

Template 2

Fit for the Future

Maitland City Council Improvement Proposal



Office of
Local Government



Council name:

Maitland City Council

Date of Council resolution endorsing
this submission:

29 June 2015

1.1 Executive Summary

Maitland City Council sits in a unique and enviable position in the local government sector. Over the past five years, Council has leveraged the opportunities presented by Integrated Planning & Reporting to work with the community to ensure the foundations for long term sustainability have been put in place.

Council is Fit for the Future.

Testament to our forward-thinking elected Council, difficult conversations have been had with our community about their expectations for services, infrastructure management and financial performance over time. This has ensured community understanding and ownership of the work of Council, and has led to the approval of two special rate variations (SRV) by IPART. The first was focused on infrastructure backlog and renewal, whilst the second was focused on sustainable service delivery. 2015/16 will be the second year of Council's current approved seven year variation, which sees total rating revenue increased by 7.25% each year for seven years.

Importantly, these processes have demonstrated the efficiency of Maitland City Council in a range of areas, when examined against a range of measures. Council has one of the lowest operating costs and staffing numbers per capita in our peer council group. Cognisant of a need not to 'rest on our laurels' despite these results, Council has committed to a productivity saving equivalent to \$500,000 per annum, commencing in 2015/16.

The community was actively and widely consulted on options for the future sustainability of Council during these SRV consultations, and ultimately supported Council's approach. As a result, Council will continue with its established approach to productivity improvement as factored into our long term financial plan (rather than embark on a suite of new initiatives).

Given these active efforts, Council is able to meet the requirements of 'Fit for the Future', as documented in this proposal.

It should be noted that a merger of Maitland and our neighbouring Council of Dungog has been examined, in line with the expectations of the Independent

Local Government Review Panel (ILGRP). The business case found that the position of a merged entity would be weaker than that of a stand-alone Council, when examining financial and infrastructure management criteria. Completed by endorsed consultants Morrison Low, further key outcomes of the modelling are an asset funding shortfall of \$4.95 million for the first five (5) years, and \$270,000 over the five (5) years thereafter; an operational performance funding shortfall (deficit) of \$5.1 million; net transitional costs of \$6.1 million; the merged council is under-staffed relative to comparable councils by between 50 to 100 staff, the cost of which is not factored into the model; the merger is unlikely to achieve any material cost savings (given the current resourcing levels of both councils) to offset its operational and asset funding shortfalls; harmonisation of service levels over time will add significant additional costs to the merged council, that have not been factored into the modelling; the newly merged council and its community would need to address the means by which the aggregated \$10.0 million per annum funding shortfall would be addressed.

It is clear that there is no benefit in a merger to the residents of Maitland, and that our improvement plan is superior to this option, based on factual, independent examination.

Table 1.1.1 Performance against F4F criteria

Measure / benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF Benchmark?
Scale and Capacity – quality services and infrastructure; strategic plans; support economic growth; represent diverse groups; effective partner for State and Federal government; rates affordable; spending appropriate.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Operating Performance (Greater than or equal to breakeven average over three years)	0.0%	-0.4%	0.2%	0.7%	1.2%	1.7%	Yes
Own Source Revenue Ratio (Greater than 60% average over three years)	70.8%	74.8%	73.9%	75.4%	77.7%	79.3%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over three years)	77.1%	140.0%	175.1%	162.9%	131.4%	100.0%	Yes
Infrastructure Backlog Ratio (Less than 2%)	5.5%	4.8%	3.0%	1.3%	1.3%	1.2%	Yes
Asset Maintenance Ratio (Greater than 100% average over three years)	61.7%	82.2%	90.8%	100.0%	100.0%	100.0%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over three years)	4.6%	5.2%	6.4%	6.7%	6.9%	7.0%	Yes
Real Operating Expenditure per capita (A decrease in Real Operating Expenditure per capita over time)	\$897	\$846	\$850	\$860	\$860	\$854	Yes

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?

Yes

Maitland City Council is a high capacity local Council.

We:

- Consistently deliver quality services and infrastructure
- Have a strong suite of strategic plans in place
- Continue to experience strong population and economic growth
- Understand and effectively represent our diverse community
- Are an effective partner for State and Federal government
- Have affordable rates
- Spend revenues appropriately and in-line with community expectation.

We are of the scale and capacity to deliver to our community – now and into the future.

Whilst Maitland was recognised as sustainable, the exploration of a merger with Maitland was suggested for Dungog by ILGRP. As such, both Councils cooperated in developing a merger business case (See Attachment A). The business case, prepared by Morrison Low, found a merged council would meet four indicators– being Own Source Revenue, Debt Service Cover, Asset Renewal and Real Operating Expenditure Ratios.

However, Operating Performance steadily declines from -3.8% on day one to -10.5% in 2023, well below the required benchmark. Further, Asset Maintenance remains steady at an average of 77% - well below the required benchmark, while the Infrastructure Backlog steadily declines from 4.6% in 2015, to below the required benchmark in the final year modelled. The desktop review found an asset funding gap of \$5 million/annum for the first five years of a merged Council, in addition to an operating performance gap of \$5.1 million/annum and \$6.1 million in transition costs (NPV @7%).

In considering risks, it was noted that 'vastly different service levels' exist between the two Councils posing a 'considerable risk' to the merger's financial

success. In examining rates, 'there would be significant changes in rates across the two councils'.

Given a merger was a potential solution to Dungog's challenges, with ILGRP indicating Maitland was sustainable in its own right and suitable to remain a standalone council (within a Joint Organisation), it is assumed Maitland meets scale and capacity requirements, however a brief rationale follows.

Council has a **robust revenue base** and discretionary spending, building from two special rate variations targeting asset renewal and sustainable service delivery. (See Applications and Determinations as Attachments B, B.1, C and C.1). In addition to almost \$50 million in current grant, developer contribution and operationally-funded projects, Council has expanded its capital works and maintenance programs (\$25 million in 2015/16). Our financial position also enables borrowings for appropriate infrastructure.

The scope to undertake **new functions and major projects** is evidenced by a major projects group coordinating more than \$34 million in infrastructure, while our workforce is of the size and capacity to undertake new functions as required (eg swimming pool compliance and e-planning). Our organisation structure has been reviewed in line with SRV and CSP commitments.

An **ability to employ wider range of skilled staff** is clear with staff in project management, engineering, architecture, town planning, accountancy, social planning, community engagement, policy development, building and construction, information technology, arts and culture, environmental health and more. Additionally, we have extensive knowledge in our management team, including managers of more than 40 years' experience.

Our pursuit of **innovation** continues to be demonstrated in the development of a new corporate management system, use of new handheld devices, use of social media and an online consultation, whilst creativity is demonstrated in branding, place activation, events, and programs in facilities including aquatic services, art gallery and libraries.

Council has **advanced strategic planning and policy development** as demonstrated by our successful approach to IP&R; Local Environment Plan; Maitland Urban Settlement Strategy; Maitland Land Use and Transport Plan; Developer Contributions Plans; Structure Plans (various); CBD renewal plans; Works in Kind Agreements (various) and many more.

Effective regional collaboration is enabled by membership of Hunter Councils. The Hunter Joint Organisation pilot, leveraging the experience of Hunter Councils, has core functions of regional strategic planning; inter-governmental collaboration; regional leadership and advocacy. Council has played and continues to play a lead role in Hunter Councils.

Council is a **strong and credible advocate** on issues including health services, transport planning, social services, land use planning etc. We are a **capable partner** for State and Federal agencies, delivering works under significant Federal and State programs. Council has established consultation processes with agencies including RMS, NSW Police, NSW Health, Fire and Rescue NSW, SES, Rural Fire Service, Primary Industries, Urban Growth NSW, Premier and

Cabinet and Planning, and strong working relationships with local State and Federal MPs.

Council has **resources to cope with complex and unexpected change** with systems for data collection and monitoring, a growing workforce and well established finance plan, which incorporates internally restricted reserves. Council has a demonstrated ability to respond to natural disasters.

Council is proud of its **high quality political and managerial leadership**, with a strong record of performance. Delegated authority is used appropriately, underpinned by established, respectful and productive relationships between senior staff and Councillors. Council also has a strong record of performance in community satisfaction surveys.

2. Your council's current position

2.1 About your local government area

Maitland is a key regional centre located in the middle of the Hunter Valley. The LGA covers an area of 396 km² and has a fast growing population (>2% per annum) currently estimated at 75,000. This growth is both a challenge and an opportunity, with a population increase of between 40-50% likely over the next 20 years.

'Maitland +10', our community strategic plan (See Attachment D), establishes a clear vision for the city. The plan outlines the community's desired outcomes across five themes:

- Proud people, great lifestyle – focused on retaining a sense place and pride in the City; ensuring our community and recreation services meet the needs of our community and; celebrating iconic events and festivals.
- Our built space – focused on well-planned infrastructure; movement around the City; enhancing our unique built heritage, complemented by sustainable new developments and; ensuring diverse and affordable housing.
- Our natural environment – focused on the management of population growth on our environment and natural resources; enhancing and utilising our rivers and flood plains and; ensuing awareness of personal impacts on the environment.
- A prosperous and vibrant city – focused on ensuring contemporary transport and telecommunications infrastructure; a sense of identity in villages, suburbs and the city centre; Maitland as a great place to live, work, visit and invest and; Central Maitland is the vibrant heart of the City.
- Connected and collaborative community leaders – focused on ensuring the connection of all leaders across the community; ensuring community participation in government decision-making; Council is efficient and effective and; a Council for now and future generations.

Council has embraced the opportunities offered by the introduction of Integrated Planning and Reporting (IP&R) legislation in NSW, having worked with the community in two rounds of IP&R, firstly with the original ten year community strategic plan 'Maitland 2021' and its revision in 2012/13 to become 'Maitland +10'.

Consistently, engagement with the community has revealed key challenges:

- Ensuring State, local and private sector infrastructure is developed in alignment, keeps pace with residential and business growth, and allows for future needs
- Renewing and revitalising Maitland's Central Business District

- Physically connecting our CBD with the Hunter River
- An ability to efficiently and safely move around the City in all forms of transport
- Ensuring sporting and other facilities (in particular aquatic facilities) for families and younger people are available
- City appearance and community pride are maintained and celebrated.

2015/16 will be the second year of an approved 7 year special rate variation for Maitland City Council designed to address these challenges. The application was approved by IPART in June 2014. The variation:

- Enables delivery of services and enhancement of services in key areas of community priority to an increasing population
- Allows Council to meet community needs and desires – now and into the future
- Ensures the financial sustainability of the Council – avoiding a projected deficit of \$122 million at end of ten years and allows for a level of improvement in key areas
- Ensures funding for capital and maintenance works is sustained – continued in line with asset management strategy and plans
- Provides certainty to ratepayers as to the rating regime over the seven years
- Allowed for lower annual percentage increases to avoid projected deficits over the medium term
- Acknowledged that fundamental drivers will not change in shorter period – primarily residential growth and changed service expectations appropriate to a large regional City
- Was underpinned by extensive strategic planning and community consultation.

A more detailed examination of Council's current position can be found in Attachment E, being the improvement proposal analysis undertaken by Morrison Low.

2.2 Key challenges and opportunities

Strengths	Weaknesses
<ul style="list-style-type: none"> • Political/leadership stability • Strong and effective community engagement program and established community support • Strategically aligned service delivery • Low cost service delivery per capita • High quality and diverse management experience, with significant corporate and local government sector knowledge • Staff with a range of professional and specialist skills • Well-founded and established long term financial plan, with secured revenue base via seven year special rate variation • Embedded and effective Asset Management Strategy and Plans • Advanced project management skills and expanding capital works and maintenance programs • Workforce Plan aligned to business needs • Established focus on service reviews and continuous improvement • Established pool of volunteers partnering in service delivery • Member of established regional organisation • Effective relationships with State and Federal agencies, with demonstrated significant grant success at both levels • Strong record of Work Health and Safety 	<ul style="list-style-type: none"> • Constraints on realising efficiencies – given established ‘leanness’ of the organisation, coupled with detailed understanding of community expectations for services • Need to identify and manage transition of corporate knowledge as city and workforce grows and changes • Generational/gender diversity at elected and senior management does not reflect community profile • Need to implement new technologies and address restrictions of current corporate systems • Entrepreneurial approach to some business activities restricted by established culture and legislative constraints • Management of State-owned assets not at full cost recovery • Insufficient capacity to expand administration building – impacts on ability to grow workforce

Opportunities	Threats
<ul style="list-style-type: none"> • New Act and leveraging strong introduction of engagement and IP&R for further benefit • Geographic proximity to major employment centres/industries (eg coal mining) and great lifestyle - attractive to staff and large pool of local talent • Planned supply of residential and industrial/employment lands • Improved application of new technologies and development of leading-edge corporate systems • Exploring shared services and new service delivery models • Exploring opportunity to outsource Council services • Growing workforce • Further embedding of continuous improvement and service review approach • Further enhancements to asset management • New facilities and services able to be provided (eg grandstand, indoor pool, performance space, Levee precinct etc.) • Seeking of grants • Regional Organisation and continued role of Hunter Councils 	<ul style="list-style-type: none"> • Unanticipated changes to Local Government and Planning Acts • Unanticipated changes to taxation of funding arrangements from State and Federal Governments • Change of State Government and/or significant change in policy direction • Forced merger • Elected Council becoming unstable • Losing community trust/legitimacy • Population growth not occurring as modelled • Unanticipated change in community expectations • Increased conferring of responsibilities by the State • Service delivery failure (eg recycling contract) • Environmental legacies (eg former tips, fuel storage sites etc.)

2.3 Performance against the Fit for the Future benchmarks

Council engaged Morrison Low to assist in the development of an improvement proposal and examine performance against benchmarks (Attachment F). As a starting point, Council's current performance against the FFTF benchmarks has been considered and set out in the table below.

It is important to understand Council's base position and the results are those reported to the Office of Local Government in Maitland's 2014 self-assessment against the benchmarks. The benchmarks have been modelled forward using Council's current Long Term Financial Plan and the 2013/14 result is presented alongside the forecast 2019/20 performance in the tables below.

Based on modelling of the Long Term Financial Plan by Morrison Low, and improvements consequent to Council's approved (IPART 2014) SRV, Maitland City Council will fail to meet just one of the benchmarks (Infrastructure Backlog Ratio) in 2019/20 and this ratio continues to decline (improve) throughout the modelling period.

Table 2.3.1 Sustainability benchmark performance (no adjustments)

Sustainability				
Measure/ benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-0.006	No	0.8%	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	55.8%	No	79.3%	Yes

**Building and Infrastructure Asset
Renewal
Ratio (Greater than 100% average
over 3 years)**

138.1%

Yes

154.6%

Yes

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

As can be seen, sustainability benchmarks will be achieved without any new improvements required.

2.3 Performance against the Fit for the Future benchmarks

Table 2.3.2 Infrastructure and Service benchmark performance (no adjustments)

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%)	12.0%	No	5.0%	No
Asset Maintenance Ratio (Greater than 100% average over 3 years)	62.4%	No	108%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	4.4%	Yes	7.0%	Yes

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

Council is projecting to spend above the benchmark for infrastructure renewals which contributes to an ongoing decline in the infrastructure backlog.

Meeting infrastructure benchmarks

An analysis of what would need to be done to satisfy the FFTF benchmarks has been undertaken by Morrison Low. The analysis is against Council's base case scenario. The asset based ratios (Asset Maintenance, Asset Renewal and Infrastructure Backlog) have been considered, as has the Operating Performance Ratio. Each aspect has been separated out in the following sections before being combined into an overall figure, which identifies what, if any, funding gap exists that if satisfied would enable Council to meet the FFTF benchmarks.

Council's operating result (calculated on the same basis as the Operating Performance Ratio and excluding capital grants and contributions) has been reviewed between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in Council's Long Term Financial Plan (LTFP). The table below identifies the average annual surplus, between operating revenue and operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within Council's LTFP.

Table 2.3.3 Operating Performance

Council	Gap (\$000)
Maitland	832

The maintenance ratio is based in part on the number Council reports as 'required maintenance'. The table below sets out the results of the modelling for Council, demonstrating it does not meet this benchmark. For simplicity, this is presented as an average of the years projected in Council's LTFP.

Table 2.3.4 Asset Maintenance Funding Gap

Council	Actual Annual Maintenance (\$000)	Estimated Required Maintenance (\$000)	Gap (\$000)
Maitland	8,089	11,240	-3,151

Based on the modelling, Council faces a funding gap between what is spent currently and what is estimated to be required. The figures in red show the additional amount Council would need to spend annually on maintenance to satisfy the asset maintenance ratio.

The Asset Renewal Ratio is based on Council's assessment of annual depreciation on buildings and infrastructure and its actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

The assessment of depreciation is integral to the financial management of Council and its LTFP. Any change requires a proper assessment of the assets, condition, lives and values. The assessment of required asset renewals is based on Council's own assessment of depreciation and required renewals.

Table 2.3.4 sets out the difference between the required annual renewals and projected renewals expenditure. Based on the modelling, Maitland City Council is funding more than is required and expenditure over 100% is helping reduce the asset backlog.

Table 2.3.4 Asset renewal gap

Council	Average predicted annual renewals (\$000)	Average required annual renewals (\$000)	Average Annual Gap (\$000)
Maitland	20,768	13,571	7,197

The key driver of the Infrastructure Backlog Ratio is the estimated cost to satisfactory. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and, as such, the approach varies significantly across NSW.

Table 2.3.5 sets out what Council would need to spend on additional renewals, over and above maintaining a 100% asset renewal ratio, to reduce the Infrastructure Backlog Ratio to the benchmark within five years.

Table 2.3.5 Cost to bring assets to satisfactory (backlog)

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Council	Total value of Assets (\$000)	Cost to satisfactory (\$000)	Target Backlog (\$000)	Reduction Required (\$000)	Per year (5 years) (\$000)
Maitland	961,820	80,735	13,842	-66,893	-13,379

The table below summarises the combined asset expenditure required by Council, based on its own analysis to meet the benchmarks. Once the infrastructure backlog is brought to the benchmark then Council's required expenditure falls.

In modelling, Morrison Low have not included the funding gap related to the Operating Performance Ratio in this table as they feel that would not present a realistic picture of the required expenditure. Council exceeds the Asset Renewal Ratio benchmark for the modelled period thereby reducing the infrastructure backlog. Any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of Council and therefore the Operating Performance Ratio. Additionally, Council may choose to address the funding gaps identified in this report by increasing revenue, shifting funding from another service or activity, reducing overall costs or a combination of all the above. This will all affect the other ratio. It is not, therefore, considered possible to simply add the Operational Funding Gap and the Asset Funding Gap identified below together into a single figure.

Table 2.3.6 Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)
Maitland	-3,151	7,197	-13,379	-9,333

If the asset gap, based on Council's original modelling of the backlog, is to be addressed over the short term (5 years) additional funding in the order of \$9m per annum is required. However, in line with evolving efforts for a standardised industry approach to 'cost to satisfactory' modelling and advised by Morrison Low as being in common with a series of other Councils involved in this process, Council has revised backlog calculations and spend within its asset portfolio. Refer to Section 3.2.

2.3 Performance against the Fit for the Future benchmarks

Table 2.3.7 Efficiency benchmark performance (no adjustments)

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	\$870	No	\$854	Yes

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

Real operating expenditure per capita will decrease over the forecast period.

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.

As demonstrated in Section 2.3, analysis by Morrison Low shows Council is able to meet sustainability benchmarks.

Council's operating result (calculated on the same basis as the Operating Performance Ratio and excluding capital grants and contributions) has been reviewed between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in Council's Long Term Financial Plan (LTFP).

The table below identifies the average annual surplus, between operating revenue and operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within Council's LTFP.

Table 3.1.1 Operating performance funding gap

Council	Gap (\$000)
Maitland	832

Despite these sound projections, Council will continue with its focus on cost containment, productivity improvement and innovation.

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.

Key assumptions in maintaining our performance against benchmarks in all three performance areas are as follows:

- Annual rating increase of 7.25% applied in full by Council in setting annual Operational Plans until 2020/21
- Annual productivity factor of \$500,000 per annum, commencing in 2015/16
- Maitland's population continuing to grow at 2000 new residents each year (based on recent annual growth rates and knowledge of projected residential developments over the next ten years)
- Inflation (CPI) has been assumed at 2.5% per annum for the next 10 years
- CPI has been applied to a number of Council's income streams including general user fees and charges, regulatory services, grants and subsidies
- Salary increases have been determined based on known Award changes until 2016/17, estimated at 3.0% thereafter
- Competency increases for progression through Council's salary system of 1.5% each year.
- Construction costs have been assumed to increase by 4.5%, plus an additional growth factor of 1%. This is based on Council's knowledge of actual construction costs as relevant to our business, in addition to published construction industry projections and price index.
- Street lighting costs are anticipated to continue to increase and have been modelled in the plan at an estimated 5.0% per annum
- NSW State Government Waste Levy increases have been factored into the model
- Interest on investments has been set to progressively increase to 4.01% in 2024/25
- Increasing Council's annual loan drawdown to \$4.8 million/annum for use in capital works program on long life assets
- \$1.5 million per annum to fund rent and/or potential borrowings for a new or refurbished administration facility, increased annually by inflation
- Operating expenses, excluding street lighting and State Government Waste Levy, have also been modelled on CPI increases of 2.5% per annum over the next ten years
- Standard staff growth remaining on target at 35% of total budget
- Additional revenue from asset sales and partnerships of \$9 million over 5 years
- Increasing grant revenue to the value of \$13 million over the next ten years
- Strategic and significant project costs developed by appropriately skilled and qualified staff and consultants. Council has a project management framework in place, and in the case of significant projects the executive team of Council acts as Project Control Group, retaining oversight and full accountability for project budgets
- Strong annual operational planning and budgeting processes, complemented by thorough quarterly financial reviews
- Continuing community engagement and partnerships
- Maintaining internal culture focused on productivity and innovation
- Political stability.

Figure 3.1.1 – Operating Performance Ratio

Council's operating performance will improve.

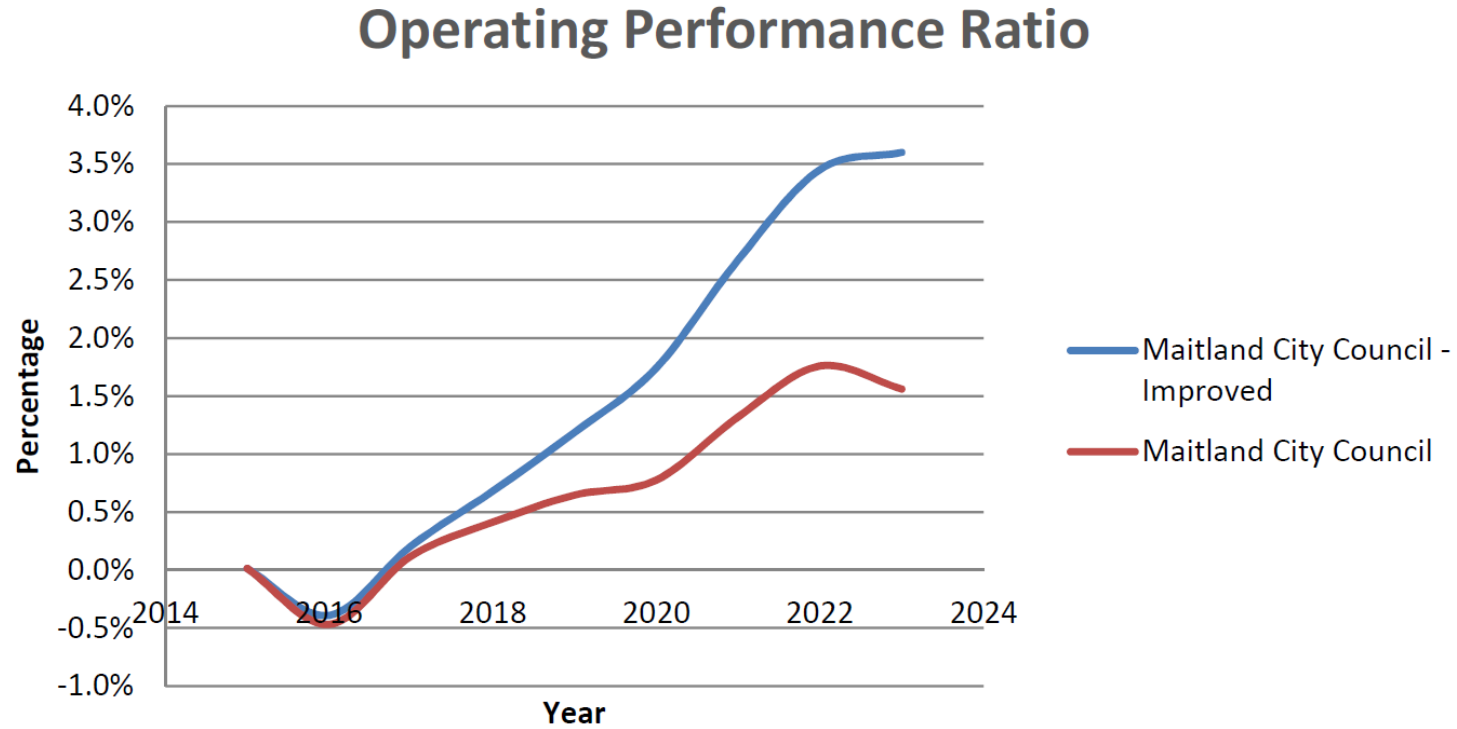


Figure 3.1.2 – Own Source Revenue ratio

Note there is no change to own source revenue under planned improvements, which is above the benchmark of 60%.

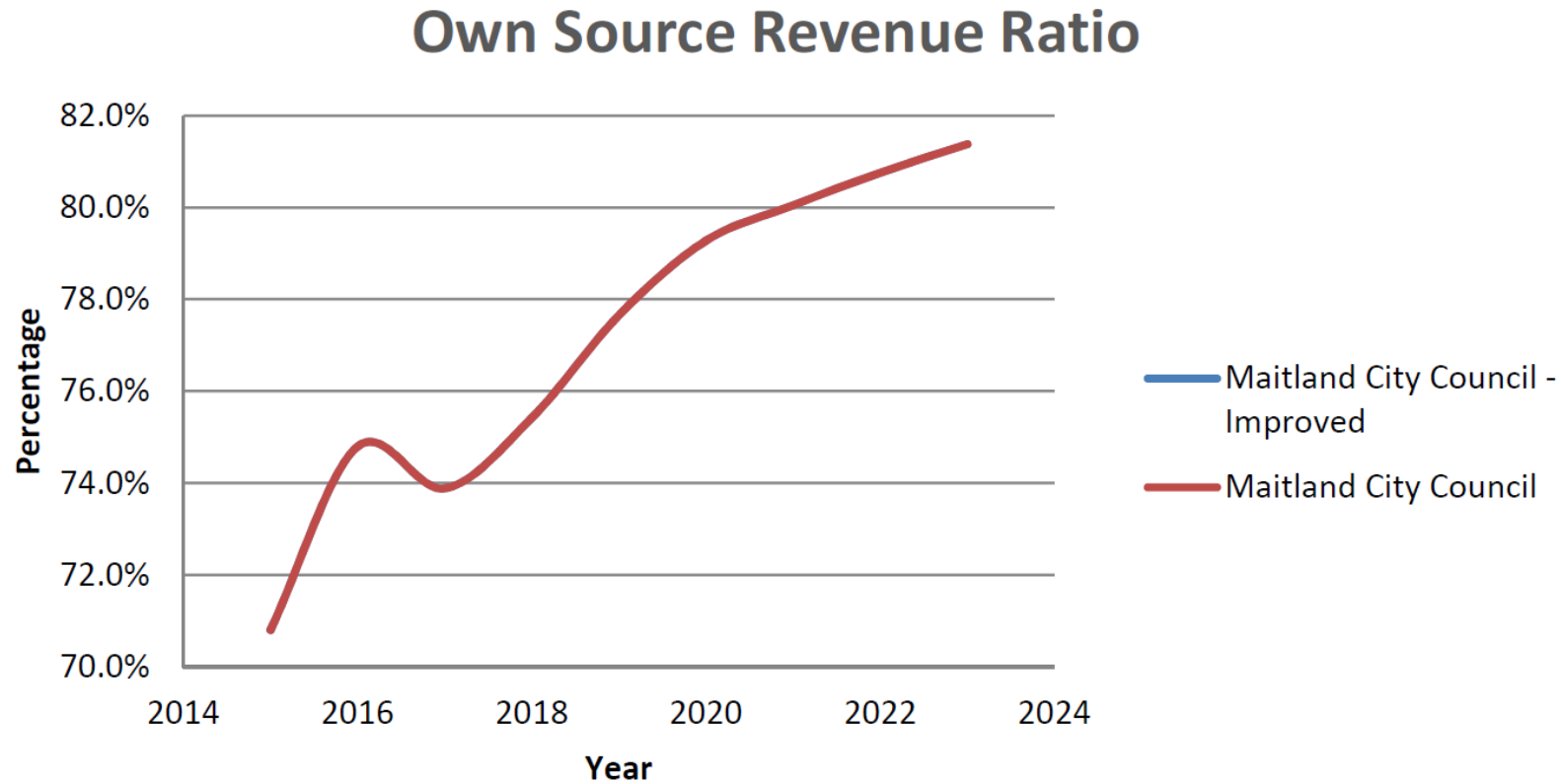
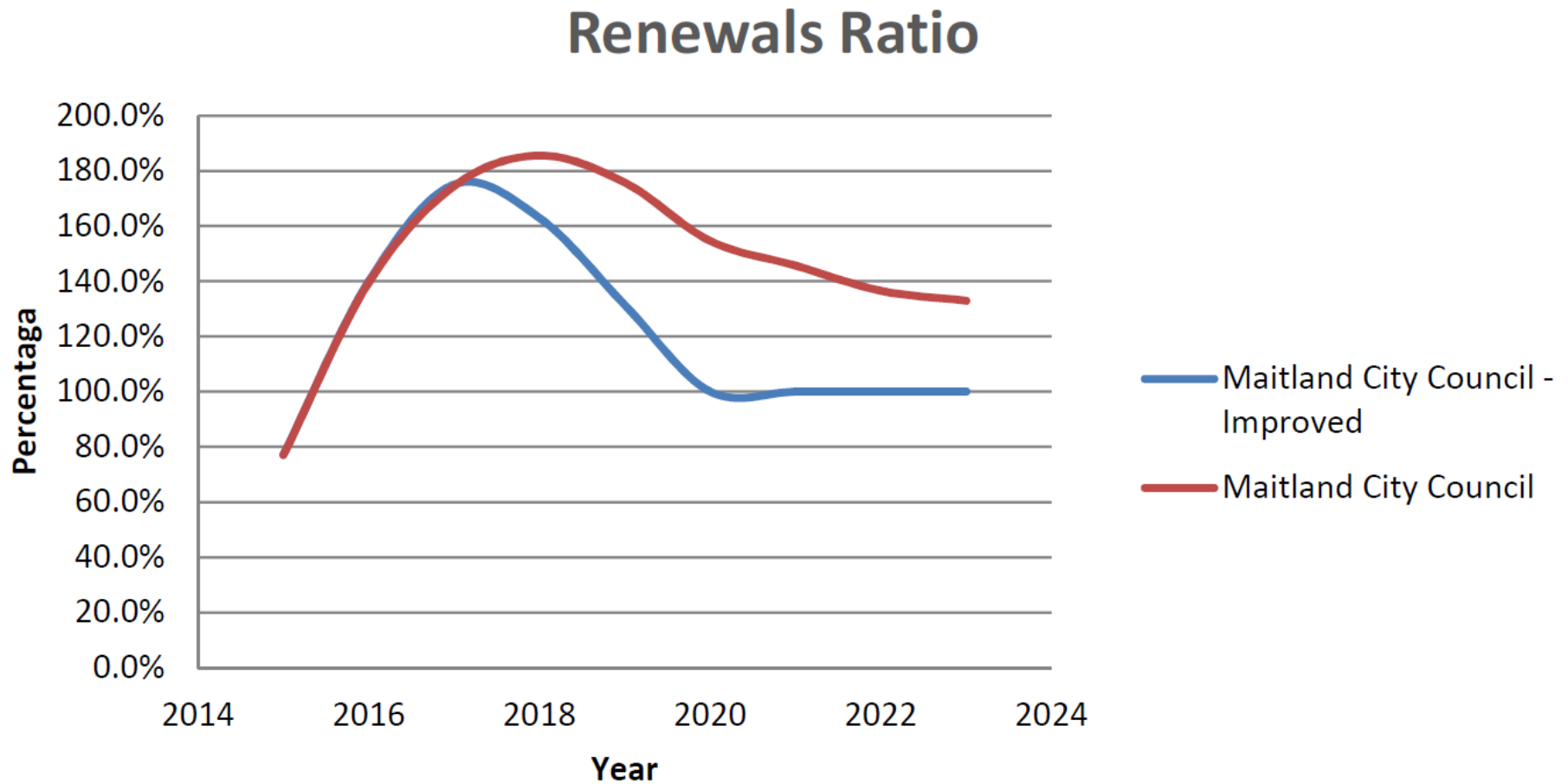


Figure 3.1.3 Renewals Ratio

Council's forecast investment in renewals will meet benchmarks



3.1 Sustainability

3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Maintain operating performance ratio above 0% into future	Maintain current approach to IP&R – including four year programming, resourcing strategy assessment and annual operational and budget planning	Annual Operational Plan adopted by Council in June each year. Delivery Program commenced in 2018 with incoming Council. Resourcing Strategy review 2016-17. New CSP developed in consultation with community 2016-17.	Services delivered in line with community expectations and commitments. Balanced/surplus budgets achieved as modelled. Capital works program monitored and adjusted annually. Annual adjustments and monitoring of LTFP in light of budget process and issues identified.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled. Renewals ratio stabilises at c. 100% as backlog reduced.
	Continued implementation of Productivity Improvement Action Plan	Annual Actions completed, assessed and reported.	Productivity saving equivalent to \$500,000 per annum achieved as modelled.	Contributes to reduction in Real Operating Expenditure per capita as modelled.
	Contain staffing costs to 35% of total annual budgets	Resourcing requests considered in line with budget and operational priorities.	Staffing costs restrained as modelled.	Contributes to reduction in Real Operating Expenditure per capita as modelled.

	Maintain membership of Hunter Councils Inc. and Hunter Joint Organisation	Membership benefits realised.	Range of operational costs reduced.	Contributes to reduction in Real Operating Expenditure per capita as modelled.
	Identify and pursue appropriate grant opportunities	Annual reporting on grant applications and success.	Grant funds obtained as modelled in LTFP	May contribute to improved infrastructure backlog ratio
	Develop and implement new City Waste Strategy	Strategy and key actions resolved by Council 2015/16.	Collection and disposal costs remain affordable for residents and Council.	Contributes to reduction in Real Operating Expenditure per capita as modelled.
Maintain own source revenue above 60% benchmark into future	Apply in full IPART approved SRV of 7.25% to rates to 2020/21	Annual Operational Plans adopted by Council.	Rating revenue increases over time.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled. Renewals ratio stabilises at C. 100% as backlog reduced.
	Fees and Charges reviewed annually – longer term adjustments made where appropriate	Annual Operational Plan and revised Fees and Charges adopted by Council in June each year.	Appropriate levels of cost recovery achieved, considering principles of revenue policy and public good.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled. Renewals ratio stabilises at C. 100% as backlog reduced

	Active management of investment portfolio	Regular review of portfolio (monthly).	Interest on investments returns dividends as projected.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled. Renewals ratio stabilises at C. 100% as backlog reduced
Maintain asset renewal ratio above 100%	Maintain integrated capital works strategy, plans, program and long term financial plan	Policy and strategy reviewed in 2016/17. Review of program and impacts on LTFP annually.	Annual adjustments and monitoring of LTFP in light of issues identified in development of CWP, considering changed environmental and other factors.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled.
	Maintain, monitor and adjust 10 year + capital works program	Quarterly monitoring of works program	Informs strategic decision over medium term.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled.

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.

As a fast growing City with growing new infrastructure, Maitland City Council is focused on ensuring an appropriate balance between asset maintenance and renewal.

Council is recognised as having a core level of competence in its asset management systems and processes. Council is actively pursuing advanced asset management, striving for best practice in a range of asset management areas, from risk management, planning and design through to construction and maintenance practices. Council's infrastructure management was rated as 'moderate' during the 2013 NSW State Government Local Infrastructure Audit, with Council seeking to move to 'strong'.

With over \$962 million in infrastructure assets as at 30 June 2014, our assets are vital in the provision of a range of services for the community. Council uses various technical and database resources to manage its assets. Council is committed to ensuring service levels for assets are subject to ongoing dialogue with the community and stakeholders, noting that approximately 80% of our assets are road and drainage assets.

Council's Asset Management Strategy is an integral element in our Resourcing Strategy, and all asset decisions will be made within the context of this strategy and adopted policy of Council. Council has asset management plans in place for all key asset classes.

In completing the analysis for both a merger business case and improvement proposal, Morrison Low took a different approach to infrastructure condition assessments and modelling. This remodelling was designed to ensure consistency in approaches by both Maitland and Dungog Councils. As IPART is aware, there is little guidance available to the NSW local government sector on how 'cost to satisfactory' for infrastructure should be determined. Rather than look specifically at individual assets, Morrison Low's methodology is examined at a network level. The methodology assumes that 'satisfactory' condition is 3, and utilises Council's condition matrix to determine the difference between a condition 3, 4 and 5 asset. Then, knowing the current replacement costs of the assets, Morrison Low's methodology sees a percentage of the current replacement cost of assets in conditions 4 and 5 applied to determine the 'cost to satisfactory'.

The application of this methodology has impacted on Council's backlog calculations from those used in the past.

Further, based on these revised numbers, steps will be taken to reallocate funds tagged for infrastructure renewals, maintenance and operating surpluses to target infrastructure backlog projects. Whilst the totality of funding dedicated to Council's infrastructure portfolio won't change, the targeted spend will

reduce the backlog to meet benchmarks, whilst still maintaining an appropriate level of expenditure on maintenance and renewal. Importantly, Council will deliver this in-line with adopted asset strategies, considering service levels and legislative requirements.

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

See Section 3.1 – Sustainability –for assumptions.

Figure 3.2.1 – Backlog Ratio

Council's backlog is reduced to F4F benchmark of under 2% of assets in an 'unsatisfactory condition' by 2017/18, noting the application of asset modelling by Morrison Low has influenced the values in Year 1 in an improved scenario.

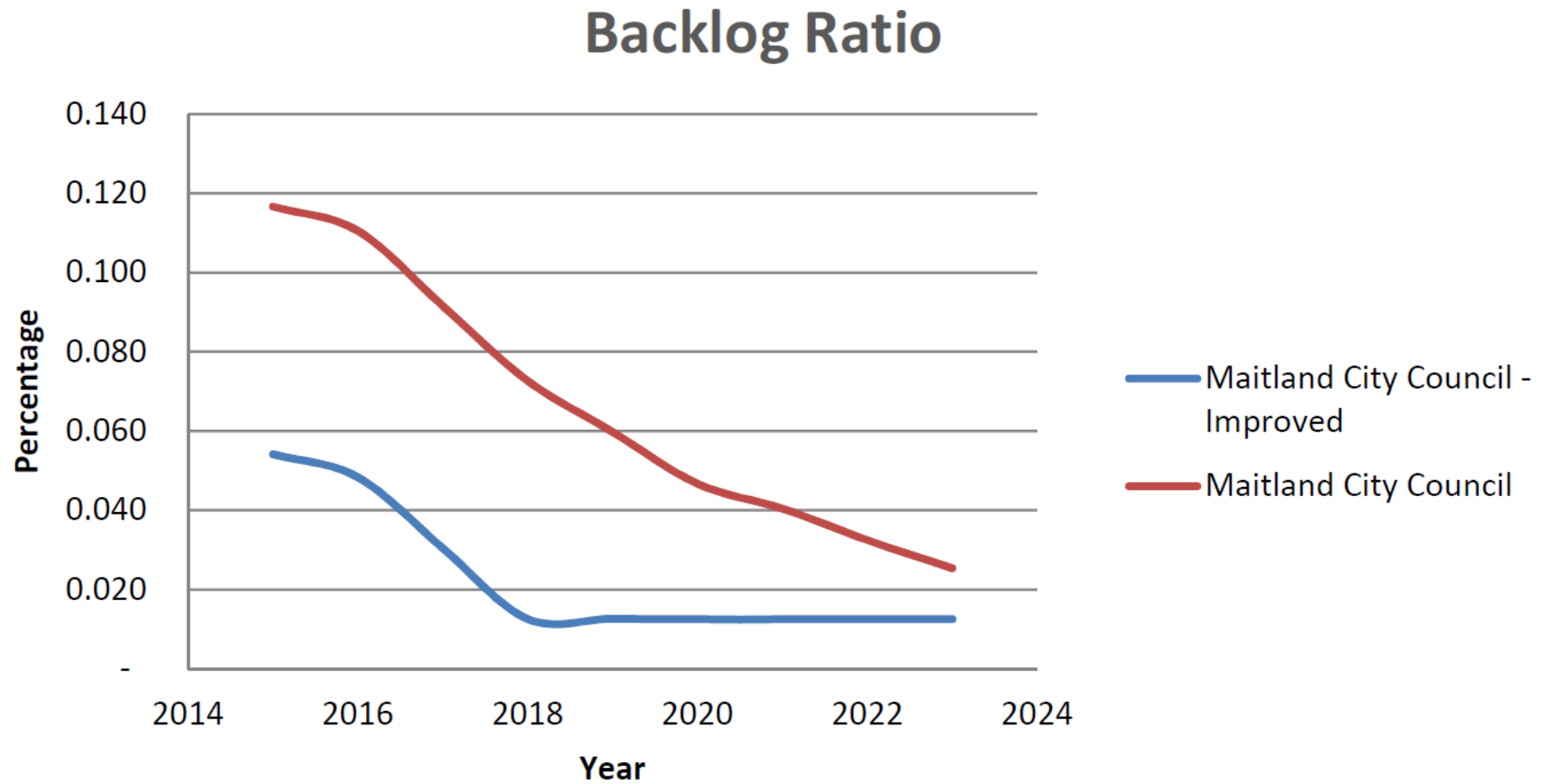


Figure 3.2.2 – Maintenance Ratio

Council's maintenance remains above desired benchmark.

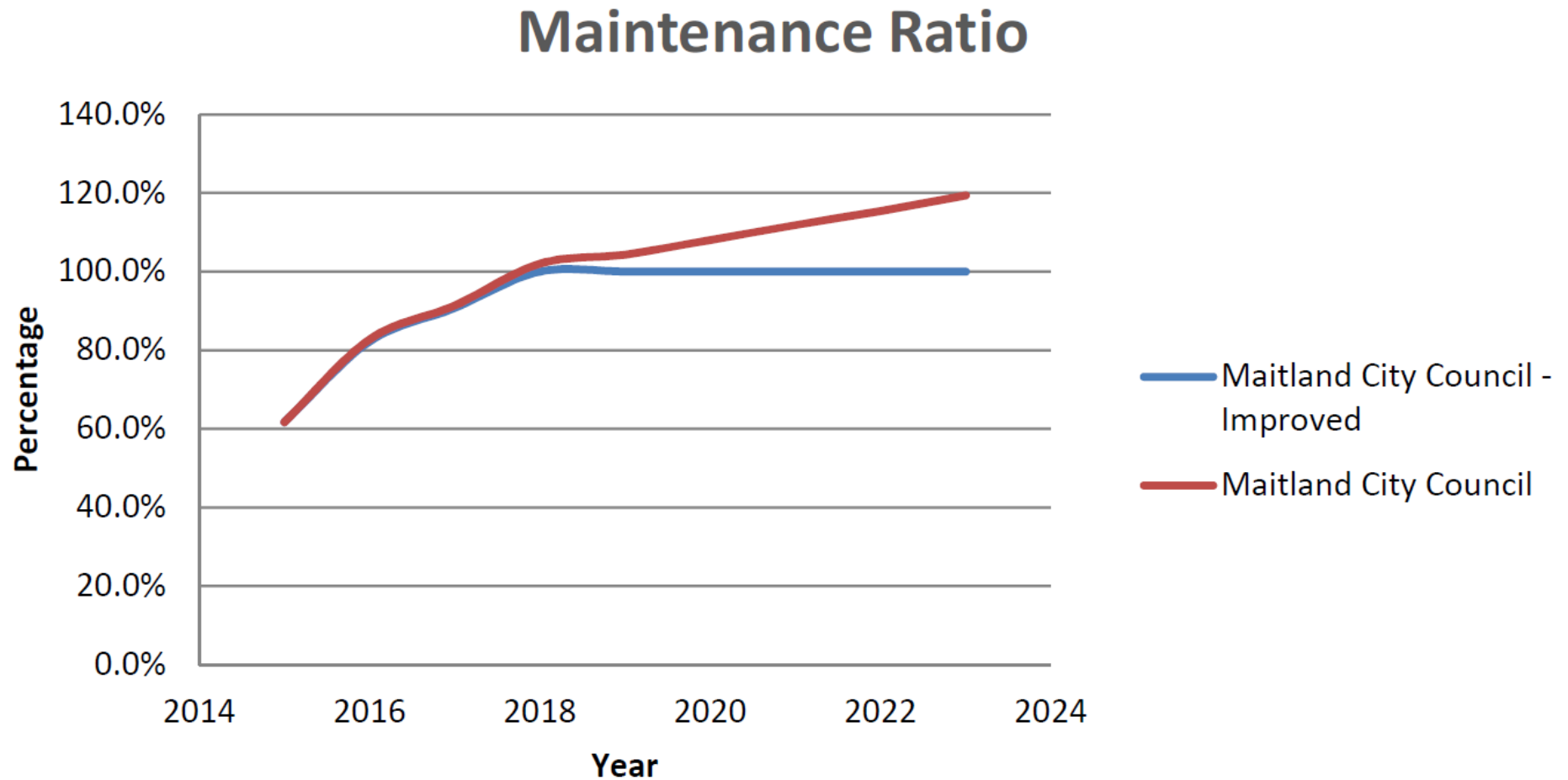
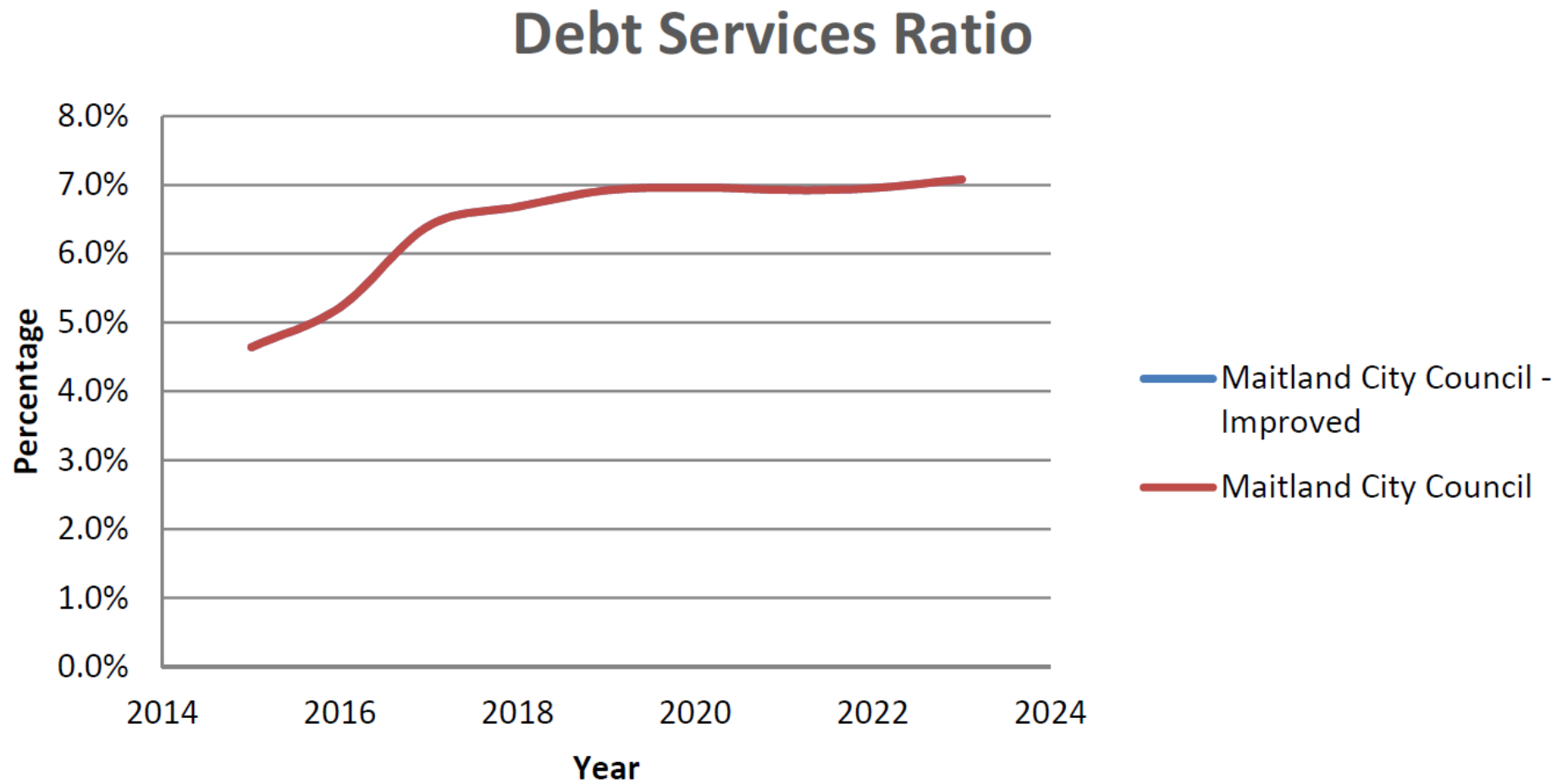


Figure 3.2.3 – Debt Services Ratio

Note there is no change to this ratio under proposed improvements, with debt within accepted range.



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
Reduce infrastructure backlog ratio to less than 2% by 2017/18	Adopt a standardised approach to determining cost to satisfactory	Approach agreed by end 2015/16	Asset backlog re-assessed against agreed industry practice	Operating performance improves
	Increase overall infrastructure spend as modelled over time		Backlog reduced, community satisfaction increased	Operating performance improves
	Implementation and monitoring of Asset Management Strategy and Plans		Maintenance and renewals expenditure appropriately balanced	Operating performance improves
Maintain Asset Maintenance Ratio at greater than 100% from 2017/18	Maintain integrated capital works strategy, plans, program and long term financial plan	Policy and strategy reviewed in 2016/17. Review of program and impacts on LTFP annually.	Annual adjustments and monitoring of LTFP in light of issues identified in development of CWP, considering changed environmental and other factors.	Backlog ratio improves over time as modelled. Renewals ratio stabilises at C. 100% as backlog reduced

	Maintain, monitor and adjust 10 year + capital works program	Monthly monitoring of works program	Informs strategic decision over medium term.	Backlog ratio improves over time as modelled. Maintenance Ratio stabilises at c. 100% as modelled. Renewals ratio stabilises at C. 100% as backlog reduced.
Maintain debt service ratio at appropriate levels (F4F benchmark) over time	Use of borrowings considered, modelled and determined for appropriate assets as identified in long term asset plans	Borrowings occur under resolution of Council as appropriate	Debt used appropriately and remains within benchmarks	Contingent on the area to which debt is applied.

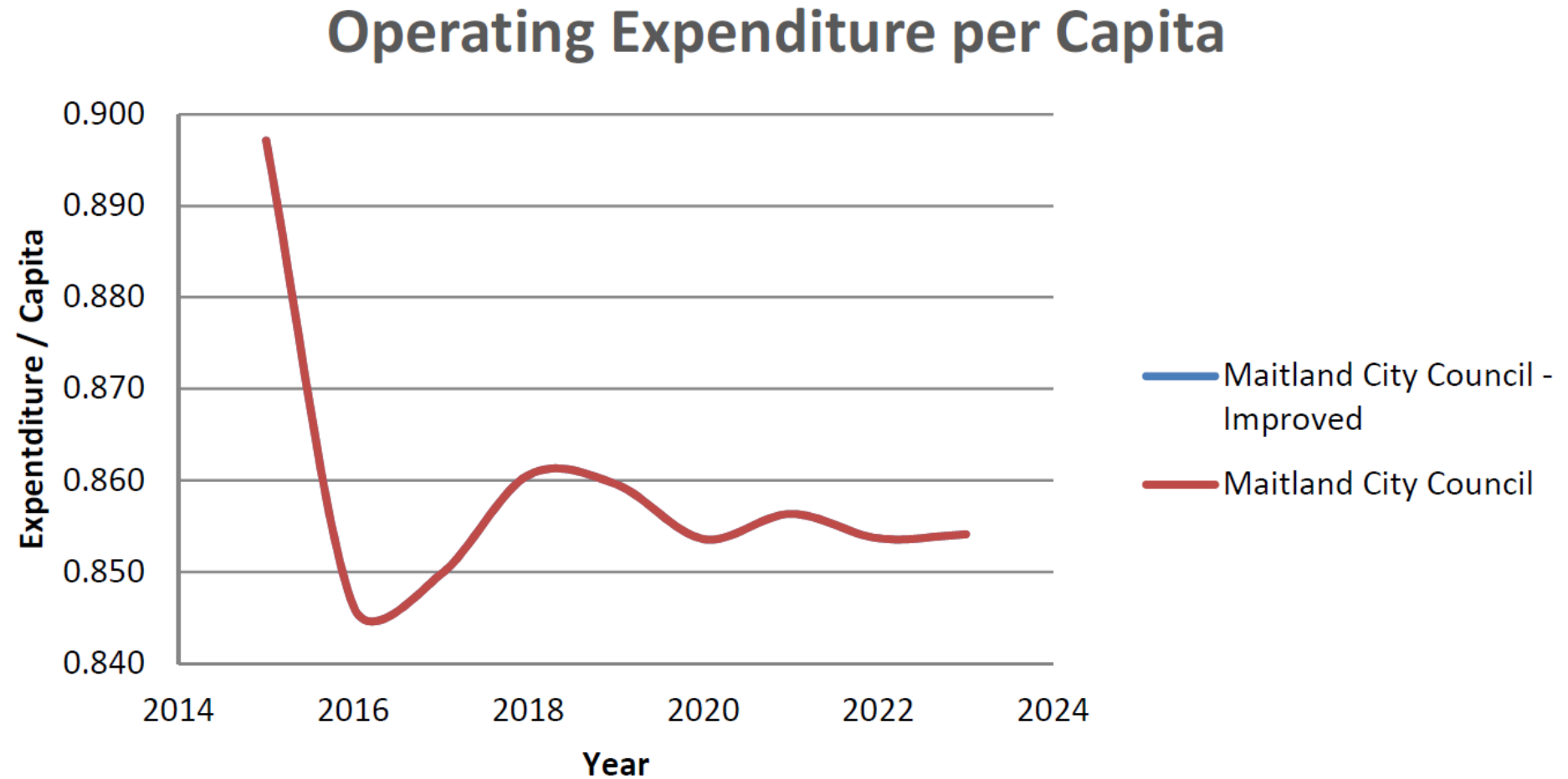
3.3 Efficiency

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.

As demonstrated in Section 2.3, analysis by Morrison Low shows Council is able to meet the efficiency benchmark without any improvements being made. This is testament, however, that the path Council has taken to increase revenue and decrease expenditure over time, and was a fundamental element of Council's approved (IPART 2014) SRV.

Figure 3.3.1 Operating expenditure per capita

Note there is no change to real operating expenditure per capita under the proposed improvements



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

See Section 3.1 – Sustainability –for assumptions.

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Decrease real operating expenditure per capita over time	Continued implementation and review of Productivity Improvement action plan	Annual Actions completed, assessed and reported	Productivity saving equivalent to \$500,000 per annum achieved as modelled	Operating performance maintained above 0% as modelled
	Staging of full service reviews/core activity reviews	Every four years or when triggered by service change	Costs contained	Operating performance maintained above 0% as modelled
	Implement Workforce Plan	Annual actions delivered according to plan	Costs contained	Operating performance maintained above 0% as modelled
	Implement ICT Strategy	Annual actions delivered according to plan	Costs contained	Operating performance maintained above 0% as modelled

	Full implementation of Enterprise Risk Management program	Program actions implemented according to annual plan	Risks identified and managed Costs contained	Operating performance maintained above 0% as modelled
	Continued engagement with the community	Engagement program occurs to annual schedule Outcomes reported to Council Outcomes influence decision-making	Services aligned to community/stakeholder need Prioritisation occurs in line with community expectation	Contingent on policy and resource allocation decisions of the Council

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. Implement and report on priority actions from Productivity Improvement Action Plan to ensure equivalent of \$500,000 per annum	Plan actioned Internal monitoring monthly Annual Report to Council
2. Complete productivity improvement process analysis in Infrastructure and Works Group	Process complete June 17
3. Commence review of asset approach and determining 'cost to satisfactory'	Review complete June 17
4. Implement new corporate information management system	System implementation commenced late 2016
5. Commence implementation of new waste management strategy and service changes	Strategy adopted and service changes agreed June 17
6. Maintain role in Hunter Joint Organisation	Ongoing participation
7. Continue active financial modelling, testing budget assumptions and adjusting of forecasts as needed	Quarterly monitoring and reports to Council Annual Report

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

The development Council's improvement plan was assisted by consultants Morrison Low.

Morrison Low reviewed a range of existing outputs, including Council's most recent SRV application and supporting materials. The development of the plan built from Council's own extensive internal work on service and core activity reviews, as well as its established productivity improvement action plan (PIAP).

It should be noted that Council did not undertake any direct community consultation in the development of this plan. This was a deliberate decision. Council is confident that its position has been determined using extensive community consultation on community expectations for services and service levels as part of its special rate variation application.

Further, this proposal does not involve any change to the services or service levels provided to the community, nor rely on further changes to rating revenues. Thus, it is Council's view that this plan simply documents its already established approach to improving performance over time and meeting its commitments to the 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.

As noted earlier in this plan, Council examined a business case for a merger with Dungog Shire Council, in line with the recommendations of the ILGRP. The business case found that the merger would not see all benchmarks met, and that significant differences exist in the services, service delivery models and service levels of the two organisations. Given the results of modelling, Maitland has proceeded with completing Template 2.

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)	0.0%	-0.4%	0.2%	0.7%	1.2%	1.7%	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	70.8%	74.8%	73.9%	75.4%	77.7%	79.3%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	77.1%	140.0%	175.1%	162.9%	131.4%	100.0%	Yes
Infrastructure Backlog Ratio (Less than 2%)	5.5%	4.8%	3.0%	1.3	1.3%	1.2%	Yes
Asset Maintenance Ratio (Greater than 100% average over 3 years)	61.7%	82.2%	90.8%	100.0%	100.0%	100.0%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	4.6%	5.2%	6.4%	6.7%	6.9%	7.0%	Yes

Real Operating Expenditure per capita (A decrease in Real Operating Expenditure per capita over time)

\$897

\$846

\$850

\$860

\$860

\$854

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.

All benchmarks will be met.

5. Putting your plan into action

How will your council implement your Improvement Action Plan?

The sustaining of Council's performance against Fit for the Future benchmarks will be led by the General Manager, supported by the Executive Leadership and Management teams.

As highlighted throughout this plan, this approach is building from our recent record of efficient and effective service delivery. Internally, processes for monitoring performance are well-established, using industry accepted planning and reporting software. Further, Council has embedded accountabilities for productivity improvement into annual management performance appraisals. Thus, tracking of actions and the results of initiatives are captured, reviewed and ultimately reported to the elected Council and community via Annual Reports.

Further, key actions pertaining to productivity are incorporated into annual Operational Plans. Council has already made a commitment to its community in its seven year rate variation to deliver services sustainably to a growing population over time.

ATTACHMENTS:

- A) Fit for the Future Shared Modelling – Maitland and Dungog Councils
- B) Special Rate Variation Application and Determination 2011/12
- C) Special Rate Variation Application and Determination 2014/15
- D) Maitland +10 Community Strategic Plan
- E) Maitland City Council Fit for the Future Improvement Proposal