Template 2

Fit for the Future

Council Improvement Proposal

(Existing structure)

NSW GOVERNMENT

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: City of Sydney

Date of Council resolution endorsing this submission: 18 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.

The City of Sydney meets all necessary criteria to be Fit for the Future, with the scale and capacity to deliver the outcomes agreed with our local residential and business communities, and for global Sydney in partnership with the NSW Government.

In contrast, an amalgamation at this time would not improve the City's contribution and role, however it may have a seriously adverse impact on the City of Sydney's capacity to deliver during a period of significant development growth and urban renewal, that requires a focus and relies on our expertise, strategic planning and financial investment. An amalgamation at this time will put investment at risk and impact negatively on the NSW economy.

The City supports the TCorp definition of financial sustainability that "A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community".

The goal of Independent Local Government Review Panel, as noted by Professor Graham Sansom in his recent submission to the IPART was "achieve adequate strategic capacity as units of government, as effective democratic institutions, and as valued partners of the state government in managing the future of Australia's foremost 'global city'". Professor Sansom added that the ILGRP "did not base its case for metropolitan mergers on the need to improve financial sustainability or to achieve increased efficiency and cost savings as a primary objective".

The City's analysis shows that the City, in its current form, possesses sufficient scale and capacity, to achieve the goals envisaged by the IGLRP. The City's existing financial sustainability, as endorsed by TCorp and set out within our IP&R documents, is sufficient to continue to meet the demands of our community and to contribute to Sydney's status as Australia's global city.

Historical precedent indicates that amalgamations of local governments give rise to financial and operational risks, particularly in the short to medium term. There is marginal financial benefit amalgamating the City of Sydney, Woollahra, Waverley, Randwick and Botany Bay. Detailed analysis by Randwick City Council, reviewed and supported by the City, points to a potential savings over the next decade of only 54 cents per resident per week. These marginal benefits would be dwarfed by the economic impact of disruption to City of Sydney operations, major development in the city and critical infrastructure projects currently underway.

The City recommends:

- **The City of Sydney has scale and capacity to be Fit for the Future.**
- **No major structural change be undertaken to the City's boundaries at this time.**
- **Priority action on important reforms to the legislative and regulatory framework for governance, financing and collaboration/coordination.**
- **Local government areas excised and transferred to the NSW Government (Sydney Harbour Foreshore Authority, Barangaroo Delivery Authority and UrbanGrowth NSW) be returned to the City's authority.**
- **A broad range of measures, incorporated within our Integrated Planning and Reporting Program, continue delivering outcomes agreed with our communities and with the NSW Government.**

The City of Sydney has provided significant detail in the attachment *Submission to IPART* and additional attachments.

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).

The City of Sydney has scale and proven capacity, demonstrated by past performance and the future long-term plan and financial plan. The City has planned, funded and delivered world-class services and infrastructure that meet the economic, social, cultural and environmental needs of our city.

Each day, there are an estimated 1.2 million residents, workers and visitors in our local government area. The area generates $108 billion worth of economic activity annually, which is more than 30% of metropolitan Sydney's economic activity and almost one-quarter of the NSW state gross domestic product (GDP). Services and infrastructure provided by the City of Sydney to meet the demands of this extended population require a scale of operations far in excess of that to meet the needs of the residential population alone.

The City's strong financial position has been independently verified by the City's external auditors, PricewaterhouseCoopers and the NSW Government's TCorp. The 2013 TCorp Review of local government financial sustainability confirmed the City has "strong operating surpluses, strong levels of liquidity, good financial flexibility and no debt." It assessed our finances as "strong" with a "positive outlook"— the only NSW council with this rating.

TCorp also noted that while a high population density and low reliance on external sources of funds are important factors to a sustainable council, other factors which can assist their sustainability position include:

1. **Responsible council that understands its role**

   Council that has a long term vision

   Council that concentrates on "fit for purpose" assets

2. **Quality management and staff**

   Experienced management team

   Appropriately qualified engineering staff

   Ability to attract and secure quality and skilled employees

3. **Good reporting and budgeting**

   Conservative budgeting helps attain necessary operational surpluses

Since the election in 2004, the City's Annual Operating Result has been a surplus in excess of $100 million. The City's long term financial plan demonstrates capacity to continue this history of strong financial management, undertaking routine infrastructure renewal works while delivering major new initiatives such as the City's $220 million contribution to the NSW Government's light rail project and delivery of infrastructure for the Green Square urban renewal project, including a $58 million contribution to trunk drainage works at Green Square in partnership with Sydney Water (a state government agency).

The City, in its submission to IPART, has demonstrated its strategic capacity against the Key Elements of Strategic Capacity identified in the ILGRP's report, particularly in relation to financial management and effective partnerships with the state. The City does not believe that the proposed amalgamation enhances this capacity.

Growth and renewal in the City of Sydney local government area is anticipated to continue, including an estimated $30 billion to $40 billion of development investment over the next decade.

The City of Sydney has established its reputation as 'green, global and connected' by aligning its resources, operations and budget to deliver Sustainable Sydney 2030, our extensively researched and publicly endorsed long-term strategy.

2. Your council's current position

2.1 About your local government area

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

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

The City of Sydney is a leading council in NSW and Australia's global city council.

Each day, there are an estimated 1.2 million residents, workers and visitors in our local government area. The area generates $108 billion worth of economic activity annually, which is more than 30% of metropolitan Sydney's economic activity and almost one quarter of the NSW state gross domestic product (GDP). As at the end of June 2014, the Estimated Resident Population of the City of Sydney was 198,331, with an average age of 32 years. Over 435,000 people work in the City each day, including two thirds of our residents. The City's Floor Space and Employment Survey identified over 21,000 businesses operating in the local government area in 2012.

The City has the highest population density in NSW at 1,695 persons per square kilometre in June 2014, and is amongst the state's fastest growing councils. The City of Sydney is the only local government area in NSW to meet and exceed the housing and jobs targets set by the NSW Government. In the five years to 2012 the number of private dwellings grew 9.2%, from 89,749 to 98,012; and employment grew 13.6%, from 385,421 to 437,727 jobs.

Further detail is available in Attachment 2 — Profile of the City.

In 2008, after detailed research and extensive public consultation, the City adopted Sustainable Sydney 2030, our long-term action plan for our City. The community told us they wanted a city which was green, global and connected. The City is actively implementing Sustainable Sydney 2030—building new cycling infrastructure; reducing carbon emissions and producing renewable energy; developing a cultural policy and a strategy for the late night economy; preparing an Economic Development Strategy; and developing the Eora Journey in collaboration with our Indigenous community.

The City's priorities over the next 10 years build on this work and are outlined in the Integrated Planning and Reporting documentation available at Attachment 1. They include working with the NSW Government to transform George Street and Green Square; delivering facilities to address the shortage of child care for residents and workers; continuing to improve our city for pedestrians and cyclists; and implementing strategies for a liveable, global city, developed through consultation, such as the Live Music Action Plan.

The challenges faced by the City include managing the uncertain environment within which we operate. Proposed reforms to planning legislation and the Local Government Act, reforms recommended by the Independent Local Government Review Panel, and potential amalgamations create an environment that undermines long-term planning and damages investment confidence.

The lack of clarity and certainty about the responsibilities of local and state governments, along with increased community expectations, means councils are constantly working to do more with less.

2.2 Key challenges and opportunities

Strengths	Weaknesses
• **Long-term strategic plan** (Sustainable Sydney 2030) publicly endorsed. • **Strong financial sustainability**—strong operating income and controlled operating expenditure reflected in operating performance ratio. • **Diversified income base,** including strong own source revenue provides security into the future. • **Asset management**—processes that facilitate targeted and prioritised asset renewal and maintenance works. • **Strategic capacity** to continue delivering. • **High trust levels** with our residential and business communities. • **International reputation** for high quality, well designed and innovative infrastructure, services and policies. • **Broad partnerships** with stakeholders within and outside the local government area. • **Effective political leadership and corporate governance,** including long-term stability. • **Effective action to reduce greenhouse gas emissions** with community and business.	• **Local government areas excised by the state government**—resulting in fragmented planning for key renewal sites and foreshore areas. • **Lack of direct authority** for planning and delivering projects the community expects (especially roads and transport). • **Regulatory, compliance and reporting burdens,** as reviewed by IPART. • **Rate pegging** and outdated rating systems. • **Lack of effective partnership with State** based on cooperation and mutual respect

Opportunities	Threats
• **Delivery of Sustainable Sydney 2030** secures Sydney's global reputation. • **Period of peak development and economic activity.** • **Cooperative metropolitan planning and governance** through implementation of A Plan for Growing Sydney. • **Independent Local Government Review Panel recommendations implemented** for finances, governance and partnerships, including creation of Sydney Committee similar to Adelaide model. • **Borrowing capacity for future infrastructure**—as noted in TCorp assessment of City financial sustainability. • **Innovative public benefit outcomes** (resulting from large scale developments) providing new infrastructure, amenity and funding. • **CBD light rail and pedestrian improvements** providing for transformation of central Sydney. • **Green Square urban renewal** that will secure essential growth in jobs, housing and liveability. • **Expanding digital, creative start-up economy** that will underpin Sydney global reputation.	• **Disruption from forced amalgamation or boundary change** undermines continuity of operation. • **Failure of federal, state and city to cooperatively reduce carbon emissions** from cities, resulting in financial and social impacts from climate change. • **Inconsistent engagement by other levels of government** prevents essential joint outcomes. • **Lack of control over securing public benefits** from major renewal areas (Central to Eveleigh, Bays Precinct). • **Delivery of George Street light rail** stalled or completed without essential public domain renewal. • **Green Square urban renewal undermined** by failure to plan for and provide essential infrastructure such as transport and education. • **Lack of housing affordability** stalls City economy and liveability. • **Future cost-shifting** by other levels of government.

2.3 Performance against the Fit for the Future benchmarks

Sustainability

Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	4.42%	Yes	2.32%	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	84.62%	Yes	87.68%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	77.48%	No	79.63%	No

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

The Building and Infrastructure Renewal ratio is inherently flawed to the extent that annual depreciation expense is not an adequate proxy for “Required Annual Renewal” expenditure. Further commentary on this issue is provided in attachment *Submission to IPART, Sections 3.2.3.1 and 3.3.1.3*. An alternative measure, utilising “Required Annual Maintenance” as included in the City of Sydney’s Asset Management Plan, is also provided in *Submission to IPART, Section 3.3.1.4*, and provides a more relevant indication of the City’s performance in respect of asset renewal.

2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2%)	2.80%	No	1.62%	Yes
Asset Maintenance Ratio (Greater than 100% average over 3 years)	88.33%	No	112.12%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	0.00%	No	0.00%	No

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

In the City of Sydney's case, as demonstrated in the asset management ratios above and the City's Long Term Financial Plan, the use of debt financing is not currently required to meet its goals in respect of asset management.

While the City of Sydney agrees with the underlying rationale for this benchmark, the requirement that councils use at least some debt is counter to decades of public sector orthodoxy and the continued practices of State and Federal Government to eliminate debt. The City's history of sound, prudent financial management has resulted in underlying operating surpluses and cash reserves to deliver its ten year capital program, ahead of any consideration of using borrowings.

Should circumstances change over the life of the Plan, the City will consider the use of debt, where appropriate, in delivering key projects. This may also encompass the use of internal borrowings, where restricted funds are not required for their specific purpose in the short to medium term.

2.3 Performance against the Fit for the Future benchmarks

Efficiency

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	**Increase in one or more years**	**No**	**Decrease in Real Operating Expenditure Over Time**	**Yes**

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

The failure to meet the benchmark for the 2013-14 period was a result of asset/infrastructure revaluations in prior years, which drove one-off ‘spikes’ in depreciation expense. Future revaluation outcomes cannot be reliably quantified, so no further depreciation expense uplift as a result of increased asset valuations has been factored in to the City of Sydney Long Term Financial Plan.

2.4 Water utility performance

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

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

Not applicable to the City of Sydney

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

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

2.4 Water utility performance

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

Capital works

Proposed works	Timeframe	Cost	Grants or external funding

2.4 Water utility performance

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

Not applicable to the City of Sydney

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

2.4 Water utility performance

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

Improvement strategies

Strategy	Timeframe	Anticipated outcome
1.		

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

3.1 Sustainability

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

The City utilises its IP&R process to review performance and strategically plan for the future. Internal targets/parameters relating to Operating Performance are incorporated within the City's annual budget setting process.

This ratio receives an initial boost in 2014-15 due to a review of depreciation methodology that reduces the annual charge for roads. Continued refinement of depreciation methodology may impact annual depreciation expense, with flow-on effects to this ratio.
The City will continue to advocate for rates reform to address decline in the Operating Performance Ratio as increasing service provision demands driven by development growth. It will also continue to utilise the IP&R framework to gauge community expectations.

Income is expected to receive a significant boost in 2016-17, with the second half of the Barangaroo development to become eligible for rating (increasing the existing rates base), and further urban renewal potentially growing the City's rates base (dependent on the mix of the development and the existing land use of the development site).

A review of the City's fees and charges is to be undertaken in the short term, the object is to optimise fee and cost structures following an extensive cost of service provision review.

The City will continue to review and update its Developer Contribution Plans and use of voluntary planning agreements to secure public benefit outcomes.

The City is committed to maintain asset renewal at or above the identified "required" level over the longer term.

With a defined delivery capacity, the City will – necessarily – reduce renewal projects as a proportion of the annual capital program during the years of the Long Term Financial Plan where high priority asset expansion projects are due to be undertaken (particularly new infrastructure at Green Square, major green infrastructure initiatives, new childcare centres and integration with the Barangaroo development). The required renewal levels will quickly be restored upon delivery of these major works and exceed the required levels in order to “catch up” the temporary reduction.

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 City’s financial year budgets (as detailed in the IP&R documents – Attachment 1) form the basis of the financial projections within the Fit for the Future ratios. The budgeted Income Statement and Balance Sheet for the base year of 2015/16 are taken to represent “business-as-usual” and income and expenditure are escalated, where relevant, by an appropriate index. The City utilises annual CPI movements as an indicative guide to annual income and expenditure movements. The model supporting the IP&R documents uses a figure derived from the Reserve Bank of Australia’s long term targeted upper limit of CPI growth.

For income and expenditure items driven by more specific factors, relevant alternative indices are incorporated into financial modelling.

Where new initiatives/projects that will impact operating income and/or expenditure are anticipated, additional adjustments are made to long term projections in the model. Significant adjustments include:

- Increased capital income as a result of development activity in the Green Square precinct
- Anticipated increase to rates income as a result of development at Barangaroo
- Capital Grants expected to be received in later years
- Operational impact of servicing Barangaroo precinct
- Operational impact of new community facilities at Green Square
- Allowances for asset maintenance growth as a result of new infrastructure/facilities
- Expenditure impact of administering a business voting roll and Local government elections

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. Operating Performance: - Maintain ratio above benchmark levels over time (whilst also maintaining performance in related measures – refer to impacts below). - Income growth over time to meet or exceed growth in expenditure required to meet increased demand from growing population. - Achieve more equitable alignment between service demand/consumption and revenue generation. - Continue to meet the	a) Income growth strategies, discussed in the Own Source Operating Revenue section below, if achieved will positively impact this ratio over time. b) Internal targets/parameters relating to Operating Performance are incorporated within the City's annual budget setting process. c) Ratio receives an initial boost in 2014-15 due to a review	See the Own Source Operating Revenue details below – balance of Barangaroo development expected to become rateable in 2016-17. Projected increases to operating expenditure relate to the depreciation impact of significant new assets and infrastructure, and increased service provision to meet projected population growth particularly in the Green Square	Projection: Ratio expected to continue to exceed minimum benchmark levels. Commencement of additional services (along with depreciation effects) at Green Square (library, community facilities and aquatic centre) and Barangaroo expected to result in a period of declining ratio performance, before ratio result stabilises at a sustainable long term level (still above benchmark).	Emphasis on improving the Operating Performance ratio may result in a reduction of maintenance spending (for example) and result in declining service levels and increased infrastructure backlog. Opportunities for alternative income sources may alter the Own Source Revenue result, however this would

expectations of the community in respect of service levels, with due regard to budget constraints.	of depreciation methodology that reduces the annual charge for roads. Continued refinement of depreciation methodology may impact annual depreciation expense, with flow-on effects to this ratio. d) To advocate for rates reform to address decline in ratio as increasing service provision demands driven by development growth. e) Continue to utilise IP&R framework to gauge community expectations.	precinct.		be generally regarded as reasonable.
2. Own Source Operating Revenue - Continue long term trend of maintaining ratio well	a) Rates income forecast to receive a significant boost in 2016-17, with the	• The commencement of rates collection for the balance of	Projections: the City expects to continue to comfortably outperform the OLG	Increased reliance on "own source" revenue will, to an extent, provide

above benchmark level. - Continue to ensure an equitable sharing of the cost burden of providing expanded infrastructure between new and existing population. - Explore and maximise alternative revenue generation strategies to reduce the ongoing burden on ratepayers to fund the City's services and assets.	second half of the Barangaroo development to become eligible for rating (increasing the existing rates base), and further urban renewal potentially growing the City's rates base (dependent on the mix of the development and the existing land use of the development site). b) A review of the City's fees and charges is to be undertaken in the short term, following an extensive cost of service provision review. c) Continued review and updates of the City's Developer Contribution Plans and use of voluntary planning agreements to	the Barangaroo site (presently anticipated to commence from the 2016-17 financial year). • Completion of internal cost reviews, and subsequent fees and charges review may result in changes made to the City's income. Potential impacts have not yet been determined and are not reflected in the projections shown. • Development completion of Green Square urban renewal precinct over the life of the 10 year long term financial plan.	benchmark for this ratio while receiving substantial capital contributions income. Conservative outcome modelled within the City's Long Term Financial Plan (allowed for 2.5-3% IPART determined capped rates increase per annum, and a 0.5-1% growth in rates base per annum); fundamental rates reform would require a revision of the City's budget position, with the impact potentially significant. Income from fees and charges is presently escalated at 3% per annum in the Long Term Financial Model; incorporating increases in line with CPI, as well as incremental growth	assurance of the City's income base. Improved performance may also reflect a reduction in capital income (grants and developer contributions) which may impact the City's capital funding and impact on Building and Infrastructure Renewals.

	secure public benefit outcomes.		where applicable. The internal cost of services review may require a re-cast of the City's fees and charges (and therefore financial projections), dependent on the outcome of the review as well as the strategic importance of particular fees/charges.	
3. Building and Infrastructure Asset Renewal Ratio - Achievement of benchmark is not (necessarily) desirable as annual depreciation is not inherently a suitable proxy for "required annual renewal". - Required renewal will be determined based on assessed remaining service capacity of	Whilst the City will aim to maximise renewal levels for its infrastructure and assets base, assets will not be "over-serviced" and renewed at levels in excess of requirements. The City's depreciation policies will be subject to regular review to improve methodology and better reflect asset	The asset renewals trend incorporates a temporary reduction whilst organisational capacity is steered towards the delivery of major new infrastructure projects. Performance against an adjusted benchmark in the alternative ration (refer Submission to	Projections: The City projects below benchmark performance for financial years 2016-17 and beyond. This result is deemed by the City to be financially sustainable, as asset renewal levels will reflect assessed requirements, rather than an arbitrary	Meeting minimum requirements for renewal should ensure no increase in Infrastructure Backlog, and renewals in excess of requirements should go some way to addressing existing infrastructure backlog over time. Renewing

building and infrastructure assets, with regard given to minimum acceptable condition in determining the required renewal intervention point. - Rather than utilise depreciation expense as an arbitrary proxy for required levels of asset renewal, the required renewal of building and infrastructure assets is instead sourced from the Asset Management Plan in the City's Integrated Planning and Reporting documents.	consumption patterns where possible (and where allowed by accounting standards).	IPART, Section 3.3.1.4) provides a more realistic reflection of asset renewal performance.	target. The implication of the benchmark is that a council's annual depreciation expense is the indicative level of required annual renewal of its assets, when in reality a far more detailed analysis of renewal requirements is undertaken in the process of preparing the City's Asset Management Plan.	infrastructure and assets at levels consistent with annual depreciation expense should significantly reduce "Required Asset Maintenance", as excessive asset renewal fulfils the roll of ongoing asset maintenance. If using annual depreciation expense as a proxy is not correct, per the City's view, then there is a significant likelihood of over servicing infrastructure assets at cost of other service provision.

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.

The City utilises its IP&R process to review performance and strategically plan for the future. The capital program within the City's Delivery Program (four year window) seeks to target and address instances of infrastructure backlog. Renewal in excess of that "required" in the early years of the program reflects a "catch up" of backlog

Continued and improved assessment of condition is used to determine "cost to bring to satisfactory standard" on all applicable asset classes, facilitating targeted renewal projects to address any identified backlog

Having addressed the existing backlog items, it is foreseen that there may be a subsequent increase in backlog as asset renewal programs are temporarily reduced in order to free up the City's delivery capacity to be utilised in major new projects, including delivery of Green Square infrastructure. Renewal will then return to the required level, restoring infrastructure backlog to a long term average.

The City will continue to utilise its 10 year Asset Management Plans in determining required maintenance levels and utilise industry benchmarks (where available) to refine definitional distinction between "Maintenance" and "Renewal".

The City will continue to reassess and refine cash/funding projections, determine appropriateness of debt and have in place a debt policy to ensure that any potential use of debt is in accordance with a coherent internal policy.

The use of cash restrictions (both internal and external) will ensure effective planning in the use of accumulated cash reserves. The City has grown cash reserves from $291M to $566M (of which $487M is restricted for specific purpose). The accumulation of these reserves has reflected the City's long term plans, particularly in relation to provision of new infrastructure and facilities at Green Square, and also facilitated the $220M contribution to the NSW Government for the CBD and South East Light Rail project, investment in new childcare centres and integration works related to the Barangaroo development, amongst many others.

The availability of significant developer contributions income also alleviates the need for debt in providing new infrastructure and facilities. Indeed, developer contributions are tied to the delivery of these assets.

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

The City's financial year budgets (as detailed in the IP&R documents) form the basis of the financial projections within the Fit for the Future ratios. The impact of completed projects on asset balances and required maintenance expenditure is incorporated into modelling. Capital projects are individually assessed to reflect their impact in terms of asset renewal, upgrade and/or expansion and their respective impact on ratios. Increased capital funding and hence the need for debt is assessed on a precinct by precinct basis.

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. Infrastructure Backlog Ratio - Reduction of backlog below benchmark (note that projections of infrastructure backlog are very difficult to calculate and rely on many assumptions and the methodology is not standard across the industry). Note that the rationale for the benchmark of 2% is not apparent. - Establish methodology and benchmarking for the assessment of backlog (and minimum asset	The capital program within the City's Delivery Program (four year window) seeks to target and address instances of infrastructure backlog. Renewal in excess of that "required" in the early years of the program reflects a "catch up" of backlog. Continued and improved assessment of condition to determine "cost to bring to satisfactory standard" on all applicable asset	Infrastructure Backlog forecast to be within benchmark "range" in 2014-15. Backlog to temporarily exceed benchmark as renewals are reduced in lieu of major capital project delivery. Backlog to level out and reduce as capital program returns to long term "average".	Projections: Periods of decline (i.e. improvement) in the ratio reflect asset renewal performance in excess of "required" in-year levels, and therefore addressing items of "backlog". The temporary rise in backlog as a percentage of asset value is attributable to reduced asset renewal (see above), but this will again be brought under control with a return to "above required"	Spending to reduce infrastructure backlog will generally require additional "renewal" spend, and hence improve performance against the Building and Infrastructure Asset Renewal Ratio. An infrastructure backlog ratio within the target range will have a positive impact on "Required" maintenance of assets

condition), and reflect in asset management plans.	classes, facilitating targeted renewal projects to address any identified backlog. Having addressed the existing backlog items, it is foreseen that there may be a subsequent increase in backlog as asset renewal programs are temporarily reduced in order to free up the City's delivery capacity to be utilised in major new projects, including delivery of Green Square infrastructure. Renewal will then return to the required level, restoring infrastructure backlog to a long term average.		renewal levels, beginning in the 2019-20 financial year.	(infrastructure and assets held in a "satisfactory" condition typically require less reactive maintenance).
2. Asset Maintenance Ratio - Improve current performance in order to meet (or exceed) identified "required maintenance".	a) Continue to utilise Asset Management Plans in determining required maintenance levels. b) Utilise industry benchmarks (where	Completion of new infrastructure and facilities (particularly in Green Square), requiring additional maintenance. Additional allowance	Maintenance expenditure to be projected in the City's Long Term Financial Plan at levels sufficient to meet the requirements of the	Continued failure to achieve benchmark would be expected, over time, to increase required Asset Renewal, and/or increase the

- Review appropriate inclusions and exclusions in calculating this ratio (both numerator and denominator) to determine a methodology that best reflects the City's asset management performance.	available) and refine definitional distinction between "Maintenance" and "Renewal".	has been made in the City's Long Term Financial Plan for maintenance of new assets and infrastructure, reflected from financial year 2018-19. Key maintenance contracts will be completed over the course of the 10 years included within the City's Long Term Financial Plan. Effective competitive tendering processes will ensure the most efficient outcomes, and potentially impact on this ratio's performance.	City's asset management plans (and comply with the anticipated benchmark). Assumptions allow for the completion of new assets and infrastructure and the commencement of maintenance for these assets. Whilst the exact impact of new assets and infrastructure can only be estimated, there will also be opportunities to revisit budget allocation for maintenance with each iteration of the Long Term Financial Plan. Likewise, the "required" maintenance assumes status quo with regard to contract rates also reviewed in future revisions.	infrastructure backlog; conversely, continued strong performance will have a complementary effect on the other asset management ratios. An increase to asset maintenance expenditure will negatively impact the Operating Performance Ratio, so any increase must be kept within the limitations of that ratio in order to be sustainable, with consideration of service levels agreed with the community.

3. Debt Service Ratio - Utilise debt only to the extent required - Despite a benchmark ratio that “requires” all councils to use a level of debt, the City (based on current projections) does not envisage that debt funding will be required in order to deliver its ambitious capital works program.	a) Continually reassess and refine cash/funding projections and determine appropriateness of debt. b) Have in place a debt policy to ensure that any potential use of debt is in accordance with a coherent internal policy. c) The use of cash restrictions (both internal and external) will ensure effective planning in the use of accumulated cash reserves. The City has grown cash reserves from $291M to $566M (of which $487M is restricted for specific purpose). The accumulation of these reserves has reflected the City’s long term plans, particularly in relation to provision of new	- Annual review of the need for debt - Utilisation of restricted cash reserves will act as a form of “financing”, utilising cash and investment balances that have been accumulated over an extended period of strong financial management at the City of Sydney. - Development activity, particularly within the CBD and Green Square precincts, will provide high volumes of capital contributions, to be utilised in the delivery of new/expanded assets to meet	Debt financing is not forecast to be required per the City’s latest Long Term Financial Plan. As the plan progresses and delivery priorities potentially change, the Finance Division will assess requirements for the use of debt (including the potential of internal borrowing where appropriate) in delivering the City’s capital program. Debt financing will not be used to fund “recurrent” type expenditure (including operating expenditure and underlying capital renewal programs).	The introduction of debt financing (in particular, the associated interest expense), will impact negatively on the Operating Performance Ratio.

	infrastructure and facilities at Green Square, and also facilitated the $220M contribution to the NSW Government for the CBD and South East Light Rail project, investment in new childcare centres and integration works related to the Barangaroo development, amongst many others. d) The availability of significant developer contributions income also alleviates the need for debt in providing new infrastructure and facilities. Indeed, developer contributions are tied to the delivery of these assets.	growing community need.		

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.

The City utilises its IP&R process to review performance and strategically plan for the future. Internal targets/parameters relating to Operating Performance are incorporated within the City's annual budget setting process. A number of strategies relating to operating expenditure have been noted above relating to maintenance levels and depreciation.

The strong, sustained increases in residential population will require additional service provision, however this provision of services may benefit from economies of scale. Provision of new and expanded facilities (with associated increases in Operating Expenditure) to provide adequate service levels to meet increased demand that will result from significant (forecast) population growth. Examples include Green Square Library and Aquatic Centre and also facility expansion/improvement per the (draft) Community Facilities Strategy.

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

As noted above the operational expenditure data is sourced from the City's IP&R documents.

The forward projections were deflated as mandated by the OLG using the published LGCI for 2014/15 and 2.5% thereafter.

As mandated by the OLG, population projections were sourced from the *New South Wales State and Local Government Area Population, Household and Dwelling Projections: 2014 Final*.

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. Real Operating Expenditure Per Capita - Maintain current service standards for increasing residential population along with the substantial visitor, tourist, business and worker numbers. - Identify efficiencies to contain underlying expenditure increases within acceptable levels.	a) Strong, sustained increases in residential population will require additional service provision, however this provision of services may benefit from economies of scale. b) Provision of new and expanded facilities (with associated increases in Operating Expenditure) to provide adequate service levels to meet increased demand as a result	- Actual residential growth, as compared with projections, will impact on the performance of the ratio. - The provision of new/additional services is largely controlled by the City, however the timing between delivery of new services/facilities and increases in population will impact performance	Projections: the projections above indicate ongoing performance at a level complying with OLG requirements (i.e. declining over time). The initial drop in expenditure per capita is caused by a revision of depreciation methodology for the 2015-16 year (in relation to roads infrastructure). The City's concerns in relation to this ratio	Improvements in efficiency (as measured by this ratio) will contribute to improved operating performance, however this also relies on income growth commensurate with an increasing population. The challenge to keep this ratio in a declining trend may negatively impact asset maintenance expenditure, and/or

	of significant (forecast) population growth. Examples include Green Square Library and Aquatic Centre and also facility expansion/improvement per the (draft) Community Facilities Strategy.	against this ratio (the two will need to be coordinated). - Forecast additional expenditure to provide services to the increased population has been retained within adequate levels to ensure continued performance within the required benchmark.	are that it is unfairly affected by fluctuations in depreciation policy and asset valuation cycles.	result in depreciation policies that are not reflective of asset consumption.

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. Sustainable Sydney 2030 will continue to guide City of Sydney action, with annual reviews of progress and priorities as part of our annual Integrated Planning and Reporting process.	Ongoing – see below.
2. Diverse and innovative public engagement processes will help us understand the needs and expectations of our residents, businesses, workers, students and visitors.	Ongoing – see below.
3. Effective internal governance arrangements will help deliver current and new projects and programs to meet needs and outcomes agreed with our communities.	Ongoing – see below.
4. Agreed targets and outcomes will be incorporated into the City's annual planning and budgeting processes.	Ongoing – see below.
5. Long-term financial planning will manage operating costs to deliver operating surpluses to fund needed infrastructure and facilities.	Ongoing – see below.
6. A workforce strategy to be an employer of choice, attract highly skilled, innovative, responsive, collaborative, adaptable and ethical staff.	Ongoing – see below.

7. Infrastructure and asset maintenance monitored on a targeted basis to maximise renewal levels without over-servicing.	Ongoing – see below.
8. Policies and procedures regularly reviewed to improve the City's approach and respond to emerging needs and community expectations.	Ongoing – see below.
9. Regional, national and international engagement and partnerships to increase the City's influence, scope and capacity.	Ongoing – see below.
10. Regular assessment of funding projections to determine appropriateness of debt to meet the need for future infrastructure.	Ongoing – see below.

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

The City of Sydney's Integrated Planning and Reporting documents outline the City's priority actions, improvement or otherwise, for the next four years, and in the case of the Long Term Financial Plan, ten years. These include our Asset Management Plan, our Workforce Management and ICT Strategies.

The City has a governance framework which includes continuous improvement, monitoring and evaluation and has a program of internal and external audits as well as internal and sometimes external service reviews. These programs ensure the City is efficient and effective, and continually looking to improve so we can continue to deliver our Community Strategic Plan, as agreed with our community.

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.

City representatives, including the Lord Mayor and Chief Executive Officer, met with neighbouring councils to seek their views on the proposal of the Independent Local Government Review Panel to amalgamate the City of Sydney, Woollahra, Waverley, Randwick and Botany Bay Councils. None of the councils support an amalgamation with the City, nor has a resolution supporting a merger with the City of Sydney been passed by any surrounding council.

Reasons expressed by neighbouring councils included:

- The relevant Council has assessed it is Fit for the Future.
- The scale and nature of issues in the City could overwhelm local concerns.
- The local community does not support amalgamation.
- No compelling business case has been identified.
- New voting legislation to give two votes to business was not desirable in their area.

Community consultation in the respective council areas supports the reasons above:

- Randwick City Council – 90% prefer an Eastern Suburbs Model, 5% prefer larger ‘global’ city model, 5% undecided.
- Waverley Council – 89% prefer an option other than a “global city”.
- Woollahra Municipal Council – initial survey indicates 81% of residents oppose any form of amalgamation (final survey results not yet released).
- City of Botany Bay - 97% of respondents were opposed to amalgamation (Mayoral Minute - 2013).
- City of Sydney – 82% of residents oppose an amalgamation, favouring a ‘stand-alone’ option (further detail of the City’s community consultation is provided in Attachment 5).

The City of Sydney is Fit for the Future on its current boundaries and has a large program of work to respond to the needs of our local communities and global Sydney. This includes completion of infrastructure and facilities for the Green Square Town Centre;

working with the NSW Government to implement the CBD Transport and Action Plan, including light rail; and supporting a peak level of growth and renewal, estimated at around $30 billion to $40 billion over the next decade.

The City of Sydney experienced an amalgamation in 2004. The process was disruptive and took three to five years to fully complete, with significant organisational capacity focused on successfully managing the process.

If resources are diverted onto an amalgamation at this time, the City may not deliver effectively on the opportunities and challenges of the current positive economic environment. To disrupt the City puts investment at risk and can impact negatively on the NSW economy.

4. How will your plan improve performance?

4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	1.53%	1.65%	2.32%	1.94%	1.40%	0.80%	**Yes**
Own Source Revenue Ratio (Greater than 60% average over 3 years)	83.76%	85.81%	87.68%	89.07%	90.64%	91.86%	**Yes**
Building and Infrastructure Asset Renewal Ratio (Greater than100% average over 3 years)	79.08%	85.16%	79.63%	65.46%	51.77%	48.42%	No
Infrastructure Backlog Ratio (Less than 2%)	2.05%	1.65%	1.62%	1.84%	2.24%	2.26%	***Yes/No***
Asset Maintenance Ratio (Greater than 100% average over 3 years)	96.41%	109.00%	112.12%	110.23%	107.18%	104.87%	**Yes**
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	No
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	$2,127	$2,038	$2,011	$1,993	$1,964	$1,937	**Yes**

Note: IPART will assess this table in accordance with section 3.3 in the Methodology for Assessment of Council Fit for the Future Proposals
*if your council is including FAGs in this calculation please provide information for years 2020/21 to 2024/25 on the following page.

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)						Yes/No
Own Source Revenue Ratio (Greater than 60% average over 3 years)						Yes/No

*Includes councils in OLG groups 8,9, 10 and 11 only. See page 42 of IPARTs Methodology for Assessment of Council Fit for the Future Proposals

Not applicable to the City of Sydney

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.

Despite the inherent limitations and flaws of the benchmarks, the City targets above benchmark performance where possible and projects the results in line with the respective benchmarks and milestone dates in Fit for the Future template.

This submission has noted specific exceptions:

- **Building & Infrastructure Asset Renewal**: Achievement of this benchmark is not necessarily desirable as annual depreciation is not inherently a suitable proxy for "required annual renewal". The use of depreciation in calculating the required level of asset renewal is flawed. As detailed in the City's Submission to IPART, the City will determine required renewal based on assessing the remaining service capacity of assets to determine when renewal is needed. Performance against the alternative asset renewal ratio will temporarily drop below the benchmark level of 100%, as delivery of high priority asset expansion projects are given priority within the City's capital works program. Viewed across the longer term (2014/15 to 2024/25), the City demonstrates improvement in this ratio, and over this period, the ratio performance is an average 100%.
- **Infrastructure Backlog Ratio**: The City anticipates that it will meet the mandated benchmark during 2015/16, followed by a (temporary) period of performance outside the benchmark range of 0-2%. This temporary growth in infrastructure backlog is expected to coincide with the reduction in asset renewal expenditure detailed above. The City's submission to IPART, Figure 24 in section 3.3.2.1, demonstrates the City of Sydney's performance improvement over the long term in respect of this ratio, as asset renewal levels return to long term average levels.
- **Cost of Debt Service:** The City is debt free. It has capacity to borrow and is developing a policy framework to determine when borrowing is appropriate and needed. It is anticipated that projects beyond the City of Sydney's direct financing capacity will be large-scale and require a State Government partnership.

5. Putting your plan into action

How will your council implement your Improvement Action Plan?

Sustainable Sydney 2030, adopted in 2008 following extensive research and consultation, guides the development of the City of Sydney for the next 15 years and beyond.

In 2011, the City incorporated its 2030 Vision into the Integrated Planning and Reporting Framework for NSW local government, and developed a new suite of documents to support the key directions and objectives of Sustainable Sydney 2030.

The findings of our Fit for the Future Improvement Plan have been incorporated into the City's suite of Integrated Planning and Reporting documents for 2015/2016, which is reviewed and adopted by Council annually.

The Sustainable Sydney 2030 Community Strategic Plan (2014) reflects the 10 Strategic Directions, 10 Targets and major objectives of the 2011 version, and incorporates refined objectives to reflect adopted Council strategies and project developments.

The Delivery Program 2014-2017 (June 2015) sets out specific activities, projects and resources for the next three years to progress the goals and targets within Sustainable Sydney 2030. The Delivery Program proposes the key four year outcomes that align to the objectives of Sustainable Sydney 2030 and integrates these within the City's long term strategic framework.

The Operational Plan 2015/16 provides an annual instalment of the Delivery Program and identifies the specific plans and activities to be undertaken during the forthcoming year to achieve the deliverable outcomes. It also contains the draft Operating Budget, Capital Budget and the Revenue Policy including the proposed rates, waste and stormwater charges plus other user fees and charges for the year.

The draft Resourcing Strategy (2015/16) supports the activities outlined in the Delivery Program.

It has been prepared comprising a 10 year Long Term Financial Plan, a four year Workforce Strategy, a 10 year Asset Management Plan and a four year Information, Communication and Technology Strategic Plan. The Resourcing Strategy demonstrates the City's commitment to deliver the Sustainable Sydney 2030 strategic outcomes in a planned manner to ensure the long term sustainability of the Council.

Progress against the objectives in these documents is reported to Council quarterly, with progress against our environmental targets reported to Council twice a year. The City of Sydney's Executive reviews progress monthly and as required.