainage Charge, applying for a SRV, closing of an unprofitable Long Day Care Centre, and the sale of unused Council properties. Council also has a low Councillor turnover, which provides for stability.

- Council has a lower road/open spaces asset base per person, compared with similarly grouped Councils (based on the OLG's 2012/13 comparative data).[8] This suggests that it should be more affordable for Council to maintain its asset base than it would be for the average council in the same OLG comparative grouping.

Asset Group	LGA	OLG Group
Public Swimming Pools (No.)	2	2
Public Swimming Pools (No.)	2	2
Public Halls (No.)	5	7
Public Libraries (No.)	4	2
Open Public Space (ha)	117	151
Total Road Length (km)	1,158.30	1,606.10
Road Length per '000 capita (metre)	130.40	234.20

- The Glen Innes Severn LGA (with particular emphasis on the major centre of Glen Innes) has had a particular historical limitation which has dampened economic growth. This limitation was the inability to guarantee water supply during periods of drought. Particular examples of where this weakness could have been an influencing factor is the loss of significant hydroponic tomato farm developments to neighbouring Guyra. Due to Council's recent proactive and innovative development of an off-stream water storage solution, Council has adequately addressed this shortcoming.

- Council obtained a 'Moderate' and 'Neutral' rating by TCORP, as well as being in a strong liquidity position, even prior to the approval of an SRV.[9]

[7] Glen Innes Severn Council – Financial Assessment and Benchmarking Report (TCORP), p 4.
[8] Data sourced from the OLG's comparative data report for 2012/13 for the Glen Innes Severn Council.
[9] Glen Innes Severn Council – Financial Assessment and Benchmarking Report (TCORP), p 4..

- Council obtained approval for $7.8million in LIRS funding to reduce its infrastructure backlog (which includes the CBD renewal, addressing all of Council's bridge backlog, and a significant boost to the condition of rural roads).

- Council represents a truly 'diversified' Council; with a strong community services function (turnover in the order of $4million per annum), strong Water and Sewer Funds (both Category 2 businesses) and a profitable hard rock quarry business (Category 1) – which provides additional financial scale and capacity to operations. These business units spread the Governance and Administration costs from other services and therefore provide additional funds for general fund 'core functions' such as roads and rubbish.

- Council has a demonstrated ability to construct major projects at a much lower cost than benchmark unit rates; e.g. the Off Stream Water Storage project and the 7.5km extension of town water and sewer services to the Glen Innes Airport for the AAFT Flight Academy development – constructed at just 45% of the NSW Office of Water Reference Rates using in house resources.

- Council has a relatively low administration costs per capita as identified by the OLG comparative report for 2012/13 (Governance and Administration Expenditure per Capita of $237.81 compared with the average of $416.68).

- Council has undertaken a significant renewal and beautification of Glen Innes' CBD to encourage economic development and local shopping. This development is not only aimed at boosting employment and the local economy, but has also addressed tired and overdue infrastructure (water, sewer, electricity and road pavement) replacement.

- Council's Glen Innes Airport is being developed by AAFT as an international flight training academy. This development will reduce Council's operating costs for the Airport by approximately $200,000 per annum and is expected to provide a boost in employment and flow-on industries. This school, in its final stage, will have 600 students and 200 employees – equating to a significant boost in population and the local economy.

- Council has comparable rating levels to regional neighbours and the OLG group average, even after the implementation of the approved SRV. This should be viewed as a strength; suggesting that Council is affordably levying rates and is not imposing an undue burden on its ratepayers.

- Council has many dedicated community volunteers who become members of Section 355 Community Committees; providing a valuable contribution to the local community and aiding in the upkeep of public halls and other recreational facilities.

- The extent of regional co-operation is identified in the attached **Annexure A** to the **Template Proposal Document**, under the heading 'Review of Scale and Capacity', item (f) 'Effective regional collaboration' on page 15. For ease of reference, a few are mentioned below:

    - Community Services – Council has a strong regional focus in respect of its community services function on a shared basis (through use of a Memorandum of Understanding). Council has historically been the leading agency in this regard.

    - Northern Inland Regional Waste Group – Council has been participating in this regional initiative that focuses on waste and recycling contracts for more than a decade.

- New England High Country Tourism Group – Council actively participates in this forum which consists of Destination NSW and Inland NSW Tourism (including Walcha Shire, Armidale-Dumaresq, Guyra Shire, Tenterfield Shire and Glen Innes Severn Councils).

- New England Weeds Authority – Council has recently resolved for this authority to in future provide weeds functions to it on a Memorandum of Understanding basis, after its Weeds Officer had resigned.

- Arts North West – Council provides accommodation and funding for this Arts Organisation serving the New England North West Region.

- Council is an active member of the New England Water Managers' group, which meets bi-monthly to discuss industry issues and share knowledge.

In addition to the above, the following actions are noteworthy:

- Council has received input from Gwydir Shire Council in regard to design and survey technologies, showing its willingness to learn from the experience of other Councils that have particular technical ability.

- Council has provided input to Tenterfield Shire Council's Water and Wastewater asset mapping and the sharing of water valve exercising equipment knowledge; demonstrating that it has particular technical expertise and ability it can share with its neighbours.

- Council was requested to be involved in the 'Safety in Design' workshops held by the RMS for the $82M Bolivia Hill project north of Glen Innes, despite this project being executed in another LGA. This appeal reinforces the standing of Council as a respected advisor in major project management.

2.2.2 WEAKNESSES

Summary:
Many previously identified weaknesses have already been actioned, or addressed within future planning. Regional weaknesses, such as the slow economic climate and population growth, pose limitations on future rate revenue increases. However, Council is positive in respect of its population growth, expecting an 11.6% increase over 16 years (approximately 0.6% per annum) due to sound developments coming on-stream. The low socio-economic standing of the area, lack of major industries other than agriculture, reliance on a climate-sensitive main industry (livestock/agriculture), and limited opportunities for youth employment are structural and societal issues impacting on the LGA.

There is a significant asset base to maintain, and the relative isolation and significant cost of travel from major centres reduce the effectiveness of procurement initiatives, however, Council is developing solutions. The strong regional RMS presence reduces the scope and capacity of Council's operational plant fleet. Council's infrastructure backlog represents a relatively high ratio, however, full SRV implementation and significant LIRS funding expenditure will have a positive impact on this.

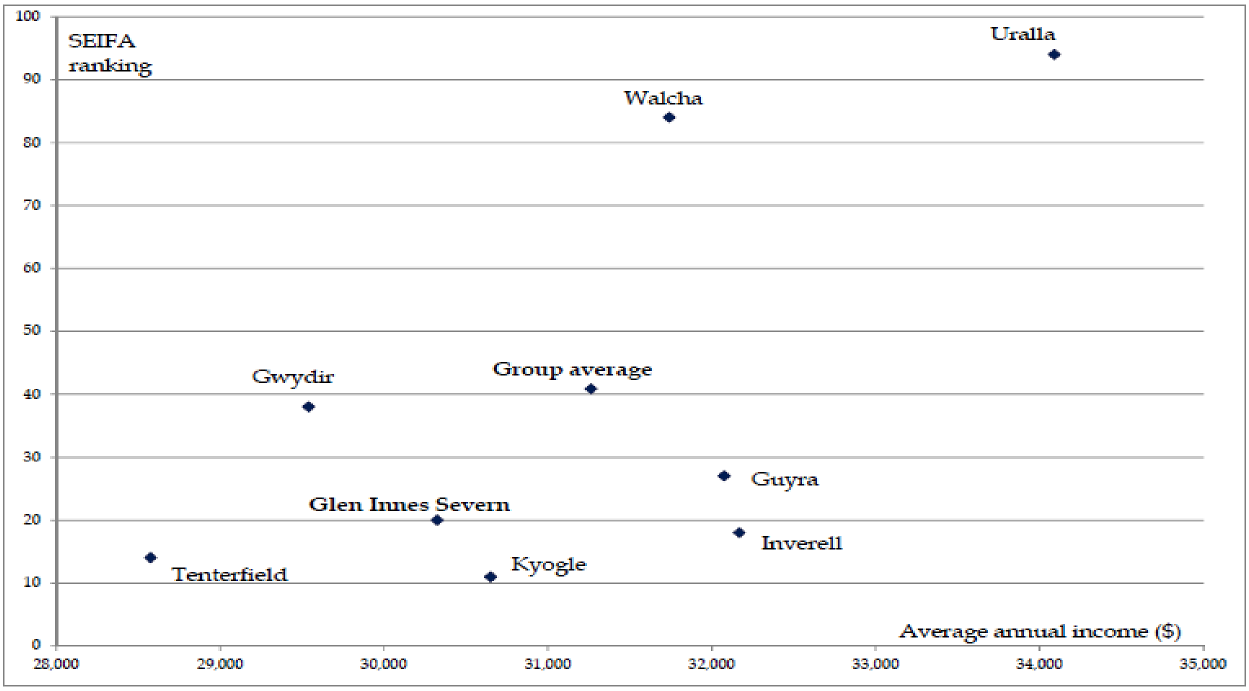
Armidale is identified as the regional centre, but based on recent history and with the utmost of respect, does not currently have the capacity to provide leadership and support to other member Councils in the proposed Joint Organisation (JO) of Councils. This statement is reinforced by the fact that the Inverell Shire Council had to take the responsibility of chairing and providing secretarial support to the newly established New England Group of Councils (NEGOC) – functioning as a ROC until the formal introduction of JOs. Council unfortunately has to view this situation as a weakness for the New England Region as a whole.

More detailed discussion:

- The LGA experiences slow population growth. Council's population is expected to decrease from 8,965 to 8,900 by 2031 in The Panel's final report. However, due to the expected development of the AAFT flight training academy (with an expected 600 students and 200 paid positions at stage four (4)), the three (3) approved Wind Farm developments, and ongoing mining exploration in the area, Council is positive in respect of its population growth. Council suggests that it is reasonable to expect an increase in population from the 8,965 identified to 10,000 by 2031. This is an 11.6% increase over 16 years, which equates to an increase of approximately 0.6% per annum. It is appreciated that this is in contradiction with the current trend; however, the majority of the increase could occur rather quickly when considering the scale of the proposed developments. Recent information released in May 2015 by the ABS shows a positive growth of 40 in the LGA's population.

- The LGA has a relatively low socio-economic SEIFA Ranking/Average Annual Income. This standing is, however, still comparable with the group average but could potentially limit Council's ability to raise rates in future years unless the ranking is improved. In this respect, it is important to note that many residents forming part of this lower socio-economic group rent housing from private investors. As such, these residents are not ratepayers and they will not necessarily be negatively affected if further rate rises are deemed necessary by a future Council. It will, however, negatively affect the return on investors' investments within the LGA's real estate market.

Figure 3.3 Average annual incomes and SEIFA ranking – selected councils



Note: SEIFA stands for Socio-Economic Indicators For Areas.
Source: OLG unpublished data and IPART calculations.

- As with all rural Councils that cover a significant geographical area (in GISC's case 5,486.9 km2), there is a significant asset base to maintain. When considering the population size that needs to 'afford' or fund this asset base, the higher the ratio of assets to rateable person, the higher the cost is per capita. However, as indicated under the heading 'strengths' above, the Council ratio is less severe than the average for the comparative Group 10 Councils.

- A weakness for Council in sourcing products and services is the relative isolation and the significant cost of travel from the major centres to the LGA. This reduces the effectiveness of procurement initiatives such as Local Government Procurement, Procurement Australia and State Government Contracts (as suppliers are generally localised around major centres). However, Council has found solutions to this by ordering in bulk, maintaining a sizeable store, aggregating tendered works, and initiatives such as actively participating in the Northern Inland Procurement Group.

- Due to the lack of large industries within the LGA, Council has traditionally been exposed to the ebb and flow of the primary farming industry. With the trend towards increasing the farm size to remain competitive and reduce input costs (which reduces the number of farmers and employees on the land) the LGA has seen a decreasing population. Further, the lack of major industries has seen limited opportunities for youth – resulting in young people leaving Glen Innes for work in larger centres. Council is confident that the Flight School, three (3) Wind Farm and possible mining developments will provide a counter-weight to this identified weakness and boost the local economy.

- Council's geographic location resulted in a lack of adequate water storage for Glen Innes in times of drought and has led to a loss of water dependent industries over the years.

However, Council has now been able to address this weakness with the innovative development of a significant off-stream water storage solution.

- Council's infrastructure backlog represents a relatively high ratio. The FFF benchmark for the Infrastructure Backlog Ratio is below 2%. Council is sitting at 12.1% (in 2012/13) which is higher than the benchmark, but significantly less than the OLG group average of 16.6%. This ratio can lose 'effectiveness' when one does not consider the fact that this Council ratio equates to a grand total of $25million – based on figures from the Consolidated Fund and not only the General Fund.

- The NSW Local Government Infrastructure Audit identified Council as having a weak rating. This rating was concluded before the approval of Council's SRV and significant LIRS funding; which will address a large portion of deferred renewals. However, the focus on improving the infrastructure management, including both planning and funding, is a key focus of Council's proposal.

- The Glen Innes Severn LGA (and arguably the entire region) is suffering due to a relatively slow economic climate. This scenario potentially affects Council's ability to further increase rates and other charges.

- The LGA's reliance on a climate-sensitive main industry (livestock/agriculture) potentially has an effect on farmers' capacity to pay additional rates (especially in times of adverse weather conditions).

- Roads and Maritime Services (RMS) does have a strong roads maintenance presence within Glen Innes – leading to a lack of private works and a reduction in the scope and capacity of Council's operational plant fleet. Large RMS contracts are the back-bone of many rural Council plant fleets with large road networks; as this supplementary work provides additional scale and capacity to the plant fleet and the engineering section of the Council – often supporting the ability to have specialised plant and staff.

- Council will form part of the New England JO in an area with a very limited history of successful co-operation at the political level within the region. The failed New England Strategic Alliance (NESAC) – which had been established as an alternative model to amalgamation in 2004 – has not only eroded trust and confidence within the then participating Councils, but throughout the whole region. Council respectfully believes that, although Armidale has been identified by The Panel as being the regional centre for the New England, it needs to increase its capacity to undertake this regional role of providing support and assistance to member Councils within a JO – e.g. the role and function that the Tamworth Regional Council is able to fulfil in this regard. This view is reinforced by the fact that the Inverell Shire Council has had to take the initiative and responsibility of chairing and providing secretarial support to the newly established New England Group of Councils (NEGOC) – functioning as a ROC until the formal introduction of JOs. This situation of a clear lack of regional political leadership over many years should be viewed as being a weakness for Council, as well as for the New England Region as a whole.

2.2.3 OPPORTUNITIES

Summary:
There is an increased possibility of industry moving to Glen Innes, due to its location on two major highways and an innovative creation of water security for water intensive industries. The international flight school is expected to boost the local economy with the influx of 200 workers and 600 students. Further boosts are expected from three (3) approved wind farms and continued tin and silver mining exploration. The possibility of extending the LGA boundaries based on communities of interest principles towards the south and west, could increase Council's rating assessments and potentially boost population by approximately 700. It is expected that these developments will contribute to a population increase to over 10,000 by 2031. Regional collaboration through an effective JO will potentially provide opportunity for shared operations, procurement, specialised staff and specialised assets.

The ability to pay dividends/contributions from Council's Water, Sewer and Quarry business units ($500,000 per annum) to the General Fund, adds to Council's scale and capacity and the operating surplus will assist in the eradication of the infrastructure backlog. LIRS funding is secured for particular asset classes contributing to the backlog, and enables Council moving from reactive to a proactive maintenance schedules.

More detailed discussion:

- There is now a real possibility of Council being able to attract industry to Glen Innes; due to its location on the crossroad of two major highways (New England and Gwydir) and the recent development of adequate water storage and security. Due to Council's historic inability to guarantee water security (primarily due to the location of Glen Innes) many opportunities for attracting larger industries have been lost in the past. The securing of an adequate off-stream storage solution will improve the LGA's chance of attracting water intensive and other industries into the future.

- The aforementioned AAFT flight training academy is expected to provide a significant boost to the local economy from the influx of 200 workers and 600 students at stage four (4) of the development.

- Council's ability to pay 'dividends' amounting to approximately $500,000 per annum from its Water, Sewer and Quarry business units, as a capital return on Council's investment, adds significantly to Council's scale and capacity. These 'dividends' will hugely assist Council in obtaining operating surpluses into the future – through which it would be able to address its infrastructure backlog.

- Council has had discussions with its neighbours regarding the possibility of extending its boundaries to the south and west – based on clearly identified communities of interest. Towards the west (Inverell Shire Council) Council has identified the locations of Swanvale, Kingsland and Kings Plains. To the south (Guyra Shire Council) Council has identified the locations of Llangothlin and Ben Lomond. All of these rural communities have clear communities of interest with Glen Innes and based on the suggested boundary adjustments, will increase Council's rating assessments by approximately 580. It is expected that such an adjustment will boost the LGA population by approximately 700.

  In the above regard, a report has been prepared for Council's consideration after a 28 day public consultation period. An extract of the Executive Summary to this report is quoted below, with the full report being attached as **Annexure B** to the **Template Proposal Document**:

After approving its draft FFF Proposal and AP, Council placed it on public exhibition for 28 days; with eight (8) submissions being received. Submissions were received from Tenterfield and Guyra Shire Councils, one (1) from a Glen Innes resident and the balance from Guyra Shire Council ratepayers.

Tenterfield Shire Council advised that it is submitting an FFF proposal under the Council Improvement Plan and in line with the Panel's recommendations; therefore, it is recommended that Council removes the proposed boundary adjustments with the Tenterfield Shire Council Local Government Area (LGA) from its FFF Proposal, as Council acknowledges this could potentially impact on their ability to meet the FFF requirements.

The Panel's recommendation is for Guyra Shire Council to merge with Armidale Dumaresq Council. Hence, Council has recommended boundary adjustments into the Guyra Shire Council LGA as part of its draft proposal. Guyra Shire Council and the ratepayers from this LGA whom lodged submissions do not support these boundary adjustments. However, as it is possible that Guyra Shire Council will not remain a stand-alone Council into the future, it is recommended not to remove the proposed boundary adjustment from Council's final FFF Proposal.

It is further recommended for the proposed boundary adjustment areas to Council's west to be included in the final FFF Proposal, as it is uncertain at this point in time what the future of the Uralla Shire Council will be. Given the history of the failed New England Strategic Alliance of Councils (NESAC), as well as various reports in the past that strongly recommended an amalgamation of Armidale Dumaresq, Guyra Shire, Uralla Shire and Walcha Shire Councils, it should be considered a real possibility that a larger merger might occur to create a strong regional centre with the necessary scale and capacity to provide leadership and support for member Councils in the future New England Joint Organisation (JO) of Councils.

In the event of both Uralla and Guyra Shire Councils being caught up in a merger with Armidale Dumaresq Council, the community of interest principle should dictate for the Bundarra and Tingha communities to ideally go to the Inverell Shire Council; which would leave the door open for Council to negotiate the exact boundaries of the areas to the west of Glen Innes Severn with the Inverell Shire Council.

In the above-mentioned instances it needs to be acknowledged by Council that, in the event of both Guyra and Uralla Shire Councils being successful with its stand-alone Council Proposals, it would not aggressively pursue the proposed boundary adjustments to its south and west with the State Government.

- An effective ROC or JO will provide significant opportunity for regional collaboration, and the potential to investigate future shared operations and procurement (e.g. resealing of roads), specialised staff (e.g. establishing centres of excellence) and specialised assets (e.g. stabilisers for road works).

- Council is positively expecting further economic development in the LGA in the next few years; driven by the three (3) approved wind farms and continued mining exploration.

- Council has been successful in obtaining $7.8million in LIRS funding to address a significant portion of its infrastructure backlog (25% to 30%). This presents a good opportunity for Council to address the backlog for particular asset classes and move from a reactive to a proactive maintenance schedule – reducing cost and improving efficiency through scheduled rather than ad-hoc maintenance.

- The burst of the mining bubble is likely to lead to decreases in construction cost and an increase in the availability of skilled labour – which in the past had a significant effect on the cost of Council's construction activities.

2.2.4 THREATS

Summary:
The long term cumulative impact of loan repayments will affect Council's cash flow position for the next decade, and has to be factored into any Council decisions. Also, the slow growing population, if not addressed, may contribute to unsustainable costs to maintain the asset base per ratepayer. There are potential funding decreases expected for Council's Community Services Section (Aged and Disability Services) which could impact negatively on the scale and capacity of Council.

The possible loss of Council's Water and Sewer Funds will have a significant effect on long term sustainability, as they also absorb a representative portion of Council's administrative and governance costs, and enable employing specialist staff, which will not be otherwise possible.

The asset backlog (12% of assets at approximately $25million)[10] affects Council's ability to maintain assets with a fully scheduled maintenance program. Maintaining and renewing assets have historically been reactive rather than proactive because of revenue shortages; pushing asset renewals beyond the optimal replacement point. Council has been spending money on assets "overdue" for renewal and not those "due" in any particular financial year; potentially resulting in higher costs and faster deterioration on both ends of the scale.

More detailed discussion:

- The LGA's slow population growth is a concern; which requires attention or may lead to a situation where the cost to maintain the asset base per ratepayer potentially becomes unsustainable – considering the SEIFA ranking, regional economic situation and extent of the rural road network.

- The possible loss of Council's Water and Sewer Funds will have a significant effect on Council's long term sustainability, as they absorb a representative portion of Council's administrative and governance costs which, if lost, will not result in comparable savings. Because of Council's increased financial capacity, it is able to employ specialist staff in other functional areas, whom it will not be able to maintain if these water and sewer functions were lost.

- There are significant changes expected for Council's Community Services (Aged and Disability Care), for example HCP02 individualised funding, possible loss of other block grant funding such as HACC Aged (Case Management Service Type of which $207,000 has already been lost) and disability funded programs such as NRA and AGPA (representing a possible $1million in recurring revenue).[11]

- The asset backlog (12% of all assets – including water and sewerage – equating to $25million)[12] affects Council's ability to maintain assets with a fully scheduled maintenance program. The reason for this is that works have been generally reactive (fixing breakdowns) rather than proactively maintaining/renewing assets in accordance with a scheduled program. Breakdowns are impossible to plan for and therefore inefficiencies are created by not being able to effectively pursue scheduled maintenance.

[10] This represents the backlog of the Consolidated Funds, the backlog for the General fund in 2013/14 was 19.8million representing a backlog of 11.5%.
[11] HCP02 – Home Care Package level 2, HACC – Home and Community Care, NRA – Northern Respite Assist, AGPA –Ageing Parent Respite.
[12] This represents the backlog of the Consolidated Funds, the backlog for the General fund in 2013/14 was 19.8million representing a backlog of 11.5%.

- The significant asset backlog also pushes asset renewal beyond the optimal replacement point – therefore Council spends money on assets that should already have been replaced, and not those that are 'due' in any particular financial year. This results in the assets reaching a point where they start to deteriorate quicker (for example water ingress into the road sub-pavement) which further exacerbates Council's backlog. Therefore, what would have been a simple road resealing exercise, becomes a more complex and expensive reconstruction exercise.

- Even though all LIRS loan funding approvals are preceded by a TCORP review, it is important for Council to fully consider the long term cumulative impact of its decisions. Therefore, it is critical that Council's LTFP fully considers the cumulative effect of loan funding under this funding methodology before LIRS funds are applied for, and drawn and spent. Council has done so very responsibly to date, but loan repayments will have a noteworthy effect on Council's cash flow position for the next 10 years. The limited repayment term of LIRS loans is not conducive to linking the life of the asset with its funding source. (Finance professionals in turn might argue that a quick repayment of debt leads to a lower whole of life financing cost).

2.3 PERFORMANCE AGAINST THE FIT FOR THE FUTURE BENCHMARKS

2.3.1 SUSTAINABILITY

Sustainability				
Measure / benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/17 Performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-3.1%	NO	3.76%	YES
Own Source Revenue Ratio (Greater than 60% average over 3 years)	50.21%	NO	61.15%	YES
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	84.47%	NO	177.27%	YES

2.3.1.2 IF THE FIT FOR THE FUTURE BENCHMARKS ARE NOT BEING ACHIEVED, PLEASE INDICATE WHY

A. Operating Performance Ratio

Summary:
Historical results were affected by one-off events, including timing differences between grant revenue and expenditure, which have had a significant effect on Council's General Fund operating position. The effect of excluding the 2013/14 Financial Assistance Grants (FAGs) adjustment identifies that Council would have otherwise met the Operating Performance Ratio. A commitment from Council to achieve an operating surplus in 2015/16, has triggered a significant amount of underlying work; including revenue increases and expenditure cuts. These have culminated in the IPART approval of an SRV of 29.19%, which ensured that Council achieved an overall budgeted operating surplus within its own targeted three (3) years, including a budgeted General Fund operating surplus. Council's overall combined deficit of 4% in the 2013/14 year (compared with the OLG group 10 deficit of 16%) is very favourable.

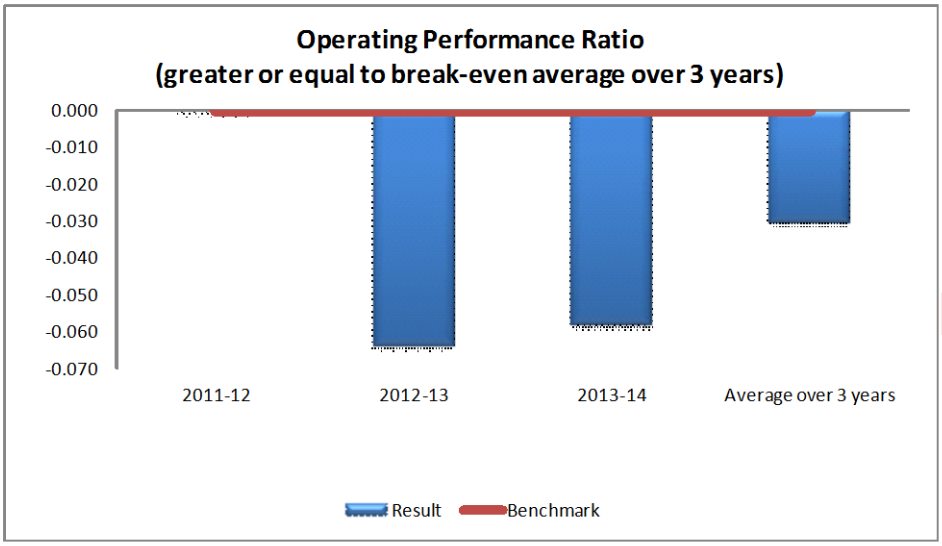
Continuation of the SRV and other AP strategies, ensure that Council will achieve a sustained operating profit into the future; satisfying the ratio above the benchmark of zero – as indicated in the LTFP.

Council's Performance in accordance with the FFF self-assessment tool:

BENCHMARK AND RESULT

Benchmark:- ***Greater or equal to break-even average over 3 years***

	2011-12	2012-13	2013-14	Average over 3 years
Result	0.025	-0.064	-0.058	-0.031
Benchmark	0	0	0	0



MEETS THE FFTF BENCHMARK

NO

Commentary on this benchmark:

The self-assessment tool graph indicates that Council does not currently meet the identified benchmark, however, this result was affected by one-off events, which have had a significant effect on Council's General Fund operating position. The correction in the payment timing of the FAG reduced Council's operating revenue by $1.8million. This would have seen Council achieving a profit of $654,000 in 2013/14 (which would have equated to a position of 53rd in NSW). Other events include the timing differences between grant revenue received and expenditure incurred – in particular the flood damage monies received in 2010/11 and expended in the subsequent three (3) years.)

It is noted that the effect of including the 2013/14 FAG adjustment shows that Council would have met the Operating Performance Ratio.

Progress to date:

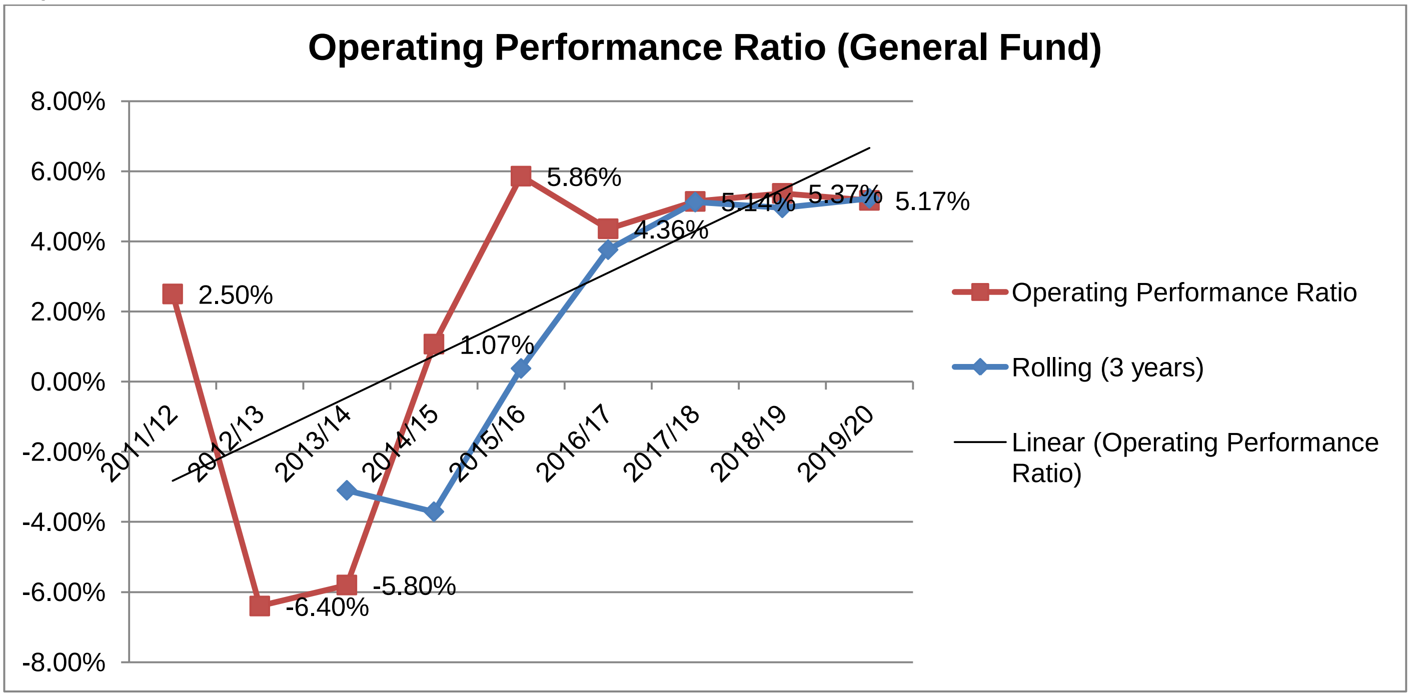
In 2013 Council adopted a resolution committing itself to achieving an operating profit within three (3) financial years for its combined funds. This objective has spurred a number of revenue increases and expenditure cuts in the last number of financial years, which ultimately resulted in the IPART approval of an SRV of 29.19%. As part of this process (but prior to the SRV approval) the following major strategies were implemented:

1) An increase in Water Annual Charges of $100 per assessment, combined with a focus on compliance with the Australian Drinking Water Guidelines, to enable the payment of dividends for the General Fund into the future;
2) The cessation of a Long Day Care service at Gum Tree Glen, resulting in a saving of $230,000 p.a.;
3) The introduction of a Drainage Charge which resulted in additional revenue of $260,000 p.a.;
4) A review of Depreciation costs and Service Levels pertaining to roads and open spaces.

A substantial number of other saving initiatives have also been identified; some of which have already been implemented or are due for actioning this coming financial year. These initiatives are identified in the comprehensive AP included within the attached **Annexure A** to this **Template Proposal Document**, from page 102 onwards.

These saving initiatives have given Council a very healthy platform from which to achieve this Operating Performance Ratio. It is evident from the LTFP projections that Council will indeed achieve an operating surplus within the identified three (3) years, but importantly, will also achieve an operating surplus within the General Fund. The AP includes further items which will ensure Council continuously meeting this benchmark. It is noted that Council's overall position within the OLG's comparable group of Councils in 2013/14 is indeed favourable, with an overall combined deficit of 4% compared with the group deficit of 16%.

Projected result for 2016/17:



The above graph represents a compilation of historical results for the financial years 2011/12 to 2013/14, with projected results from 2014/15 to 2019/20 (as projected by Council's LTFP herewith attached as its larger Proposal document). The graph indicates both the rolling three (3) year average as well as the actual and projected results for the individual financial years. Of particular note is the linear trend line indicating a clear upward inclination. It is also important to note that this positive trend continues for the full 10 year duration of the LTFP.

The large dip in 2012/13 was due to the pre-payment of FAG revenue in the 2011/12 financial year. The 2013/14 financial year was once again heavily affected by a change in the FAG payment timing, with only one half (1/2) of the annual payment being received; representing a shortfall of $1.8million. Without this shortfall, a profit of $654,000 would have been realised. However, apart from these timing variances, it is clear that the savings initiatives and revenue increases already pursued by Council will translate to it achieving sustainable operating profits into the future. This scenario is aptly illustrated by the projected profit of $2.5million in the 2014/15 financial year and a budgeted profit of $3.17million in the 2015/16 Operational Plan and Budget.[13]

Council's aim is for the operating profit to exceed the loan repayment amounts at the individual General, Water, and Sewer Funds as well as Consolidated Funds level. This objective, assuming that the remaining

[13] These are consolidated figures; the 2015/16 projected profit for the General Fund is $897,000.

cash only adjustments are negligible, will ensure that Council is in a position to achieve a 100% capital expenditure ratio (and not just the building and infrastructure renewal ratio). Achieving this objective will be a major milestone to ensure Council's true long term sustainability.

B. Own Source Revenue Ratio

Summary:

Council is not currently meeting the required Own Source Operating Ratio due to its $4million grant funded Community Services section. This makes comparing Council with a set benchmark difficult, particularly when one considers the projected growth in the aged and disability industry and the limited number of NSW Councils that manage comparable large community services functions. Further, it is argued that this section of Council (contributing over $500,000 towards overhead administrative costs) significantly contributes to its scale and capacity; particularly the ability to employ more specialised staff. It is also argued that the grants (being individualised consumer directed and charged out by the hour) should be considered a fee for service and not a grant. If this approach was adopted, Council would achieve over 70% as its Own Source Revenue Ratio.

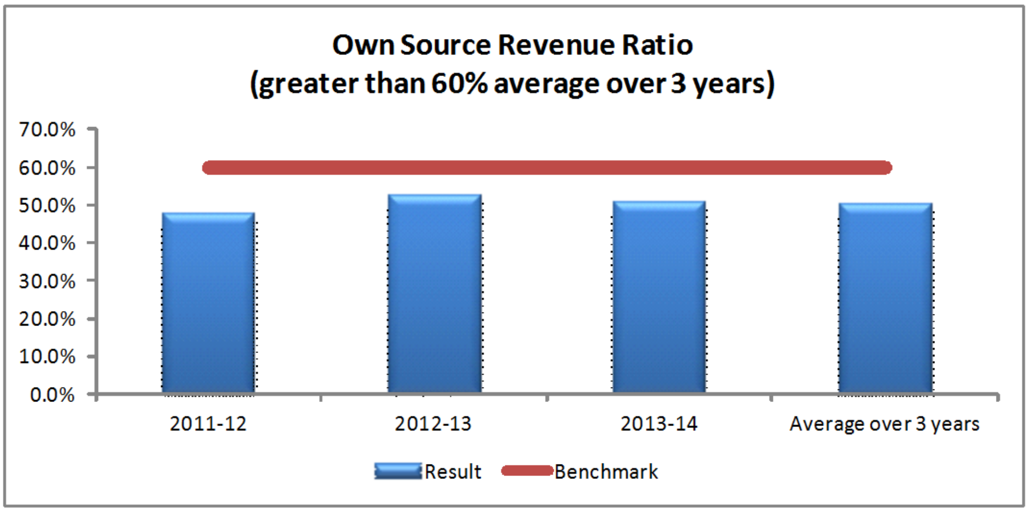
However, Council appreciates the importance of not being susceptible to potential fluctuations in grant funding. For this reason, Council has set a clear goal of achieving the required ratio. The strategies adopted for improving the Operating Performance Ratio clearly contribute to achieving this objective; as is demonstrated in the revised LTFP – indicating that Council will achieve this benchmark in the short term.

Council's Performance in accordance with the FFF self-assessment tool:

BENCHMARK AND RESULT

Benchmark:- ***Greater than 60% average over 3 years***

	2011-12	2012-13	2013-14	Average over 3 years
Result	47.5%	52.5%	50.8%	**50.2%**
Benchmark	60%	60%	60%	60%



MEETS THE FFTF BENCHMARK

NO

Council commentary on benchmark:

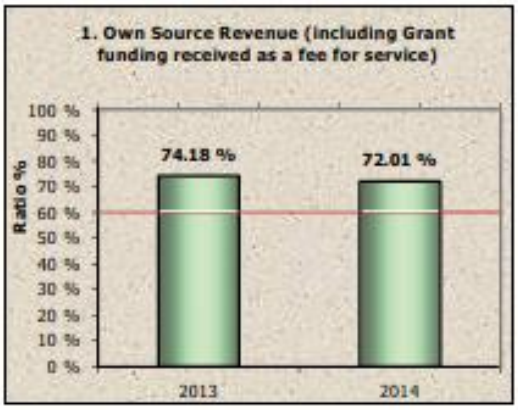
The self-assessment tool graph indicates that Council does not currently meet the identified benchmark, however, for this particular ratio Council's result is skewed by a large grant funded Community Service Function (with grant funding over $4million per annum). It is Council's contention that due to the different structure of Council's operations in comparison to other 'typical' NSW Councils which do not pursue these functions, it is unequitable to compare Council to the set 60% benchmark – which would have been determined based on the assessed 'standard' and average requirements for a NSW Council. <u>The external revenue received for funding Council's Community Service Functions should be considered as a fee for service and not a grant.</u> This argument is strengthened by the current change in Community Services funding from block grant funding to individualised consumer directed funding – which is effectively a fee for service. Council's stance in this regard is further supported by the fact that these funding packages will be transferable between suppliers based on the preference of the client, and will therefore require active competition, as with any business competing for customers and market share.

Council identified an adjusted ratio in Note 28 of Council's General Purpose Financial Statements for the 2013/14 financial year, which indicated the following (admittedly at a combined funds level):

1. Own Source Revenue (including Grant funding received as a fee for service)

Own Source Revenue (plus Grants for Aged and Disability Services) ('000)	17,878	72.01 %	74.18 %	N/A
Total Operating Revenue (Including Grants) ('000)	24,826			

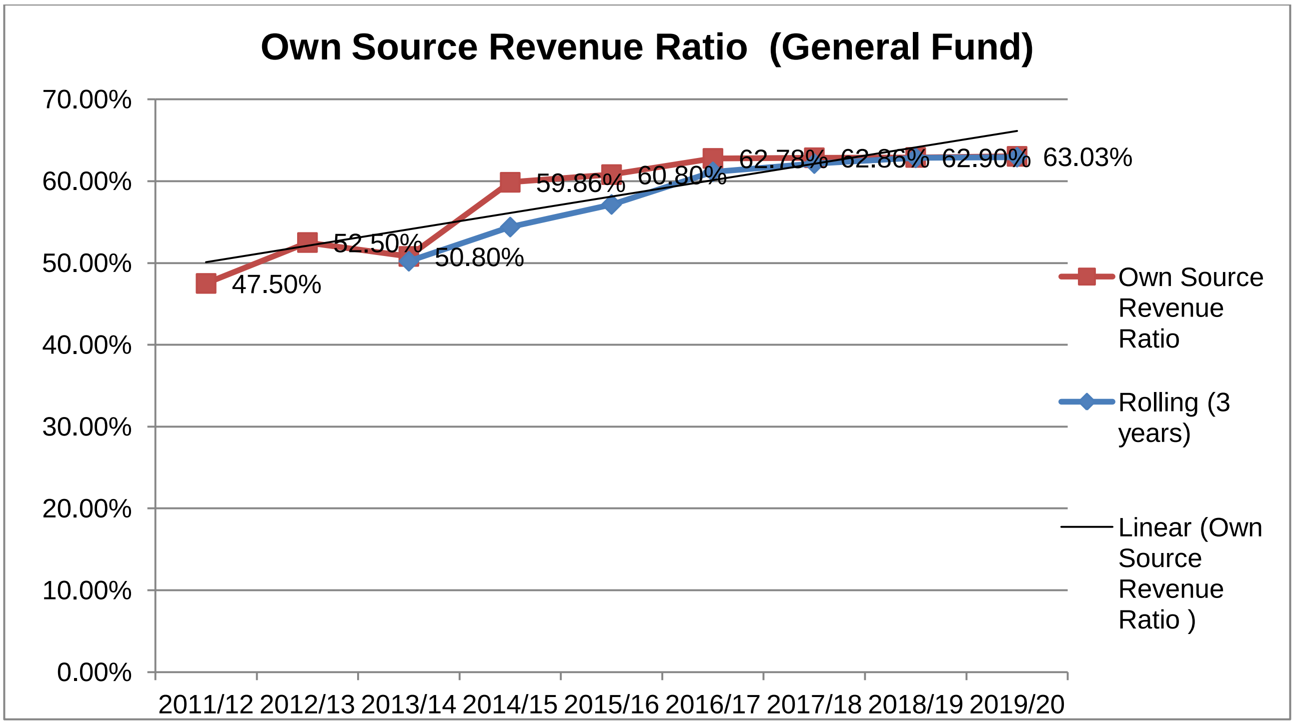
Council has a significant Aged and Disability service which benefits the community, the service is grant funded and this can skew the Own Source Operating ratio. The grant funding received is effectively a fee for service and therefore Council includes this grant revenue when identifying its Own Source Operating Revenue Ratio. Once one includes this grant revenue, Council is in a very healthy position in respect of its OSOR ratio. This ratio measures the ability of a Council to withstand fluctuations in its grant revenue, the higher the ratio the more resistant (stronger) a Council is. A ratio above 60% is considered satisfactory.



—— Minimum 60.00 %

Purpose of 1. Own Source Revenue (including Grant funding received as a fee for service)	Commentary on 2013/14 Result 2013/14 Ratio 72.01 %
To measure the ability of the organisation to withstand changes in grant funding.	This ratio is healthy, well above the 60% benchmark identified by the OLG (bearing in mind the adjustment made to the formula - as discussed above).

It is noted that this Community Services function contributes to Council's financial scale and capacity and should not be viewed as a liability (as the Own Source Revenue Ratio would indicate). This function contributes approximately $500,000 of external funding to the General Fund each year, as a contribution to the cost of administration and governance.



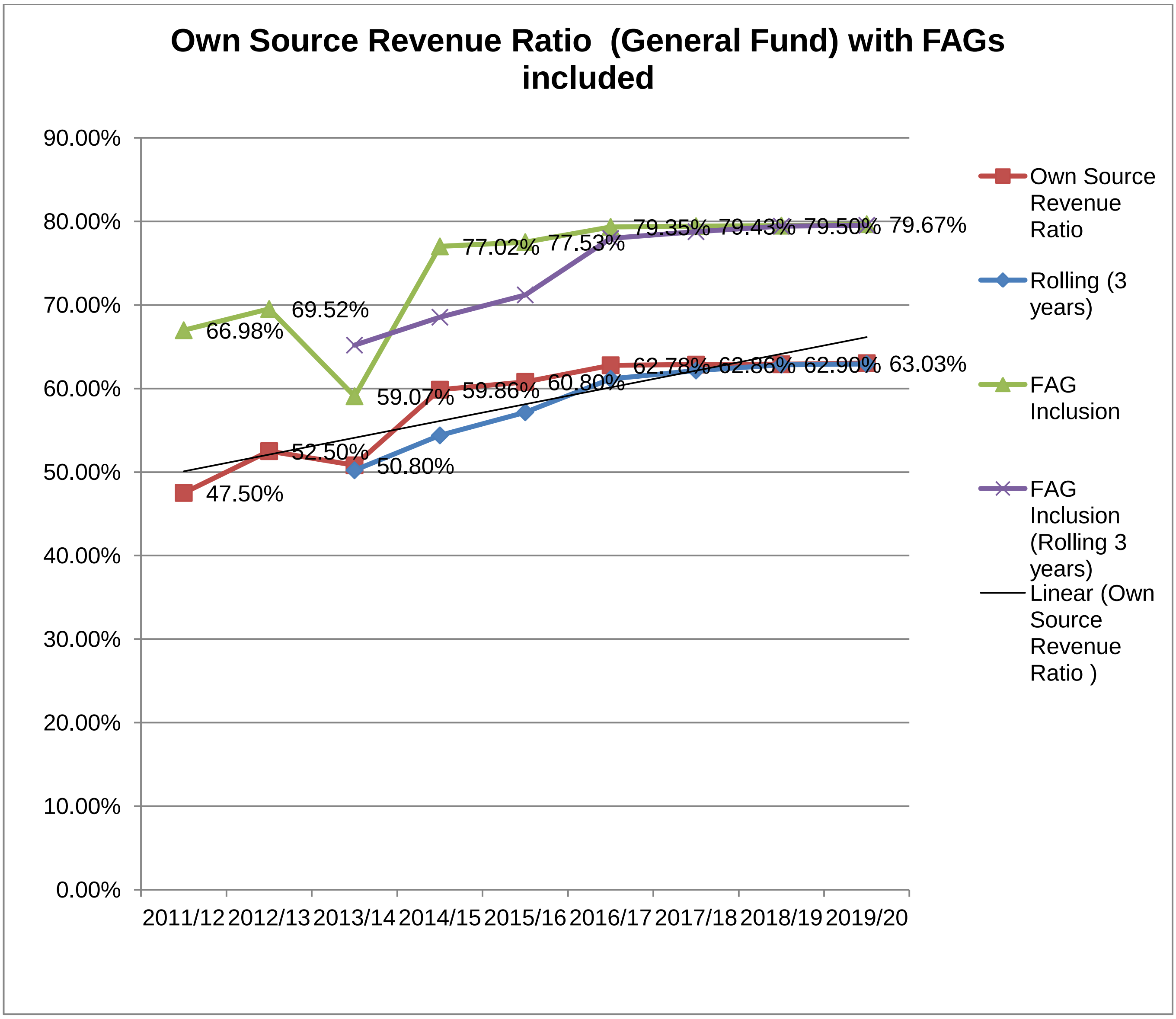
The graph above is a compilation of historical results (2011/12 to 2013/14) with projected results from 2014/15 to 2019/20 as anticipated by Council's LTFP included in the attached larger Proposal document. The graph includes both the rolling three (3) year as well as actual and projected results for the individual years. Of particular note is the linear trend line, indicating a clear upward inclination.

The graph indicates that Council will marginally surpass the 60% benchmark from 2015/16 onwards. However, this is subject to a number of the more sensitive projections within the LTFP (such as Glen Innes Aggregates' turnover and the overall increase in Council's fees and charges). This is complicated by the fact that the 2013/14 decrease in this ratio is related to a reduction in Glen Innes Aggregates' turnover. Even so, the total revenue increases identified in the LTFP, with particular emphasis on the SRV, will have a significant effect on the Own Source Revenue Ratio. The total annual increase in rating revenue of around $1million after full implementation of the SRV will have an extremely positive impact on Council's ability to meet this ratio, as clearly indicated in the graph above.

The final IPART methodology document, as released in June 2015, identified on page 16 that the Financial Assistance Grants (FAGs) would be considered as part of the Own Source Revenue Ratio (OSRR) for rural Councils, regardless of whether these rural Councils have opted to pursue the Rural Council Option (Template 3).

The graph below identifies the effect of including the actual and projected quantum of FAGs in the calculation, including the effect on the three (3) year rolling average. The effect of this inclusion puts Council well above the required 60% benchmark – increasing to around 80% from 2016/17 onwards.

It should be noted that the graph includes the actual FAG amount received during any particular financial year, rather than the amount that Council was entitled to for that year, which is consistent with the methodology applied in the prescribed assessment tool. (This also explains the significant 'dip' in the green line for 2013/14.)



C. Building and Infrastructure Asset Renewal Ratio

Summary:

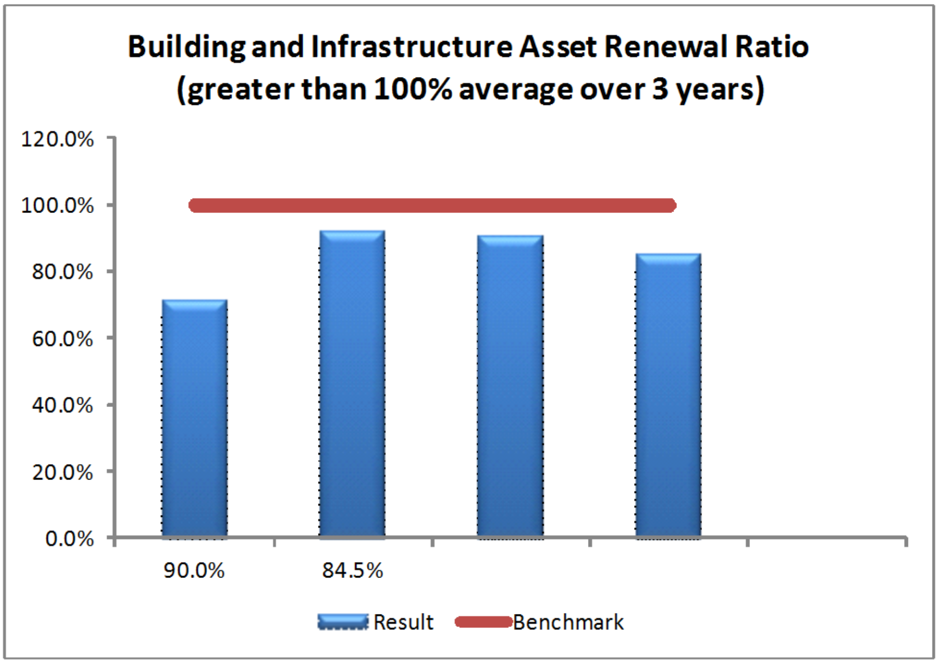
Council does not currently meet the required ratio; however, based on the historical trend Council has made significant progress over the last number of years. This ratio has also been affected by changes in the depreciation methodology, bearing in mind that AMPs are subject to continuous improvement. In the 2013/14 financial year this ratio decreased primarily because of a revaluation of building assets; increasing depreciation and thereby reducing Council's position in respect of this ratio.

The dollar increase in total actual asset renewals (from $2.925million in 2011/12 to $3.990million in 2013/14) and the associate positive trend are relevant. Key AP items include: rationalising Council's asset base by disposing of assets no longer required; creating a funded infrastructure reserve to hedge against shortfalls; and increasing expenditure on buildings and infrastructure in line with identified renewals in the AMPs. Council's LTFP indicates that the AP strategies will result in this ratio being met in the 2014/15 financial year.

Council's Performance in accordance with the FFF self-assessment tool:

BENCHMARK AND RESULT
Benchmark: Greater than 100% average over 3 years

	2011-12	2012-13	2013-14	Average over 3 years
Result	71.0%	92.0%	90.0%	**84.5%**
Benchmark	100%	100%	100%	100%



MEETS THE FFTF BENCHMARK

NO

This is how we calculated the council's result.....
(Figures are carried over from the data sheet and are in $000)

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textit{Depreciation, amortisation and impairment (building and infrastructure)}}$$

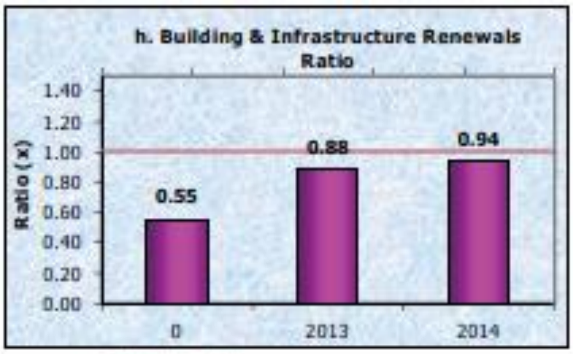
2011-12 $\frac{2,925}{4,120} =$ **71.0%**

2012-13 $\frac{3,778}{4,106} =$ **92.0%**

2013-14 $\frac{3,990}{4,433} =$ **90.0%**

Council commentary on benchmark:
The self-assessment tool indicates that Council does not currently meet the identified benchmark; however, the increase in total actual asset renewals (from $2.925million in 2011-12 to $3.990million in 2013/14) and the associated positive trend should be noted. Council has a very strong focus on meeting this ratio and the LTFP modelling indicates that Council will meet this ratio from the 2014/15 financial year onward.

Special Schedule 7 of Council's General Purpose Financial Statements indicates the following improvement over the last three years (at a combined level):



Purpose of Asset Renewals Ratio	Commentary on 2013/14 Result 2013/14 Ratio 0.94 x
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.	The building and infrastructure renewal ratio is improving but has not yet hit the 1:1 mark. Council should continue to focus on this ratio to ensure that it can start to address the infrastructure backlog.

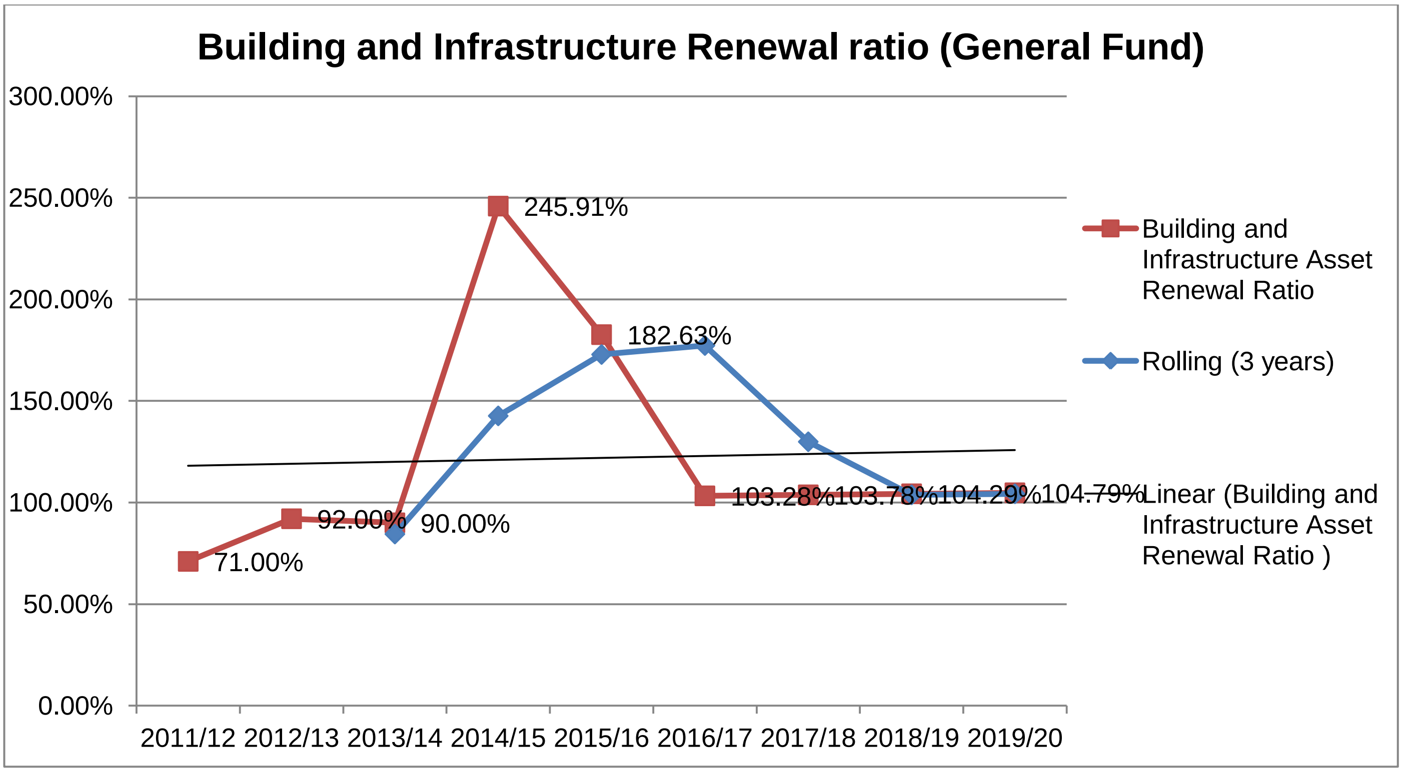
—— Minimum 1.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

It is also noted that the recent 2013/14 OLG comparative data indicates the group average to be 79.4% (combined). This percentage should be compared with the data provided above; indicating that Council is in a good position when compared with the group average. The ratio decreased primarily because of a revaluation done of building assets, which increased depreciation and therefore reduced Council's overall position in respect of this ratio.

Projected result 2016/17:

Council's LTFP modelling indicates that Council will meet this ratio from the 2014/15 financial year onward. The projected ratio is identified below:



The graph above is a compilation of historical results (2011/12 to 2013/14) with projected results from 2014/15 to 2019/20 as indicated by Council's LTFP attached as its larger Proposal document. The graph includes both the rolling three (3) year average as well as actual and projected results for the individual years. Of particular note is the linear trend line, indicating a clear upward inclination. The graph clearly indicates that Council will surpass the benchmark in the 2014/15 financial year.

The graph, read together with financial results from earlier years, indicates that Council has made significant progress in improving this ratio over time. The ratio has a considerable spike in the 2014/15 and 2015/16 financial years because of the expending of secured LIRS funding. Further, the return to 'normal' expenditure in 2016/17 and following years is also expected to be above the 100% threshold; primarily due to the underlying improvement in Council's operating position through initiatives such as the approved SRV, implemented drainage charge and successful savings initiatives.

2.3.2 INFRASTRUCTURE AND SERVICE MANAGEMENT

Infrastructure and service management				
Measure / benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/17 Performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2%)	11.50%	NO	8%	NO
Asset Maintenance Ratio (Greater than 100% average over 3 years)	79.89%	NO	112%	YES
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	4.14%	YES	10%	YES

2.3.2.1 IF THE FIT FOR THE FUTURE BENCHMARKS ARE NOT BEING ACHIEVED, PLEASE INDICATE WHY

D. Infrastructure Backlog Ratio

Summary:
Council does not currently meet the required 2% benchmark for this ratio. Further, it is not expected that Council will meet this ratio within the 10 year life of the LTFP. However, the LTFP does indicate that Council will make significant progress in reducing the backlog from 14% in 2011/12 to 8% in 2016/17. Furthermore, the AMP Transport indicates that the required renewals will be exceeded by actual renewals over the life of the plan and therefore the backlog for this important asset class will be extinguished over an approximate 20 year term. This is corroborated by the fact that from 2014/15 onwards the Building and Infrastructure Ratio exceeds the 100% benchmark.

As indicated above, significant progress has occurred with reducing the infrastructure backlog and Council will continue to pursue meeting this indicator. There has been a reduction in the backlog from 14% to 11.5% through LIRS funding of $2.8million in the last two (2) years, with an additional 25% of it to be addressed in the next two (2) years through additional LIRS funding. The projected timeline of approximately 20 years to address the General Fund backlog of $19.8million (2013/14) is argued to still be reasonable, as the backlog had developed over close to four (4) decades.

However, after the total of $7.8million in LIRS funding has been repaid in 10 years' time, approximately $780,000 per annum in additional 'cash' will become available – hugely increasing Council's ability to reduce the infrastructure backlog within a much shorter period of time. The repayment of these mentioned LIRS loans will raise the possibility of Council then taking up a further subsidised loan to address the remaining backlog. Such a decision will depend on the subsidy available at the time, however, it is Council's understanding that subsidised/low interest rate funding will be available through TCORP for those Councils which have been assessed FFF.

A further loan of approximately $7.8million to address the bulk of the remaining backlog will likely reduce it to in the order of 2% to 3% (depending on the increase in the dollar value of the backlog though increases in the LGCI). Based on this strategy and estimates, Council could potentially achieve a 2% infrastructure backlog within around 12 years.

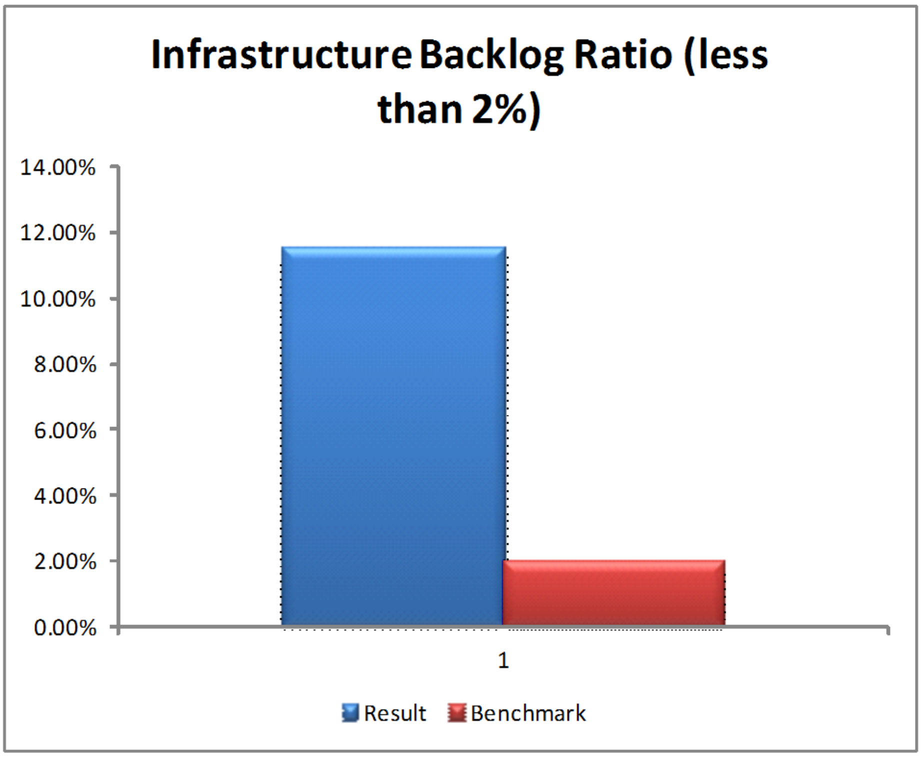
Unfortunately, this opportunity will only become available after the life of the above graph and the LTFP period, and therefore cannot be included as part of Council's AP. It is, however, a strategy that Council will have to consider most seriously when the current LIRS loans are fully repaid.

The AP identifies the following as strategies to ensure the progressive reduction of the backlog over time: adopting a consistent long term financial planning and management approach, together with a boost from additional SRV revenue and LIRS loan funding, and the other items identified in the AP (such as increasing expenditure on assets over and above the required renewals for a particular financial year, based on the AMP's identified requirements).

Council's Performance in accordance with the FFF self-assessment tool:

Benchmark:- **Less than 2%**

	2013-14
Result	**11.50%**
Benchmark	**2%**



MEETS THE FFTF BENCHMARK

NO

Council commentary on the benchmark:
Council's infrastructure backlog ratio is notably higher than the benchmark. However, it should also be noted that the recent 2013/14 OLG comparative data indicates that the Group 10 average is 13.8% (combined), compared with Council's position of 12.0%.

For Council to address this backlog, Council must spend more than 100% of the Building and Infrastructure Asset Renewal Ratio each year. Council is making progress with reducing the backlog, as 25% of the backlog is expected to be addressed in the next two (2) years through LIRS funding. However, Council will need to have a concerted effort over many years to fully address the backlog. Over the last two (2) years, Council has already made some progress; reducing the backlog from 14% to 11.5% through the use of $2.8 million LIRS funding.

After the total of $7.8million in LIRS funding has been repaid in 10 years' time, approximately $780,000 per annum in additional 'cash' will become available – hugely increasing Council's ability to reduce the infrastructure backlog within a much shorter period of time. The repayment of these mentioned LIRS loans will raise the possibility of Council then taking up a further subsidised loan to address the remaining backlog. Such a decision will depend on the subsidy available at the time, however, it is Council's understanding that subsidised/low interest rate funding will be available through TCORP for those Councils which have been assessed FFF.

A further loan of approximately $7.8million to address the bulk of the remaining backlog will likely reduce it to in the order of 2% to 3% (depending on the increase in the dollar value of the backlog though increases in the LGCI). Based on this strategy and estimates, Council could potentially achieve a 2% infrastructure backlog within around 12 years.

With the announcement made by the Federal Government on 24 June 2015 of additional Roads to Recovery (R2R) grant money being made available to the Local Government sector over the next two (2) financial years (amounting to an additional injection of around $1.9 million into Council's road infrastructure), Council is in an even stronger position to meet this benchmark within a reasonable period of time. Copies of the media release and Roads to Recovery Circular 2015/3 are hereto attached as **Annexure C**.

This additional expenditure on Council's road infrastructure network will open up an opportunity for Council to take up further loans even before the current LIRS loans have been fully repaid; in order to address its infrastructure backlog in a shorter period of time. Once Special Schedule 7 has been further refined (in line with the anticipated Auditor General's instructions and guidance) Council would be able to rely on audited data in this regard. It would then be in a position to fully apply its mind to this issue at stake, and make a responsible decision about further borrowings. It is, however, reasonably anticipated that Council would be well placed to meet this benchmark within a 10 year timeframe – with either subsidised or low interest loans being made available to it through TCorp at the time.

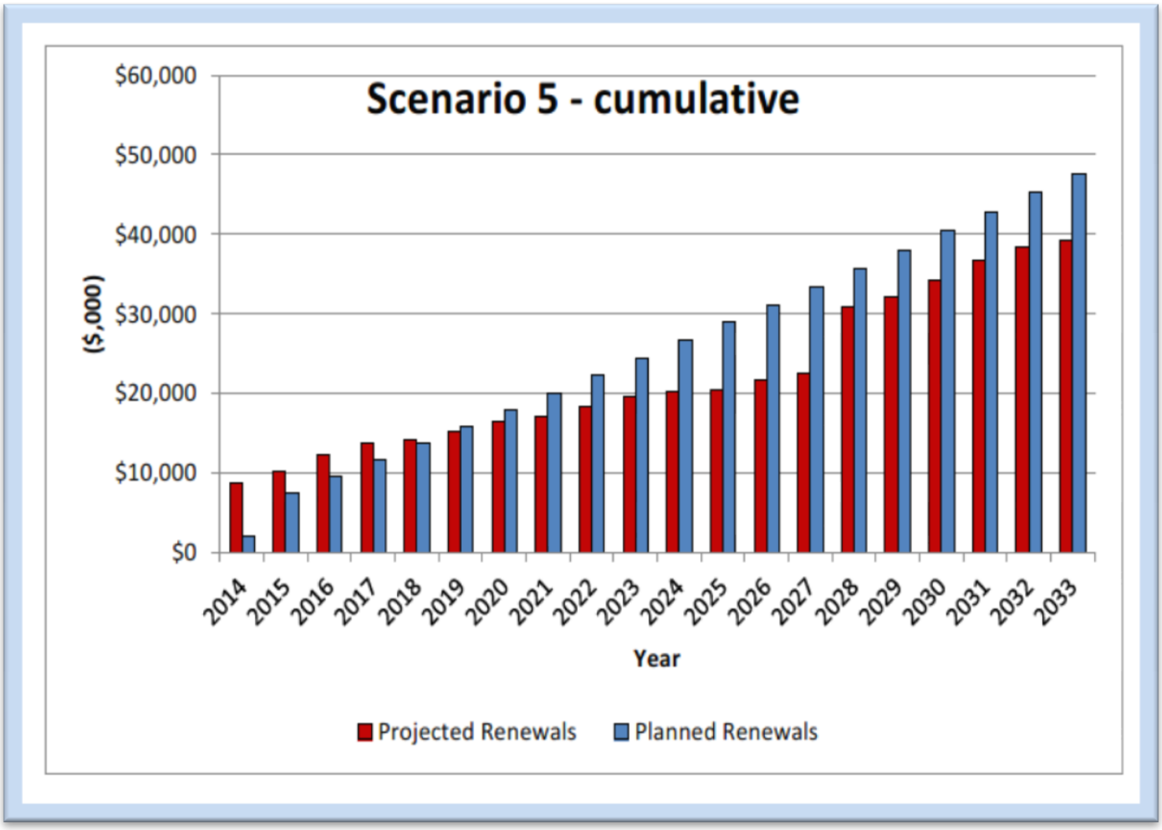
Unfortunately, this opportunity will only become available after the life of the above five (5) year graph. Because of the short timeframe since the announcement made by the Federal Government about the additional R2R funding being made available to Local Government and the lodgement date of FFF Proposals, it was unfortunately not possible for Council to include this information as part of its LTFP and AP. <u>However, the above-mentioned strategies will be considered most seriously by Council when reliable and comparable data becomes available from Special Schedule 7 and when it has had the opportunity to fully assess what the impact of the additional R2R monies, when fully expended, will have on its infrastructure backlog ratio. Nevertheless, there is no question that this impact will be considerable.</u>

Projected result 2016/17:

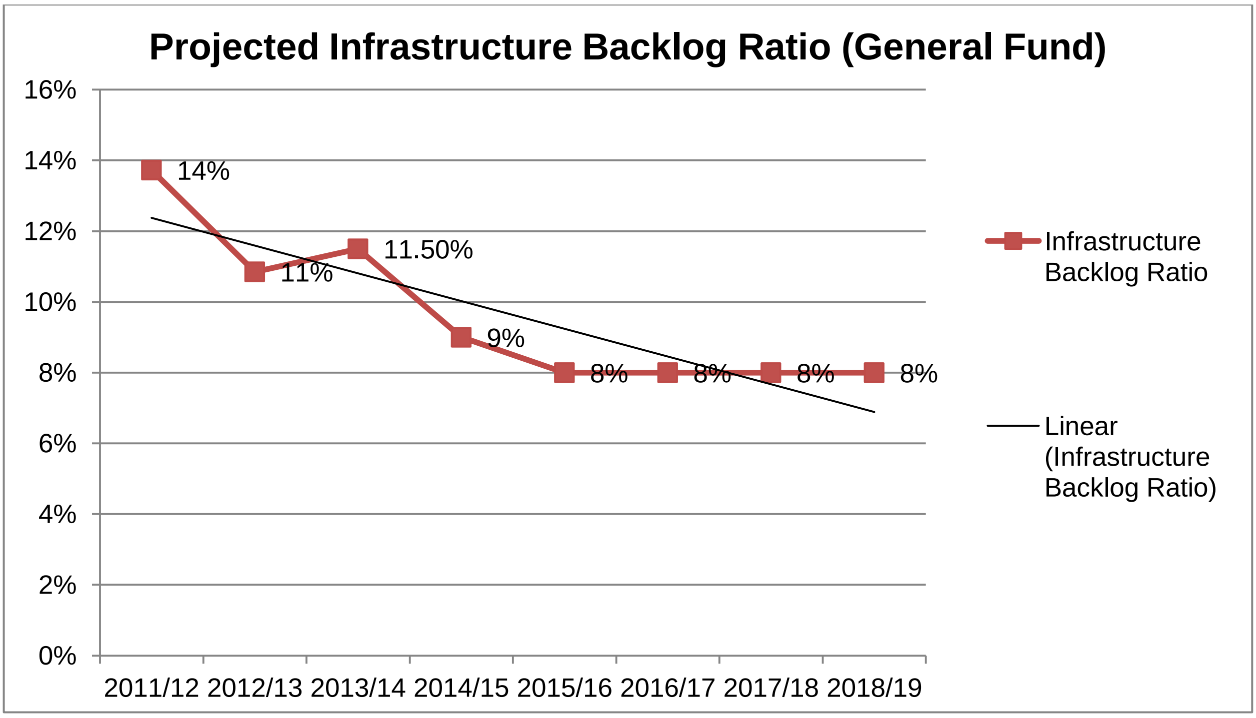
It is expected that Council's backlog will further decrease in the order of 25% by 2016/17 to around 8%, compared with the current 11.5%; however, it is not expected that Council will meet the required 2% backlog ratio in the short term.

Council's projections indicate that, given the size of the backlog at $19.8million for the General Fund, it will take in the order of 20 years to fully address the backlog. Council respectfully suggests that the concept of what constitutes a 'reasonable' period of time should be considered against the particular background and history of the former Glen Innes Municipal and Severn Shire Councils prior to amalgamation in 2004, and the significant financial progress that the newly formed Glen Innes Severn Council has made since that time. However, the fact remains that the backlog had arisen over close to four (4) decades. Rationally, it would be unreasonable to expect Council to address such a significant backlog in the short term; it could only reasonably be achieved through proper long term planning and a consistent long term approach as enshrined within the AP.

Council is currently focusing its efforts on the road transport asset class, which was identified by the community in the Community Strategic Plan (CSP) as being critical. This is demonstrated in the graph below where Council adopted Scenario 5 of the LTFP for the SRV application process; where the AMP Transport depicts increased spending for planned renewals over and above the projected necessary renewal expenditure – incorporating the additional 2013/14 approved SRV funding and also based on the requirements highlighted by the Infrastructure Audit.



Council is making slow but steady progress in meeting this indicator; boosted by the full implementation of the approved SRV, the taking up of significant LIRS loan funding, internal saving initiatives and other items identified in the AP.



The graph above is a compilation of historical results (2011/12 to 2013/14) with projected results from 2014/15 as projected by Council's LTFP attached as its larger Proposal document. The graph is not on a rolling three (3) year basis, but on actual realised or projected results for the years identified. The graph indicates that Council will not meet the benchmark within the next 10 years.

However, the graph and data from earlier financial years indicate that Council has made significant progress in improving this ratio over time, primarily because of the expending of the secured LIRS funding. The ratio slowly decreases over time after this injection of loan funds and as indicated above, will get a significant boost once the LIRS loans are repaid in 10 years time - which is unfortunately after the life of the current LTFP.

Importantly, the following facts need to be carefully considered. After the total of $7.8million in LIRS funding has been repaid in 10 years' time, an additional approximately $780,000 per annum will become available – massively increasing Council's ability to reduce its infrastructure backlog within a much shorter period of time. It will provide Council with an opportunity to then take up a further subsidised loan to address the remaining backlog.

A further loan of approximately $7.8million to address the bulk of the remaining backlog will probably reduce it to around 2% to 3%. Based on this strategy and estimates, Council could therefore potentially achieve a 2% infrastructure backlog within roughly 12 years. Unfortunately, this opportunity will only become available after the life of the above graph and the LTFP period, and therefore cannot be included as part of Council's AP. It is however as strategy that Council will have to seriously consider when the current LIRS loans are repaid.

With the announcement made on 24 June 2015 by the Deputy Prime Minister, the Hon Warren Truss MP, of an additional $300 million in 2015/16 and an additional $805 million in 2016/17 that will be made available by the Federal Government through the Roads to Recovery (R2R) grants program directly to Local Government – amounting to an additional injection of around $1.9 million over the mentioned two (2) years into Council's road infrastructure – it is in an even stronger position now to meet this benchmark within a reasonable period of time. Copies of the media release and Roads to Recovery Circular 2015/3 are hereto attached as **Annexure C**.

As is argued above under ‘Performance against the Fit for the Future benchmarks – Infrastructure and service management (infrastructure Backlog ratio) on **page 31** of this **Template Proposal Document**, that this additional expenditure on Council’s road infrastructure network will create an opportunity for Council to take up further loans even before the current LIRS loans have been fully repaid – addressing its infrastructure backlog in a shorter period of time. Once Special Schedule 7 has been further developed and refined (in accordance with the Auditor General’s instructions and guidance) Council would be able to rely on audited data in this regard. It would then be in a position to adopt a responsible resolution about further borrowings. It is, however, reasonably anticipated that Council would be well placed to meet this benchmark within a 10 year timeframe – with either subsidised or low interest loans being made available to it through TCorp at the time.

Unfortunately, this opportunity will only become available after the life of the above graph. Because of the short timeframe since the announcement made by the Federal Government about the availability of the additional R2R funding to the Local Government sector and the lodgement date of FFF Proposals, it was unfortunately not possible for Council to include this information as part of its LTFP and AP. <u>However, the above-mentioned strategies will be considered most seriously by Council when reliable and comparable data becomes available from Special Schedule 7 and when it has had the opportunity to fully assess what the impact of the additional R2R monies, when fully expended, will have on its infrastructure backlog ratio. There is no question though that this impact will be substantial.</u>

E. Asset Maintenance Ratio

Summary
Council does not currently meet the required asset maintenance ratio. However, Council has made significant progress in the last number of years; improving the ratio to 96.2% in the 2013/14 financial year (from 71.6% in 2011/12). This progress has been realised by Council steadily increasing maintenance on road infrastructure for three (3) years at 10% per annum. The LTFP projections indicate that Council will achieve the required benchmark in the 2014/15 financial year, primarily due to further funding increases in the road asset class. Further, it is expected that the ratio will be exceeded for each year thereafter for the life of the LTFP.

The AP identifies a number of strategies to ensure this ratio is addressed; the primary strategy being to continue to increase maintenance funding for road infrastructure – as it was one of the main areas of concern identified by the Community as part of the CSP development. This strategy will continue to be pursued in the AP with year on year increases identified. Further strategies include increasing the maintenance on buildings in the next financial year to $200,000 – from a previous year budget of $77,000. This notable increase will allow the AMP for Building assets to be pursued in earnest. Council will also establish a permanent and specialised bridge crew to extensively improve bridge maintenance in the 2016/17 financial year. This step will reverse the traditional re-active maintenance with a pro-active approach, which should be particularly effective in this mentioned year given that the entire backlog on the bridge infrastructure asset class will be fully addressed by the expenditure of LIRS funding.

Council's Performance in accordance with the FFF self-assessment tool:

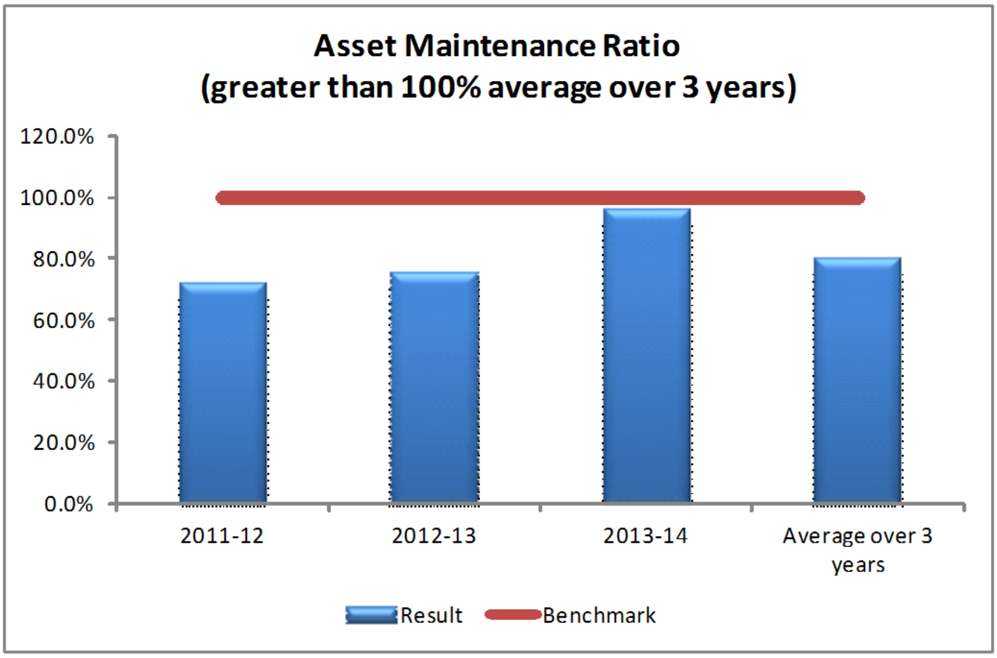
GENERAL FUND - ASSET MAINTENANCE RESULT

Glen Innes Severn Council

BENCHMARK AND RESULT

Benchmark:- *Greater than 100% average over 3 years*

	2011-12	2012-13	2013-14	Average over 3 years
Result	71.6%	75.5%	96.2%	**79.9%**
Benchmark	100%	100%	100%	100%



MEETS THE FFTF BENCHMARK

NO

Council commentary on benchmark:

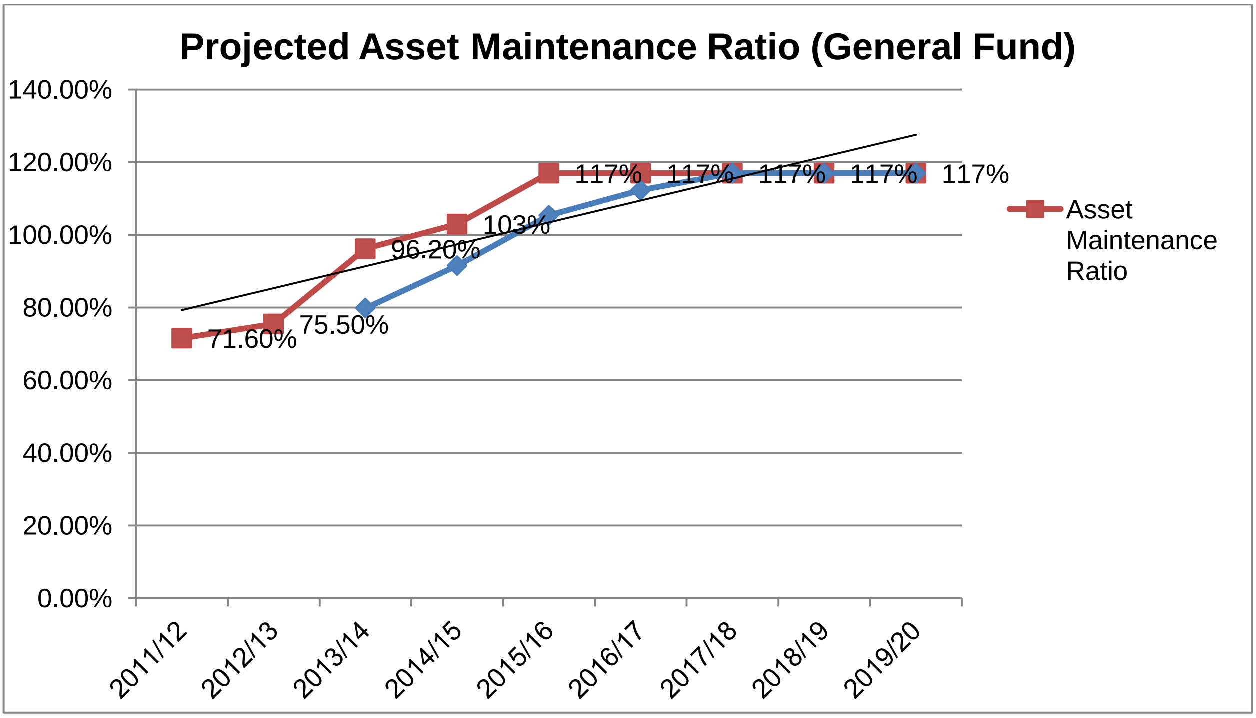
Council has developed a strong emphasis on this ratio to ensure that maintenance on assets is progressively increasing. To achieve this objective, Council has adopted for the last two (2) years a cumulative 10% funding increase in regards to its road transport asset class.[14] This step has resulted in a strong upward trend in the ratio, which is identified in the self assessment tool graph and will be continued in future years in accordance with the projections in the AP. It should be noted that a review of service levels decreased the required maintenance from the 2011/12 to the 2012/13 financial year, after a public consultation process had been followed. It is also noted that the 2011/12 financial year was affected by large amounts of grant funded road repairs after a number of flood events. These are identified below:

Flood Event (Date)	Quantum of Damages
Dec 2010 to Jan 2011	$1,160,474.99
Jun 2011	$66,205.00

[14] Three (3) years if one included the 2015/16 operational budget.

It is further noted that the recent 2013/14 OLG comparative data indicates that the Group 10 average was 89.5% (combined), compared with Council's position of 97.0%.

Projected result 2016/17:



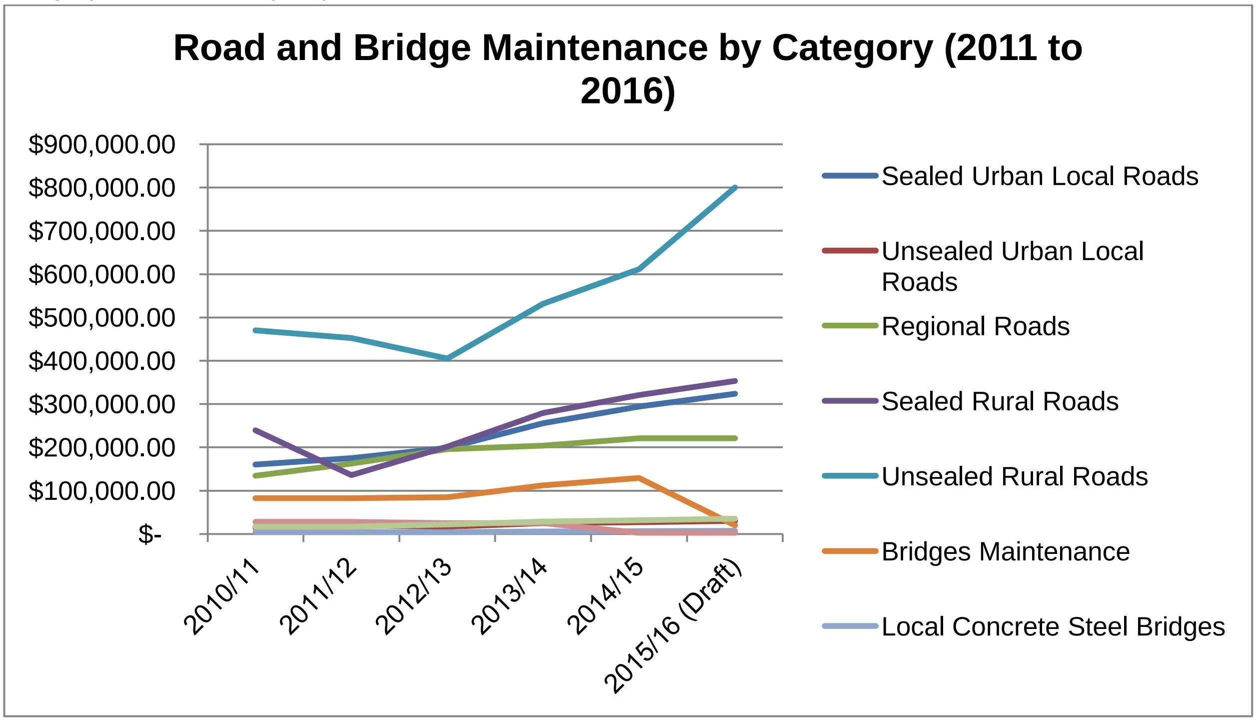
The graph above is a compilation of historical results (2011/12 to 2013/14) with projected results from 2014/15 as projected by Council's LTFP attached as its larger Proposal document. The graph includes both the rolling three (3) years as well as actual and projected results for the individual years. Of particular note is the linear trend line, indicating a clear upward leaning.

The graph indicates that Council will meet the benchmark from the 2014/15 financial year onwards. The reason for the improvement in this ratio has been the significant increases in revenue (primarily as a result of the IPART approved SRV) and considerable operational savings achieved. These factors have allowed Council to improve its asset maintenance, and to continue to do so in future years. A further strategy that has been adopted in the 2015/16 Operational Plan and Budget was a $200,000 allocation for building infrastructure maintenance – which represents the largest remaining gap in Council's AMPs. These strategies, along with a further increase in road infrastructure maintenance funding will ensure Council exceeding the required ratio.

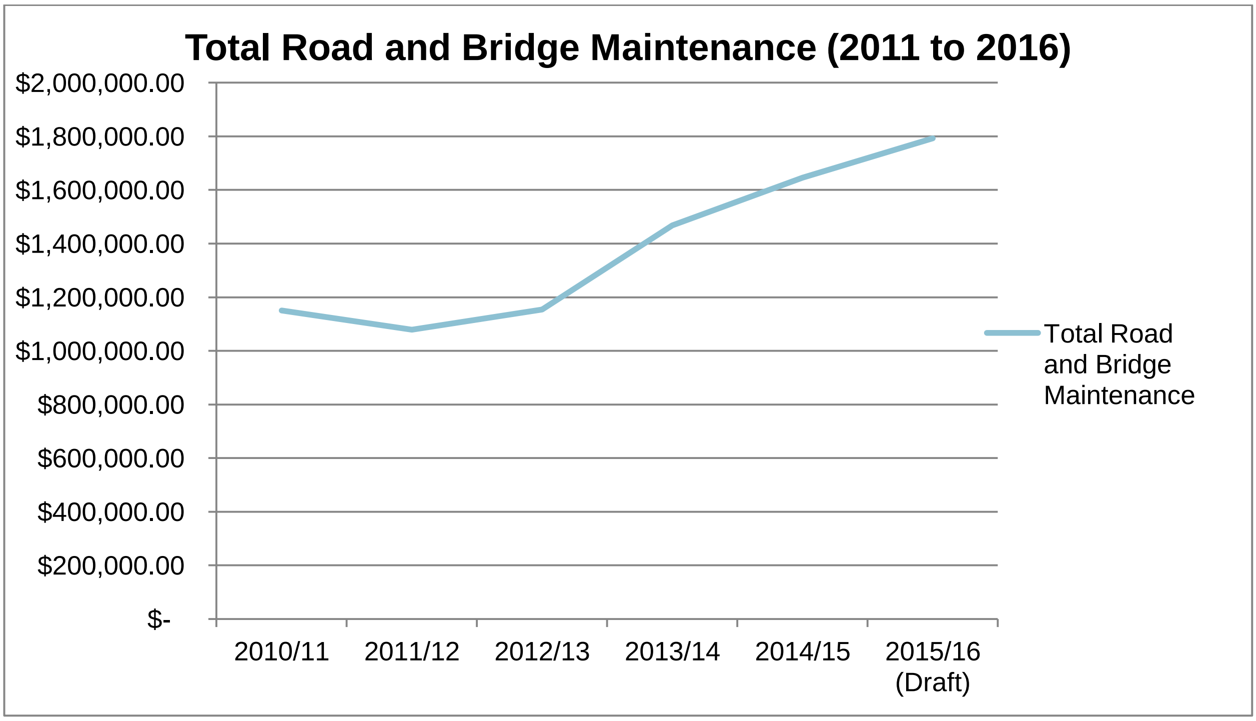
It could potentially be argued that Council should not exceed the required ratio by the 17% as provided for in the LTFP. However, a provision has been made for future increases in required maintenance, subject to the further development and refining of Council's AMP's from being at a core to an advanced level. Council believes that it is reasonable to do so under the circumstances, particularly for the building asset class which AMP is not as highly developed as its transport (roads) class equivalent.

The graph, and ratio information before 2011/12, indicates that Council has made very significant progress in improving this ratio over time – primarily because of the repeated and consistent increase in the major maintenance classes (particularly roads) over time.

The approach adopted by Council of continuous increases over the last three (3) financial years has been effective as can be seen in the above Asset Maintenance Ratio graph. As was mentioned above, the primary focus for funding increases has been the road infrastructure maintenance area that was a key concern identified in the CSP by the community. The road and bridge maintenance expenditure broken down by category can be visually depicted as follows:



Bridge maintenance has been decreased in the 2015/16 financial year, due to the $4 million LIRS funding that needs to be expended on renewal projects associated with these assets during this mentioned financial year. Council is anticipating the introduction of a trained, specialised bridge crew who will significantly advance bridge maintenance in the 2016/17 year. This initiative is intended to reverse the current re-active maintenance with a pro-active approach.



F. Debt Service Ratio

Summary:

Council currently meets the required benchmark with a DSR of 4.14%. Further, the LTFP identifies that Council will meet the ratio for the life of the plan. The reason for this situation is that Council has actively used loan funding, particularly where it is subsidised, to address works that are part of Council's identified backlog. Even though the benchmark ratio seems to be high, Council agrees with the emphasis being put on loan funding and the need to ensure inter-generational equity in funding assets. The annual interest subsidy for LIRS loans and additional SRV revenue, which has been specifically approved for loan repayments, put Council in a position to repay its $7.8 million LIRS loans. Council will continue to fund infrastructure renewals through loan funding when the cost of deterioration and additional maintenance (including additional risk) exceeds the cost of finance.

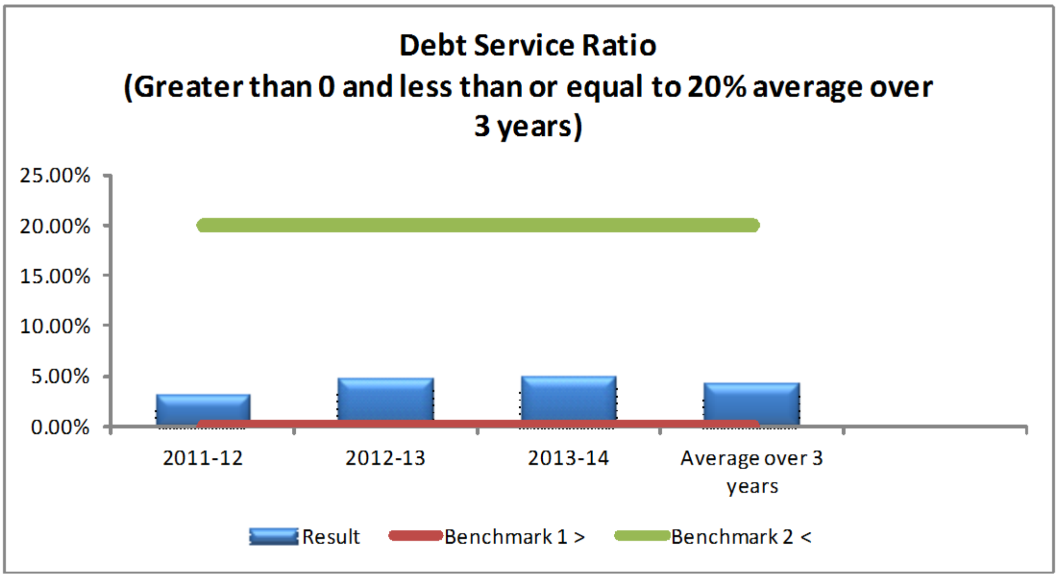
Council's Performance in accordance with the FFF self-assessment tool:

Glen Innes Severn Council

BENCHMARK AND RESULT

Benchmark:- Greater than 0 and less than or equal to 20% average over 3 years

	2011-12	2012-13	2013-14	Average over 3 years
Result	3.05%	4.64%	4.83%	**4.14%**
Benchmark 1 >	0%	0%	0%	0%
Benchmark 2 <	20%	20%	20%	20%



MEETS THE FFTF BENCHMARK

YES

Council commentary on benchmark:

Council finds the Debt Service Ratio an interesting inclusion in the FFF ratios, particularly with a ratio of up to 20% being allowed. This is contrary to a number of other sources which suggest a ratio maximum of 10%, or a 15% maximum if debt funding is specifically funded through a particular revenue source (such as in Council's case, the additional funding obtained through a SRV process).

However, even though the benchmark ratio seems to be high, Council agrees with the emphasis being put on loan funding and the need to ensure inter-generational equity in funding assets. Further, the current poor position of the Local Government industry in respect of the infrastructure backlog, combined with the availability of subsidised interest rates for LIRS loan funding and record low interest rates, suggest that it is indeed a good solution for addressing the problem at hand at the present point in time.

Council has actively pursued the taking up of loans to fund its works that are associated with its identified backlog, especially where loans are subsidised.

Council has drawn the following loans over a 10 year period since its amalgamation in 2004:

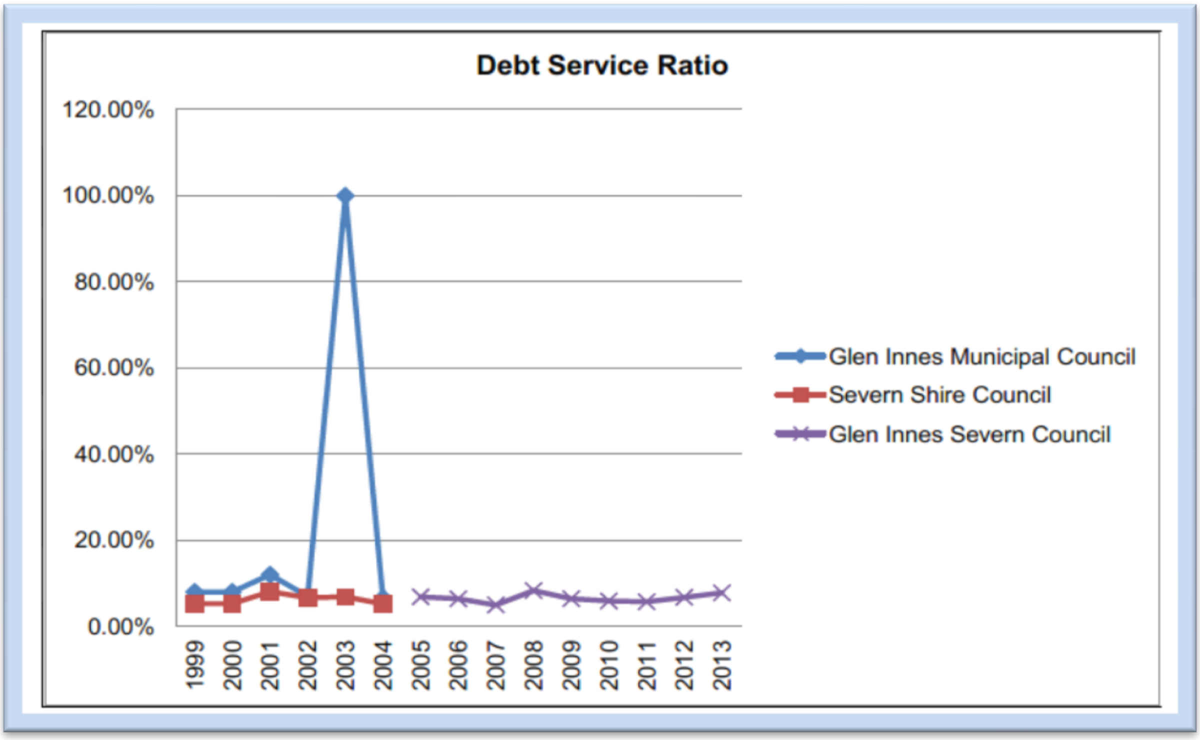
Purpose of Loan	Interest Rate	Amount $
Library/ Learning Centre Loan	7.35%	530,000
Subsidised Sewerage Treatment Works	6.51%	2,715,000
Land Acquisition – Water Storage	7.69%	2,800,000
LIRS Loan – Accelerated Road Works Program	1.32% (5.32%) 4% subsidy	1,000,000
LIRS Loan – CBD Infrastructure Upgrade	1.46% (5.46%) 4% subsidy	1,800,000
Business Acquisition - Quarry	7.69%	1,050,000

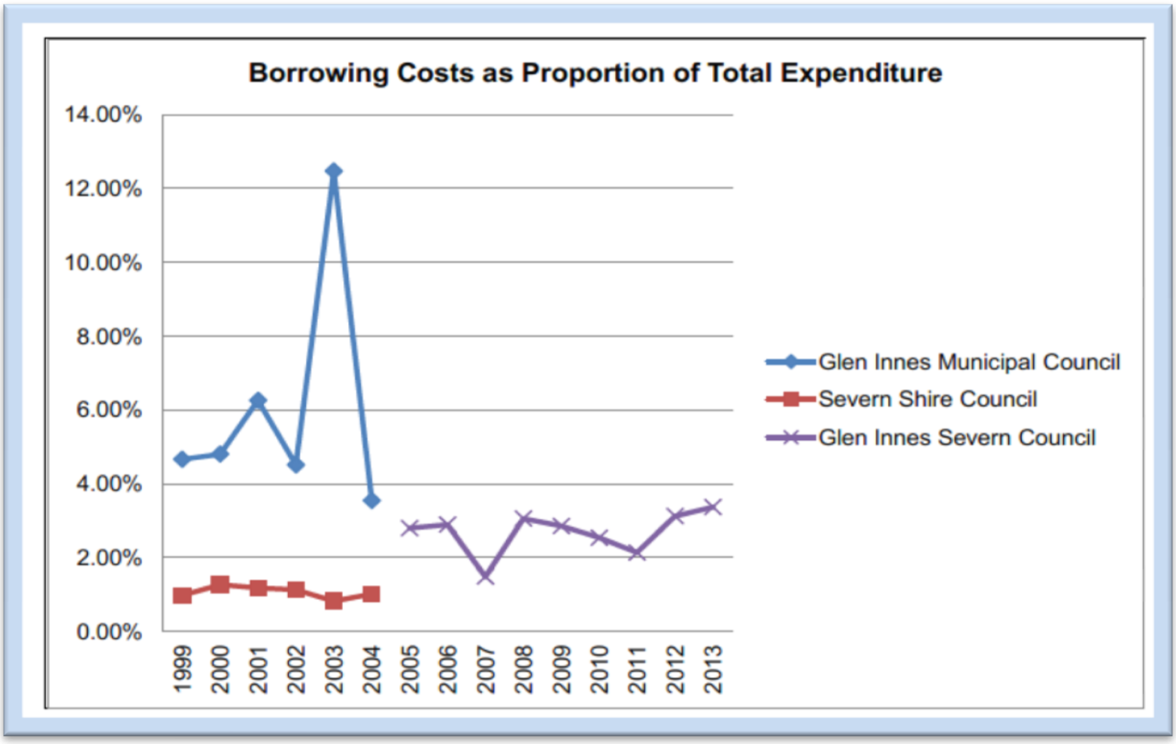
At the time of writing this report, Council has approved a further $6.5million in loan funding – which has been drawn as follows:

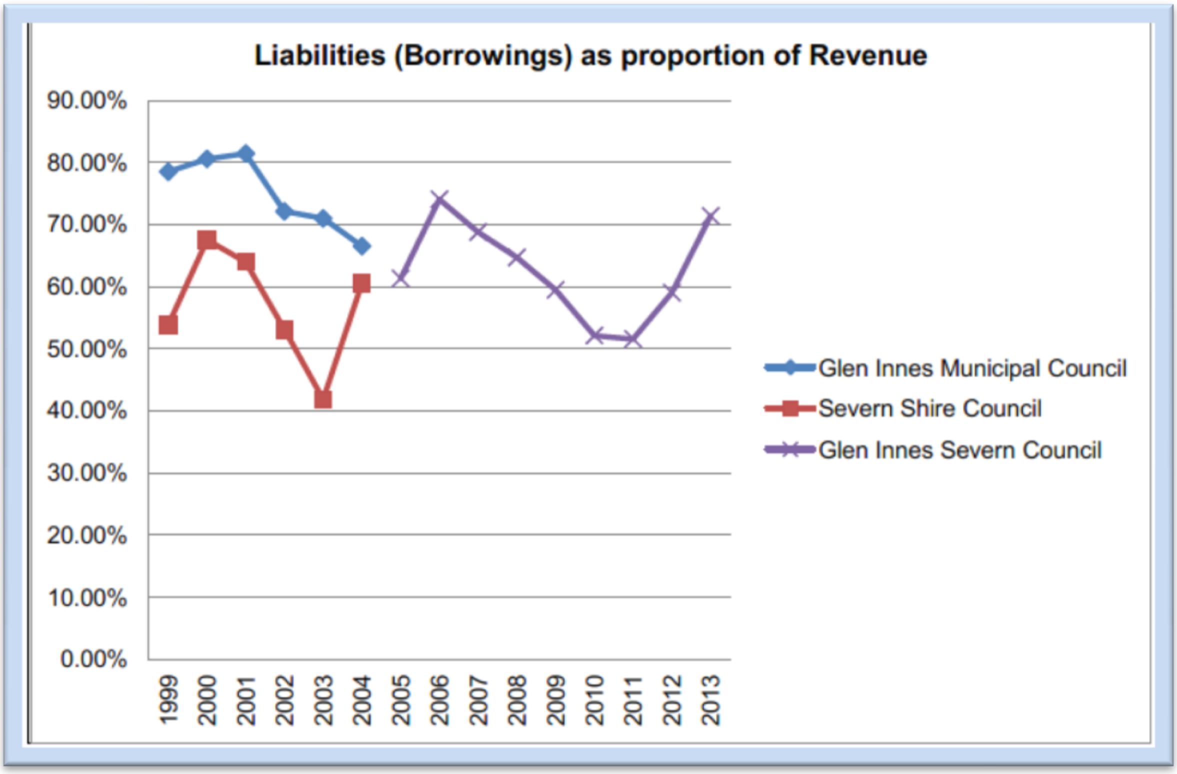
Purpose of Loan	Interest Rate (quoted)	Amount $
LIRS – Accelerated Bridge Program	3.8% (3% subsidy)	$4,000,000
LIRS – Accelerated Road Program	3.8% (3% subsidy)	$1,000,000
Swimming Pool Renewal (per CSP)	4.56%	$1,500,000

The above-mentioned funding has been identified as part of Council's SRV application in the LTFP and was identified as being affordable by TCORP. This loan funding has also been included in the LTFP associated with Council's FFF Proposal.

Prior to drawing this funding, a report identifying Council's loan funding situation was prepared for its consideration. The following graphs were used to compare the pre-amalgamated Councils with the newly formed GISC):



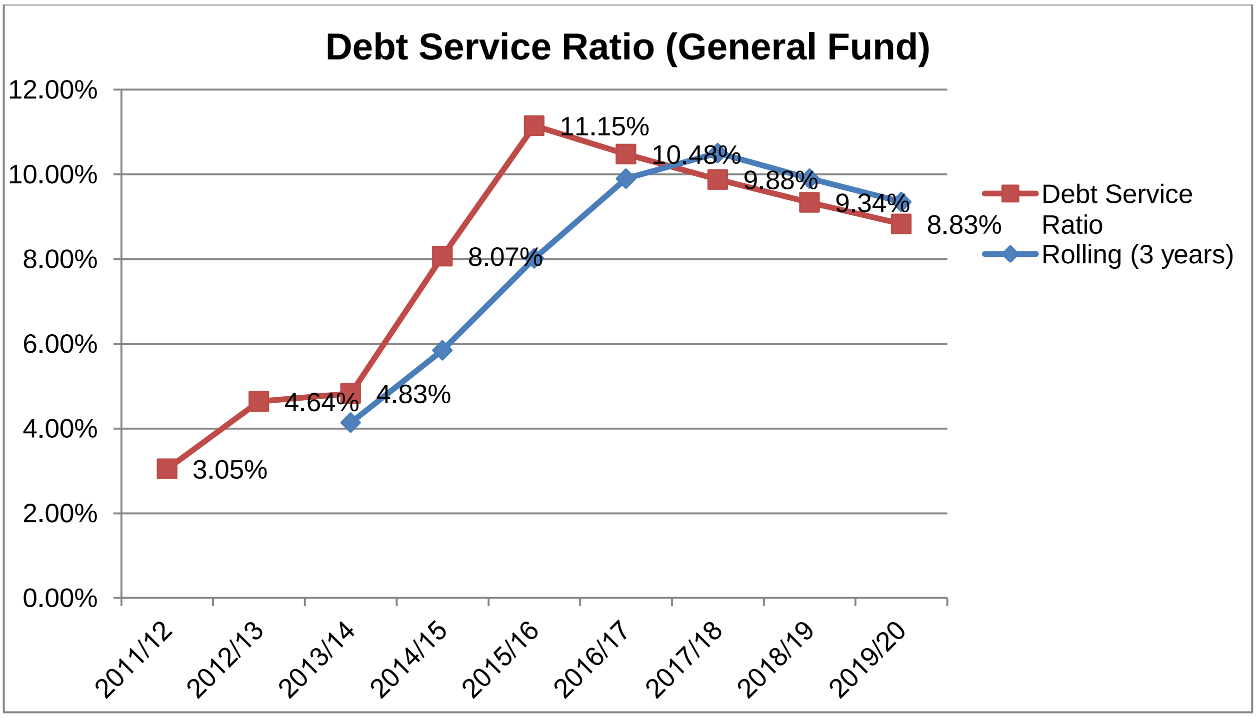




Please note that the above information includes loans for the Consolidated Funds, and not just the General Fund.

Council believes that it is in a good position in respect of its overall borrowings; particularly considering the significant annual LIRS loan subsidy Council will receive each year and the additional SRV revenue which has been specifically approved for loan repayments.

Projected result 2016/17:
Based on Council's LTFP projections, the historical trend and current loan contracts, Council is certain to meet the required ratio for the next 20 years.



The graph above is a compilation of historical results (2011/12 to 2013/14) with projected results from 2014/15 as indicated by Council's LTFP attached as its larger Proposal document. The graph includes both the rolling three (3) year as well as actual and projected results for the individual years.

The graph indicates that Council currently meets the benchmark and will continue to do so for the life of the LTFP. The reason for the increase in the debt service ratio from 4.83% to a projected 11.15% relates to the LIRS funding secured to reduce the infrastructure backlog. Fortunately, the life of the LIRS loans is limited to 10 years; resulting in a relatively rapid repayment period. Further, the fact that the additional SRV revenue will be used for this specific purpose makes a DSR of 11.15% affordable. The budgeted operating surplus for the same 10 year period of time, and the reimbursement by the State Government of 3% to 4% of the interest rates on LIRS loan funding, is further noteworthy. In the case of the $5million LIRS funding, Council will be paying a mere 0.8% in net interest.

Please see the further discussion under **Section 3.2.1** (Infrastructure Backlog Ratio) of this **Template Proposal Document**, in respect of the other option available to improve Council's infrastructure backlog. This option provides for Council to take up further subsidised loan funding after the life of the current LTFP – which could see it meeting the infrastructure backlog benchmark within approximately 12 years. It will also ensure that Council continues to use debt funding to address its deferred renewals (and thereby continue to meet the required Debt Service Ratio).

2.3.3 EFFICIENCY

Efficiency				
Measure / benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/17 Performance	Achieves FFTF benchmark?
Real Operating Expenditure Per Capita (A decrease in Real Operating Expenditure per capita over time)	Increasing	NO	Decreasing	YES

2.3.3.1 IF THE FIT FOR THE FUTURE BENCHMARKS ARE NOT BEING ACHIEVED, PLEASE INDICATE WHY

G. Real Operating Expenditure Per Capita

Summary:
Council does not currently meet this benchmark. However, Real Operating Expenditure Per Capita has decreased for the last four (4) years, which should be viewed as being positive. This trend is expected to continue for the life of the LTFP, due to continued pressure on reducing costs and limiting operational expenditure.

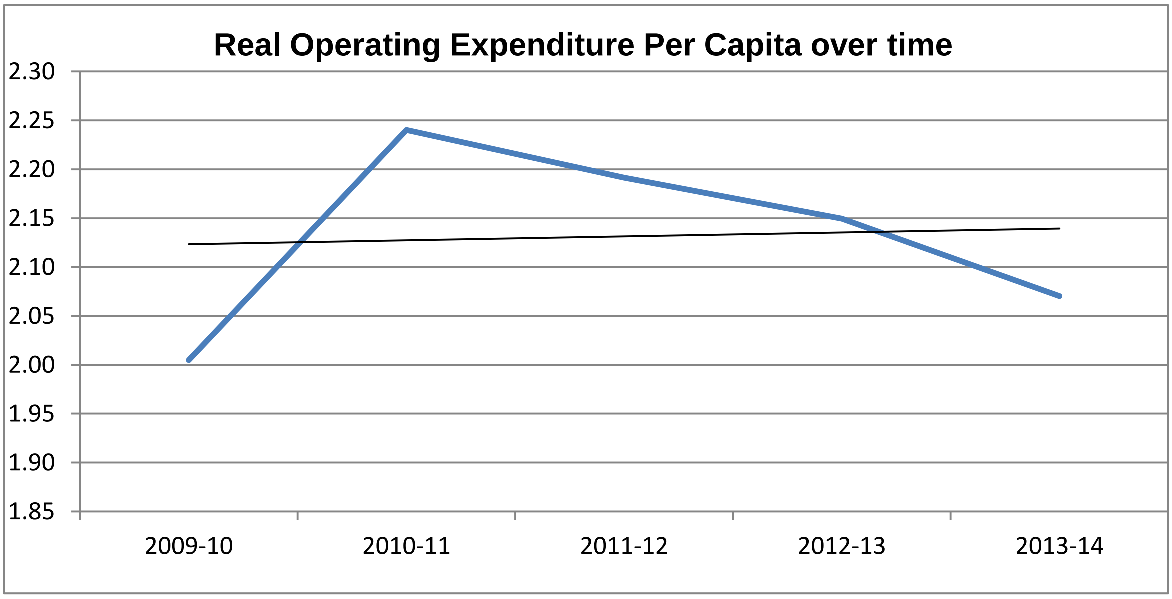
It should be noted that the result identified in the self-assessment tool has been skewed by events affecting revenue as well as expenditure; such as the purchase and establishment of a commercial hard rock quarry as an additional business unit, Glen Innes Aggregates, which increased expenditure and revenue in the order of $2million per annum.

Together with saving initiatives identified as part of the SRV application process, it is expected that Council will continue to improve its operating efficiency. Council will include this benchmark as part of its Operational Plan and in the annual Financial Statements for each year. The AP includes items such as continuing to report on internal savings through the Savings Initiative Report (SIR), actioning the saving initiatives identified as part of the SRV application process, as well as improving procurement practices and processes.

Council's Performance in accordance with the FFF self-assessment tool:
The self-assessment tool graph indicates that Council does not currently meet the benchmark. Positively, it highlights that Real Operating Expenditure Per Capita has decreased for the last four (4) years. This is indicated in the graph below:

Benchmark:- *A decrease in Real Operating Expenditure Per Capita over time*

	2009-10	2010-11	2011-12	2012-13	2013-14
Result	2.00	2.24	2.19	2.15	2.07



Council commentary on the benchmark:
The information used in the formula for calculating this benchmark is easily skewed by events which affect revenue as well as expenditure, for example one-off grants (e.g. Flood Damage expenditure), or the purchase / establishment of an additional function (e.g. Glen Innes Aggregates).

These two above quoted examples represent the events which negatively influenced Council's performance in relation to this particular benchmark. Considering the graph below, it becomes clear that Council's expenditure per capita has been decreasing since the purchase of Glen Innes Aggregates in 2011 (which increased expenditure and revenue in the order of $2million per annum).

This additional revenue (and expenditure) source has hugely skewed the results of this particular benchmark. However, when excluding this 'adjustment', Council has actually achieved a decrease in Real Operating Expenditure Per Capita over time. This decrease has been realised with a relatively stagnant population, while sourcing an additional $300,000 per annum in profit from this hard rock quarry business unit.

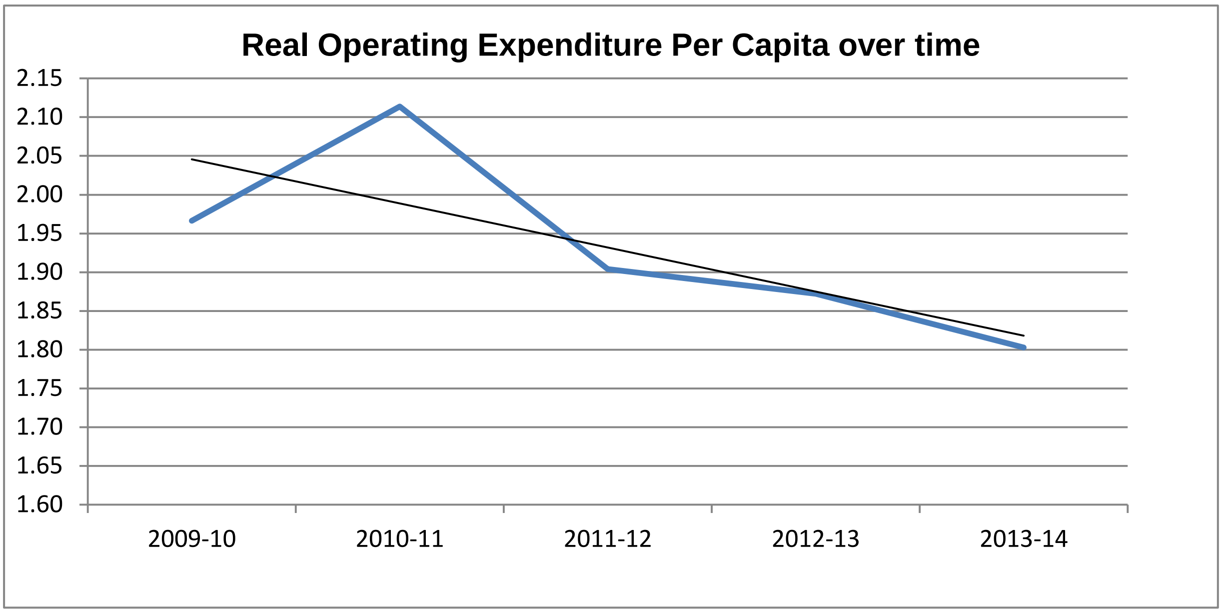
The data entered into the FFF Self-Assessment Tool (as well as suggested one-off adjustments) is identified below:

	2009-10	2010-11	2011-12	2012-13	2013-14
# Population Data	8,933	8,925	8,907	8,904	8,905
Note 21 - Income Statement - Expenses - Total expenses from continuing operations	18,331	21,099	21,233	21,555	20,970
Flood Damage (Road Works - expenditure for year)	353	1,176	1,187	775	513
Glen Innes Aggregates	-	-	1,574	1,999	1,571
Expenditure (net of adjustments)	17,978	19,923	18,472	18,781	18,886

If this 'adjusted' data is entered into the Self-Assessment Tool – the following Graph is produced:

Benchmark:- *A decrease in Real Operating Expenditure Per Capita over time*

	2009-10	2010-11	2011-12	2012-13	2013-14
Result	1.97	2.11	1.90	1.87	1.80



The significant jump in operational expenditure per person in the 2010-11 financial year, was as a result of a re-assessment of depreciation costs on road assets – which was subsequently reviewed and amended (corrected) in the 2011-12 financial year.

Projected result 2016/17:
It is expected that Council will meet the required benchmark by 2016/17. It will largely depend on Council's susceptibility to adjusting events[15] such as those identified in the commentary above. However, based on the decrease in real operating expenditure over the last four (4) years, and the additional savings identified as part of the SRV application process, it is reasonable to expect that Council will continue to improve its operating efficiency.

The LTFP assumptions include restrictions on the increase in operational expenditure, which would contribute to Council meeting this benchmark. However, due to the intricate budget preparation process (which can include many other, as well as political considerations) coupled with the effects of possible one-off events like floods, it would be critical for future Councils to thoroughly consider this benchmark throughout the budget preparation and adoption processes.

[15] The terminology "adjusting events" is not used in the context of the adjustments to financial statements, but to events that effect the number of functions Council performs that are one-off in nature and effect the calculation of total expenditure, and therefore the above ratio – such as flood damage.

NET GF EXPENDITURE	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
TOTAL GF EXPENDITURE	18,331	21,099	21,233	21,555	20,980	21,175	20,598	21,089	21,519	22,082	22,719
Population	8,933	8,925	8,907	8,904	8,905	8,905	8,905	8,905	8,905	8,905	8,905
Year on year % increase		15.10%	0.64%	1.52%	-2.67%	0.93%	-2.72%	2.38%	2.04%	2.62%	2.88%
CPI (actual and estimate)	2.30%	3.00%	3.00%	3.40%	3.70%	2.81%	3.04%	3.04%	3.04%	3.04%	3.04%
Ratio	2.00	2.24	2.19	2.15	2.07	1.98	1.86	1.85	1.83	1.82	1.82

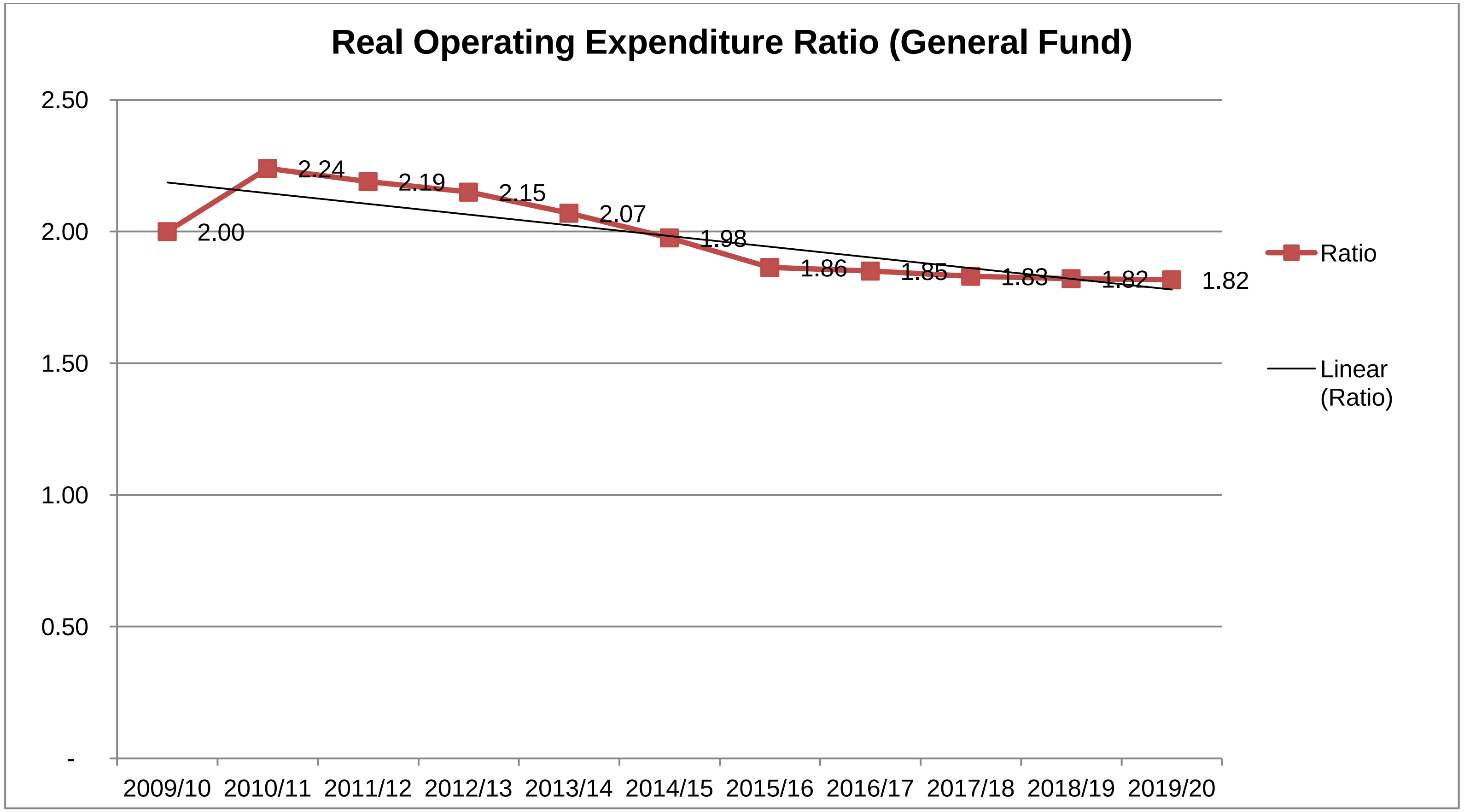
1) LGCI increase of 2.81% in 2014/15 sourced from the Local Government Rate Peg 2014/15 information paper as released by IPART.

2) Previous year LGCI figures sourced from the FFTF Self Assessment Tool.

3) From 2015/16 onward LGCI figures are the average of the past six (6) years as indicated, which amounts to 3.04%.

4) Population estimate figures for 2009/10 to 2013/14 were sourced from the FFTF Self Assessment Tool.

5) Population estimate figures for 2014/15 onward have been left at 8,905 even though recent ABS data identified an increase in the population of 45. Further, Council has made a strong argument against the projected population decrease due to various expected developments, which are likely to have a significant effect on population within the GISC LGA. These are discussed under item 1.4 Key Challenges and Opportunities, item (b) weaknesses.


Real Operating Expenditure Ratio (General Fund)
2.50
2.00
1.50
1.00
0.50
-
2.00
2.24
2.19
2.15
2.07
1.98
1.86
1.85
1.83
1.82
1.82
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
Ratio
Linear (Ratio)

2.4 WATER UTILITY PERFORMANCE

2.4.1 DOES YOUR COUNCIL CURRENTLY ACHIEVE THE REQUIREMENTS OF THE NSW GOVERNMENT BEST PRACTICE MANAGEMENT OF WATER SUPPLY AND SEWERAGE FRAMEWORK?

Yes.

Discussion:
Council has complied with the Best Practice Requirements for a number of years as demonstrated by the annual NSW Office of Water Benchmarking Report. In particular, Council complies with Best Practice pricing methodologies of ensuring that revenue from water sales is at least 50% of the total water income stream. This strong pricing signal has reduced consumption from approximately 1,000Ml per year to just 600Ml per year.
Council has an Integrated Water Cycle Management Plan, and is in the final construction stages of implementing one of the most innovative water head works systems in NSW. This project, an off stream storage facility created as a by product of a profitable quarry business purchase, has been funded in the final stages by the NSW Water Security for Regions program. Compliance with certain Best Practice requirement was a prerequisite to obtain that funding.

The project has transformed Glen Innes from having an insecure water supply position to now demonstrating drought proof status, with the ability to survive in excess of two years of nil rainfall.

2.4.2 IF NO, PLEASE EXPLAIN THE FACTORS THAT INFLUENCE YOUR PERFORMANCE AGAINST THE FRAMEWORK

Not applicable.

2.4.3 HOW MUCH IS YOUR COUNCIL'S CURRENT (2013/14) WATER AND SEWERAGE INFRASTRUCTURE BACKLOG?

The current backlog, based on 2013/14 Financial Statement figures, is $4.6 million – $2.2 million for water and $2.4 million for sewer.

Discussion:
In 2010 Council identified the need for additional managerial support in the water and sewer business units, and created a new position of Manager Integrated Water Services. During the five year period since, Council has demonstrated the ability to reduce the significant infrastructure backlog each year, by expending more funds on asset renewals than the annual cost of depreciation.
The predominant asset class that is in need of renewal is the underground mains network, with treatment facilities being either relatively new (sewer – 2007) or having had necessary upgrade works (water 2015). A schedule of works is in place to address the mains backlog through the annual sewer mains relining program, and water mains renewal program. Both business units are operating at better than full cost recovery, ensuring that there is an ongoing ability to remove the asset backlog completely.

2.4.4 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

None.

Discussion:
Council has completed significant works that have placed the water and sewer business units in a position to supply the needs of Glen Innes and Deepwater for the foreseeable future. The off-stream water storage, combined with underground bore supplies, is of sufficient scale to meet the needs of the community for the next 30 years, even allowing for unusually high population growth. Treatment operations are also of sufficient scale and condition to continue to function unaltered for the next decade.

2.4.5 DOES YOUR COUNCIL CURRENTLY MANAGE ITS WATER AND SEWERAGE OPERATIONS ON AT LEAST A BREAK-EVEN BASIS?

Yes.

Discussion:
Council has fully funded depreciation costs and operated at a surplus position for both funds in recent years. It will increase that position through continued efficiency savings and a 5% increase in revenue to achieve the ability to pay a full dividend to the general fund, plus a debt service charge, and still have surplus to fund infrastructure backlog renewals.

2.4.6 IF NO, PLEASE EXPLAIN THE FACTORS THAT INFLUENCE YOUR PERFORMANCE

Not applicable.

2.4.7 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
Increase Water annual charges and water usage charges by 5% per annum	Three (3) years depending on operating position	Achieve a surplus twice the allowable dividend amount based on connection numbers.
Increase Sewer annual charges by 5% per annum	Three (3) years depending on operating position	Achieve a surplus twice the allowable dividend amount based on connection numbers.

For a detailed discussion on Council's Water and Sewer Utility performance, please refer to **pages 64 to 67** of the attached **Annexure A** to the **Template Proposal Document**.

It should be noted that so much improvement has already occurred in these business units over the last five years, that further improvement opportunity is limited. The businesses are operating at Best Practice, achieving better than full cost recovery, achieving 100% compliance with licensing and health requirements, and have demonstrated leading edge strategic development of the systems as a whole.

Leakage from the water network is demonstrated at the near optimum result of just 8% of produced water. Assets are being renewed faster than they are being consumed. New assets are being designed and constructed at a cost less than half of the NSW Reference rates, using internal resources. While there is always room for improvement, the need for further improvement in the Glen Innes water and sewer business units is perhaps as small as possible.

3. HOW OUR COUNCIL WILL BECOME FIT FOR THE FUTURE

3.1 SUSTAINABILITY

3.1.1 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:\

The AP includes specific but over-arching strategies to improve Council's ratios. These identified seven (7) strategies are discussed in detail below from (A) through to (G) and will affect the majority of the set ratios. Therefore, although this approach is only examined in detail here at the start of the sustainability section (3.1), it also needs to be made applicable to the infrastructure and service management section (3.2) and efficiency section (3.3).

(A) Updating and improving Council's Asset Management Plans to better inform its future capital works and financial modelling.

The recent *NSW Local Government Infrastructure Audit Report* investigated Council's relative strengths in respect of:

- Infrastructure management assessment;
- Financial position;
- Community infrastructure needs; and
- Capacity.

The rating identified for Council when considering these four areas was "Weak'. The rating 'schedule' identified a weak Council as follows:

Weak	BTS = 5-10 years of annual revenue	Actual maintenance < 80% of required maintenance	10 years Cumulative Forecast Surpluses (after capital) is < 75% of BTS amount	Basic information on current status and condition of infrastructure	Strategies, AMPS, Asset Registers, LOS, yearly asset inspections - some asset classes	Some evidence of asset lifecycle costing with funding gaps for most asset classes; some deficit results before capital

The rating identified for Council suggests that, apart from the funding shortfall, there are also shortcomings within the other requirements such as basic information on current status and condition of infrastructure, yearly asset inspections on some asset classes only, and some evidence of asset lifecycle costing. However, it is argued that Council was rated as being weak primarily because of its lack of funding when the assessment was conducted in 2013.

Based on the items identified, it is essential that Council improves the quality of the Asset Management Plans from a core to an advanced level. Council acknowledges that this is a significant process and although core plans are in place, developing these plans to a truly advanced level will take time and significant staff resources. Therefore, the development of advanced plans has been 'scheduled' over a few years to provide adequate time for full asset inspections/condition assessments. This schedule is included under **Section 3.1.3** 'Building and Infrastructure Asset Renewal Ratio' of the **Template Proposal Document** below.

The main focus of these action items is to provide the following outcomes:

1. Constructing a fully reliable, comparable and monitorable Special Schedule 7, including required asset maintenance and a fully costed asset infrastructure backlog (that can be tracked with CPI), that can stand up to external audit and can be compared with industry benchmarks, i.e. IPWEA, RABM/ Rawlinson's etc.
2. Identifying asset renewal options – identifying what assets needs to be renewed and what not.
3. Determining depreciation calculations that are in line with the actual use, actual replacement cost and actual service levels and are comparable with other LGA's;
4. Identifying of projects that are annually based on 'condition' data and matching it with what can be seen on the ground;
5. Developing pro-active rather than re-active maintenance schedules for all asset classes;
6. Developing more efficient maintenance programs;
7. Informing the Asset Maintenance and Building and Infrastructure Renewal Ratios better and more comprehensively.

The AP's requirements are realistic and if properly timed, will improve efficiency of asset maintenance and renewal. The underlying assumptions of the AMP's are deemed to be reasonably accurate and provide a good indication of the required maintenance, actual depreciation and infrastructure backlog. However, these Plans need to be further developed to a point where Council can rely on them unreservedly.

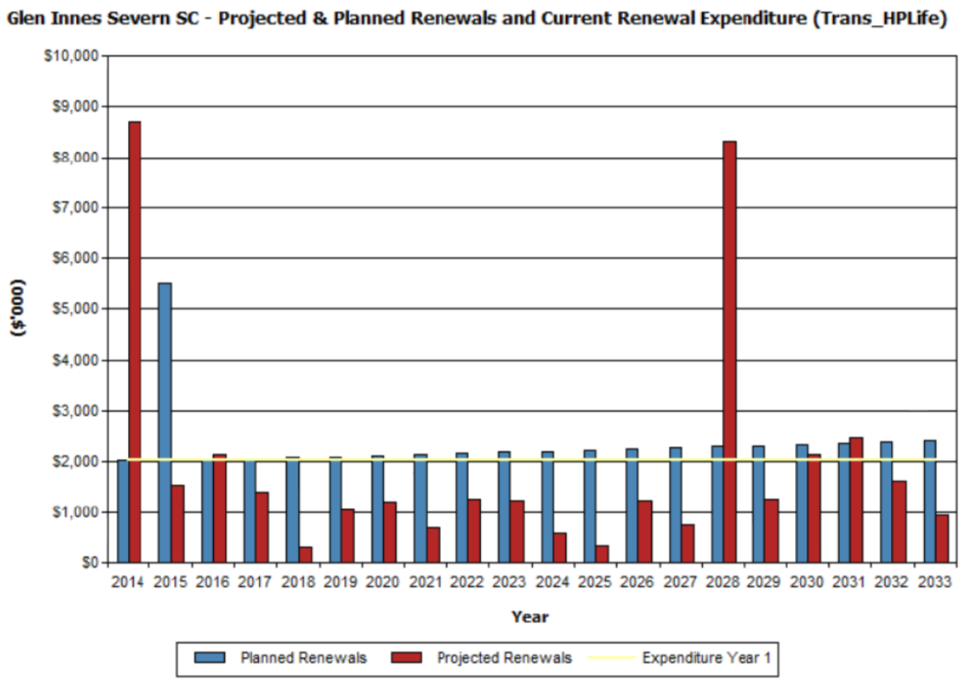
(B) Incorporating the approved SRV of 29.19% and LIRS Funding of $5million into Council's revenue calculations.

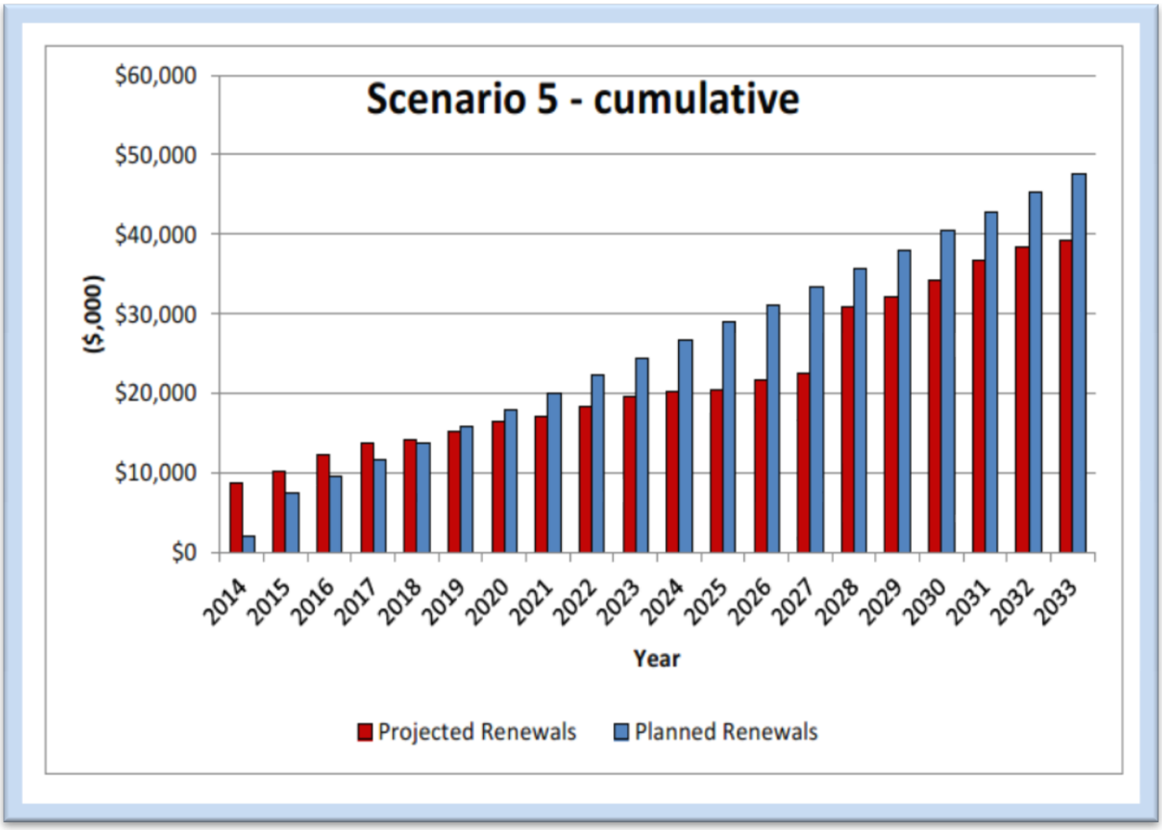
Council has been successful in its application for an SRV under section 508A of *Local Government Act 1993.* For this reason Council has increased its rates by 11.21% for 2014/15, and its rates projections by 10.02% for 2015/16 and 5.59% for 2016/17. The additional total annual rates revenue is just short of $1million. This increase will be spent entirely on Roads and Bridges (which includes loan repayments and interest under the LIRS scheme).

The SRV, combined with the two new LIRS funded loans totalling $5million, will address the entire backlog identified under the bridges asset category, as well as approximately $1million in the road infrastructure backlog. This will reduce the infrastructure backlog by at least 25%; being a $5million expenditure compared with a total General Fund backlog of $19.8million).

Furthermore, based on the AMP Transport (amended as part of the approved SRV application in 2013/14) the additional expenditure identified in the LTFP will address the infrastructure backlog in due course; with required renewals being exceeded by actual renewals. This is portrayed by Figure 8b on page 42 of this AMP Transport, as follows:

Fig 8b. Projected and Planned Renewals and Current Renewal Expenditure (Scenario 5)





For this particular asset class it could be stated that Council is making good progress, as there is a clear positive trend.

(C) Increasing the size of Council's area with possible boundary adjustments to include areas such as Ben Lomond, Llangothlin, Kingsland, Kings Plains, and Swanvale (part).

As part of Council's consideration of strategic scale and capacity, Council has adopted a resolution (Resolution 3.12/14) to investigate the possible adjustment of Council's boundaries in accordance with clearly identified communities of interest. **Annexure 1** of the attached **Annexure A** depicts the proposed adjustments to Council boundaries. It needs to be mentioned that Council, at its Ordinary Meeting held on 28 May 2015, has decided not to pursue the proposed boundary adjustment with the Tenterfield Shire Council around the Deepwater locality.

These adjustments have been discussed with the relevant parties, i.e. Guyra Shire, Armidale Dumaresq, Inverell Shire and Tenterfield Shire Councils. Both Tenterfield and Guyra Shire Councils are not supportive of this initiative. <u>However, should there be a forced merger between Armidale-Dumaresq and Guyra Shire and/or Uralla Shire (and potentially Walcha Shire) Councils, both Armidale-Dumaresq and Inverell Shire Councils have positively indicated their willingness to further discuss these proposed boundary adjustments towards Council's west and south.</u>

There is a recognition from Armidale-Dumaresq that, in the event of a forced merger, their 'new' LGA will be an extremely large geographic area that will have to be rationalised in line with the principle of communities of interest, which will sensibly dictate that the Ben Lomond and Llangothlin communities are added to the Glen Innes Severn Council's jurisdiction area, and the Bundarra and Tingha communities are added to the Inverell Shire Council's area of jurisdiction. Inverell Shire Council, on their part, and should they 'gain' these mentioned Bundarra and Tingha communities, are willing to then enter into discussions with the Glen Innes

Severn Council about the Kingsland, Kings Plains and Swanvale (part) areas directly west of this Council's LGA.

The aim of increasing Council's boundaries is to increase Council's financial and strategic scale and capacity, as well as to establish a LGA where there is a true "sense of place" and "belonging" – based on established communities of interest.

Based on preliminary estimates, it is expected that Council's rate revenue and asset maintenance requirements would be impacted as follows:

Expected impact of identified boundary adjustments								
Area	Local Unsealed	Local Sealed	Regional	State	Expenditure	Total Expenditure	Total Revenue	Total "Profit"
Tenterfield	33,267	24,117			57,384	88,527	49,290	-39,237
	10,631	20,512			31,143			
Inverell	111,527				111,527	147,166	294,871	147,705
	35,639				35,639			
Guyra	266,621	171,152	116,200		553,972	851,589	638,530	213,060
	85,201	145,569	66,847		297,617		183,047	183,047
Total	542,886	361,349	183,047		1,087,282	1,087,282	1,165,738	78,455

<u>Notes applicable to the above table:</u>

- Regional roads are fully funded; therefore, the additional cost for these roads is irrelevant, as they will simply contribute to improved renewal ratios and organisational scale and capacity in respect of Council's road works function.
- All properties with a nil valuation have been excluded (such as Crown/State land).
- Ad-valorem and base amounts have been applied to farmland rating as per 2014/15 projections, with a 13.4% increase in line with Council's SRV increase.
- Ad-valorem and minimum amounts have been applied to residential non-urban rating as per 2014/15 projections with an 8.4% increase, in line with Council's SRV increase.
- All properties below 40 Hectares were categorised for rating purposes as Residential Non-Urban and those above as Farmland.
- Rate projections were based on existing rates (current Council Ad-valorem/Base or Minimum amounts). This will constitute the carried forward notional general income figure.

The projections indicate that there is little gain (or profit) to be made from these boundary adjustments. However, Council is primarily interested in growing its scale and capacity – particularly in respect of its heavy plant fleet and engineering services. The additional $1million per annum in maintenance and capital expenditure is expected to have an extremely positive effect in these regards.

Other identified benefits to Council include the following:

1. Increasing population by an estimated 700 individuals;

2. Improving Council's Own Source Revenue Ratio by approximately 5% due to the increase in rating revenue;
3. Council's Asset Maintenance and Building and Infrastructure Renewal Ratios are expected to improve due to the capital and asset maintenance being fully funded by rates. Other expenditure is not expected to increase, as residents within these identified areas already use Council's services, because of the existing strong communities of interest;
4. Creating a strong, cohesive LGA with a discernible sense of place and locality because of above-mentioned communities of interest.

It should be noted that the proposed boundary adjustments have not been included in Council's projections used for this FFF Proposal.

(D) Focusing further on gaining efficiency and realising internal savings by limiting expenditure increase below inflation and selling unused assets.

Over the last few years, Council has embarked on an effective review of operational expenditure; with a specific emphasis on reducing expenditure that does not contribute to desired community outcomes. This action has been driven as part of the SRV application process, in an attempt to match operational savings with increases in rates.

All savings have been identified in a Savings Initiative Report (SIR). The most significant savings achieved, combined with those identified for future years, are mentioned under the "Efficiency" heading towards the end of this document.

The combined savings are expected to eventually contribute approximately $1million per annum to Council's coffers. Those savings that were already incorporated in earlier years have not been included in the above-mentioned list.

Savings have been incorporated in the LTFP where it is certain that savings will in fact be realised. Where saving suggestions have not been fully implemented, or are not measureable, they have not been included. For example, Council can track the effectiveness of the "overtime claim form" initiative – being the difference between pay period to pay period before and after implementation. Therefore, Council can realistically include this saving in its LTFP.

However, a saving such as the "Acting in Higher Grade Position" is much harder to track and therefore it simply contributes to the confidence associated with the 2.5% salary increase identified, but is not specifically included as a saving.

Other identified benefits to Council include the following:

1. Improving Council's operating position (and Operating Performance Ratio);
2. Enabling Council to meet the limited expenditure increases included in the LTFP and thereby meeting the Real Operating Expenditure Per Capita Ratio;
3. Providing Council with additional savings which can and have been re-directed into Asset Maintenance (thereby improving Council's Asset Maintenance Ratio.)It is noted that this initiative has allowed Council to increase Road and Bridge Maintenance by 10% for each of the last two years. Council is aiming at continuing to implement these increases until the Asset Maintenance Ratio is met.

(E) Increasing particular fees and charges to ensure Council is recovering its full costs of providing these services, particularly for commercial fees.

Council has a clear focus on increasing its fees and charges by 5% year on year for the next three (3) years. As part of this process, Council has had its Fees and Charges register externally reviewed by Mr Norm Headford, an experienced Local Government Finance consultant. The aim of this review is to compare Council's Fees and Charges with neighbouring Councils, identifying new fees and increasing existing fees in line with cost recovery principles – particularly for commercial fees.

The primary purpose of this increase is:

1. Improving Council's operating position (and Operating Performance Ratio);
2. Improving Council's Own Source Operating Revenue Ratio;
3. Providing Council with additional revenue which can and has been re-directed into Asset Maintenance (thereby improving Council's Asset Maintenance and Renewal Ratios).

Based on this clear focus, a 5% increase in fees and charges (apart from those set by statute) has been included in the LTFP projections.

(F) Increasing Water and Sewer Charges to pay a commercial return to the General Fund, in the form of Dividends, along with a Debt Guarantee Fee on commercial loans.

Council has resolved in May 2014 (Resolution 7.05/14) to approve the payment of dividends in future years from the Water and Sewer Funds to the General Fund – as a return on equity similar to a commercial enterprise.

A local water utility which demonstrates best practice management by achieving the outcomes required by the NSW 'Best Practice Management of Water Supply and Sewerage Framework', will have effective and sustainable water supply and sewerage businesses.

This Best Practice Management Framework is the key driver for planning and management reform and for continuing performance improvement within these functional areas. The 19 requirements of this Framework are shown in the 'Best-Practice Management of Water Supply and Sewerage Guidelines', which involve the following elements:

- Integrated Water Cycle Management;
- Strategic business planning;
- Regulation and pricing of water supply, sewerage and trade waste:
  - Pricing;
  - Developer charges;
  - Liquid trade waste;
- Water conservation;
- Drought management;
- Performance monitoring.

Compliance with the NSW 'Best-Practice Management Framework' is a prerequisite for payment of an 'efficiency dividend' from the surplus of a utility's water supply or sewerage business to the Council's general revenue. Local water utilities are encouraged by the NSW Office of Water to pay such a dividend, which will move them towards 'upper bound' pricing – which is required under the National Water Initiative where practicable.

The NSW Office of Water Performance Monitoring Report for 2012-2013 confirms that Glen Innes Severn Council has met 100% of the best practice requirements.

Quantum of dividend
The aforementioned Guidelines specify that the dividend from surplus must not exceed 50% of the surplus in any one (1) year, with a maximum of $30 per assessment, less a mandatory dividend for tax equivalents (currently a maximum of $3 per assessment). Also, the total dividend from surplus paid in each rolling three (3) year period must not exceed the total relevant surplus in that period. The maximum additional dividend which could be paid is therefore $27 per assessment for each of the years when these criteria are met. Based on the total number of assessments for Water and Sewer, the total maximum dividends achievable are $101,838 for Sewer and $108,240 for Water. However, these total amounts will be limited based on the total surplus and the cumulative surplus. The affordability of these dividends has been considered as part of Council’s LTFP modelling for the Water and Sewer Funds.

At this point in time, Council will need to focus on increasing the operating surplus within its Water and Sewer Funds by increasing annual charges (and water usage charges) for three (3) consecutive years by 5%. It should be noted that the increase of fees and charges in the Water and Sewer Funds formed an integral part of Council’s SRV application and the community consultation associated with it.

Inclusion in the LTFP
The 5% increase in fees and charges for Water and Sewer was included in the modelling for the respective funds when determining the affordability of future dividends. The dividends included in the LTFP from these funds into the General Fund are identified below:

Fund	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Water Fund	59,040	111,487	114,832	118,277	121,825	125,480	129,244	133,122	137,115	141,229
Sewer Fund	101,838	104,893	108,040	111,281	114,620	118,058	121,600	125,248	129,005	132,875
Total	**160,878**	**216,380**	**222,872**	**229,558**	**236,445**	**243,538**	**250,844**	**258,369**	**266,121**	**274,104**

The total dividend is estimated to annually increase by 3% based on the expected increase in population – primarily based on factors such as the international flight school development. The number of water connections, which is the chief limiting factor on total dividends payable, is assumed to track with a 3% growth.

It should be noted that the total dividend includes the mandatory $3 per assessment tax equivalent dividend, which is already payable.

A copy of this report, ‘Water Sewer Dividend Report’, which considers affordability, asset backlog and the relative position of each of the funds, is attached as **Annexure 4** to the **Original Proposal Document** (in its turn attached as **Annexure A** to the **Template Proposal Document**).

Debt Guarantee Fee
A ‘debt guarantee fee’ has been included in the Water and Sewer Funds projections. This fee is based on a 3% margin on those loans secured under Clause 229 of the *Local Government (General) Regulations 2005* as a charge on the income of Council, compared with the interest rate at which commercial ventures such as the Water and Sewer Funds would have been able to raise loans at, had they not formed a part of a secure

and stable rates revenue local government entity. This charge will be paid from the Water and Sewer Funds to the General Fund based on the actual loan interest incurred and paid each year. This total amounts to approximately $130,000 per annum, combined for both funds.

(G) Continuously improving the performance of Glen Innes Aggregates to ensure a profitable business enterprise and future contributions to the General Fund

In August 2011 Council purchased a basalt hard rock quarry, renamed Glen Innes Aggregates, which supplies the vast majority of the LGA's sealing aggregates for projects executed by both Council and RMS. The business was purchased as part of a package deal, and included the pits which formed the basis for Council's long term water storage solution.

Council continued to manage the quarry after purchase for two (2) years, using the existing operating methodology; being a fixed crushing plant. The aged crusher and run down plant resulted in large repair and maintenance costs with an associated negative effect on the profit margin.

In September 2013, Council adopted a reviewed Business Plan prepared by Ecoroc, a consulting firm specialising in quarries. The business planning process investigated a number of operating models and quarry best practices. Stemming from Ecoroc's recommendations, a "lean" business model was adopted – utilising contracting services for drilling, blasting and crushing operations and dispensing with non-core activities. Therefore, the plan involved moving away from a fixed plant operation to a campaign crushing model, utilising a mobile crushing plant (which was to be outsourced). Apart from the projected improvement in profitability, the Business Plan also resolved a number of serious Workplace Health and Safety issues.

The Business Plan constituted a significant change to the original operating model and was projected to reduce fixed costs considerably; resulting in a projected profit of around $375,000 per annum.

The first year of implementation of the new business plan (with some transition) was the 2014/15 financial year, and indications are that Council will achieve a profit in the order of $300,000 for this financial year. This outcome should be compared with the earlier year profits; i.e. $360,000 in 2011/12, $262,000 in 2012/13 and $121,000 in 2013/14.

Inclusion in the LTFP

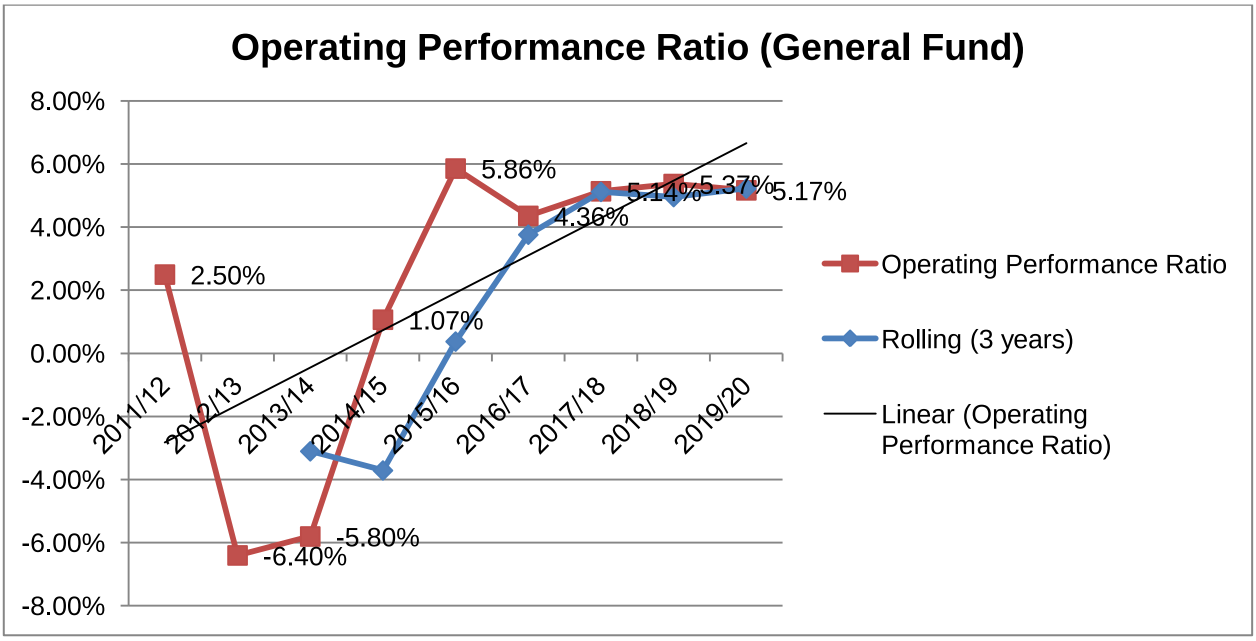
It is expected that a profit of $350,000 per annum will be possible for future years and has been incorporated into the LTFP projections. The over $2 million in turnover through sales is also expected to result in an improvement in Council's Own Source Operating revenue ratio. This Category 1 Business Unit also provides additional financial scale and capacity by reducing the administration and governance cost component on other Council functions.

The key performance indicators for the **sustainability criteria** indicate that the following ratios will be achieved as an outcome:

Measure / benchmark	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING					
Operating Performance	✓	✗	✗	✓	✓	✓	✓	✓	✓
	2.50%	-6.40%	-5.80%	1.07%	5.86%	4.36%	5.14%	5.37%	5.17%
Rolling (3 years)			-3.10%	-3.71%	0.38%	3.76%	5.12%	4.96%	5.23%
Own Source Revenue Ratio	✗	✗	✗	✓	✓	✓	✓	✓	✓
	47.50%	52.50%	50.80%	59.86%	60.80%	62.78%	62.86%	62.90%	63.03%
Rolling (3 years)			50.21%	54.39%	57.15%	61.15%	62.15%	62.85%	62.93%
Building and Infrastructure Asset Renewal Ratio	✗	✗	✗	✓	✓	✓	✓	✓	✓
	71.00%	92.00%	90.00%	245.91%	182.63%	103.28%	103.78%	104.29%	104.79%
Rolling (3 years)			84.47%	142.64%	172.85%	177.27%	129.90%	103.78%	104.29%

Therefore, the sustainability benchmarks are all expected to be met from the 2014/15 financial year onwards.

Operating Performance Ratio:



Action Plan items to ensure benchmark is met:

The AP items quoted below indicate the action steps needed to be pursued by Council in order to ensure that it will keep on achieving these benchmarks into the future:

1. Adequate reporting on this benchmark (Annual Financial Statements and Operating Budget/Quarterly Budget Reviews);
2. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
3. A permanent SRV of 29.19% under Section 508A of the *Local Government Act 1993* to bring rates up to the regional average (already approved by IPART in 2014 for implementation of the first stage in the 2014/15 financial year);
4. Maintaining the excellent performance of the Water and Sewer Funds in line with Best Practice Guidelines to ensure that annual Dividends are paid over from these funds to the General Fund;

5. Continuously improving the performance of Glen Innes Aggregates in order to provide an annual profit contribution to the General Fund;
6. Ensuring full cost recovery on all Council Fees and Charges where possible;
7. Pursuing potential boundary adjustments to incorporate areas with clear communities of interest with Glen Innes into Council's LGA.

The specific action steps under each one of the above-mentioned items are outlined in Council's detailed AP. The LTFP indicates that Council will achieve an operating profit in forthcoming years, and therefore an Operating Performance Ratio above the benchmark of 0 (zero).

The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

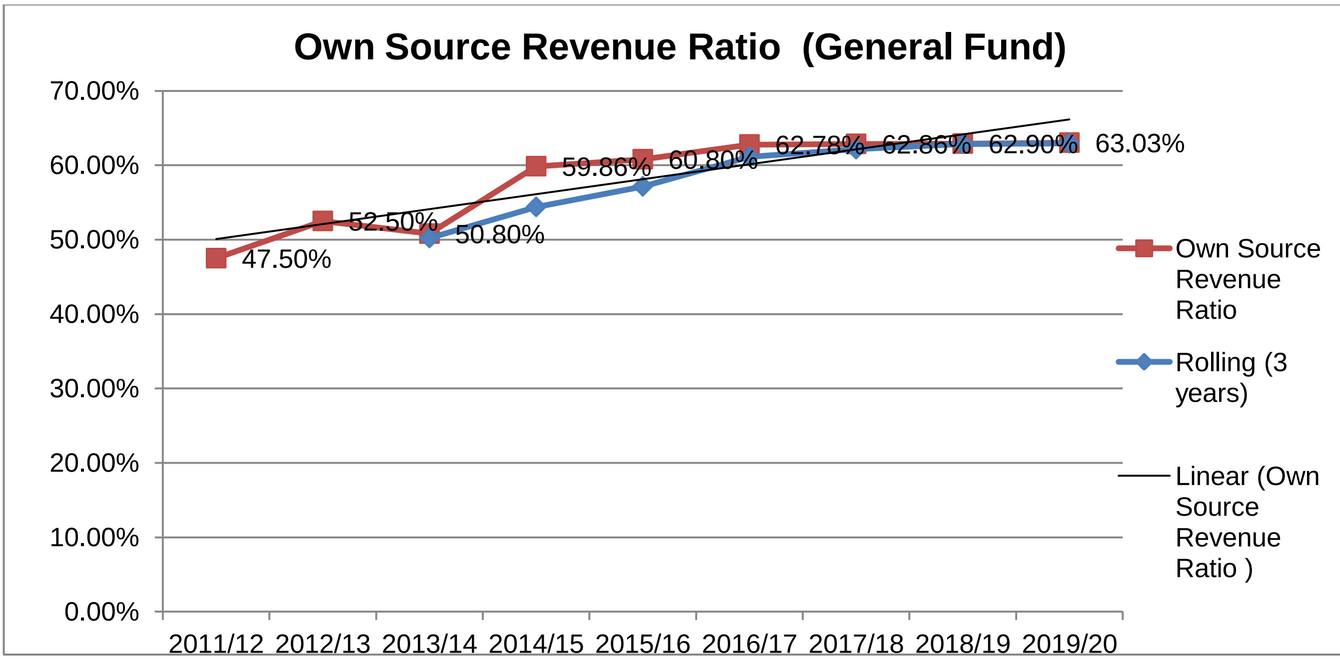
Sustainability							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Operating Performance Ratio **(Greater than or equal to breakeven average over 3 years)**	**1**	**GM/CFO**	**Adequate reporting on this benchmark.**				
	1.1	**GM/CFO**		Include the Operating Performance Ratio as part of the budgeting process and Operational Plan Report to Council.			
	2.	**GM/CFO**	**Responsible planning in the LTFP – incorporating a year on year reduction in expenditure.**				
	2.1	**GM/CFO**		Ensure that the LTFP includes all identified savings and revenue increases and identifies an operating profit before and after capital items.			

	3	**GM/CFO**	**Implementation of an SRV to bring rates up to the regional average.**				
	3.1	**GM/CFO**	Implement SRV of 11.21%. Annual increase in general income of $559,537.	Implement SRV of 10.02%. Annual increase in general income of $555,878.	Implement SRV of 5.59%. Annual increase in general income of $341,189.		
	4	**GM/DIS/ CFO**	**Maintaining the excellent performance of the Water and Sewer Funds in line with Best Practise Guidelines to ensure the payment of annual dividends to the General fund.**				
	4.1	**GM/CFO**		Introduction of Water and Sewer dividends through increased Water and Sewer charges (by approximately 5% per annum) – in accordance with Best Practise Guidelines.	Increase of 5% in Water and Sewer Charges.	Increase of 5% in Water and Sewer Charges.	
	4.2	**GM/CFO**	Introduction of a debt guarantee fee from the Water and Sewer Funds (3% on Council interest rate – approximately $130,000 p.a.).	Continue Debt Guarantee Fee.	Continue Debt Guarantee Fee.	Continue Debt Guarantee Fee.	Continue Debt Guarantee Fee.

	5	GM/DIS/ CFO	**Continuous improvement of the performance of Glen Innes Aggregates to ensure an annual profit contribution to the General Fund.**				
	5.1	**GM/DIS/ CFO**	Implementation of a Campaign Crushing model instead of the current fixed plant.	Finalise and refine the implementation of a Campaign Crushing model instead of the current fixed plant.			
	5.2	**GM/DIS/ CFO**	Payment of all profits from Glen Innes Aggregates to the General Fund for the further funding road works (expected to be $350,000).				
	6	GM/CFO	**Ensure full cost recovery on all Council Fees and Charges where possible**				
	6.1	**GM/CFO**	Pursue increases in fees and charges above CPI where allowable.	Conduct an external review of fees and charges to ensure that cost recovery is implemented where allowable and reasonably affordable – 5% increase overall.	Pursue increases in fees and charges above CPI where full cost recovery has not been achieved and where allowable.	Pursue increases in fees and charges above CPI where full cost recovery has not been achieved and where allowable.	Pursue increases in fees and charges above CPI where full cost recovery has not been achieved and where allowable.

	7.	**GM/Mayor**	**Pursue potential boundary adjustments to incorporate areas with clear communities of interest with Glen Innes into Council's LGA**				
	7.1	**GM/Mayor**	Pursue discussions with Tenterfield regarding the possible acquisition of properties surrounding the Deepwater locality.				
	7.2	**GM/Mayor**	Pursue discussions with Inverell Shire Council regarding the possible acquisition of properties within the Kingsland, Kings Plains and Swanvale localities.	Pursue discussions with Inverell Shire Council regarding the possible acquisition of properties within the Kingsland, Kings Plains and Swanvale localities, if Uralla Shire Council is forcibly merged with Armidale-Dumaresq Council.			
	7.3	**GM/Mayor**	Pursue discussions with Guyra Shire Council regarding the possible acquisition of properties within the Ben Lomond and Llangothlin localities and surrounding areas.	Pursue discussions with the 'Greater Armidale Council' if Guyra Shire Council is forcibly merged with Armidale-Dumaresq Council.			

Own Source Revenue Ratio:



Action Plan items to ensure benchmark is met:

The AP items quoted below indicate the action steps needed to be pursued by Council in order to ensure that it will keep on achieving this benchmark into the future:

1. Adequate reporting on this benchmark (Annual Financial Statements and Operating Budget/Quarterly Budget Reviews);
2. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
3. A permanent SRV of 29.19% under Section 508A of the *Local Government Act 1993* to bring rates up to the regional average (already approved by IPART in 2014 for implementation of the first stage in the 2014/15 financial year);
4. Maintaining the excellent performance of the Water and Sewer Funds in line with Best Practice Guidelines to ensure that annual Dividends are paid over from these funds to the General Fund;
5. Continuously improving the performance of Glen Innes Aggregates in order to provide an annual profit contribution to the General Fund;
6. Ensuring full cost recovery on all Council Fees and Charges where possible;
7. Pursuing potential boundary adjustments to incorporate areas with clear communities of interest with Glen Innes into Council's LGA.

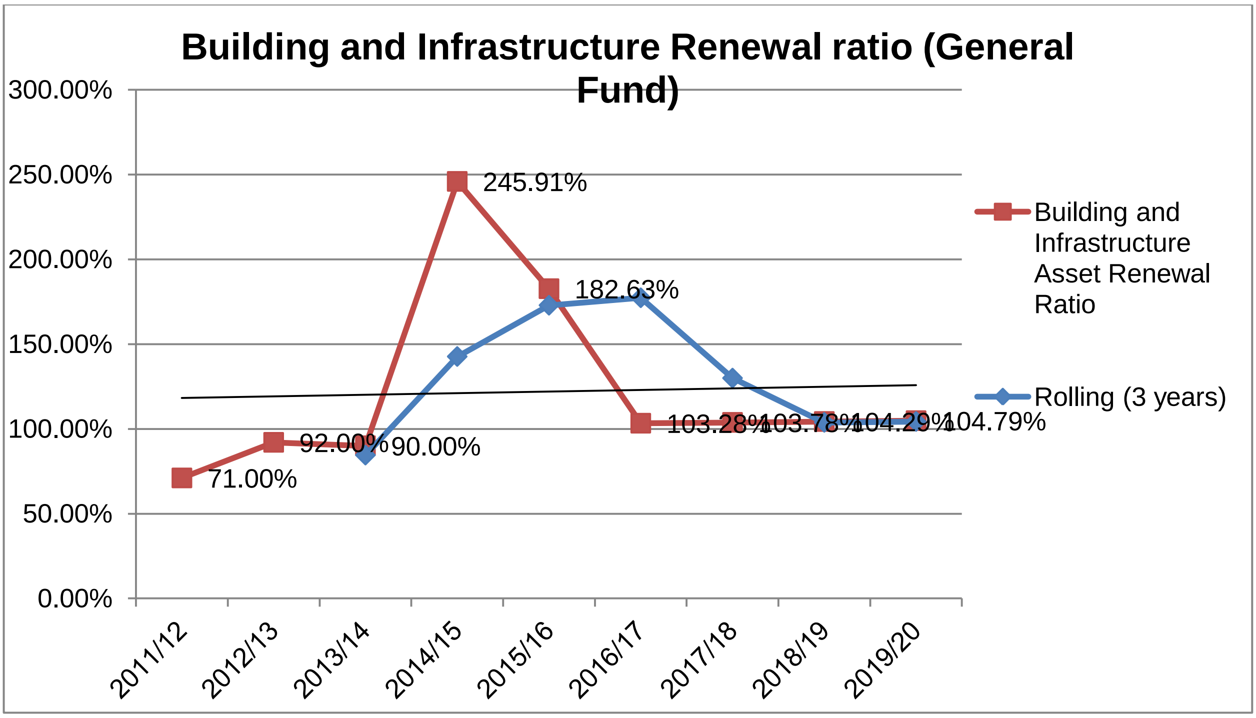
The specific action steps under each one of the above-mentioned items are outlined in Council's detailed AP. The LTFP indicates that Council will achieve an Own Source Operating revenue ratio of 60% or more in the 2016-20 year period.

The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

Sustainability							
Measure / benchmark	NO.	RES OFF	2014/15	2015/16	2016/17	2017/18	2018/19
Own Source Revenue Ratio (Greater than 60% average over 3 years)	8.	GM/CFO	**Increasing Own Source Revenue through the responsible increase of fees and charges and annual rates.**				
	8.1	GM/CFO	As per 6.1 above, increase fees and charges through external review with a minimum increase of 5%.	As per 6.1 above, increase fees and charges above CPI in those instances where full cost recovery has not been achieved.			
	8.2	GM/CFO	As per 3.1 above, implementation of the SRV of 11.21%.	As per 3.1 above, implementation of the SRV of 10.02%.	As per 3.1 above, implementation of the SRV of 5.59%.		
	8.3	GM/DIS/ CFO	Maximise profits on the sale of Glen Innes Aggregates products by reducing input costs and the sale price of products through the implementation of a campaign crushing business model.	Identify further competitive advantages, combined with improved marketing and consumer relationship building.			

	9.	**GM/CFO**	**Adequate reporting on this benchmark.**				
	9.1	**GM/CFO**		Include the Operating Performance Ratio as part of the annual budgeting process and Operational Plan Report to Council.			

Building and Infrastructure Asset Renewal Ratio:



Action Plan items to ensure benchmark is met:

The AP items quoted below indicate the action steps needed to be pursued by Council in order to ensure that it will keep on achieving this benchmark into the future:

1. Rationalise Council's asset base by disposing of assets that are not required, particularly considering the cost of depreciation and required maintenance;
2. Create an infrastructure reserve (restricted funds) to ensure that any shortfall in year on year spend is cash funded; and,
3. Increase expenditure on buildings and infrastructure in line with the identified renewals in the AMPs.

The specific action steps under each one of the above-mentioned items are outlined in Council's detailed AP. The LTFP indicates that Council will meet this benchmark in 2015/16 and onwards.

There are a number of other AP items which will also benefit this ratio, including:

1. Adequate reporting on this benchmark (Annual Financial Statements and Operating Budget/Quarterly Budget Reviews);
2. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
3. A permanent SRV of 29.19% under Section 508A of the *Local Government Act 1993* to bring rates up to the regional average (already approved by IPART in 2014 for implementation of the first stage in the 2014/15 financial year);
4. Maintaining the excellent performance of the Water and Sewer Funds in line with Best Practice Guidelines to ensure that annual Dividends are paid over from these funds to the General Fund;
5. Continuously improving the performance of Glen Innes Aggregates in order to provide an annual profit contribution to the General Fund;
6. Ensuring full cost recovery on all Council Fees and Charges where possible;

7. Pursuing potential boundary adjustments to incorporate areas with clear communities of interest with Glen Innes into Council's LGA.

The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

Sustainability							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Building and Infrastructure Asset Renewal Ratio **(Greater than 100% average over 3 years)**	**10.**	GM/DIS/ MTS/ CFO	**Rationalise Council's asset base by disposing of assets that are not required, particularly when considering the cost of depreciation and required maintenance.**				
	10.1	**GM/DIS/ MTS/ CFO**	Review and sale of buildings that serve no operational purpose and which impact negatively on Council's renewal ratios. (E.g Sale of Garden Court, Tindale Units, Highwoods etc.)	Formal review of other buildings and assets which are not required operationally – for disposal.	Formal review of co-location options for Council staff as part of the development of a new IPRF suite of documents with the newly elected Council.	Formal review of other buildings and assets which are not required operationally – for disposal.	Formal review of other buildings and assets which are not required operationally – for disposal.
	10.2	**GM/DIS/ MTS/ CFO**	Review of the depreciation methodology on roads infrastructure assets as part of the revaluation process.	Review of the depreciation methodology of building and other infrastructure assets.			
	10.3	**GM/DIS/ MTS/ CFO**	Review of buildings and other assets and the identification of assets which will not be renewed.				

	11	GM/DIS/ MTS/ CFO	**Create an infrastructure reserve (restricted funds) to ensure that any shortfall in year on year spend is cash funded.**				
	11.1	**GM/DIS/ MTS/ CFO**	Prepare a formal asset renewal policy; identifying redundant assets, assets that need to be sold, assets that will not be renewed, minimum renewal requirement per asset class etc.	Establish an infrastructure reserve to restrict sufficient funds to cover any shortfall between the total depreciation cost and actual renewal expenditure for infrastructure assets only.			Establish an infrastructure reserve to restrict sufficient funds to cover any shortfall between the total depreciation cost and actual renewal expenditure for the remaining assets (not infrastructure).
	11.2	**GM/DIS/ MTS/ CFO**	Introduction of set maximum percentage of new assets compared with renewals of 5% (unless specifically grant funded or resulting in savings equivalent to or greater than the cost).	Introduction of set maximum percentage of new assets compared with renewals of 4% (unless specifically grant funded or resulting in savings equivalent to or greater than the cost).	Introduction of set maximum percentage of new assets compared with renewals of 3% (unless specifically grant funded or resulting in savings equivalent to or greater than the cost).	Introduction of set maximum percentage of new assets compared with renewals of 2% (unless specifically grant funded or resulting in savings equivalent to or greater than the cost).	Introduction of set maximum percentage of new assets compared with renewals of 2% (unless specifically grant funded or resulting in savings equivalent to or greater than the cost).

	12	**GM/DIS/ MTS/ CFO**	**Increase expenditure on buildings and infrastructure in line with the identified renewals in the AMPs.**				
	12.1	**DIS/MTS**		Full review of AMP for Road Infrastructure – development of advanced asset management plans (in line with Infrastructure Audit Recommendations)	Full review of AMP for Building Infrastructure – development of advanced asset management plans (in line with Infrastructure Audit Recommendations)	Full review of remaining AMP's and improvement to an advanced level.	
	12.2	**GM/CFO**	In line with item 3.1 above increase total renewal works on Road Infrastructure by total SRV revenue increase of $557,000 (excluding loan repayments on LIRS funding).				
	12.3	**GM/CFO**		Spend all savings identified under the "Efficiency" heading on road infrastructure including bridges (including maintenance).			
	12.4	**GM/CFO**		Spend all revenue increases under the "Operating Performance Ratio" heading on road infrastructure			

				including bridges (including maintenance), with particular emphasis on Water and Sewer Dividends of $170,000 plus Debt Service Charges of $130,000.			
	12.5	**GM/DIS/ MTS/ CFO**	Source and efficiently expend approved LIRS funding of $5 million to increase renewals on bridge and road assets.	Source and efficiently expend approved LIRS funding of $5 million to increase renewals on bridge and road assets.			

3.1.2 EXPLAIN THE KEY ASSUMPTIONS THAT UNDERPIN YOUR STRATEGIES AND EXPECTED OUTCOMES

The projections are based on a reviewed LTFP, using software purchased from LG Solutions Pty Ltd. The modelling which accompanies Council's projections was prepared based on a revised version of Council's earlier 2011/12, 2012/13 and 2013/14 LTFPs. The assumptions upon which these LTFPs have been based were identified as reasonable by TCORP in their March 2013 review and by IPART last year in Council's SRV application (noting that some items have been updated to reflect new information). The general underlying assumptions are listed below:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
Operating Income											
Rate Revenue	10.02%	5.59%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(1)
Annual Charges	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
User Charges - Specific	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Fees and Charges - Regulatory	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Fees & Charges - Other	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Other Revenues	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Grant Revenue (General)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(10)
Financial Assistance Grant	*0.00%*	*0.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	(3)
Roads to Recovery	*100.00%*	*(100.00%)*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(4)
Repair Program	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(5)
Regional Roads Grant Funding	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	
Operating Expenditure											
Employee Costs - Payroll	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(6)
Employee Costs - Superannuation	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(7)
Employee Costs - Other	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	
Borrowing Costs - Interest on Loans (External)											(8)
Materials & Contracts - Raw Material/Consumables	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Contracts	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Insurance	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Utilities	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)

Explanatory Notes:

1. Rate revenue has been increased in line with the approved Special Rate Variation instrument provided by IPART titled: "Glen Innes Severn Council's application for a special variation for 2014/15 under section 508A of *Local Government Act 1993.*" This document identifies on page 2 the identified increases of 11.21% for 2014/15, 10.02% for 2015/16 and 5.59% for 2016/17.

2. A 5% increase in fees and charges is considered reasonable given the prominence in the next three (3) years on increasing Fees and Charges – with particular emphasis on cost recovery for commercial fees. Council is undergoing an external review of its Fees and Charges – prepared by Mr Norm Headford, a Local Government Finance Consultant with significant experience. This item is also specifically identified in the associated AP as it forms a key part of increasing Council's Own Source Revenue.

3. The FAG has been reduced in the LTFP, in line with the Federal Budget outcomes. Even though the three (3) year freeze on indexation has been incorporated, it is anticipated that the revenue component of the NSW FAG calculation could be positively affected and result in an increase in Council's FAG amount because of the 21% overall decrease in the Valuer General's 2013 property valuations. However, this likelihood has not been incorporated in the modelling.

4. The double allocation of Roads to Recovery (R2R) funding in the 2015/16 financial year has been incorporated in Council's modelling as per advice received from the Federal Government. Indexation of R2R funding has been frozen for the life of the LTFP, as there is no certainty of future increases at this stage (which constitutes a very conservative approach).

5. The REPAIR Program funding has been incorporated in accordance with advice received, as follows:
   - 2015/16 - NIL
   - 2016/17 - $131,565
   - 2017/18 - $134,250
   - 2018/19 - $136,935
   - Funding has been incorporated thereafter with no indexation at $96,565 per annum (again, a very conservative approach).

6. Employee costs have been incorporated at 2.5% for four (4) year; in line with the negotiated and estimated new Local Government (State) Award 2014 increases and influenced by the current poor economic climate with ultra low inflation/CPI rates etcetera. Thereafter, a 3.5% growth has been incorporated for the life of the plan.

7. Employee superannuation has been incorporated at 3.5% (compared with salaries at 2.5%) to account for increases in the Super Guarantee Charge; however, this may not eventuate depending on Federal Government priorities. It has been budgeted to ensure that any potential increases would be fully funded.

8. Borrowing costs have been incorporated in accordance with Council's fixed loan borrowing portfolio and in line with Council's actual principal repayments and interest payments. New loans have been incorporated at 3.8% (in line with advice and quotes received from major banks). As no new loan repayments have been incorporated in the long term planning after this current financial year, no interest rate estimate is required for future years.

9. Materials and Contracts and other Expenditure have been increased by 2.5% for the next four (4) years, in line with the requirements of Council's AP. This step is believed to be reasonable, given the prior year's restrictions being met within Council's operational budgets. Thereafter, increases are returned to 3.5%.

10. Recurring grant revenue has been increased by 3%. One-off or specific capital project grant funding has been excluded and no increases have been incorporated. Only grant funding that Council is confident about receiving has therefore been included.

3.1.3 OUTLINE YOUR STRATEGIES AND OUTCOMES IN THE TABLE BELOW

Throughout the table below, as well as with the equivalent tables in sections 3.2 and 3.3, the following abbreviations for the benchmarks will be used:

OPR – Operating Performance Ratio
OSRR – Own Source Revenue Ratio
BIARR – Building and Infrastructure Asset Renewal Ratio
IBR – Infrastructure Backlog Ratio
AMR – Asset Maintenance Ratio
DSR – Debt Service Ratio
ROEPC – Real Operating Expenditure Per Capita

Sustainability				
OBJECTIVE **Measure / benchmark**	**Strategies**	**Key milestones**	**Outcome**	**Impact on other measures**
Operating Performance Ratio	**Provide ongoing adequate reporting on this benchmark.**	**From 2015/16: Include this ratio in the budget preparation process and Operational Plan Report to Councillors.**	**Clear concise reporting to allow Councillors to adopt budgets that meet this benchmark.**	**As this is a reporting measure only, in itself it is unlikely to have an impact on other measures. However, it will assist to ensure that Councillors are aware of this important benchmark – which will positively affect the BIARR, IBR, AMR and potentially the ROEPC.**
	LTFP to incorporate year on year reduction in expenditure.	**2015/16: Ensure the LTFP identifies an operating profit before and after capital items.**	**General fund achieves the Operating Performance Ratio benchmark.**	**Will have a positive effect on the ROEPC.**
	Implement the approved permanent SRV to bring rates up to the regional	**2014/15 SRV of 11.21% ($559,537)** **2015/16 SRV of 10.02% ($555,878)**	**Permanent increase in revenue of $1,456,604 (or $1million above the rate peg).**	**Will have a significant positive impact on all other measures i.e. OSRR, BIARR, IBR, AMR, and**

average.	2016/17:SRV of 5.59%. ($341,189)		DSR.
Ensure cost recovery on all fees and charges.	From 2014/15: Increase fees and charges above CPI (where allowable). External review of fees and charges to ensure cost recovery principles are fully adhered to.	2015/16: 5% increase overall. 2016/17: 5% increase overall. 2017/18: 5% increase overall.	Will improve the OSRR, BIARR, IBR, AMR, and DSR.
Maintain the excellent performance of the Water and Sewer functions to ensure the payment of dividends to the General Fund.	2014/15: Introduction of debt guarantee fee from Water and Sewer Funds at 3%.	Approximately $130,000 p.a.	Improvement in operating position will benefit the BIARR and AMR.
	Introduction of Water and Sewer dividends through 5% p.a. increase in annual charges to allow an operating profit of twice the allowable dividend to be achieved each year.	Water and Sewer dividends paid to the General Fund for each year after 2014/15 (please refer to the projections discussed above).	Improvement in operating position will also benefit the BIARR and AMR.
Continuous improvement of the performance of Glen Innes Aggregates to provide a significant return to the General Fund.	2014/15: Implementation of Campaign Crushing model instead of fixed plant.	Reducing input costs, cost of quarry products, improve marketing and customer relationships to maximise sales at highest profit. Profit of $350,000 per annum (indexed) incorporated in LTFP.	Improvement in operating position will benefit AMR, IBR and BIARR, as well as the OSRR.
Pursue potential Boundary Adjustments to incorporate areas with clear communities of	Discussion to be held with Inverell Shire Council and the newly formed 'Armidale Regional Council' – depending on the FFF	Possible boundary adjustments to include areas with clear communities of interest with Glen Innes –	Improvement in the OSRR, with potential benefits to the BIARR, IBR, AMR and ROEPC as well; as a result

	interest with Glen Innes into LGA.	assessment outcomes and the ultimate decision of the NSW Government.	significantly adding to Council's scale and capacity and population.	of the increased scale, scope and capacity.
Own Source Revenue Ratio	Responsible increase of fees and charges and annual rates, and managing Glen Innes Aggregates well to ensure a significant annual profit contribution to the General Fund.	From 2014/15: Increase fees and charges above CPI (where allowable). External review of fees and charges to ensure cost recovery principles are fully adhered to.	2015/16: 5% increase overall. 2016/17: 5% increase overall. 2017/18: 5% increase overall.	Improvement in the OSRR will also benefit the OPR, BIARR, IBR and AMR.
		2014/15 SRV of 11.21% ($559,537) 2015/16 SRV of 10.02% ($555,878) 2016/17: SRV of 5.59%. ($341,189)	Permanent increase in revenue of $1,456,604 (or $1million above the rate peg).	Improvement in the OSRR will also benefit the OPR, BIARR, IBR and AMR.
		2014/15: Implementation of Campaign Crushing model for current fixed plant.	Reducing input costs, cost of quarry products, improve marketing and customer relationships to maximise sales at highest profit. Profit of $350,000 per annum (indexed) incorporated in LTFP.	Improvement in the OSRR will also benefit the OPR, AMR, IBR and BIARR, as well as the OSRR.
	Provide ongoing adequate reporting on this benchmark.	From 2015/16: Include this ratio in the budget preparation process and Operational Plan Report.	Clear concise reporting to allow Councillors to adopt budgets that meet this benchmark.	As this is a reporting measure only, it is unlikely to have an impact on other measures. However, it will assist to ensure that Councillors are aware of this benchmark – which will positively affect the OPR, BIARR,

				IBR, AMR and potentially the ROEPC.
Building and Infrastructure Asset Renewal Ratio	Rationalise Council's asset base by disposing of assets that are not required, particularly when the cost of depreciation and required maintenance is considered.	Formal review of buildings and assets which are not operationally required – for disposal. From 2015/16: Review co-location options for Council staff (to be incorporated into LTFP, CSP AND DP).	LTFP modelling indicates Council will meet this ratio from the 2014/15 financial year onward.	Improvement in the OPR, IBR and AMR. The impact will depend on the scale of the review. The significant progress to date identified under the 'Efficiency' benchmark should be noted.
	Create an infrastructure reserve (restricted funds) to ensure that any shortfall in year on year spend is cash funded.	From 2016/17: Introduction of a guideline maximum percentage of new assets compared with renewals of 3% (to be reduced to 2% from 2017/18) unless specifically grant or externally funded or resulting in savings equivalent to or greater than the cost.	Improvement in total renewal ratio when compared with total asset expenditure ratio.	Unknown at this stage, but will ensure that planned projects are in fact fully achieved – which will guarantee that the BIARR and AMR are improved.
		From 2015/16: Full review of AMP for road infrastructure and development of advanced AMP's in line with Infrastructure Audit Recommendations.	Improvement of estimates related to required road infrastructure renewal.	Unknown at this stage, but improved estimates will ensure that more thorough long term financial planning could be done – which will positively impact on future BIARR and AMRs.

	Review of depreciation methodology on infrastructure assets over two (2) years.	**Improvement of estimates related to required infrastructure renewal.**	**Unknown at this stage but improved estimates will ensure that more thorough long term financial planning could be done – which will positively impact on future BIARR and AMRs.**
	Review of all assets to identify and account for those assets that will not be renewed and adopting strategies to speed up their removal from use.	**Improvement of estimates related to required infrastructure renewal.**	**Reduction in required renewal and maintenance (and other operating expenditure) will benefit the OPR, AMR, BIARR, IBR and ROEPC.**
Increase expenditure on buildings and infrastructure in line with the identified renewals in the AMPs.	**2017/18: Full reviews of remaining AMPs and improvement of these Plans to an advanced level.**	**Improvement of estimates related to the remaining asset renewal requirements.**	**Unknown at this stage, but improved estimates will ensure that more thorough long term financial planning could be done – which will positively impact on future BIARR and AMRs. The OPR will be negatively affected.**

		To balance out the additional expenditure, internal savings and additional revenue increases will be needed to improve the availability of funds, including Water and Sewer Dividends of $170,000, Debt Service Charges of $13,000, and LIRS funding of $5 million for Roads and Bridges Infrastructure.	**Will positively benefit the IBR AMR, and negatively affect the OPR.**

3.2 INFRASTRUCTURE AND SERVICE MANAGEMENT

3.2.1 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's overarching strategies are discussed in detail under the sustainability section (3.1) above, and although equally applicable to this section, are only listed in heading format below.

A. Updating and improving Council's Asset Management Plans to better inform its future capital works and financial modelling.

B. Incorporating the approved SRV of 29.19% and LISR Funding of $5 million into Councils' revenue calculations.

C. Increasing the size of Council's area with possible boundary adjustments to include areas such as Ben Lomond, Llangothlin, Kingsland, Kings Plains, and Swanvale (part).

D. Focusing further on gaining efficiency and realising internal savings by limiting expenditure increase below inflations and selling unused assets.

E. Increasing particular fees and charges to ensure Council is recovering its full costs of providing these services, particularly for commercial fees.

F. Increasing Water and Sewer Charges to pay a commercial return to the General Fund, in the form of Dividends, along with a Debt Service Guarantee Fee on commercial loans.

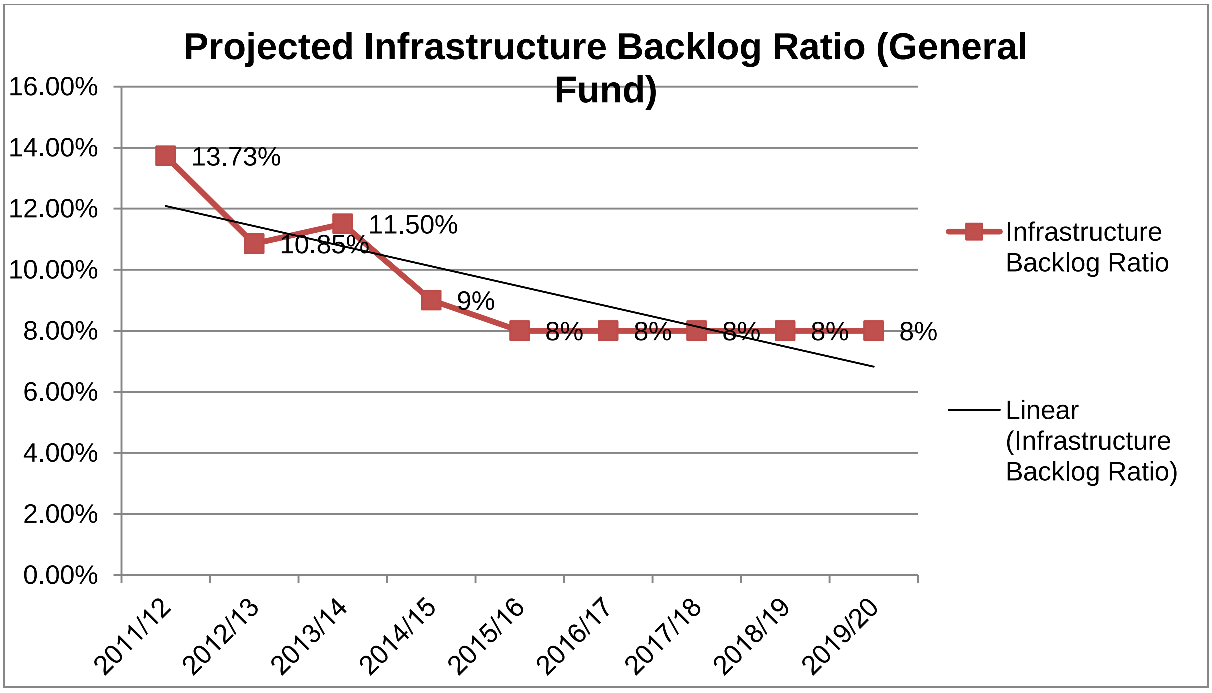
G. Continuously improving the performance of Glen Innes Aggregates to ensure a profitable business enterprise and future contributions to the General Fund.

The key performance indicators for the infrastructure and service management criteria indicate that the following ratios will be achieved as an outcome:

Measure / benchmark	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING					
Infrastructure Backlog Ratio	✗	✗	✗	✗	✗	✗	✗	✗	✗
	13.73%	10.85%	11.50%	9%	8%	8%	8%	8%	8%
Asset Maintenance Ratio	✗	✗	✗	✓	✓	✓	✓	✓	✓
	71.60%	75.50%	96.20%	103%	117%	117%	117%	117%	117%
Rolling (3 years)			79.89%	92%	105%	112%	117%	117%	117%
Debt Service Ratio	✓	✓	✓	✓	✓	✓	✓	✓	✓
	3.05%	4.64%	4.83%	8.07%	11.15%	10.48%	9.88%	9.34%	8.83%
Rolling (3 years)			4.14%	6%	8%	10%	11%	10%	9%

Therefore, two (2) of the three (3) infrastructure and service management benchmarks are expected to be met, with significant improvement realised on the unmet ratio. The main strategies are summarised below:

Infrastructure Backlog Ratio:



Action Plan Strategies to ensure benchmark is met:
The AP indicates that the following strategies need to be pursued to ensure that Council will achieve this benchmark:

1. Identify exactly what Council's backlog is and ensure that it is spending money on the correct assets;
2. Increase expenditure on assets over and above the required renewals for any particular financial year, based on the AMPs' requirements.

The detailed actions under each strategy are outlined in the AP. The LTFP indicates that Council will reduce this benchmark, but will not meet it by 2016/17.

There are a number of other AP strategies which will also benefit this ratio, including the following:

1. Adequate reporting on this benchmark (Annual Financial Statements and Operating Budget/Quarterly Budget Reviews);
2. Expend LIRS funding of $5 million for asset renewals;
3. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
4. A permanent SRV of 29.19% under Section 508A of the *Local Government Act 1993* to bring rates up to the regional average (already approved by IPART in 2014 for implementation of the first stage in the 2014/15 financial year);
5. Continuously improving the performance of Glen Innes Aggregates in order to provide an annual profit contribution to the General Fund;
6. Ensuring full cost recovery on all Council Fees and Charges where possible.

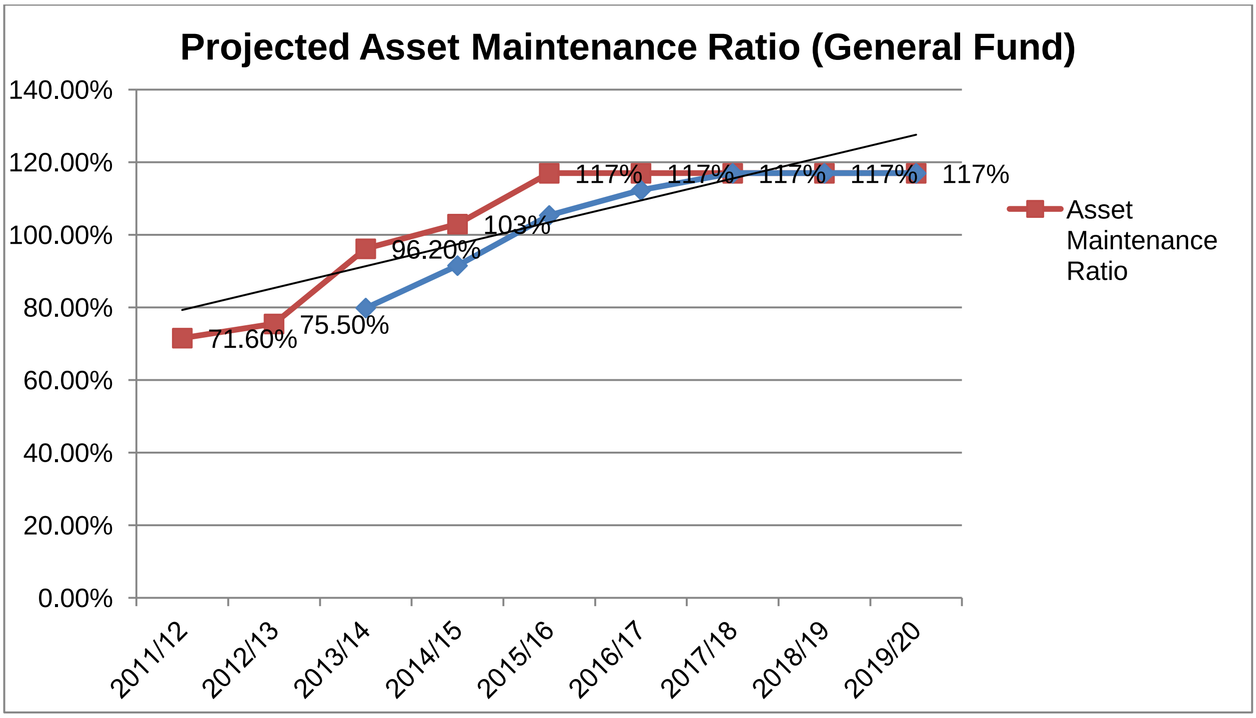
The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

Infrastructure and service management							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Infrastructure Backlog Ratio (Less than 2%)	**1.0**	**GM/DIS/ MTS/ CFO**	**Identify exactly what Council's backlog is and ensure that it is spending money on the correct assets.**				
	1.1	**MTS/CFO**	Rationalise the asset base with particular focus on reducing the number of assets by disposing of those which are not required. Please refer to the discussion under the 'Efficiency' heading in Item 2 below.				
	1.2	**MTS/CFO**	Review the current Building Assets and identify those which are no longer required for operational purposes and do not require renewal.				

	1.3	**DIS/MTS**		Improve the Road Infrastructure AMPs to an advanced level in line with the Infrastructure Audit Recommendations.	Improve the Building Infrastructure AMPs to an advanced level in line with the Infrastructure Audit Recommendations.	Improve the remaining Infrastructure AMPs to an advanced level in line with the Infrastructure Audit Recommendations.	
	1.4	**DIS/ MTS/CFO**	Review Special Schedule 7 to ensure that it accurately reflects the required asset maintenance, based on IPWEA and RABM benchmarking.	Review Special Schedule 7 (road infrastructure) to ensure that it accurately reflects the required asset maintenance, based on the reviewed AMP (on an advanced level).	Review Special Schedule 7 (Buildings) to ensure that it accurately reflects the required asset maintenance based on the reviewed AMP (on an advanced level).	Review Special Schedule 7 (Other Assets) to ensure that it accurately reflects the required asset maintenance based on the reviewed AMP (on an advanced level).	
	2.	**MANEX/ CFO**	**Increase expenditure on assets over and above the required renewals for any particular financial year based on the AMPs' requirements.**				
	2.1	**GM/CFO**		Budget for ongoing capital expenditure over and above the required amount to start addressing the backlog.			

	2.2	**GM/CFO**	Employ LIRS Funding of $5million to address the **entire** bridge infrastructure backlog and $1million in road infrastructure backlog.	Employ LIRS Funding of $5million to address the **entire** bridge infrastructure backlog and $1million in road infrastructure backlog.			

Projected Asset Maintenance Ratio:



Action Plan items to ensure benchmark is met:
The AP indicates that the following strategies need to be pursued to ensure that Council will achieve this benchmark:

1. Identify exactly what Council's backlog is and ensure that it is spending money on the correct assets;
2. Increase expenditure on assets over and above the required renewals for any particular financial year, based on the AMPs' requirements.

The detailed actions under each strategy are outlined in the AP. The LTFP indicates that Council will meet this benchmark by 2016/17.

There are a number of other AP strategies which will also benefit this ratio, including the following:

1. Adequate reporting on this benchmark (Annual Financial Statements and Operating Budget/Quarterly Budget Reviews);
2. Expend LIRS funding of $5 million for asset renewals;
3. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
4. A permanent SRV of 29.19% under Section 508A of the *Local Government Act 1993* to bring rates up to the regional average (already approved by IPART in 2014 for implementation of the first stage in the 2014/15 financial year);
5. Continuously improving the performance of Glen Innes Aggregates in order to provide an annual profit contribution to the General Fund;
6. Ensuring full cost recovery on all Council Fees and Charges where possible.

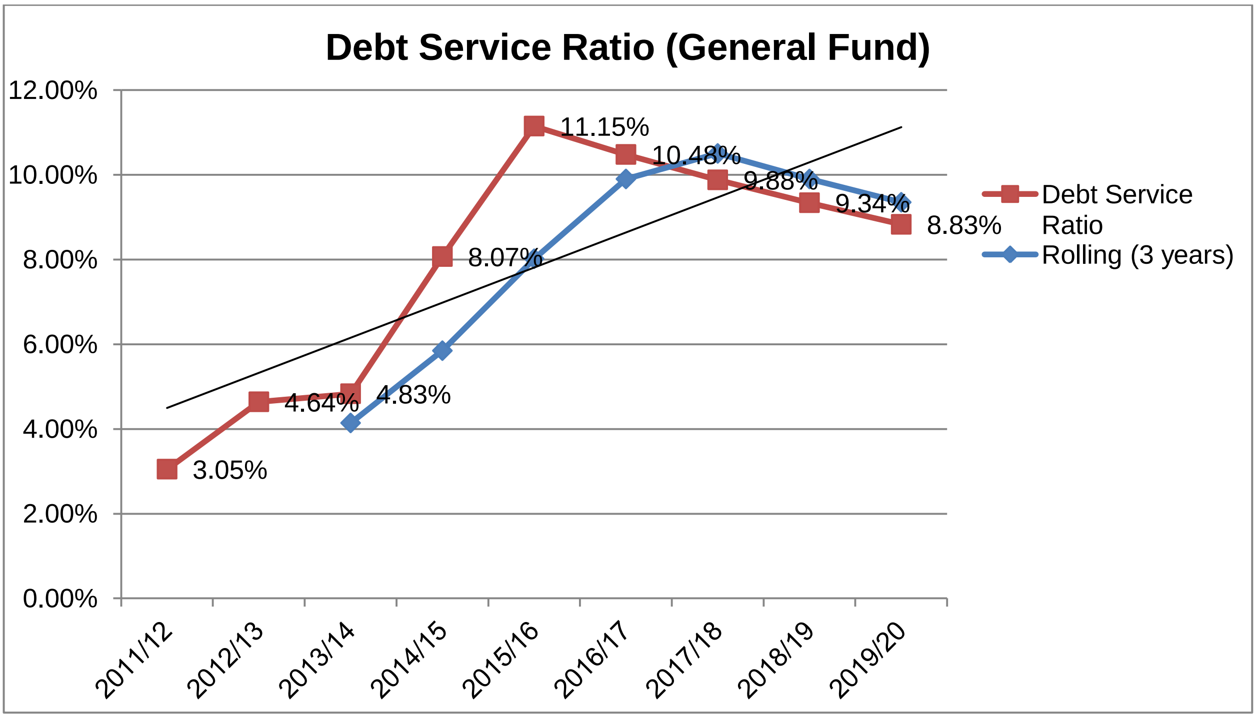
The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

Infrastructure and service management							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Asset Maintenance Ratio **(Greater than 100% average over 3 years)**	**3**	**MANEX/ CFO**	**Identify and confirm exactly what Council needs to spend on its asset maintenance and ensure it is spending the required amounts on the correct assets.**				
	3.1	**MTS/ CFO**	Review Special Schedule 7 to ensure that it accurately reflects the required asset maintenance based on IPWEA and RABM benchmarking.	Review Special Schedule 7 (road infrastructure) to ensure that it accurately reflects the required asset maintenance based on the reviewed AMP (on an advanced level).	Review Special Schedule 7 (Buildings) to ensure that it accurately reflects the required asset maintenance based on the reviewed AMP (on an advanced level).	Review Special Schedule 7 (Other Assets) to ensure that it accurately reflects the required asset maintenance based on the reviewed AMP (on an advanced level).	

	4.	**MANEX/ CFO**	**Increase expenditure on assets over and above the required maintenance for any particular financial year based on the AMPs' requirements.**				
	4.1	**GM/CFO**	Increase expenditure budget on roads and bridges by 10%.	Increase expenditure budget on roads and bridges by 10%.	Budget for ongoing operational maintenance based on the updated amounts identified in Special Schedule 7.		
	4.2	**DIS/MTS**		Focus on implementing a pro-active maintenance schedule for Bridges, as the full backlog is addressed by expending $4 million LIRS funding.			
	4.3	**DIS/MID/ MTS**		Maintain a stand-alone, permanent bridge crew to ensure that high level skills and information on bridge works is retained within Council's corporate knowledge.			

	4.4	**DIS/MTS**	Centralise all building maintenance within one section (rather than individual managers looking after their own sections) to ensure a holistic and pro-active approach to maintenance planning.				

Debt Service Ratio:



Action Plan items to ensure benchmark is met:

Given that Council already meets this benchmark as it has taken up a number of LIRS loans to start addressing its infrastructure renewal needs, the only AP item included was that Council will in future fund infrastructure asset renewals using loan funding when the cost of deterioration and additional maintenance (including additional risk) of these assets exceeds the cost of finance. The specific action items are identified under this heading in the AP.

The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

Infrastructure and service management							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	**5**	**GM/CFO**	**Fund infrastructure asset renewals using loan funding where the cost of deterioration and additional maintenance (including additional risk) of these assets exceeds the cost of finance.**				
	5.1	**GM/CFO**	Source $6.5million in funding for capital works related to infrastructure asset renewals at record low interest rates - $5million of which is interest subsidised through the LIRS funding scheme.				
	5.2	**GM/CFO**		Include the Debt Service Ratio in any reports to Manex and Council associated with loan funding and with the taking up of any additional loan funding into the future.			

	5.3	**GM/CFO**	Ensure that loan funding is considered as an appropriate methodology for the funding of capital works – by including it as a funding option each year as a part of the Operational Plan and Budget preparation process.				

3.2.2 EXPLAIN THE KEY ASSUMPTIONS THAT UNDERPIN YOUR STRATEGIES AND EXPECTED OUTCOMES

The specific calculations, including assumptions, are as follows:

General Fund Required Maintenance							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total Required Maintenance (SS7)	2,056	2,118	2,181	2,247	2,314	2,383	2,455
Less: Water Fund	184	190	195	201	207	213	220
Less: Sewer Fund	121	125	128	132	136	140	144
Total GF Required Maintenance (SS7)	1,751	1,804	1,858	1,913	1,971	2,030	2,091
General Fund Actual Maintenance							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total Actual Maintenance (SS7)	1,925	1,983	2,042	2,103	2,167	2,232	2,299
Less: Water Fund	156	161	166	170	176	181	186
Less: Sewer Fund	84	87	89	92	95	97	100
Total GF Actual Maintenance (SS7)	1,685	1,736	1,788	1,841	1,896	1,953	2,012
Adjustments:							
Road and Bridge Maintenance Increase (1)		130	134	138	142	146	151
Road and Bridge Maintenance Increase (2)			134	138	142	146	151
Building Maintenance Consolidation			123	127	130	134	138
	-	130	391	403	415	427	440
	1,685	1,866	2,179	2,244	2,311	2,381	2,452
Asset Maintenance Ratio	96%	103%	117%	117%	117%	117%	117%

1)	Projected expenditure (actual and required) is based on the actual and required maintenance identified in the 2013/14 SS7. Extrapolated by 3% per annum (in line with LTFP and LGCI average of 3.04% over last 6 years).
2)	Only adjustments included are the two (2) identified as overarching strategies, including two (2) further 10% increases in maintenance on Roads and Bridges, one (1) already realised and one (1) included in the draft budget. The second being the consolidation of building maintenance and the increase in expenditure from $77,000 in earlier years to $200,000. The difference being indexed above. This increase is in the draft 2015/16 budget.

General Fund Backlog							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total	19,774	20,367	15,852	14,160	14,976	15,743	16,477
	19,774	20,367	15,852	14,160	14,976	15,743	16,477
General 'Catchup'		4,977	2,104	- 380	- 308	- 254	- 201
Projected Backlog	19,774	15,390	13,748	14,540	15,284	15,997	16,678
Written Down Value	171,933	177,091	182,404	187,876	193,512	199,317	205,297
Projected Ratio	11.50%	8.69%	7.54%	7.74%	7.90%	8.03%	8.12%
Depreciation		4,198,638.00	4,310,256.44	4,418,458.00	4,487,680.00	4,580,402.08	4,678,666.88
Renewal Expenditure		-9,176,000.00	-6,414,030.00	-4,038,521.05	-4,179,869.29	-4,326,164.71	-4,477,580.48
1)	Assumed increase in the replacement cost of the backlog identified at 3% per annum (bearing in mind the average LGCI increase over the past six(6) years indicated an average of 3.04%.)						
2)	The "catchup" identified is the amount that all capital renewal exceeds that years depreciation on all assets.						
3)	The significant amount of expenditure in 2014/15 and 2015/16 is funded by LIRS funding.						
4)	The Written Down Value (WDV) of all assets has been increased by 3% per annum.						
5)	Depreciation has been projected to increase in line with LTFP.						
6)	Capital Expenditure is in line with the amounts budgeted for in the LTFP.						

Overarching (general strategies):

The projections are based on a reviewed LTFP, using software purchased from LG Solutions Pty Ltd. The modelling which accompanies Council's projections was prepared based on a revised version of Council's earlier 2011/12, 2012/13 and 2013/14 LTFPs. The assumptions upon which these LTFPs have been based were identified as reasonable by TCORP in their March 2013 review and by IPART last year in Council's SRV application (noting that some items have been updated to reflect new information). The general underlying assumptions are listed below:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
Operating Income											
Rate Revenue	10.02%	5.59%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(1)
Annual Charges	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
User Charges - Specific	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Fees and Charges - Regulatory	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Fees & Charges - Other	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Other Revenues	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Grant Revenue (General)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(10)
Financial Assistance Grant	*0.00%*	*0.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	(3)
Roads to Recovery	*100.00%*	*(100.00%)*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(4)
Repair Program	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(5)
Regional Roads Grant Funding	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	
Operating Expenditure											
Employee Costs - Payroll	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(6)
Employee Costs - Superannuation	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(7)
Employee Costs - Other	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	
Borrowing Costs - Interest on Loans (External)											(8)
Materials & Contracts - Raw Material/Consumables	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Contracts	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Insurance	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Utilities	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)

Explanatory Notes:

1. Rate revenue has been increased in line with the approved Special Rate Variation instrument provided by IPART titled: "Glen Innes Severn Council's application for a special variation for 2014/15 under section 508A of *Local Government Act 1993.*" This document identifies on page 2 the identified increases of 11.21% for 2014/15, 10.02% for 2015/16 and 5.59% for 2016/17.

2. A 5% increase in fees and charges is considered reasonable given the prominence in the next three (3) years on increasing Fees and Charges – with particular emphasis on cost recovery for commercial fees. Council is undergoing an external review of its Fees and Charges – prepared by Mr Norm Headford, a Local Government Finance Consultant with significant experience. This item is also specifically identified in the associated AP as it forms a key part of increasing Council's Own Source Revenue.

3. The FAG has been reduced in the LTFP, in line with the Federal Budget outcomes. Even though the three (3) year freeze on indexation has been incorporated, it is anticipated that the revenue component of the NSW FAG calculation could be positively affected and result in an increase in Council's FAG amount because of the 21% overall decrease in the Valuer General's 2013 property valuations. However, this likelihood has not been incorporated in the modelling.

4. The double allocation of Roads to Recovery (R2R) funding in the 2015/16 financial year has been incorporated in Council's modelling as per advice received from the Federal Government. Indexation of R2R funding has been frozen for the life of the LTFP, as there is no certainty of future increases at this stage (which constitutes a very conservative approach).

5. The REPAIR Program funding has been incorporated in accordance with advice received, as follows:
   - 2015/16 - NIL
   - 2016/17 - $131,565
   - 2017/18 - $134,250
   - 2018/19 - $136,935
   - Funding has been incorporated thereafter with no indexation at $96,565 per annum (again, a very conservative approach).

6. Employee costs have been incorporated at 2.5% for four (4) year; in line with the negotiated and estimated new Local Government (State) Award 2014 increases and influenced by the current poor economic climate with ultra low inflation/CPI rates etcetera. Thereafter, a 3.5% growth has been incorporated for the life of the plan.

7. Employee superannuation has been incorporated at 3.5% (compared with salaries at 2.5%) to account for increases in the Super Guarantee Charge; however, this may not eventuate depending on Federal Government priorities. It has been budgeted to ensure that any potential increases would be fully funded.

8. Borrowing costs have been incorporated in accordance with Council's fixed loan borrowing portfolio and in line with Council's actual principal repayments and interest payments. New loans have been incorporated at 3.8% (in line with advice and quotes received from major banks). As no new loan repayments have been incorporated in the long term planning after this current financial year, no interest rate estimate is required for future years.

9. Materials and Contracts and other Expenditure have been increased by 2.5% for the next four (4) years, in line with the requirements of Council's AP. This step is believed to be reasonable, given the prior year's restrictions being met within Council's operational budgets. Thereafter, increases are returned to 3.5%.

10. Recurring grant revenue has been increased by 3%. One-off or specific capital project grant funding has been excluded and no increases have been incorporated. Only grant funding that Council is confident about receiving has therefore been included.

3.2.3 OUTLINE YOUR STRATEGIES AND OUTCOMES IN THE TABLE BELOW

3.2 Infrastructure and service management				
OBJECTIVE Measure / benchmark	Strategies	Key milestones	Outcome	Impact on other measures
Infrastructure Backlog Ratio	Identify exactly what Council's backlog is and ensure that it is spending money on the correct assets.	2015/16: Improve Road Infrastructure AMPs to an advanced level in line with the Infrastructure Audit Recommendations. 2016/17: Improve Building Infrastructure AMPs to an advanced level in line with the principles enshrined within the Infrastructure Audit Recommendations. 2017/18: Improve Other Assets' AMPs to an advanced level in line with the principles enshrined within the Infrastructure Audit Recommendations.	Providing a clear, supportable indication of the extent of Council's infrastructure backlog and how it is comprised.	It may positively affect the AMR, BIARR and OPR, but the exact effect will be unknown until the reviews are actually conducted.
	Increase expenditure on assets over and above the required renewals for any particular financial year based on the AMPs.	Employ approved $5 million LIRS Funding to address the entire bridge infrastructure backlog and a further $1M in the road infrastructure backlog.	The expenditure of $5million on infrastructure, relates to a 25% reduction in the infrastructure backlog within a period of two (2) years.	The DSR, BIARR and AMR will be positively affected, while the OPR will be negatively affected.

		Budget for ongoing capital expenditure on infrastructure assets over and above the amounts required in terms of the AMPs – in order to address the backlog.	**Small, but continuous decreases in the infrastructure backlog over a period of approximately 12 years.**	**The BIARR and AMR may positively benefit by a reduction in the IBR, while the OPR will be negatively affected.**
Asset Maintenance Ratio	**Identify and confirm exactly what Council needs to spend on its asset maintenance and ensure it is spending it on the correct assets.**	**Review Special Schedule 7 to accurately reflect the required asset maintenance requirements based on the improved AMPs (and IPWEA and RABM benchmarks).** **The above will be applied as follows:** **2015/16 – Road Infrastructure;** **2016/17 – Buildings;** **2017/18 – Other Assets.**	**Clear, supportable indication of required asset maintenance and how it is comprised.**	**It may also affect the BIARR, IBR and OPR, but the effect will be unknown until the reviews are actually conducted.**

	Increase expenditure on assets over and above the required maintenance for any particular financial year based on the AMP's.	2016/17: Budget for ongoing operational maintenance based on the required amounts identified in the reviewed Special Schedule 7. The expenditure budget maintenance provision for roads and bridges infrastructure is increased by 10% year on year from 2014/15. Increase in maintenance provision for Building Infrastructure Assets from $77,000 to $200,000 p.a.	Council will achieve this ratio in the 2014/15 financial year and for the full life of the LTFP.	The OPR and ROEPC will be negatively affected due to the increase in expenditure. However, this is more than made up for by the increased revenue (SRV) and expenditure savings. The IBR will be positively affected.
Debt Service Ratio	Fund infrastructure asset renewals using loan funding where the cost of deterioration and additional maintenance (including additional risk) exceeds the cost of finance.	From 2015/16: Include this ratio in any future reports to Manex and Council associated with loan funding and the taking up of any additional loans. Consider loan funding each year as part of the preparation of the Operational Plan and Budget. 2014/15: $6.5 million in funding sourced for capital works at record low interest rates, $5 million of which is subsidised through the LIRS funding scheme.	Council is currently meeting this ratio and projections are that it will continue to do so for the full life of the LTFP.	The increase in debt funding will negatively affect the OPR, but will have positive effects on the AMR, IBR and BIARR.

With the announcement made on 24 June 2015 by the Deputy Prime Minister, the Hon Warren Truss MP, of an additional $300 million in 2015/16 and an additional $805 million in 2016/17 that will be made available by the Federal Government through the Roads to Recovery (R2R) grants program directly to Local Government – amounting to an additional injection of around $1.9 million over the mentioned two (2) years into Council's road infrastructure – it is in an even stronger position now to meet the Infrastructure Backlog Ratio benchmark within a reasonable period of time.

As is argued above under the heading 'Performance against the Fit for the Future benchmarks – Infrastructure and service management (infrastructure Backlog ratio) on **page 31** of this **Template Proposal Document**, that this additional expenditure on Council's road infrastructure network will create an opportunity for Council to take up further loans even before the current LIRS loans have been fully repaid - addressing its infrastructure backlog in a shorter period of time. Once Special Schedule 7 has been further developed and refined in accordance with the Auditor General's instructions and guidance, Council would be able to rely on audited data in this regard. It would then be in a position to adopt a responsible resolution about further borrowings. It is, however, reasonably anticipated that Council would be well placed to meet this benchmark within a 10 year timeframe – with either subsidised or low interest loans being made available to it through TCorp at that point in time.

Because of the short timeframe since the announcement made by the Federal Government about the availability of additional R2R funding to the Local Government sector and the lodgement date of FFF Proposals, it was unfortunately not possible for Council to include this information as part of its LTFP and AP.

<u>However, the above-mentioned strategies will be considered most seriously by Council when reliable and comparable data becomes available from Special Schedule 7 and when it has had the opportunity to fully assess what the impact of the additional R2R monies, when fully expended, will have on its infrastructure backlog ratio. The statement that this impact will be significant, is beyond reproach.</u>

3.3 EFFICIENCY

3.3.1 SUMMARISE YOUR COUNCIL'S KEY STRATEGIES TO IMPROVE PERFORMANCE AGAINST THE EFFICIENCY BENCHMARK IN THE 2016-20 PERIOD, INCLUDING THE OUTCOMES YOU EXPECT TO ACHIEVE

Council's overarching strategies are discussed in detail under the sustainability section (3.1) above, and although equally applicable to this section, are only listed in heading format below.

A. Updating and improving Council's Asset Management Plans to better inform its future capital works and financial modelling.

B. Incorporating the approved SRV of 29.19% and LISR Funding of $5 million into Councils' revenue calculations.

C. Increasing the size of Council's area with possible boundary adjustments to include areas such as Ben Lomond, Llangothlin, Kingsland, Kings Plains, and Swanvale (part).

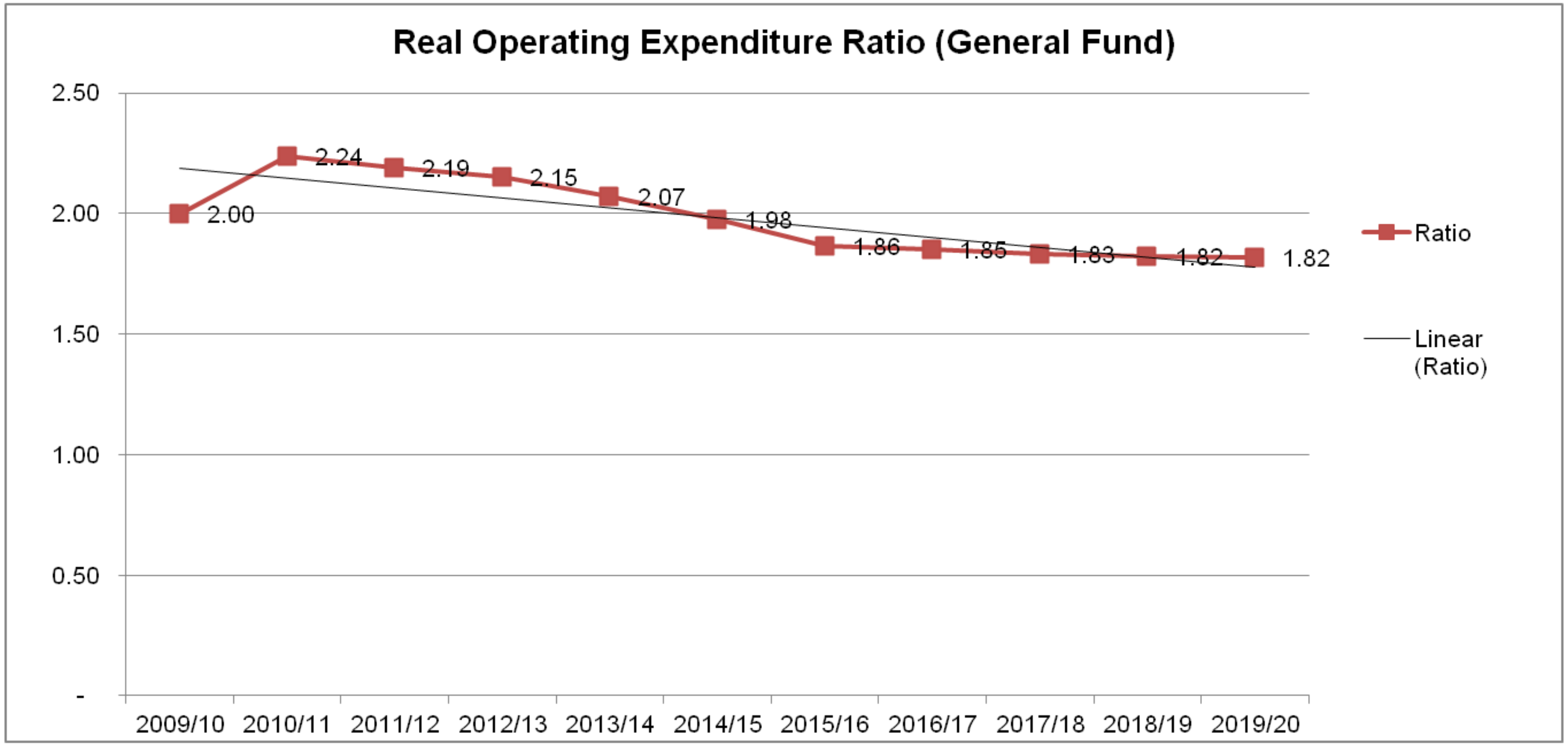
D. Focusing further on gaining efficiency and realising internal savings by limiting expenditure increase below inflations and selling unused assets.

E. Increasing particular fees and charges to ensure Council is recovering its full costs of providing these services, particularly for commercial fees.

F. Increasing Water and Sewer Charges to pay a commercial return to the General Fund, in the form of Dividends, along with a Debt Service Guarantee Fee on commercial loans.

G. Continuously improving the performance of Glen Innes Aggregates to ensure a profitable business enterprise and future contributions to the General Fund.

The key performance indicator, for the Real Operating Expenditure Ratio is graphed below. The graph indicates that apart from the increase between 2009/10 to 2010/11, there is a clear decrease in actual and projected expenditure over the 10 year period.


Real Operating Expenditure Ratio (General Fund)
2.50
2.00
1.50
1.00
0.50
-
2.00
2.24
2.19
2.15
2.07
1.98
1.86
1.85
1.83
1.82
1.82
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
Ratio
Linear (Ratio)

Measure / benchmark	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING					
Real Operating Expenditure Per Capita	✔	✔	✔	✔	✔	✔	✔	✔	✔
	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing
Rolling (3 years)	Increasing	Increasing	Increasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing

Therefore, it is expected as an outcome that the efficiency benchmark will be met on an ongoing basis. However, please note the effect of the rolling three (3) years requirement – which negatively affected the 2011/12 to 2013/14 period.

The main strategies and actions necessary for Council to keep on achieving this benchmark are summarised below:

Real Operating Expenditure Per Capita:

Action Plan items to ensure benchmark is met:

To ensure that Council maintain an ongoing focus on this benchmark, it will include this performance indicator in a transparent manner as part of its annual Operational Plan and Budget, as well as in its annual Financial Statements. This process will assist in preserving this requirement in the forefront of Council's considerations, when adopting annual budgets and reviewing any particular financial year's actual financial results and outcomes.

Further, staff will continue to report to Council on their successes achieved with internal savings through the Savings Initiative Report (SIR), pursue the continuous improvement of procurement processes, and keep on actioning the savings initiatives identified as part of the SRV application process.

The AP items are therefore as follows:

1. Include the Real Operating Expenditure Per Capita Ratio as part of Council's annual Operational Plan and Budget preparation and final documents;
2. Including the Real Operating Expenditure Per Capita Ratio as part of Council's annual Audited Financial Statements;
3. Continuing to report to Council on internal savings achieved through the Savings Initiative Report (SIR);
4. Continue to improve procurement processes to ensure that Council achieves value for money in all instances;
5. Finalise the actioning of those items identified as saving initiatives as part of the SRV application process; and
6. Ensure that the LTFP provides for a decrease in operational expenditure.
7. Introduce external and internal efficiency reviews of particular functional areas and Council operations.

The specific strategies leading up to and including the 2016-20 period, which will affect this ratio in the 2016-20 year period, are identified below:

Efficiency							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Real Operating Expenditure Per Capita **(A decrease in Real Operating Expenditure per capita over time)**	**1.**	**CFO**	**Adequate Reporting on this benchmark.**				
	1.1	**CFO**		Include the Real Operating Expenditure per Capita ratio as part of the annual budgeting process and Operational Plan Report to Council.			
	1.3	**CFO**	Continue to report to Council on internal savings achieved through the internal Saving Initiative Report (SIR).	Identify more efficient work procedures and productivity improvements.			

	2.	**CFO**	**Finalise the actioning of those items identified as saving initiatives as part of the SRV application process.**				
	2.1	**HRO**	**Actioned** Leave/Overtime Claim Forms ($65,000 p.a.)				
	2.2	**HRO**	**Actioned** Higher Grade Position Justification ($24,000 p.a.)				
	2.3	**CFO**	**Actioned** Sale of Tindale Units ($17,951 p.a.)				
	2.4	**CFO**	**Actioned** Sale of Wullamulla Street Lots ($1,600 p.a.)				
	2.5	**HRO**	**Actioned** Non-replacement of staff on leave /casual staff approval form ($51,625 p.a.)				
	2.6	**CFO**	**Actioned** Gum Tree Glen (Long Day Care Component) Closure ($230,000 p.a.)				

	2.7	**CFO**	**Actioned** Closure of Council Freezer Rooms ($21,297 p.a.)				
	2.8	**MHR**	**Actioned** Telephone Contract Renewal ($30,000 p.a.)				
	2.9	**MHR**	**Actioned** Printer Contract Renewal ($60,000 p.a.)				
	2.10	**MLLC**	**Actioned** Library Solar Panel Introduction ($20,000 p.a.)				
	2.11	**DIS**	**Actioned** Water and Sewer electricity savings – peak charge and solar panels ($53,000 p.a.)				
	2.12	**DIS/CFO**	**Actioned** Solar Panels - Church Street and Life Choices ($16,000 p.a.)				

	2.13	**CFO**		Sale of Garden Court Centre (saving $26,454 p.a.)			
	2.14	**CFO/MTS**			Sale of Abbot Street Lots (13 lots – saving of $24,905 p.a.)		
	2.15	**CFO/MTS**			Sale of Potters Parade lots (saving $11,000 p.a.)		
	2.16	**GM**			AAFT Development Savings ($201,327 p.a.)		
	2.17	**DCCS/ MCS**		Community Services Savings – natural attrition due to co-location ($250,000 p.a.)			
	2.18	**DIS**	**Actioned** Works Technical Officer non replacement ($60,000 p.a.)				
	2.19	**CFO/MTS**	**Part - Actioned** Cutting 10 vehicles from operational fleet ($50,000 p.a.)	**Finalise** Cutting 10 vehicles from operational fleet ($50,000 p.a.)			

	2.20	**MTS**		Implementation of LED street lighting ($50,000 p.a.)				
	2.21	**DDPRS**		Sale of Carl Baer Circuit Lots ($2,000 p.a.)				
	3.	**MANEX/ CFO**	**Ensure that LTFP provides for a decrease in year on year operational expenditure.**					
	3.1	**MANEX/ CFO**		Maintaining operational expenditure increases to 2% overall.				
	4.	**MANEX/CFO**	**Keep on pursuing more efficient purchasing techniques through LGP/Procurement Australia/ State Contracts.**					
	4.1	**CFO**	**Actioned** Implement internal control measures to ensure that all purchases follow correct procedures.					
	4.2	**CFO**	**Actioned** Implement readily accessible "how to purchase" system to provide guidance to staff.					

	4.3	**CFO**	**Actioned** Introduce internal purchasing training to all staff by use of Purchasing and Procurement Officer				
	4.4	**CFO**	**Actioned** Centralise tendering processes through Tender link.				
	4.5	**CFO**		Introduce “Vendor Panel” to get best value for money from LGP for Internal contracts.			
	4.6	**CFO**		Introduce internal requirement to use “Vendor Panel” for any contract purchase over $10,000.			
	4.7	**CFO**		Improve the efficiency of the stores and introduce more inventory items to reduce freight costs due to Council’s isolation.			

	4.8	**CFO**		Improve reporting on category of spend to ensure that all relevant categories of spend are appropriately tendered out where necessary.			
	4.9	**CFO**	**Actioned** Report on the procurement KPIs to the Procurement Committee.				
	5.	**CFO**	**Introduce external and internal efficiency reviews of particular functional areas and Council operations.**				
	5.1	**DIS/MTS/ CFO**	**Actioned** Introduce a Light Vehicle Plant Booking system.	Introduce Heavy Plant Booking System.	Internal review of Plant and Fleet.	External review of Plant and Fleet.	
	5.2	**DIS/CFO**	**Actioned** External review of Glen Innes Aggregates – campaign crushing model implementation.	Internal review of this Category 1 Business Unit after one full year of implementation of the campaign crushing model.			
	5.3	**CFO/PC**	**Part-Actioned** Review of all purchasing and payment procedures.	**Finalise** Review of all purchasing and payment procedures.			

	5.4	**GM/MRC**					Implementation of an External Audit Committee.
	5.5	**GM/DCCS**	**Actioned** Employ the CFO to improve the quality of financial information and reporting to Manex and the Council.				
	5.6	**CFO**	**Part-Actioned** Employ Management Accountant to improve reporting on both capital and operational programmes.	**Finalise** Employ the Management Accountant to improve the reporting on both capital and operational programs.			
	5.7	**MTS/CFO**		Review of current Gravel Quarries (type/location/accessibility/ cost) and opening more pits if efficiency of road works can be improved.	Implement formal license agreements with all gravel pit landholders.		

	5.8	**MANEX/ CFO**		Review of Financial Accounting program to ensure that it meets current requirements in respect of organisational reporting and asset management.			
	5.9	**DDPRS/ MTE/CFO**		Reduce expenditure in Tourism and Events from $750,000 net position to $640,000, through an analytical review of what provides maximum value for money.	Reduce expenditure in Tourism and Events from $640,000 net position to $600,000, through an analytical review of what provides maximum value for money.	Reduce expenditure in Tourism and Events from $600,000 net position to $550,000, through an analytical review of what provides maximum value for money.	

3.3.2 EXPLAIN THE KEY ASSUMPTIONS THAT UNDERPIN YOUR STRATEGIES AND EXPECTED OUTCOMES

The specific calculations, including assumptions, are as follows:

NET GF EXPENDITURE	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
TOTAL GF EXPENDITURE	18,331	21,099	21,233	21,555	20,980	21,175	20,598	21,089	21,519	22,082	22,719
Population	8,933	8,925	8,907	8,904	8,905	8,905	8,905	8,905	8,905	8,905	8,905
Year on year % increase		15.10%	0.64%	1.52%	-2.67%	0.93%	-2.72%	2.38%	2.04%	2.62%	2.88%
CPI (actual and estimate)	2.30%	3.00%	3.00%	3.40%	3.70%	2.81%	3.04%	3.04%	3.04%	3.04%	3.04%
Ratio	2.00	2.24	2.19	2.15	2.07	1.98	1.86	1.85	1.83	1.82	1.82

1) LGCI increase of 2.81% in 2014/15 sourced from the Local Government Rate Peg 2014/15 information paper as released by IPART.
2) Previous year LGCI figures sourced from the FFTF Self Assessment Tool.
3) From 2015/16 onward LGCI figures are the average of the past six (6) years as indicated, which amounts to 3.04%.
4) Population estimate figures for 2009/10 to 2013/14 were sourced from the FFTF Self Assessment Tool.
5) Population estimate figures for 2014/15 onward have been left at 8,905 even though recent ABS data identified an increase in the population of 45. Further, Council has made a strong argument against the projected population decrease due to various expected developments, which are likely to have a significant effect on population within the GISC LGA. These are discussed under item 1.4 Key Challenges and Opportunities, item (b) weaknesses.

Over-arching (general strategies):

The projections are based on a reviewed LTFP, using software purchased from LG Solutions Pty Ltd. The modelling which accompanies Council's projections was prepared based on a revised version of Council's earlier 2011/12, 2012/13 and 2013/14 LTFPs. The assumptions upon which these LTFPs have been based were identified as reasonable by TCORP in their March 2013 review and by IPART last year in Council's SRV application (noting that some items have been updated to reflect new information). The general underlying assumptions are listed below:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
Operating Income											
Rate Revenue	10.02%	5.59%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(1)
Annual Charges	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
User Charges - Specific	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Fees and Charges - Regulatory	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Fees & Charges - Other	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Other Revenues	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Grant Revenue (General)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(10)
Financial Assistance Grant	*0.00%*	*0.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	(3)
Roads to Recovery	*100.00%*	*(100.00%)*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(4)
Repair Program	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(5)
Regional Roads Grant Funding	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	
Operating Expenditure											
Employee Costs - Payroll	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(6)
Employee Costs - Superannuation	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(7)
Employee Costs - Other	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	
Borrowing Costs - Interest on Loans (External)											(8)
Materials & Contracts - Raw Material/Consumables	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Contracts	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Insurance	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Utilities	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)

Explanatory Notes:

1. Rate revenue has been increased in line with the approved Special Rate Variation instrument provided by IPART titled: "Glen Innes Severn Council's application for a special variation for 2014/15 under section 508A of *Local Government Act 1993.*" This document identifies on page 2 the identified increases of 11.21% for 2014/15, 10.02% for 2015/16 and 5.59% for 2016/17.

2. A 5% increase in fees and charges is considered reasonable given the prominence in the next three (3) years on increasing Fees and Charges – with particular emphasis on cost recovery for commercial fees. Council is undergoing an external review of its Fees and Charges – prepared by Mr Norm Headford, a Local Government Finance Consultant with significant experience. This item is also specifically identified in the associated AP as it forms a key part of increasing Council's Own Source Revenue.

3. The FAG has been reduced in the LTFP, in line with the Federal Budget outcomes. Even though the three (3) year freeze on indexation has been incorporated, it is anticipated that the revenue component of the NSW FAG calculation could be positively affected and result in an increase in Council's FAG amount because of the 21% overall decrease in the Valuer General's 2013 property valuations. However, this likelihood has not been incorporated in the modelling.

4. The double allocation of Roads to Recovery (R2R) funding in the 2015/16 financial year has been incorporated in Council's modelling as per advice received from the Federal Government. Indexation of R2R funding has been frozen for the life of the LTFP, as there is no certainty of future increases at this stage (which constitutes a very conservative approach).

5. The REPAIR Program funding has been incorporated in accordance with advice received, as follows:
   - 2015/16 - NIL
   - 2016/17 - $131,565
   - 2017/18 - $134,250
   - 2018/19 - $136,935
   - Funding has been incorporated thereafter with no indexation at $96,565 per annum (again, a very conservative approach).

6. Employee costs have been incorporated at 2.5% for four (4) year; in line with the negotiated and estimated new Local Government (State) Award 2014 increases and influenced by the current poor economic climate with ultra low inflation/CPI rates etcetera. Thereafter, a 3.5% growth has been incorporated for the life of the plan.

7. Employee superannuation has been incorporated at 3.5% (compared with salaries at 2.5%) to account for increases in the Super Guarantee Charge; however, this may not eventuate depending on Federal Government priorities. It has been budgeted to ensure that any potential increases would be fully funded.

8. Borrowing costs have been incorporated in accordance with Council's fixed loan borrowing portfolio and in line with Council's actual principal repayments and interest payments. New loans have been incorporated at 3.8% (in line with advice and quotes received from major banks). As no new loan repayments have been incorporated in the long term planning after this current financial year, no interest rate estimate is required for future years.

9. Materials and Contracts and other Expenditure have been increased by 2.5% for the next four (4) years, in line with the requirements of Council's AP. This step is believed to be reasonable, given the prior year's restrictions being met within Council's operational budgets. Thereafter, increases are returned to 3.5%.

10. Recurring grant revenue has been increased by 3%. One-off or specific capital project grant funding has been excluded and no increases have been incorporated. Only grant funding that Council is confident about receiving has therefore been included.

3.3.3 OUTLINE YOUR STRATEGIES AND OUTCOMES IN THE TABLE BELOW

3.3 Efficiency				
OBJECTIVE Measure / benchmark	Strategies	Key milestones	Outcome	Impact on other measures
Real Operating Expenditure Per Capita	Adequate reporting on this benchmark	From 2015/16: Include this ratio as part of the annual budgeting process and Operational Plan Report to Council. Continue to report to Council on internal savings as part of the internal Savings Initiative Report (SIR). Thereby, also identifying more efficient work procedures and productivity improvements.	Clear concise reporting to allow Councillors to adopt budgets that meet this benchmark.	As this is a reporting measure only, it is unlikely to have an impact on other measures. However, the focus it provides should positively impact on the OPR.
	Finalise the actioning of those items identified as saving initiatives as part of the SRV application process.	Leave/Overtime Claim Forms ($65,000 p.a.) Higher Grade Position Justification ($24,000 p.a.) Sale of Tindale Units ($17,951 p.a.) Sale of Wullamulla Street Lots ($1,600 p.a.) Non-replacement of staff on leave /casual staff approval form ($51,625 p.a.)	Continued decrease in total operating expenditure (adjusted by the LGCI).	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could be negatively affected by a continued decrease in operating expenditure.

	Gum Tree Glen (Long Day Care Component) Closure ($230,000 p.a.) **Closure of Council Freezer Rooms ($21,297 p.a.)** **Telephone Contract Renewal ($30,000 p.a.)** **Printer Contract Renewal ($60,000 p.a.)** **Library Solar Panel Introduction ($20,000 p.a.)** **Water and Sewer electricity savings – peak charge and solar panels ($53,000 p.a.)** **Solar Panels - Church Street and Life Choices ($16,000 p.a.)** **Sale of Garden Court Centre (saving $26,454 p.a.)** **Sale of Abbot Street Lots (13 lots – saving of $24,905 p.a.)** **Sale of Potters Parade lots (saving $11,000 p.a.)** **AAFT Development Savings ($201,327 p.a.)** **Community Services Savings – natural attrition due to co-location ($250,000 p.a.)**

	Works Technical Officer non replacement ($60,000 p.a.) Cutting 10 vehicles from operational fleet ($50,000 p.a.) Implementation of LED street lighting ($50,000 p.a.) Sale of Carl Baer Circuit Lots ($2,000 p.a.)		
Ensure that the LTFP provides for a year on year decrease in operational expenditure.	From 2015/16: Maintaining operational expenditure increases to below the LGCI through savings and clear limits on expenditure increases when preparing the annual Operational Plan and Budget.	Council will from 2014/15 meet the ROEPCR and will continue to do so for the full life of the plan.	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could be negatively affected by a continued decrease in operating expenditure.

Continue to improve procurement processes to ensure that Council achieves value for money in all instances.	From 2015/16: Introduce "Vendor Panel" from Local Government Procurement (LGP) for all internal contract purchases over $10,000. Improve the efficiency of Council's stores by introducing more items (to reduce freight costs from the large centres as a result of Glen Innes' isolation) and improve the reporting on category of spend to ensure all relevant purchase areas are appropriately tendered out.	These improvements are expected to assist Council in retaining the growth in expenditure levels below the LGCI. No specific savings have been included in the plan. Outcomes from the 2014/15 actions include the following: Internal control measures were implemented to ensure purchases follow the correct procedures; a "How to Purchase" system was implemented to guide staff; internal purchasing training was introduced; tendering processes were centralised within Council; a report on current procurement KPIs was developed for Council's Procurement Committee.	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could potentially be negatively affected by a continued decrease in operating expenditure.
Introduce external and internal efficiency reviews of particular functional areas and Council operations.	2016/17: Full internal review of Plant and Fleet. 2017/18: External review of Plant and Fleet.	Improved efficiency in the plant and fleet system with improved booking and planning procedures and an overall reduction in fleet numbers. This initiative is expected to assist Council in retaining the growth in expenditure levels below the LGCI. No specific savings have been included	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could potentially be negatively affected by a continued decrease in operating

		in the plan.	expenditure.
	2018/19: Implementation of an External Audit Committee.	This step is expected to assist Council in retaining the growth in expenditure levels below the LGCI. No specific savings have been included in the plan.	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could potentially be negatively affected by a continued decrease in operating expenditure.
	From 2016/17: Reduce operating expenditure in Tourism and Events from $640,000 to $600,000. From 2017/18: Further reduce the operating expenditure in Tourism and Events from $600,000 to around $550,000 through an analytical review of what strategies provide Council with the maximum return on its investment dollar.	Council's expenditure on Tourism and Events decreased by $110,000 in the 2015/16 budget. Further savings of $40,000 in 2016/17 and $50,000 in 2017/18 are earmarked.	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could potentially be negatively affected by a continued decrease in operating expenditure.
	Internal (2015/16) and external review (2014/15) of Glen Innes Aggregates' campaign crushing model and operating efficiency.	Ensuring that Glen Innes Aggregates as a Category 1 business unit is achieving the projected $350,000 p.a. profit.	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings.

	Employ the CFO and Management Accountant to improve the reporting on capital and operational programs.	Clear and concise reporting to management and Councillors to better inform decision making.	Unknown at this stage, but should improve decision making would potentially benefit the BIARR, IBR, and AMR.
	2016/17: Investigate the potential of selling the Glen Innes Airport to the AAFT International Flight Academy Development.	Additional savings of $201,327 p.a. would be possible to achieve, as only the current operational savings from the lease agreement have been incorporated in the LTFP.	The OPR, AMP, BIARR and IBR will be improved by these operational savings.
	A large number of other saving initiatives as identified in the more detailed AP.	Operational savings as identified in the detailed AP.	The OPR will be improved by operational savings, while the AMP, BIARR and IBR could potentially be improved by these savings. However, ultimately the IBR, AMR (and possibly the DSR) could potentially be negatively affected by a continued decrease in operating expenditure.

3.4 IMPROVEMENT ACTION PLAN

3.4.1 SUMMARISE THE KEY IMPROVEMENT ACTIONS THAT WILL BE ACHIEVED IN THE FIRST YEAR OF YOUR PLAN

Action plan	
Actions	**Milestones**
Update and improve AMPs from a core to an advanced level to better inform capital works and financial modelling.	Update Road Transport Asset Management Plan to an 'advanced' level. Review Special Schedule 7 and ensure that data is to an auditable standard.
Spend the approved SRV and LIRS funding on Roads and Bridges, addressing the entire backlog under the bridges asset category and part of the road infrastructure backlog – representing a 25% reduction in the total backlog.	Spend $5 million in LIRS funding on addressing 25% of the Infrastructure Backlog. Implement the approved SRV of 10.02% for the 2015/16 Financial Year; which accounts for an increase in general income of $555,878.
Increase Council's scale and capacity, geographic area and population with possible boundary adjustments in the event of a forced merger between Armidale-Dumaresq and Guyra Shire and/or Uralla Shire Councils (<u>which are not included in Council's projections for meeting the FFF benchmarks</u>).	The potential extension of Council's boundaries to the south and west – significantly increasing Council's scale and capacity. (Please refer to the attached **Annexure B** to the **Template Proposal Document** for a further discussion on these proposed boundary adjustments.)
Focus on gaining efficiency and realising internal savings by limiting expenditure increases below inflation and selling unused assets. Realise the savings identified as part of the SRV and those listed in Council's AP.	Realise the savings identified in the AP for the 2014/15 and 2015/16 financial years.
Increase Road and Bridge Maintenance and Building Maintenance until the Asset Maintenance Ratio is met.	Increase Road infrastructure asset maintenance by 10%. Increase Building

	Maintenance from $77,000 to $200,000 p.a.
Increase particular fees and charges to recover full costs of providing services, particularly for commercial fees, to improve Operating Performance Ratio, Own Source Revenue Ratio and Asset Maintenance and Renewal Ratio.	Pursue an increase in fees and charges of 5% overall.
Increase Water and Sewer Charges by 5% to pay a commercial return to the General Fund as dividends, along with a debt guarantee fee on commercial loans.	Increase Water and Sewer Charges by 5% to allow a dividend to be paid to the General Fund (as identified in the proposal). Introduce a debt guarantee fee from the Water and Sewer Funds for the 2015/16 financial year.
Continue to implement the new business plan for Glen Innes Aggregates as a Category 1 Business Unit – for an improved commercial return and reduced fixed costs.	Continue to monitor the performance of Glen Innes Aggregates. Achieve an operating surplus of $350,000 p.a.
Improve reporting on FFF ratios by including the ratios in the operational budget, annual financial statement, and any loan funding reports.	Introduce reporting on the FFTF ratios as required.
Review the efficiency (and value for money) of Council's operations with a particular focus on the Tourism and Plant functions.	Reduce expenditure in the Tourism and Events Section from a $750,000 net position to around $640,000 through a review of value for money strategies. Analyse the usage and booking out of all Heavy Plant to ensure maximum effectiveness and efficiency, as well as to inform future plant replacement decisions.
Continue to improve on Council procurement initiatives to provide value for money in purchasing and to reduce freight costs associated with Council's rural location.	Introduce "Vendor Panel" for any contract purchase over $10,000 to get best value for money from LGP/internal contracts. Improve the efficiency of Council's Stores and introduce more

	items to reduce freight costs due to Glen Innes' relative isolated location. Improve the reporting to Council's Procurement Committee on the category of spend to ensure all of these categories are procured using an appropriate competitive process. Review Council's purchasing and payment procedures to ensure effectiveness and efficiency.

The particular actions pertaining to Council achieving the required FFF benchmarks have already been discussed in detail throughout this Template document.

3.4.2 PLEASE ATTACH DETAILED ACTION PLAN AND SUPPORTING FINANCIAL MODELLING

Further, Council's supporting financial modelling for its detailed Action Plan, together with this comprehensive last-mentioned Plan, are both included for further reference on **pages 82 to 109** to the attached **Annexure A**.

3.4.3 OUTLINE THE PROCESS THAT UNDERPINNED THE DEVELOPMENT OF YOUR ACTION PLAN

Background:

The process that underpinned the development of Council's Action Plan (AP) has involved a reasonably long progression, which was not only confined to the FFF time period. The process commenced in 2012 when Council received a letter from the then DLG identifying the need to improve Council's financial position. This process triggered a review of Council's financial position, which in 2013 led to Council adopting a resolution committing itself to achieve an operating surplus within three (3) years.

As part of the above-mentioned process, Council identified the need for significant internal savings and an increase in rating revenue. In 2014 an SRV of 29.19% was approved by IPART, along with Council identifying approximately $600,000 in annual reoccurring savings. The SRV and savings were targeted directly at meeting the then identified TCORP performance indicators, and planning at that time indicated that Council would make good progress in achieving this. Therefore, the FFF AP savings and future improvements (or action items) were already identified, with a number of these initiatives listed for completion in the 2014/15 financial year. This foregoing process has put Council in a very good position to meet the identified FFF ratios.

The FFTF process was as follows:

Personnel involved: General Manager (GM), Director of Corporate and Community Services (DCCS), Director of Infrastructure Services (DIS), Director of Development, Planning and Regulatory Services (DDPRS), Chief Financial Officer (CFO), and Communications and Media Officer (CMO).

External assistance: No external consultants were engaged by Council for the preparation of Council's FFF Proposal.

The Glen Innes Aggregates Business Plan was prepared by Ecoroc Pty Ltd (a specialist quarry/mining consulting group) in 2013. Further, Council employed an external consultant to review the cost recovery of fees and charges early in 2015. Particular action items, such as an external review of Council's plant and fleet, will require the appointment of external consultants at the timeframes identified in the AP.

However, these above-mentioned examples do not constitute a situation where Council was dependent on external assistance or support to develop and finalise its FFF Proposal; the conducting of an external review of a particular functional area – from time to time – is a well established 'best practice' principle and practice with well performing business entities.

Development, consultation and collaboration process:

As Council was required to complete the 'Council Improvement Proposal' (Template Two (2)), based on the recommendation of The Panel in its final report, the community consultation was limited in the sense that no surveys or similar were required to be pursued to gauge the sentiments of the community in regards to e.g. a possible merger with a neighbouring Council. However, the community was kept well informed throughout the FFF preparation process, and the draft FFF Proposal was publicly advertised for a period of 28 days, requesting the community to lodge improvement submissions with Council during this period of time. This approach is consistent with the guidance provided within the FFF material distributed by the OLG and IPART.

A further consideration is the fact that the major AP item was for Council to pursue the implementation of an SRV, which was already approved by IPART in 2014 – after a process of considerable community consultation. This scenario meant that the remaining items within the AP, which are primarily focussed on Council achieving further internal savings, did not require significant community consultation.

Council engaged in the following process to develop its AP before final adoption:

- October/November/December 2014 – Internal staff workshops and discussions were held, including fortnightly meetings to discuss the progress on proposal developments;

- January/February 2015 – A rough Draft FFF Proposal was prepared for discussion with Councillors;
- 19 February 2015 – A Councillor Workshop was held to discuss the FFF process and progress to date, which particular proposals were to be included and excluded from the document, suggestions for improvement etcetera;
- 25 February 2015 – A staff meeting with all Council employees was held in the Town Hall to discuss and inform staff of the FFF process and in broad terms the contents of the Proposal;
- February/March 2015 – Resident Newsletters were distributed within the Glen Innes Severn community, advising them of the FFF Local Government Reform Process, what the benchmarks were that Council was required to meet, and how Council was assessed in potentially meeting the various ratios and requirements;
- February/March 2015 – As a follow up on the above-mentioned Resident Newsletter, a Media Release was also prepared and distributed to media outlets, further briefing the community on the FFF Reform Initiative and on Council's position and proposed course of action;
- 26 March 2015 Ordinary Council Meeting – Council adopted the draft FFF Proposal (including a new LTFP) for public display of the document;
- April 2015 – The draft FFF Proposal was publicly advertised and displayed in Glen Innes, Emmaville, Deepwater and Glencoe for a period of 28 days, requesting the community for improvement submissions and comments;
- February/March April/May 2015 – The General Manager conducted presentations at the majority of all Services and Probus Clubs within the LGA; advising members about Council's financial performance over the last 10 years, what the requirements were under the FFF initiative and how Council planned to meet the required criteria (including further motivation for the necessity of the already approved SRV);
- February/March/April/May – The Mayor and General Manager discussed options and the proposed boundary adjustments with their counterparts at the neighbouring and other Councils within the New England Region;
- 28 May 2015 Ordinary Council Meeting – A report was prepared to Council, discussing the feedback received from the community and some neighbouring Councils and obtaining firm direction in regards to the way forward with the proposed boundary adjustments;
- 25 June 2015 Ordinary Council Meeting – Council adopted the final FFF Proposal and associated AP for lodgement with the OLG and IPART.

Preparation of the plan:

The FFF Proposal itself is based on projections prepared as part of Council's LTFP. This LTFP was prepared using software purchased from LG Solutions Pty Ltd and based on a revised version of Council's earlier 2011/12, 2012/13 and 2013/14 LTFPs. The assumptions, upon which these LTFPs were based, were identified as being reasonable by TCORP in their March 2013 review of the Local Government sector and by IPART in Council's 2014 SRV application.

The reviewed LTFP informed Council's FFF Proposal, which includes the effect of the particular strategies identified within the AP on the set benchmarks. The draft Proposal document adopted by Council at the 26 March 2015 Ordinary Meeting, informed the preparation of this FFF Proposal to meet the revised template requirements.

It should be noted that a large number of the strategies identified in Council's Proposal, were already included in its 2014/15 Operational Plan (OP) and the reviewed Delivery Program (DP). A number of the items were also included in earlier years as part of the SRV application process.

3.5 OTHER ACTIONS CONSIDERED

3.5.1 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

As part of Council's preparation of its FFF Proposal, a number of other actions/options were considered, as are summarised below:

Apply for a further SRV in 2018/19:

As part of Council's LTFP planning, a further permanent increase in the rating base or notional general income was considered for the 2018/19 financial year. However, primarily due to the low socio-economic indicators such as SEIFA and average wage per family, this option was excluded. Improvement of these mentioned indicators, or changes in Council's comparative position in respect of regional rates paid may trigger a future re-assessment in this regard.

It is Council's understanding that the majority (if not all) Councils within the New England Region will be applying for SRVs in the short term; which will most definitely positively affect Council's comparative position. Any potential future SRV that Council might apply for would be fully spent on further addressing its infrastructure backlog.

A potential merger with Tenterfield Shire Council:

The potential merger with a neighbouring LGA, i.e. Tenterfield Shire Council, was at one stage considered by Council after the penultimate report of The Panel identified a merger with this Council as a preferred option. Around this same time, both Councils applied for special SRVs above the annual rate peg amount to improve their sustainability.

Council also prepared a submission to The Panel, motivating why a merger with Tenterfield was not the right course of action. This submission argued the following points:

- There were more roads, buildings and bridges per person in the Tenterfield Shire Council than in Council's area. Therefore, a merger would result in an increase in costs for Glen Innes Severn's ratepayers in order to maintain 'their' assets in a combined asset base.

- There was no 'community of interest' with Tenterfield; which identifies itself more closely with Queensland communities such as Stanthorpe, and the Lismore community to their East.

- There was a concern associated with the consolidation of the Water Funds of both Councils; deriving from the number of connections exceeding 4,000 – resulting in a projected loss of revenue due to the inability of a merged entity to rely on the more favourable concessions for organisations with water connections below 4,000.

- The two main centres of population were too far apart to gain any real efficiencies; in particular travel distances and times of works staff and machinery.

- There was a possibility of Federal grant funding being reduced.

Boundary adjustments to Council's South and West:

The above prompted Council to consider potential boundary adjustments to its north (not pursued), west and south; increasing the size of Council's area and population. It would further increase Council's financial and strategic scale and capacity and establish a LGA where there is a "sense of place" and "belonging" – based on established communities of interest.

Although there is little 'profit' to be made for Council from such boundary adjustments, it would be favourable in terms of its increased scope, scale and capacity – for example in respect of the productive utilisation of heavy plant and provision of civil engineering services, an increased population of an estimated 700 individuals, improvement of 5% to Council's Own Source Revenue Ratio, and an improvement to Council's Asset Maintenance (AM) and Building and Infrastructure Renewal Ratios (BIRR) – due to the estimated capital and asset maintenance requirements being fully funded by rate revenue.

The above-mentioned proposed boundary adjustments were again fully considered by Council at its Ordinary Council meeting held on 28 May 2015. A copy of this report with the adopted resolution is herewith attached as **Annexure B to the Template Proposal Document**.

<u>The effect of Council's Water and Sewer Funds on its FFF ratios:</u>

The effect of the Water and Sewer Funds on Council's scale and capacity, as well as their ability to contribute toward meeting the identified FFF ratios, have been considered as part of Council's overall position. Although the prescribed template includes a provision to identify the effect of these Funds on Council's general position, Council holds the opinion that the effect can best be illustrated by portraying the FFF ratios in a consolidated manner (including the Water, Sewer and General Funds together) as depicted in the graph below:

Measure / benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	PROJECTED BASED ON REVISED LTFP MODELLING					
Operating Performance Ratio	✓	✓	✓	✓	✓	✓
	3.48%	7.46%	6.74%	7.86%	8.18%	8.19%
Rolling (3 years)	-1.81%	2.32%	5.89%	7.35%	7.59%	8.08%
Own Source Revenue Ratio	✓	✓	✓	✓	✓	✓
	64.32%	68.53%	70.27%	70.40%	70.43%	70.54%
Rolling (3 years)	60.01%	63.28%	67.71%	69.73%	70.37%	70.46%
Building and Infrastructure Asset Renewal Ratio	✓	✓	✓	✓	✓	✓
	251.43%	169.24%	103.50%	103.70%	103.90%	104.11%
Rolling (3 years)	144.47%	171.46%	174.72%	125.48%	103.70%	103.90%
Infrastructure Backlog Ratio	✗	✗	✗	✗	✗	✗
	9%	8%	8%	8%	8%	8%
Asset Maintenance Ratio	✓	✓	✓	✓	✓	✓
	100%	112%	112%	112%	112%	112%
Rolling (3 years)	89%	102%	108%	112%	112%	112%
Debt Service Ratio	✓	✓	✓	✓	✓	✓
	9.08%	11.94%	11.18%	10.49%	9.88%	9.30%
Rolling (3 years)	5%	8%	11%	11%	11%	10%
Real Operating Expenditure Per Capita	✓	✓	✓	✓	✓	✓
	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing
Rolling	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing

The consolidated diagram above indicates a remarkably similar position compared to the position projected for the General Fund only; indicating that Council has achieved a good balance between these three (3) funds. The only ratio which is substantially improved is the Own Source Revenue Ratio (OSRR), reaching a ratio as high as 70% in later years.

Even though the above chart, and the Proposal itself, indicate that Council will meet the General and Combined Funds FFF ratios, it is important for the effect of the possible loss of the Water and Sewer Fund to be noted. Although Council prepared the FFF submission on its General Fund results, the overarching strategy of paying a debt guarantee fee ($130,000) and a dividend (approximately $170,000) relies entirely on the operating position of the Water and Sewer Funds. Further, the potential creation of a regional water and sewer body is likely to significantly affect the profitability and dividend payment to Council, as its Water and Sewer Funds are realising a greater return than those of neighbouring Councils. Therefore, Council's profitable funds would be subsidising other funds, to the detriment of the Glen Innes Severn Council's residents.

Moreover, the Water and Sewer Funds significantly contribute to the scale and capacity of Council; with particular emphasis on the capacity of these funds to contribute to the 'spreading' of administrative overhead costs associated with the overarching management of the organisation. For example, it is unlikely that Council would be able to afford a Manager of Risk and Compliance or a Workplace Health and Safety Coordinator if the Water and Sewer Funds did not contribute to these overhead costs in a substantial manner. The loss of these functions will therefore have a significant effect on Council's ability to keep on providing similar levels of services to its community. Based on Council's assessment, it is expected that the loss of the debt guarantee fee and dividend, coupled with the requirement to then fully carry specialised staff and administrative costs, will result in a notable deterioration of the OPR, OSRR, IBR, AMR and ROEPC.

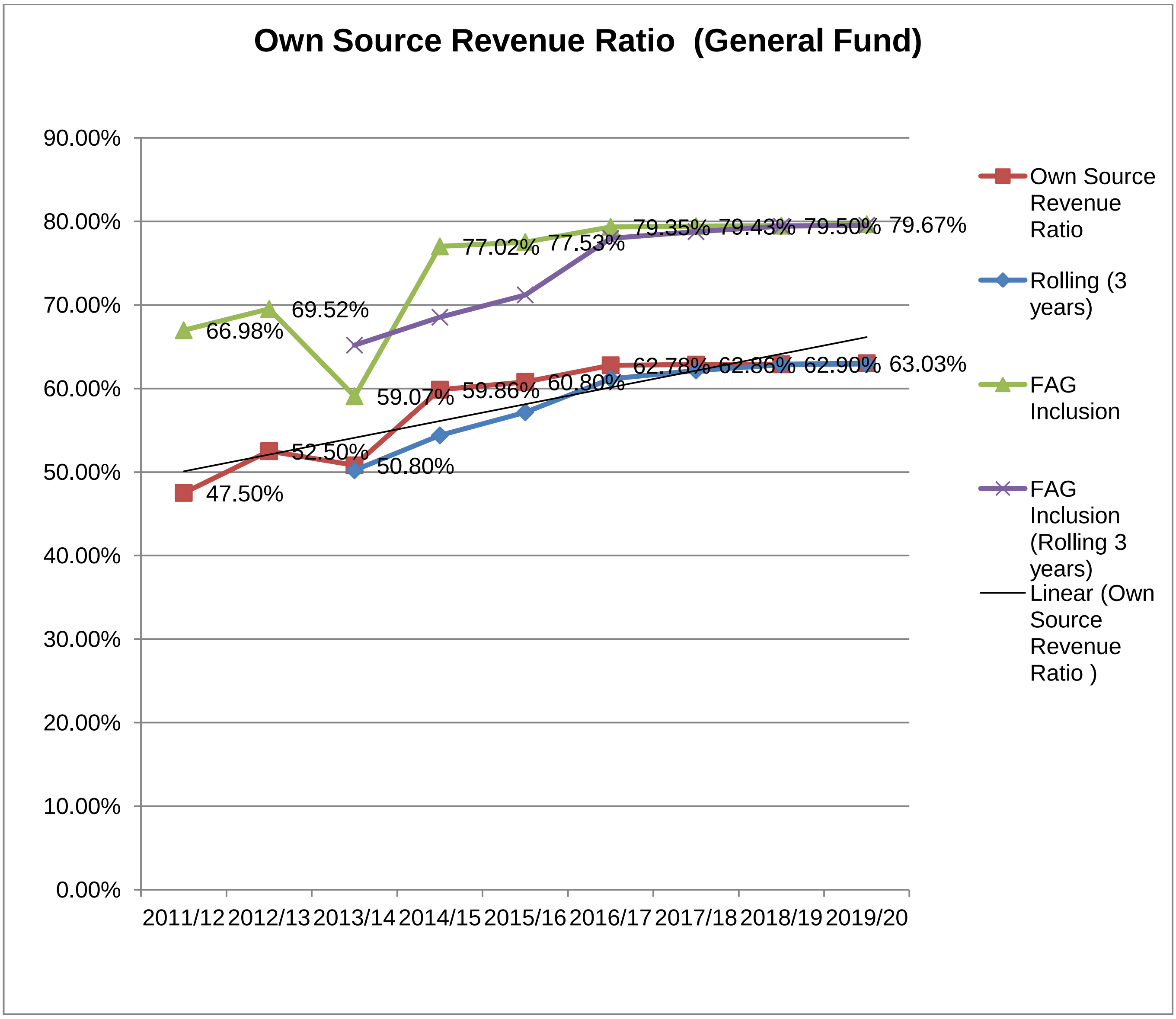
The effect of the loss of the Water and Sewer Funds is further discussed on pages 21 (dot point 2 onwards) and 22 of the **Original Proposal Document**, herewith attached as **Annexure A**.

Including the FAGS as part of the Own Source Revenue Ratio (OSRR):

The final IPART methodology document released in June 2015, identifies on page 16 that the Financial Assistance Grant (FAG) would be considered as part of the OSRR for all rural Councils, regardless of whether they have pursued the 'Rural Council Template' option or not.

The graph below identifies the effect of including the actual and projected quantum of FAGs in the calculation, including the effect on the three (3) year rolling average. The effect of this inclusion puts Council well above the required 60% benchmark – increasing to around 80% from 2016/17 onwards.

It should be noted that the graph includes the actual FAG amount received during any particular financial year, rather than the amount that Council was entitled to for that year, which is consistent with the methodology applied in the prescribed assessment tool. (This also explains the significant 'dip' in the green line for 2013/14.)



<u>The effect of Council's large Community Services Section funded through external grants:</u>
The effect of excluding Council's Community Services Section from overall grant dependency calculations indicates that Council is not heavily reliant on grant revenue. This exclusion is justified on the grounds that Council has an unrepresentatively large Community Services function – not common within the local Government sector within NSW – which makes it difficult (if not impossible) to compare with the majority of other Councils. Further, the grant revenue (being individualised funding) is argued to constitute a fee for service rather than a grant.

Please refer to **Section 2.3 B** (Own Source Revenue Ratio – Council's Commentary on Benchmark) of this **Template Proposal Document** for a further discussion and a visual depiction in graph format of the positive effect of this function on Council's operations.

4 HOW WILL OUR PLAN IMPROVE PERFORMANCE

4.1 EXPECTED IMPROVEMENT IN PERFORMANCE

The following table has been completed with the FAGS included in the calculation.

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)	-3.71%	0.38%	3.76%	5.12%	4.96%	5.23%	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	65.19%	68.54%	71.21%	77.97%	78.77%	79.43%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	142.64%	172.85%	177.27%	129.90%	103.78%	104.29%	Yes
Infrastructure Backlog Ratio (Less than 2%)	9%	8%	8%	8%	8%	8%	No
Asset Maintenance Ratio (Greater than 100% average over 3 years)	92%	105%	112%	117%	117%	117%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	4.14%	5.85%	8.02%	9.90%	10.50%	9.90%	Yes
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Yes

The following breakdown of the benchmarks shows Council's performance without the FAGS being included in the calculation, and also with and without the rolling three (3) years. The graph below clearly indicates that Council still meets the Own Source Revenue Ratio as from the 2016/17 financial year onwards – based on the rolling three (3) year average – without the FAGS having being included with the calculation.

Sustainability Benchmarks:

Measure / benchmark	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING					
Operating Performance	✓	✗	✗	✓	✓	✓	✓	✓	✓
	2.50%	-6.40%	-5.80%	1.07%	5.86%	4.36%	5.14%	5.37%	5.17%
Rolling (3 years)			-3.10%	-3.71%	0.38%	3.76%	5.12%	4.96%	5.23%
Own Source Revenue Ratio	✗	✗	✗	✓	✓	✓	✓	✓	✓
	47.50%	52.50%	50.80%	59.86%	60.80%	62.78%	62.86%	62.90%	63.03%
Rolling (3 years)			50.21%	54.39%	57.15%	61.15%	62.15%	62.85%	62.93%
Building and Infrastructure Asset Renewal Ratio	✗	✗	✗	✓	✓	✓	✓	✓	✓
	71.00%	92.00%	90.00%	245.91%	182.63%	103.28%	103.78%	104.29%	104.79%
Rolling (3 years)			84.47%	142.64%	172.85%	177.27%	129.90%	103.78%	104.29%

Infrastructure Management Benchmarks:

Measure / benchmark	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING					
Infrastructure Backlog Ratio	✗	✗	✗	✗	✗	✗	✗	✗	✗
	13.73%	10.85%	11.50%	9%	8%	8%	8%	8%	8%
Asset Maintenance Ratio	✗	✗	✗	✓	✓	✓	✓	✓	✓
	71.60%	75.50%	96.20%	103%	117%	117%	117%	117%	117%
Rolling (3 years)			79.89%	92%	105%	112%	117%	117%	117%
Debt Service Ratio	✓	✓	✓	✓	✓	✓	✓	✓	✓
	3.05%	4.64%	4.83%	8.07%	11.15%	10.48%	9.88%	9.34%	8.83%
Rolling (3 years)			4.14%	6%	8%	10%	11%	10%	9%

Efficiency Benchmark:

Measure / benchmark	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING					
Real Operating Expenditure Per Capita	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing
Rolling (3 years)	Increasing	Increasing	Increasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing

The projected performances of all the above-mentioned benchmarks are discussed in detail under **Section 3** (Becoming Fit For the Future) of this **Template Proposal Document**.

4.1.1 WITH FAGS INCLUDED, THE RESULT FOR THE YEARS 2020/21 TO 2024/25 IS AS FOLLOWS

4.1 Expected improvement in performance (rural with FAGS considered*)

Measure/ benchmark	2020/21	2021/22	2022/23	2023/24	2024/25	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	5.14%	5.10%	5.08%	5.05%	5.03%	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	63.06%	63.10%	63.14%	63.17%	63.21%	Yes
Own Source Revenue (FAGS) Ratio (Greater than 60% average over 3 years)	79.73%	79.79%	79.84%	79.90%	79.95%	Yes

It is therefore clear that Council will keep on meeting all of the performance benchmarks for the full duration of the 10 year period.

4.1.2 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

As a result of successfully obtaining the SRV, Council has increased its rates projections by 11.21% for 2014/15, 10.02% for 2015/16 and 5.59% for 2016/17. The total increase in SRV revenue expected is just short of $1million. This increase will be spent entirely on Roads and Bridges (which includes loan principle and interest repayments under the LIRS scheme).

This SRV, combined with the two new LIRS funded loans totalling $5million, will address the entire backlog identified under the bridges asset category, as well as approximately $1million in road infrastructure backlog. This reduction in backlog is projected to reduce the backlog by at least 25% (being $5million compared with a total General Fund backlog of $19.8million). Additional expenditure identified as part of the LTFP will address the infrastructure backlog in due course; with required renewals being exceeded by actual planned renewals - based on Asset Management Plan (Transport) information.

Over the last few years, Council has reviewed operational expenditure with a specific emphasis on reducing expenditure that does not contribute to desired community outcomes. A significant benefit as an outcome of this strategy, was for Council to re-direct the savings obtained into Asset Maintenance - thereby improving Council's Asset Maintenance Ratio. This initiative has allowed Council to increase Road and Bridge maintenance by 10% for each of the last two years. Council is aiming at continuing to implement these increases until the Asset Maintenance Ratio is met, with the spin-off benefits being the improvement of the infrastructure backlog, overall efficiency and infrastructure management.

Both the Water and Sewer Funds have infrastructure backlogs ($2.2 million and $2.4 million respectively) however; the Sewerage Fund currently has over $2.6million in reserves – which more than exceeds the identified backlog amount. The current LTFP modelling for the Water and Sewer Funds indicates that Council is in a position to fund the full 100% Asset Renewal Ratio (on all assets in the fund) for the full 10 year life of the LTFP. Council will spend approximately $750,000 per annum on renewals for both funds, which will address the backlog. However, there are no major projects expected within the next ten (10) years which will exceed the $1million threshold, as Council has largely renewed these assets; such as the Glen Innes Sewer Treatment Plant in 2007. However, reticulation renewals will form a significant part of the next 10 years' capital works program.

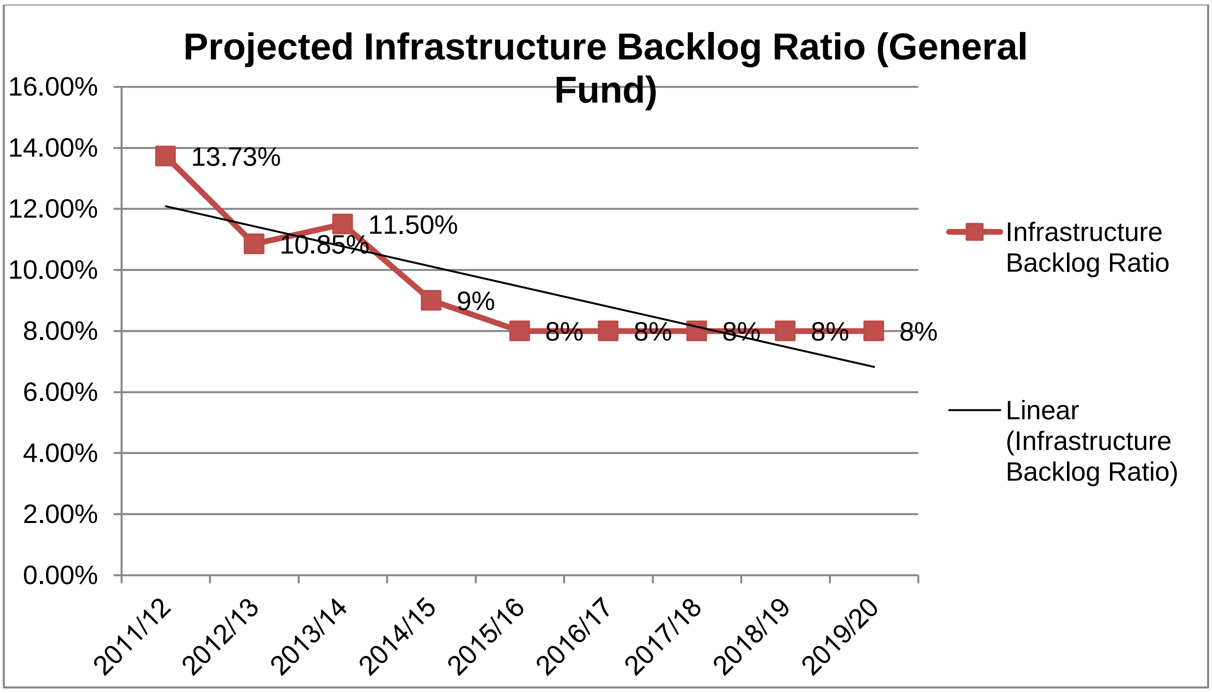
Other AP items which will also benefit this ratio, include adequate reporting on this benchmark (annual Financial Statements); improving the performance of Glen Innes Aggregates as a business unit to provide a noteworthy return to the General Fund; and ensuring "true" cost recovery on all Fees and Charges.

Therefore, Council's AP when fully implemented, will satisfy the ongoing achievement of all FFF benchmarks within the 10 year life of the LTFP – potentially except for the Infrastructure Backlog Ratio (IBR). However, significant progress has been made and will continue to be made in this regard. It is argued that this is not an atypical scenario for rural stand-alone Councils, due to a cumulative backlog arising over the past close to four (4) decades – which dictates a longer timeframe to fully address this benchmark.

Council's IBR is significantly higher than the benchmark (even though it is lower than the OLG Group 10 average). For Council to address this backlog, it will have to spend more than what the Building and Infrastructure Asset Renewal Ratio (BIARR) indications are for each financial year.

Council has made significant progress over the last few years with reducing the infrastructure backlog from 14% to 11.5%. This reduction was mainly achieved through LIRS loan funding and a review of the building asset class. Council is expecting a further reduction, as 25% of this backlog is anticipated to be addressed in the next two (2) years through LIRS funding of $5 million – reducing it from 11.5% to 8%.

The projected change in the Infrastructure Backlog Ratio is identified below:



It is noted that Council will make further progress after the total of $7.8million in LIRS funding has been repaid in 10 years time and the full SRV revenue of $1million per annum can be directed to the backlog (of which around $400,000 is currently being used for loan repayments). The repayment of these loans over 10 years will result in approximately $780,000 per annum in additional 'cash' becoming available after this period of time – hugely increasing Council's ability to reduce the infrastructure backlog. Unfortunately, this opportunity will only become available after the life of the above graph and the FFF review period.

Further, the repayment of these LIRS loans will raise the possibility of Council then taking up a further subsidised loan to address the remaining backlog. This will depend on the subsidy available at the time, however, it appears that subsidised/low interest rate funding will be available through TCORP for FFF assessed Councils. A further loan of approximately $7.8million to address the bulk of the remaining backlog will likely reduce it to in the order of 2-3% (depending on the increase in the dollar value of the backlog though increases in the LGCI). Based on this strategy and estimates, Council could potentially achieve a 2% infrastructure backlog within around 12 years.

With the announcement made on 24 June 2015 by the Deputy Prime Minister, the Hon Warren Truss MP, of an additional $300 million in 2015/16 and an additional $805 million in 2016/17 that will be made available by the Federal Government through the Roads to Recovery (R2R) grants program directly to Local Government – amounting to an additional injection of around $1.9 million over the mentioned two (2) years into Council's road infrastructure – it is in an even stronger position to meet this benchmark within a reasonable period of time. Copies of the media release and Roads to Recovery Circular 2015/3 are hereto attached as **Annexure C**.

As is argued above under the heading 'Performance against the Fit for the Future benchmarks – Infrastructure and service management (infrastructure Backlog ratio) on **page 31** of this **Template Proposal Document**, this additional expenditure on Council's road infrastructure network will create an opportunity for Council to take up further loans even before the current LIRS loans have been fully repaid – addressing its infrastructure backlog in a shorter period of time. Once Special Schedule 7 has been further developed and refined (in accordance with the Auditor General's instructions and guidance) Council would be able to rely on audited data in this regard. It would then be in a position to adopt a responsible resolution about further borrowings. It is, however, reasonably anticipated that Council would be well placed to meet this benchmark within a 10 year timeframe – with either subsidised or low interest loans being made available to it through TCorp at the time.

Because of the short timeframe since the announcement made by the Federal Government about the additional R2R funding to the Local Government sphere and the lodgement date of FFF Proposals, it was unfortunately not possible for Council to include this information as part of its LTFP and AP. <u>However, the above-mentioned strategies will be considered most seriously by Council when reliable and comparable data becomes available from Special Schedule 7 and when it has had the opportunity to fully assess what the impact of the additional R2R monies, when fully expended, will have on its infrastructure backlog ratio. There is no question though that this impact will be significant.</u>

Other strategies identified in the AP include identifying the exact nature of the backlog to ensure future expenditure is targeted toward the right assets. Also, the strategy for 2015/16 of increasing expenditure on assets over and above the required renewals for future financial years, based on the AMPs, finds application. Therefore, there is a connection between strategies in respect of the Building and Infrastructure Asset Renewal Ratio (BIARR), the Asset Maintenance Ratio (AMR) and the Debt Service Ratio (DSR) and consequently a linkage between Council's sustainability and its infrastructure and service management.

Additionally, continuous improvement of the AMPs (to better inform capital works and financial modelling) and further developing particular AMP's from a core to an advanced level where not yet achieved, will concurrently impact positively on strategically managing the backlog. Increasing road works (with the focus on improving the condition of roads and on pro-active maintenance schedules) and selling unused assets, are other identified AP strategies that also support the improvement of the backlog.

5. PUTTING OUR PLAN INTO ACTION

5.1 HOW WILL YOUR COUNCIL IMPLEMENT YOUR IMPROVEMENT ACTION PLAN?

Overall responsibility for the implementation of Council's Improvement Action Plan rests with Council. Senior staff will report on progress in respect of the AP on a six (6) monthly basis; identifying progress against each of the key strategies within the AP.

The AP now forms part of Council's Integrated Planning and Reporting Framework (IPRF) suite of documents; with key strategies and actions identified in the Delivery Program (DP) and 2015/16 Operational Plan (OP). The Community Strategic Plan (CSP) did not need amendment, as this overarching document is fully supportive of the "stand alone" option that Council is pursuing, including the associated actions within the new AP.

Although overall "internal" responsibility for implementation rests with the General Manager, the particular individual officers responsible for items have been identified in the OP and DP to ensure that actions are clearly communicated, can be easily monitored, and responsible officers are fully accountable. In this regard, please refer to **pages 89 to 109** of the attached **Annexure A** to view the detailed AP, clearly allocating responsibility areas to particular staff members. Extracts of this comprehensive AP have also been included throughout this Template Proposal Document, as part of the various discussions under the separate benchmark headings.

The full SRV implementation, being a major component of Council's AP, will also need to be reported on in Annual Reports – as part of the conditions associated with approval of this special rate increase. Further, the FFF ratios have been included in Council's 2013/14 Audited Financial Statements and Special Schedule 7 will be reviewed in the 2014/15 and 2015/16 financial years by Council's auditors. All indications are pointing to the fact that this special schedule will be fully audited in future years – under guidance and with oversight from the Auditor General.

The AP provides Council with clear direction on exactly how it can successfully achieve the outcomes required under the FFF program. The implementation of these action items will further improve Council's ability to meet the documented community aspirations and expectations enshrined within the IPRF suite of documents.

Council is confident that it will achieve all the required benchmarks (except one (1)) in the 2015/16 financial year and will continue to "tick those boxes" into the future. The Infrastructure Backlog Ratio will take a number of years to successfully address; due to the size of the backlog that had been built up over a period of close to four (4) decades – principally since the introduction of rate pegging in 1977/8. However, Council has developed an achievable longer term plan to also successfully address this issue within a reasonable period of around 12 years.

As is mentioned in other parts of this Proposal document, the announcement made by the Commonwealth Government on 24 June 2015 of significant additional Roads to Recovery grant payments in the 2015/16 and 2016/17 financial years, amounting to approximately $1.9 million in this Council's instance, will further strengthen its position to meeting this benchmark.

As is argued above under 'Performance against the Fit for the Future benchmarks – Infrastructure and service management (infrastructure Backlog ratio) on **page 31** of this **Template Proposal Document**, this additional expenditure on Council's road infrastructure network will create the opportunity for Council to take up further loans even before the current LIRS loans have been fully repaid – addressing its infrastructure backlog in a shorter period of time.

Once Special Schedule 7 has been further developed and refined (in accordance with the Auditor General's instructions and guidance) Council would be able to rely on audited data in this regard. It would then be in a position to adopt a responsible resolution about further borrowings. It is, however, reasonably anticipated that Council would be well placed to meet this benchmark within a 10 year timeframe – with either subsidised or low interest loans being made available to it through TCorp at that point in time.

Because of the short timeframe since the announcement made by the Federal Government about the additional R2R funding for the Local Government sector and the lodgement date of FFF Proposals, it was unfortunately not possible for Council to include this information as part of its LTFP and AP.

However, the above-mentioned additional strategies will be considered most seriously by Council when reliable and comparable data becomes available from Special Schedule 7 and when it has had the opportunity to fully assess what the impact of the supplementary R2R monies, when fully expended, will have on its infrastructure backlog ratio. There is no question though that this impact will be significant.