

## Template 2

Fit for the Future

# Council Improvement Proposal

(Existing structure)



Office of  
Local Government



# Getting started . . .

Before you commence this template, please check the following:

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

**Council name:** Armidale Dumaresq Council

**Date of Council resolution endorsing this submission:** 29<sup>th</sup> June 2015

## 1.1 Executive Summary

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

This report details a stand alone option under the continuous improvement program. As identified by this report the Continuous Improvement Program, is the only recommendation that can be made to the Office of Local Government as Council has not had any approaches by its neighbouring councils for a merger proposal. Council has held meetings with Guyra, Uralla and Walcha Councils of a general nature around Fit for the Future and the ILGRP report. Council believes that these councils will submit either a stand alone option or a rural council option. Council supports the democratic rights of these councils to make these submissions and to support the communities of interest they represent. Council has a number of points in the above detailed recommendations that should be considered if mergers are being proposed. Armidale Dumaresq Council has determined that it can meet the continuous improvement program outcomes as shown in the attached template items and as shown by Councils long term financial plan where a 5 to 10 year time horizon is considered. Council has made a major assessment of its ability to meet the community expectations and service level needs and due to future refinements it will achieve all levels of self funding, asset maintenance and renewals and regulatory obligations. Council is also of a scale and capacity to fund future community improvements, attract staff of a high skill level and to meet all requirements of NSW Planning as to strategic direction. The council operates a water supply scheme and has long term capacity to meet growth across the shire and some capacity to provide water for regional use if required. Council also operates a sewerage collection and treatment system for the Armidale City area.

Other business units have been established that are financially and strategically supported under the continuous improvement process being a regional airport facility and a regional waste facility.

The benefit of standing alone, are that Armidale Dumaresq Council is able to be a sustainable council into the future and although it will need to enter into a low cost strategy for the foreseeable future to meet its long term asset needs; to implement changes to service levels and divestment of non core services and goods; it can stand alone and the rate base can be contained to delivering services and the growth requirements of the current council area.

In many respects the Armidale Dumaresq Community is better to stand alone and build on its internal capacity to grow to a strong regional city rather than progress to the direction proposed by the ILGRP recommendations.

Council has considered other options to the continuous improvement program including to formally merge with Guyra, Uralla and Walcha, excluding the New England Weeds Authority (County Council).

Currently this option is not available to Council to make a decision, as Council has not received advice from its neighbouring councils to merge. Council has also reviewed the regional responses to Fit For The Future and identified that communities of interest need to be determined regionally and should the government by this process force the merging of councils, that it should also review the current boundaries to realign communities of interest.

Council recognises its role as a regional centre, and to look towards the long term future of the region and its social commitment. As the regional centre Council can see advantages in shared service and contract service provision. Council works closely with its neighbouring councils to provide shared services and support when asked. This process is regionally important and reduces the cost of services. Council has commenced discussion at a regional level to form a New England Joint Regional Organisation (JO) to build on the shared service and contracted service arrangements that presently exist. Council is of the opinion that the JO will provide a high level political and service delivery platform for the future.

Council has attached its resolutions and additional advice to this template for consideration under the assessment process.

## 1.2 Scale and Capacity

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

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

**No**

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

- Armidale Dumaresq Council was identified to merge with Guyra Shire Council. Council has considered this requirement and the potential merger with Uralla Shire and for Walcha Shire to be a rural council as per the resolutions attached.
- Guyra Shire Council has indicated it is not willing to participate in a voluntary merger with Armidale Dumaresq Council and will submit a rural council model for assessment. Given this position, Council is able to demonstrate it has the scale and capacity to operate as a stand alone council based on the following:
  - Armidale is the regional centre for the New England with significant and well established educational, health, retail and sporting services and facilities available.
  - Armidale has a current population of approximately 25,250 projected to increase to 28,500 by 2021.
  - The University of New England has its main campus in Armidale and generates commerce and employment for the City and region that has flow on benefits to Council and business operators, residents and rate payers.
  - Armidale is well serviced with excellent road, rail and air services, has median real estate housing costs of \$321,000

that means Council is able to attract and employ a wide range of skilled staff to fill vacant positions.

- Council has invested heavily in on-going education and training of its workforce to promote the acquisition of knowledge and creative and innovative skills in the workplace. Over 80% of the workforce hold formal qualifications.
- Council continues to invest in new technologies to consolidate back office functions such as finance, information and communications systems, human resources, procurement and property and fleet management.
- Council employs 258 people across a diverse range of occupational groups and has the capacity and resources to respond to complex and at times unexpected change.
- The Management Executive team is made up of qualified, experienced and knowledgeable leaders who guide and support staff and work constructively with Councillors providing in-depth information and advice that supports informed decision making by Council.
- Council has recently appointed two temporary Project Engineers to enhance the Council's ability to deliver on strategic capital works projects identified in the Community Strategic Plan and the special rate variation approved by IPART in 2014.
- To enhance the development and continuous improvement in Council's approach to strategic asset management and planning the new role of Asset Management Administrator has been created and will be important in helping Council meet its asset backlog and renewals targets.
- Council has undertaken an extensive review of its services and budgets for the next ten years and has identified a need to concentrate on core service areas and to enhance the delivery of asset projects over the 10 year time frame.
- With the financial, physical and human resources now available the Council has the strategic capacity and is well positioned to take on new functions and major projects. A recent example of this is in respect to the development of the Armidale Regional Airport that will be key to the future development of the New England region and the City of Armidale. Council is also in the early stages of planning for and project managing the development of a new Landfill site East of Armidale.
- Over the last few years (demise of NESAC) a general lack of regional collaboration in the New England region has occurred. However, major steps have now been taken to join with Councils in the region including Inverell, Glen Innes Severn, Uralla, Guyra, Walcha and Tenterfield to discuss the formation of a Regional Organisation of Councils for this region. Strong links have also been established with the NSW State Member of Parliament and the Federal Member for New England to help promote regional collaboration. Collaboration in the region has been successful in respect to, the 2012 'Experience the Highs' tourism initiative involving Armidale, Guyra, Uralla and Walcha Councils and with Tenterfield and Glen Innes Severn Councils joining in this initiative to promote the whole region to tourists in 2015.
- Armidale Dumaresq Council has a long history of partnering with state and federal agencies. The Management

Executive Team and Senior Managers are experienced and knowledgeable and have a good understanding with respect to each level of government's key strategies related to regional Australia and seek ways of engaging on an on-going basis to ensure the best outcomes are achieved for the community.

- Council undertakes shared service arrangements with its adjoining councils and the General Managers at the Councils meet and work collaboratively to ensure each council is progressing, that resources are shared and assistance is readily available to meet staff holidays or replacement gaps as required.
- The Councils of Armidale Dumaresq, Guyra, Uralla and Walcha have a long working history and are looking to further develop service level contracts and shared outcomes.



## 2. Your council's current position

### 2.1 About your local government area

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

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

- Armidale Dumaresq Council is located in the New England region of NSW. It is 567km distance from Sydney and 467km from Brisbane via the New England Highway. The total local government area is 4235 sq km, urban area in the city is 34.5 sq km and the number of rateable properties is 10, 051.
- Major industries in the region include educational services, fine and superfine wool production, merino sheep breeding, cattle and lamb production, fruit and vineyards. A number of livestock societies for breeds of cattle and other farmed livestock are represented in Armidale. The Agricultural Business Research Institute is located at the University of New England specialising in a wide range of agribusiness information services to domestic and international livestock industries.
- Improvements in communications infrastructure (NBN) has encouraged relocation of businesses to Armidale clustering in industry areas such as information technology, education and researched.
- In 2000 Dumaresq Shire Council amalgamated with Armidale City Council and was proclaimed Armidale Dumaresq Council on 21 February 2000.
- Over the next 20 years the Armidale Dumaresq local government area is expected to experience an average annual population growth of 1.3% per annum to 34,247 by 2031 (source: *NSW Government Planning & Environment*). The Armidale Dumaresq LGA is expected to age significantly and by 2031 the average age in the area is anticipated to be 40 years and for the New England region 42 years above the NSW state average expected age of 39.5 years.
- The Armidale Dumaresq LGA is a major regional service centre providing a range of community and infrastructure assets to the local community and region. Key community assets/infrastructure include health (1 public, 1 private hospital), aged care services and facilities and education services (University of New England main campus, New England Institute of Tafe campus, 6 secondary schools, three of which are major boarding schools, and a variety of primary and pre-school



institutions).

- In Council's Local Environment Plan provision has been made for future growth and development in residential, commercial and industrial areas. Armidale has three substantial shopping precincts making Armidale a major retail centre.
- Armidale's water supply and sewer services have potential to sustain a substantial increase in population size.
- Armidale has a regional airport that attracts passengers from Tamworth to Tenterfield and west to Inverell. Two airlines (RPTs) operate from Armidale to Sydney. The airport has expansion plans in the range of \$10million in the next 10 years with a future plan to spend a further \$20million on runway upgrades.
- The airport precinct is an area for expansion of industrial land and employment generating businesses. Council will commence this subdivision in the 2015/16 financial year.
- Armidale is the regional centre for sports, education, health and social activity and has been awarded the #3 Hottest travel destination in 2014.

## 2.2 Key challenges and opportunities

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Skills and knowledge of staff</li> <li>• Experienced leadership and management team</li> <li>• Implementation of IT across functions</li> <li>• Policy development skills</li> <li>• Regional centre for education, commercial activity, business, and transport</li> <li>• Workplace relations</li> <li>• Sound financially over 10 years</li> <li>• A compliant Local Environmental Plan (2012)</li> <li>• Local and regional Master Plan (Create 2350) which identifies social, recreational, commercial, industrial and residential growth opportunities and will drive regional employment opportunities (currently under development).</li> <li>• Water supply to meet long term growth in sub region.</li> <li>• Provision of shared and contract services to adjoining councils.</li> <li>• Centre for Government offices and functions.</li> </ul>	<ul style="list-style-type: none"> <li>• Aging workforce</li> <li>• Governance processes – organisational review of policies and procedures to meet future community direction. Review of IP&amp;R documents to align with future budget outcomes.</li> <li>• Asset renewal and maintenance requirements (subject to review).</li> <li>• Regional demands for services funded by Armidale Dumaresq residents rather than regional councils.</li> <li>• Limited range of local employment opportunities and base industries.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Continued reform of Council's business enterprises (airport, water sewer, waste)</li> <li>• Lease / Sale of airport land to develop business and employment.</li> <li>• Restructure of operational areas of council to build in future efficiencies.</li> <li>• Asset management plan linked to long term financial plan to capture maintenance and replacement areas.</li> <li>• Be a leader in the formation and operation of the Joint Regional Organisation of Councils for the New England</li> <li>• Work closer with adjoining councils to share services and contract service needs.</li> <li>• Work with the community via the IP&amp;R process to review service levels and long term outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• Additional borrowings for capital works increases pressure on the budget</li> <li>• Operating costs not reduced, efficiencies not realised</li> <li>• Formation of the NE JO does not proceed as planned.</li> <li>• Rates base not sufficient to meet regional growth and demands</li> <li>• Unfunded mergers of councils or changes to state and federal grant allocations forcing a reliance on Armidale Dumaresq ratepayers to fund asset backlogs, loans and commitments made by other councils.</li> </ul>

## 2.3 Performance against the Fit for the Future benchmarks

Sustainability				
Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-2.65%	No	-1.6%	No
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	79%	Yes	79%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	22.1%	No	71.9%	No

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

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

Councils operating performance ratio will not achieve the benchmark before 2016/17. Council has historically run operating deficits (excluding capital grants). Council recognises that the process to move towards a positive operating performance ratio can not be achieved over the short term. Our LTFP forecasts a move to a positive ratio in 2017/18 and maintains an average of 1.9 for the remaining 7 years.

Councils own source revenue achieves the benchmark and will continue to do so over the term of the current LTFP averaging approximately 79%

Council will not achieve the benchmark for the Building and Infrastructure Asset renewal Ratio. The current LTFP predicts a 10 year average of approximately 65% with a high in 2015/16 of 92%. Council believes this ratio will improve following the revaluation of

Councils road, bridges, footpaths, kerb and gutter and drainage during the current (2014/15) year. It is expected that asset fair values will be consistent and that annual depreciation costs will reduce. Current roads deprecation approximates \$4.5 Million. A reduction of \$1 million will almost bring the ratio to an average of 100%.

Council has not assessed its assets against the proposed condition assessment criteria proposed under Special Schedule 7 for the three levels of condition rather than the current five levels of condition. It is considered that the changes proposed need to be considered after the revaluation process and that the new criteria is tested to ensure that it is not a manipulation process to shift the real cost of asset renewal and maintenance to a book value that is below the community service level expectation. It is considered that using the new methodology shall substantially reduce the asset valuations for replacement and maintenance and Council would therefore meet these untested benchmarks.

## 2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management				
Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	2.9%	No	2.98%	No
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	146.15	Yes	96%	Yes
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	8.11%	Yes	10.49%	Yes

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

Council's infrastructure backlog ratio sits at 2.9% in 2013/14 and progresses to a worst case of 3.46% in the 10 year LTFP. The backlog figure is based on what was deemed satisfactory during a detailed review which occurred in 2009. Council has updated this data on an annual basis. Council plans to consult extensively with its community in future years to clearly identify what is satisfactory. It is expected that this will reduce the backlog figure and enable Council to meet the benchmark.

Council's asset maintenance ratio meets the benchmark now and into the future. As part of the current revaluation process, Council is also reviewing its asset maintenance data. This may reflect improved asset maintenance ratios in future. Council's debt service ratio remains well within benchmarks. Council undertook a major borrowing in 2013/14 which pushed its ratio up to 8.11%. Future borrowings for infrastructure are planned with the LTFP averaging 10.48% with a high in 2017/18 of 11.86%.

## 2.3 Performance against the Fit for the Future benchmarks

### Efficiency

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	1.24	Yes	1.31	Yes

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

Council expects to continually reduce real operating expenditure per capita.



## 2.4 Water utility performance

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

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

**No**

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

Full cost recovery is achieved for both Water and Sewer. Council achieves the target 75%/25% split in income from Water Usage/Access Charges. However the Water Access charges are not compliant with Best Practice since they are not related to service connection size and Sewer pricing is not compliant since Non-Residential charging is not related to volume of sewage discharge. Compliant pricing will be developed in 2015/16.

In 2005 and 2008 Council resolved not to develop an Integrated Water Cycle Management plan. New IWCM Guidelines were released by the Office of Water in 2014 and Council will move to develop its IWCM using the new guidelines.

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

Water \$5.57m  
Sewer \$2.73m  
 \$8.30m

It should be noted that these figures were determined during a detailed service review in 2009. A further review is necessary in accordance with recent IPR guidelines and community expectations.

## 2.4 Water utility performance

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

### Capital works

Proposed works	Timeframe	Cost	Grants or external funding
Strengthen Dumaesq Dam to comply with Dam Safety Standards	2016	\$3.5m	Nil
Strengthen Puddledock Dam to comply with Dam Safety Standards	2019	\$5m	Nil
Update Sewage Treatment Plant to increase capacity.	2018/19	\$5m	Nil

## 2.4 Water utility performance

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

**Yes**

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

N/A

## 2.4 Water utility performance

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

### Improvement strategies

Strategy	Timeframe	Anticipated outcome
Implement Best Practice pricing for introduction 1 July 2016	End 2015/16	Simplified pricing and best practice
Continue roll out of field mobility maintenance management software	End 2015/16	Efficient, centralised field deployment for maintenance and repair works and fault reporting
Water and sewer network capacity models and servicing strategy	End 2016	Evidence-based network expansion and capacity plans using latest usage data.
New Integrated Water Cycle Management Plan	End 2016	Preferred 30 year plan to meet forecast water and

		sewer demands
Smart metering for high water use customers	End 2017	Leak detection, short-cycle billing, improved customer experience
Implement asset condition rating software for sewers	End 2016	Evidence-based investment decisions and prioritization of capex
Sewer Treatment Plan upgrade	2018/19	Higher Capacity Plant

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

### 3.1 Sustainability

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

Council has endorsed the strategies below:

- Reduce funding in non asset functions by a minimum \$1.2 million in year 1 raising to \$1.6 Million over 3 years.
- Return to Core functional areas required by the community.
- Change the focus of asset management from fixing the worst assets first to maintaining condition at the minimum intervention level.
- Ensure councils asset management plans develop a more structured works program rather than being built on customer complaint or lobbyists.
- Reduce donations and contributions to community groups by 12% in 2016/17 and further reductions in future years.
- Suspend grant funded projects and services once the grant has been spent. Council has historically continued to provide the services without the grant funding.
- Income generating services need to cover expenses plus 10% to cover administrative overheads.
- A key improvement process will need to achieve 0.5% to 1% of operating expenditure per annum. Service reviews will be undertaken in 2015/16.
- Not participate in State or Federal Cost shifting programs.

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

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

The following assumptions have been made:

- Wages growth is averaged at 2.85%.
- Service levels will be reviewed in 2015/16. These reviews will also result in expected reductions in operating expenditure of at least 1%.
- Materials growth is averaged at 2.92%.
- Rates have average growth rates of 2.42% and charges 2.92%. Fees have an average growth rate of 2.94%
- Council has a special variation expiring in 2020/21. It is assumed that a SRV will be submitted to maintain the variation permanently.
- Following revaluations of roads and associated assets in 2014/15, it is expected that depreciation levels will drop by approximately \$900k annually.
- Council will undertake detailed consultation with its community in 2015/16 to determine satisfactory levels for building and infrastructure assets. Council will also apply the condition assessment guidelines as identified in the Integrated Planning and Reporting Manual. It is expected that Councils backlog will decrease by over \$2 million.



## 3.1 Sustainability

Outline your strategies and outcomes in the table below.

### 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.Focused service levels	a)Review service levels b)Adjust asset management plans c) Discontinue council funding for grant funded projects.	a)completed by June 2016 b)Ongoing with community consultation c)Commencing July 2015	Reduce operational expenditure by \$1.2 million	Improved operating performance and building and infrastructure renewal.
2.Improved asset management plans	Review asset management plans.	Updated asset management plans by June 2016	Asset management plans focussed on achieving minimum intervention levels rather than on customer complaints	Improved building and infrastructure renewals ratio.
3.Reduced contributions and donations	Reduce contributions and donations by 12% in 2016/17 and by more in subsequent years	Notify entities during 2015/16 to commence in 2016/17	Reduce operational expenditure.	Improved operating performance

## 3.2 Infrastructure and Service Management

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

Details provided in table above

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

### 1. Focused service levels

Council will undertake a review of service levels and discuss with the community a need to ensure that services are provided in a timely fashion without being reactionary. It is the reactionary nature of service level actions that are increasing costs and not encouraging a good use of time or resources. (Refer Section 3.3)

### 2. Improved asset management plans

Council has identified that it can provide a higher level of asset assessment by the employment of an in house advisor. The asset plans and valuation process will be reviewed and service levels identified to produce an annual program of works to maintain assets in a high level condition before undertaking major repair or renewal works to the poorly maintained asset groups. The asset plans will drive the maintenance and repair budgets for roads, bridges, footpaths and buildings.

### 3. Reduced contributions and donations

As identified by the ILGRP, Councils need to act as businesses not charities and need to review the donations being provided to the community and to assess if these donations are supportive of the whole of community or individuals. Council will assess its contributions to all groups over the next twelve month period and it may withdraw from groups that it traditionally supported across

the region or state. It will focus on donations and contributions to smaller local groups that are not competitive in the NFP sector, a government sponsored agency or a direct competitor to council. Contributions will require a whole of community outcome or benefit and reporting targets against the CSP will be required.

## 3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

### 3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.Revalue infrastructure assets	Complete revaluation of Roads, bridges, kerb and gutter, footpaths and drainage.	Completed by June 2015	Updated infrastructure asset values and depreciation rates	Improved Infrastructure backlog ratio
2.Improved asset management plans	Review asset management plans.	Updated asset management plans by June 2016	Asset management plans focussed on achieving minimum intervention levels rather than on customer complaints	Improved asset maintenance ratio and backlog ratio..

### 3.3 Efficiency

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

Refer table 3.2 and 3.3. Key strategies have been identified in these tables.

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

Council has employed an asset manager to identify areas in the asset systems that require review due to the service levels proposed or due to the valuation process. This position will also assess current and non current assets and develop reporting and review systems to ensure that assets are maintained.

A review of asset service levels is required to be undertaken. Council has prepared this report based on its current asset classifications and service level needs and has not used the recently released asset classes proposed by the NSW Government. It is considered that council would meet the benchmark levels in this report but at this time Council has not reviewed all criteria to determine if such adjustment could provide a false positive and therefore be undermining to the long term asset outcomes or service level needs of the community.

Council will take these new levels of asset determination into consideration as part of its future special schedule 7 considerations.

The Office of Local Government publication, What is meant by Service Levels? Advises;

*Levels of service are explained as "...defined service quality for an activity or service area (for example, the road network) against which service performance may be measured". Levels of service are determined through community or customer consultation, and consider:*

- *Quality, quantity, safety, capacity, fitness for purpose, aesthetics, reliability, responsiveness, environmental acceptability and costs.*

*The impact of changes in demand over time on service levels should be regularly established and accounted for. This will provide a clear understanding of cost implications across the whole lifecycle of the service.*

Council shall consider this definition in its review of assets, asset management and service level outcomes.

Contribution reviews have been previously highlighted in this report.

Other efficiency gains are detailed in Section 5.

### 3.3 Efficiency

Outline your strategies and outcomes in the table below.

### 3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.Focused service levels	a)Review service levels b)Adjust asset management plans c) Discontinue council funding for grant funded projects.	a)completed by June 2016 b)Ongoing with community consultation c)Commencing July 2015	Reduce operational expenditure by \$1.2 million	Reduced real operating expenditure per capita
2.Reduced contributions and donations	Reduce contributions and donations by 12% in 2016/17 and by more in subsequent years	Notify entities during 2015/16 to commence in 2016/17	Reduce operational expenditure.	Improved real operating expenditure per capita.



## 3.4 Improvement Action Plan

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

### Action plan

#### Actions

#### Milestones

1. Develop a continuous improvement strategy to reduce costs or improve productivity on an ongoing basis of 0.5% to 1% per annum.

Annual review with future budget preparation

2. Review current and non current assets

Annual review with future budget preparation

3. Undertake a Service Level Review across the organisation

Over the next 9 months

4. Executive Team Restructure

1<sup>st</sup> July 2015

5. Continue to review the LTFP in line with the above strategies. Councils LTFP was publically displayed. The LTFP and operational budget 2015/16 was adopted by council 29<sup>th</sup> June 2015.

Annual review with future budget preparation

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

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

**The business improvement/productivity strategy:**

This will cover four (4) key components as follows:

- a) As local government does not operate in a competitive environment, management will continue to analysis business processes and work practices and benchmark against similar commercial and government agencies.
- b) Council has recognised it needs to focus on what it does best and not try to do everything with internal resourcing. Therefore, activities or tasks which are provided more effectively by external parties will be considered.
- c) Operational productivity comes from empowering staff and rewarding them appropriately. Where operational reform has been embraced or new work practices employed which generate real dollar savings, these savings will be retained by the division in that year.
- d) Capital (or project management) is one area which has been identified for potentially significant productivity improvement. As a way to provide some degree of incentives to achieve targets above those which are set in the project scope. Council will reward the division by retaining any financial saving in the function for future identified works. The balance to this is that where a project outcome is below expectation, then it will be for the functions management to adjust operations or service levels to compensate.

**Assets:**

Council has a very large amount of Non Current assets. Many of these assets have built up over time. Council will review all asset classes and consult with the community over the next 2 years on its function and purpose with the view to liquidate and reduce the amount of asset that has to be renewed and maintained.

**Service Level Review:**

Council will undertake a review of its service level areas over the next three to nine months to determine its role and function in a number of service areas. It is intended to concentrate on core service areas and to invest in asset renewal and maintenance areas at a progressive rate to meet local service level needs. The community expectation on service levels needs to be reviewed to reduce reactionary outcomes and work towards planned activities. Council has identified a need to maintain small problem areas firstly and progressively work towards larger problem areas once it has a high level of investment in developing asset and community need areas.

**Executive Team Restructure:**

The proposed restructure is to be implemented in 2015 to split the business unit roles in council from the operational areas. The business units are required to be self funding into the future and not draw on operational funding. All salary and asset components are included in the business unit operational costs.

**LTFP:**

This plan will be under constant review to reflect the changes or process introduced from the service level review, the asset changes and the business improvement outcomes. Council has commenced adjustments to services and outcomes to reflect a need to invest in asset renewal and maintenance and has structured its LTFP to achieve satisfactory levels of funding over a five to ten year horizon.

### 3.5 Other actions considered

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

Council has resolved the following 2 resolutions – February 2015 and April 2015. These motions identify the history to establish discussion around Fit for the Future with the adjoining Council areas and to look at the ILGRP Recommendations. Discussions have been held and the adjoining Councils have resolved to stand alone or apply as rural councils.

#### Motion: 23<sup>rd</sup> February 2015

Moved Cr O'Connor

Seconded Cr Gadd

- (a) That Council make a submission prior to 30 June 2015 under the Council Improvement Proposal (Existing Structure) to stand alone;
- (b) That Council again extend an invitation to Councils of Guyra, Uralla and Walcha to meet with Armidale Dumaresq Council to discuss their directions for Fit for the Future; and
- (c) That Council continue to consult with the Councils of Guyra and Uralla to discuss the future direction of the New England region in the case of a forced merger and to plan together for:
  - (i) A potential merging of Councils should the NSW Office of Local Government undertake the forced merger of Councils;
  - (ii) That an implementation plan be developed to allow any forced merger to be transitioned smoothly;
  - (iii) That any forced merger ensure that political representation is appropriate for the proposed rural and residential areas of a new Council area;
  - (iv) That the State Government honours the provision of funding to merged Councils to ensure that the transition process has adequate finances to meet the costs of merging and assistance to offset some asset renewal works;
  - (v) That discussions are entered with the Office of Local Government that allows the continuation of full funding to a new Council from Federal Assistance Grants and Road to Recovery grants as if the councils remained separate; and
  - (vi) That an open due diligence program is available to allow any forced merger to identify all associated costs, liabilities, and legal action and community impacts.

The Motion on being put to the vote was CARRIED.

Motion: 27<sup>th</sup> April 2015

Moved Cr Beyersdorf

Seconded Cr Richardson

- (a) That Council reaffirm its Option A decision of 23 February 2015 (resolution 23/15) as set out within the attachment); and
- (b) That Council submits an attachment to Option A which includes merging with Guyra and Uralla Shire Councils, subject to agreement of the boundary adjustments proposed by Glen Innes and Inverell Councils and that Walcha Council be supported in an application as a Rural Council; and
- (c) That Council work with Glen Innes Severn, Inverell and other adjoining Councils to establish future Council boundaries subject to communities of interest and to support the communities in transitioning to the enlarged Council areas; and
- (d) That if Armidale Dumaresq, Guyra, Uralla and Walcha councils (or any combination of these Councils) are merged that the new Council be named "New England Regional Council"; and
- (e) That should the State government not allow Walcha to be a Rural Council, then Council enter into negotiations with the Office of Local Government to determine long term funding arrangements for the Walcha Council area to meet asset maintenance and renewal requirements that will bring the community up to the regional asset standards; and
- (f) That the Office of Local Government guarantee the initial funding of \$11 to 13.5million is allocated to allow the preparation and submission of an implementation and integration plan for consideration based on three or more Councils; and
- (g) That the Office of Local Government provide grant funding opportunities to meet asset replacements and renewals that are unfunded in the Council areas and that this grant funding is provided through NSW Treasury annually to meet the ability of the regional Council to undertake such works or alternatively, that continuous funding of \$2million dollars is provided annually for a ten year period linked to road, and footpath asset renewal and repair to allow improvements and that additional funding be provided for bridge replacements or renewals based on an assessment between the Roads and Maritime Services and Council as a rolling program over twenty years; and
- (h) That Roads to Recovery (R2R) and Federal Assistance Grants (FAGs) are reviewed to ensure that the New England Regional Council is not disadvantaged by the merger of up to four Council areas and that additional direct funding is provided to meet long term asset improvements across the newly formed areas; and
- (i) That the Office of Local Government transfers the New England Weeds Authority to the Joint Organisation and removes its roles and functions from the merged Council entity and from the Local Government Act proclamations; and
- (j) That Council consult with the community on Fit for the Future.

The Motion on being put to the vote was CARRIED.

- Council has submitted Template 2 on the basis that it was not able to submit template 1 due to the adjoining councils not supporting a merger as proposed by the ILGRP.
- Council is committed to Regional Collaboration and supports the development of the New England Joint Regional Organisation. Regional meetings have commenced even though the New England region is not part of the trial JO group.
- Council resolutions support the long term directions of local government; however it considers that State Government intervention is required for merger and boundary adjustments to occur. Council has considered previous reports into the New England Region including;
  1. NSW Boundaries Commission (November 2010) Examination of an amalgamation proposal for the creation of a new Local Government Area to be named “New England Regional” incorporating the whole of the areas of Armidale Dumaresq, Guyra Shire, Uralla Shire
  2. IPART – Review of Criteria for fit for the future September 2014
  3. TCorp - Financial Sustainability of the New South Wales Local Government Sector 2013
  4. Its own internal review documents on a future business model and implementation plan.

Council believes that IPART should again review these documents and consider these in its final report to government.

- Council believes that the actions proposed to be taken over the next two to ten years will allow it to develop a strong position to stand alone and work towards a LTFP that will ensure core services and asset needs are met by the majority of the community.
- The productivity improvements and directions established would also support flexibility in shared services and allow further discussion with our neighbours to gain productivity outcomes above those currently being provided.

## 4. How will your plan improve performance?

### 4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-6.48	-2.48	-0.16%	-0.43%	-0.02%	0.22%	No
<b>Own Source Revenue</b> Ratio (Greater than 60% average over 3 years)	70.43%	70.64%	78.53%	78.82%	79.20%	79.40%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	64.01%	92.15%	71.90%	57.71%	52.24%	64.53%	No
<b>Infrastructure Backlog Ratio</b> (Greater than 2%)	2.91%	2.94%	2.98%	3.03%	3.08%	3.13%	No
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	0.92	0.95	0.96	0.96	0.97	0.98	No
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	9.45	8.96%	10.49%	11.86%	11.64%	11.25%	Yes
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	1.39	1.32	1.31	1.28	1.25	1.23	Yes



## 4.1 Expected improvement in performance

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

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

### **Operating performance ratio**

Council has been adopting deficit budgets (excluding capital grants) for many years. The turn around to a positive ratio cannot be achieved in the short term as the reduction in service levels will be severe and the consultation process needs to occur with the community. Council will not meet the operating performance ratio benchmark by 2019/20 however it will achieve the benchmark by 2020/21. Council's advertised and adopted Long term financial plan does not include the renewal of a rate variation expiring in 2021/22. This process has Councils operating performance ratio achieving a high of 0.54% in 2020/21 then falling again in future years. Council has modelled the inclusion of the variation, which would result in the following results for the last 6 years of the plan.

<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
0.22%	0.54%	0.74%	1.17%	1.04%	1.51%

These results are achieving the benchmark and place Council in a sound financial position for the future.

### **Own Source Operating Revenue**

Council will achieve the benchmark for this ratio for the foreseeable future.

### **Building and Infrastructure Asset Ratio**

Council will not achieve the benchmarks for this ratio during the term of the LTFFP. A 10 year average of 65% is noted in the LTFFP with a high of 92% in 2015/16. Council has adopted its IPR documents based on the knowledge it has at the moment. In terms of

this benchmark, there are two key inputs that may change

1. Council's depreciation levels are based on the most recent complete valuation which occurred in 2009.
2. Council's Renewal program is based on Asset management plans targeting customer complaints rather than focussing on maintaining conditions at the minimum intervention level.

Council is currently undertaking a complete revaluation of its roads and associated infrastructure assets in accordance with the Local Government Code of Accounting Practice. It is expected that this process will provide more accurate asset values as well as reduced depreciation costs. The changes have not been modelled as the outcomes are unknown at this stage. A change of \$1Million will return the ratio to benchmark levels. By reviewing Council's asset management plan and targeting the asset minimum intervention levels Councils asset spend will be able to increase over time and its asset maintenance will become more targeted. These processes will also improve Council's ratio.

### **Infrastructure Backlog Ratio**

Council will not meet the benchmark for this ratio within it's current LTFP. The ratio will average 3.17% over the 10 year life of the plan. As above there are two factors which affect the outcome of this ratio which may change:

1. Council's backlog figure is based on a detailed analysis which occurred in 2009. These figures have been updated annually in line with CPI. Additionally, the latest guidelines for IPR plans include a different evaluation for what is determined as satisfactory. Council has not undertaken detailed consultation with its community regarding what the community may see as satisfactory. The Council will factor this evaluation into its data during 2015/16. It is expected that this will reduce Council's backlog by at least \$2 Million which will enable Council to meet the benchmark.
2. Council's asset values are based on the most recent valuation which occurred in 2009. A full revaluation is occurring during the 2014/15 year which will be factored into future plans. It is expected that this revaluation will change Asset values however the extent of the change is not known.

### **Asset Maintenance Ratio**

Council will not meet the benchmark for this ratio by 2019/20, however it will meet the benchmark in 2022/23 and expects to continue to meet the benchmark after that. Over the 10 year term of the LTFP, council will average a score of 98%. Historically, Council has not targeted its asset maintenance ratio and has simply provided maintenance as and when required or requested. Council is changing this process in 2015/16. Council is redeveloping its asset management plans which will provide a clearer guide on required maintenance. The building asset ratio will also focus on minimum intervention levels, allowing Council to target

its maintenance costs to achieve the best outcome.

### **Debt Service Ratio**

Council will meet the benchmark for this ratio over the 10 year term of its LTFP with an average of 10.58%. Council has borrowing capacity, but needs to improve its operating performance ratio before undertaking additional borrowings.

### **Real Operating Expenditure per capita.**

Council will meet the benchmark for this ratio over the 10 year term of its LTFP. It is expected that Council can improve on this result with the ongoing review of service levels, the reduction in contributions and donations over time and the policy decision to not fund ongoing projects where grant funds were previously available.

## 5. Putting your plan into action

How will your council implement your Improvement Action Plan?

*For example, who is responsible, how the council will monitor and report progress against achieving the key strategies listed under Section 3.* Council has undertaken a detailed review of its roles and functions over the past nine months to examine the organisational structure, the expenditure required in the areas of asset backlogs and general improvements and to look at the structure behind the provision of core services and business unit areas. The reviews are proposed to continue during the next budget year. The councillors and senior staff shall review and report across a large range of council functions and make determinations for inclusions into the long term financial plan. Council will report its determinations to the community and seek advice from the community in instances where the Community Strategic Plan items can not be provided due to fiscal restrictions or that the service is available from the private or not for profit sector. Council will continue to work with the adjoining and regional councils to enhance service provisions and to work towards productivity improvements.

**Council's commitment to continuous improvement has been publically advertised as per the Statement from Councils 2015-2016 Operational Plan (Budget Papers).**

### **Productivity Improvement**

Council is committed to improving operational productivity. Over the past five (5) years the Business Improvement Team has worked on practices mapping transactional processes. This has either generated significant productivity improvements across a number of activities or has put in place a medium term strategy to implement workplace changes.

These productivity improvements were recognised in the 2015 Special Rate Variation Application on what Council has implemented to improve operations. Whilst this contributed to the success of the SRV Application, Council recognised, at the time, that the community wanted to see other more fundamental work completed around operational and workplace reform.

As part of improving Council's operational bottom line in the Long Term Financial Plan, the Cost Index has been kept at CPI average which traditionally has been about 0.5% less than the Local Government Cost Index. This will mean that over the next five (5) to ten (10) years operational reform, in practice, will need to follow a continuous improvement strategy on 0.5% to 1% per annum.

The business improvement/productivity strategy developed will cover four (4) key components as follows:

- a) As local government does not operate in a competitive environment, management will continue to analysis business processes and work practices and benchmark against similar commercial and government agencies.
- b) Council has recognised it needs to focus on what it does best and not try to do everything with internal resourcing. Therefore, activities or tasks which are provided more effectively by external parties will be considered.
- c) Operational productivity comes from empowering staff and rewarding them appropriately. Where operational reform has been embraced or new work practices employed which generate real dollar savings, these savings will be retained by the division in that year.
- d) Capital (or project management) is one area which has been identified for potentially significant productivity improvement. As a way to provide some degree of incentives to achieve targets above those which are set in the project scope, Council will reward the division by retaining any financial saving in the function for future identified works. The balance to this is that where a project outcome is below expectation, then it will be for the functions management to adjust operations or service levels to compensate.

It is expected that with some simple incentives and process redesign Council can crystallise between \$100,000 and \$200,000 per annum in recurrent productivity improvements. The compounding impact over the LTFP cycle will improve the bottom line over 5% at the lower end of the scale.

### **Asset Management**

Council has a very large amount of Non Current assets. Many of these assets have built up over time. Council will review all asset classes and consult with the community over the next 2 years on its function and purpose with the view to liquidate and reduce the amount of asset that has to be renewed and maintained.

As part of Council's asset management strategy it has recognized that growth needs to be balanced and therefore have built the following into all General Fund Assets groups:

- Once the Asset back log gets to 5% or > no new assets will be built even if grant funded.
- All new assets must be from funding that is in excess of what is required for renewals.

- Renewals must be completed in any given year first.
- Any operating Surplus above 2% can be put into a development reserve.

### **Preparing for Fit for the Future**

Council will undertake a review of its service level areas over the next three to nine months to determine its role and function in a number of service areas. As part of the Fit for the Future program, Councils must ensure that they provide for key service areas across their community and to meet long term asset renewal and maintenance requirements. Like many Councils across New South Wales, Armidale Dumaresq Council has moved into many service areas that it is struggling to support due to reductions in grant funding, general business practices or staffing requirements. The following areas will be reviewed as to a whole of community need, the future funding available to the program, can efficiencies be found to provide the same or a higher level of program outcome and finally is the program a core area of councils operation or could it be provided to the community by another organisation. Council will also need to look at its land ownership, the land maintenance or service levels and can land, buildings and other assets be sold to improve similar asset areas by the redirection of funding.

Council has undertaken a similar review previously and it is important for the community to know and understand that financial, asset and workforce reviews need to be undertaken within all businesses to ensure that the quality of service and asset delivery meets the current community thinking.

The following areas will be reviewed:

- Community Services:
  - Aboriginal Services
  - Recreation Access
  - Volunteer Centre
  - Dementia Respite
  - Community Development
  - Youth Services
- Environment
  - Environment Sustainability Programs
  - Environmental Management
- Waste Management
  - Compost processing, value adding and sales of compost materials
- Sewerage Disposal

- Effluent management and farming practices
  - Sludge management and bio solid sales
- Parkland
  - Review of parkland use and return of open space to native vegetation areas
  - Removal of parkland and sale of land for residential and other uses
  - Consolidation of play and sporting areas to develop high level community park and play areas and reduction of play equipment in isolated areas
  - Mowing and maintenance needs of parks, reserves and other land
- Private Works- Review councils role in private works delivery, competitiveness, and specialisation as a commercial operation and identify ways to deliver quality outcomes.
- Business Unit Identification and Dividend Return.
  - Establish business units in the areas of Water, Sewer, Waste, Airport Precinct, Building Inspection and Private works and establish commercial rates of return to fund other council activities.
  - Restructure councils staff to support and maintain a competitive outcome across these areas.
  - Investigate share farming on open space areas of airport
  - Develop for sale industrial, commercial and general use lands to grow business and employment opportunities
  - Review long term transport options at the Airport
  - Review restrictions on land areas to ensure long term growth needs of the airport precinct and aircraft movement areas.
  - Review staffing needs, alternative contract arrangements and higher level service delivery needs with Federal airport authorities.
- Asset Management
  - Review all asset management plans and identify buildings, facilities, roads, and land that can no longer be maintained by council, which can be transferred back to the crown or has reach end of life outcomes.
  - Review insurance requirements and asset renewal targets generally
  - Identify real expenditure needs for all assets to meet Fit for the Future outcomes and community expectations.
  - Revisit Community and Technical service levels
- Staffing
  - Undertake a review of all staffing across council to determine staffing levels to meet legal, statutory and service level commitments into the future.
  - Review training and age restrictions around staff and identify plans to train and bring younger people into Councils workforce as older staff retires.

- Implement technology where appropriate to improve productivity and flexibility.

### **Executive Team Restructuring**

Over the past 3 years Council has reduced its middle management and technical staff to fit into a more lean operation. While this has worked in part it has also created some stress points in the Executive team where there have been strategic and operational gaps. A review of the organisations interactions and outstanding actions by the General Manager recognised that there were critical deficiencies right across the organisation. “The General Manager in consultation with Council has proposed a new executive structure to lead the organisation through the next 5 years operational activities. This structure will be robust enough to meet the demands of “Fit For the Future” once it is implemented.