







# 1. Introduction

## 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.

Using the Self-Assessment Tool Coffs Harbour City Council is not currently deemed by the benchmarks as 'fit for the future'. In particular, the Operating Performance Ratio result indicates an underlying accrual accounting loss of approximately \$12 million. This situation is not unexpected, as Council since 2011 has been proactive and focussed on developing, adopting and implementing several Financial Sustainability Strategies to become operationally and financially sustainable for the longer term. A summary of the key strategies are as follows:

### Transformation to Sustainability (T2S) Program

The T2S Program will produce efficiencies and cost reductions in service delivery, currently estimated at \$3.2 million per annum after three years. T2S reduces operating costs and invests in asset renewals (capital) (\$2M from 2016/2017 and \$3.2M from 2017/2018).

### Special Rate Variations (SRV)

The three year SRV for the ordinary general rate, of which one year has been implemented and the remaining further two years approved by IPART on 19 May 2015, to generate after three years \$6.2 million in additional revenue dedicated for infrastructure maintenance and renewal.

### Improving Asset Management

Further improving Council's asset management to ensure appropriate policy and accurate information is used will optimise maintenance costs, asset renewals (useful lives), depreciation and the measurement of infrastructure backlog. Improved asset management reduces depreciation by \$4.5M p.a.

A new backlog methodology has also been applied, consistent with the new MIDROC regional approach, to include costs to bring to 'satisfactory' for condition 4 (where renewal is required) and condition 5 (where urgent renewal is required) assets only. This excludes condition 3 assets where maintenance is required, but not renewal.

### Additional Revenue Opportunities

There is potential to identify additional revenue or growth revenue opportunities, such as the returns from Council's commercial business units and the commercialisation of CityWorks. This strategy is being further progressed through the T2S Program; however, at this stage, no additional revenue sources or dividends have been included to support Council's Improvement Proposal.

### Proposed North Coast Joint Organisation (JO)

The proposed North Coast Joint Organisation (JO), which is composed of Coffs Harbour City, Clarence Valley, Bellingen and Nambucca Shire Councils, may present an opportunity to explore shared services which would likely reduce costs and therefore have a positive impact on Council's Operating Performance Ratio and Real Operating Expenditure Per Capita. At this stage, no cost savings or efficiencies have been included to support Council's Improvement Proposal.

It is important to emphasise that not one strategy has been employed to close Council's financial sustainability 'gap' on its own. These strategies outlined in this Improvement Proposal represent a package of measures that together achieve a sustainable Council to deliver the community its current services.

The financial modelling used to generate the benchmarks in this Improvement Proposal, based on Council's existing Financial Sustainability Strategies presents an overall picture, where Council is expected to be able to either meet the Fit for the Future benchmarks or show the necessary improvements required. Council therefore is strongly of the view that it is indeed 'fit for the future'.



## Key Elements of Strategic Capacity

Coffs Harbour City Council can also demonstrate key elements of strategic capacity as follows:

A **more robust revenue base and increased discretionary spending** is demonstrated by a continuing strong own source revenue ratio. The **scope to undertake new functions and major projects** is demonstrated by:

- Coffs CityWorks undertaking major projects for the Roads and Maritime Authority.
- Business units successful operating caravan parks, a laboratory and a regional airport.
- Telecommunication and technology business unit undertaking major projects for other Councils in NSW.

The **ability to employ a wider range of skilled staff** is demonstrated by a workforce of 550 with a diverse skill set and an ongoing ability to attract highly skilled staff due to Coffs Harbour's attractive geographic location.

**Knowledge, creativity and innovation** are demonstrated by:

- The design and development of water infrastructure switchboards that are in demand from Council's across NSW.
- The installation of a fibre optic network to support future technology requirements.
- The Jetty4Shores Project recognised with a Public Engagement and Community Planning Excellence award from the Planning Institute of Australia.
- Council's water supply action plan included as an example of best practice in the NSW Best Practice Management of Water Supply and Sewerage Framework.
- The Clarence Valley Coffs Harbour Regional Water Supply Strategy winning a Project Innovation Award from the International Water Association.

**Effective regional collaboration** is demonstrated by:

- The Councils of Clarence Valley, Coffs Harbour City, Bellingen and Nambucca Shires took the opportunity to pursue the consideration of the Minister for Local Government and the Office of Local Government to be appointed as one of the Pilot Joint Organisations. The four Councils that make up the proposed North Coast JO are keen to progress this matter and have continued to meet periodically to discuss the strategic way forward.





## 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).

#### Key characteristics

Coffs Harbour is a major regional city on the Mid North Coast with a population of approximately 73,000.

The city encompasses a total area of 1,174 square kilometres. The 70 km coastal strip includes three major urban centres. The traditional home of the Gumbaynggirr people, Coffs Harbour has evolved from a humble agricultural centre into a vibrant, coastal city with a broader economy based on tourism, retail, manufacturing and construction, government services, education and the health industry.

Population (2013)	71,798
Average annual population growth (2008-2013)	0.9% (NSW=1.3%)
Unemployment Rate (June quarter 2014)	5.8% (NSW=5.7%)
Per capita income (2010/11)	\$20,051 (NSW=\$25,846)
Average Wage (2011 Census)	\$40,300 (NSW= \$53,917)
Median age (2011 Census)	42.5 (NSW=37.8)
Population over 55 (2011 Census)	32.3% (NSW=26.4%)

## Community Goals and Priorities

The local community has articulated its goals and priorities through the five themes of the Coffs Harbour 2030 Community Strategic Plan:

- We are a prosperous and learning community. We are recognised as a model of sustainable business and industry with a strong and diverse local economy. We have a lively and diverse city centre. We have excellent education and lifelong learning opportunities that reflect our community values.
- Our communities are healthy, informed and engaged. We are healthy and strong. We are engaged and connected and work together to live sustainably. We enjoy a comprehensive range of community, artistic and cultural opportunities.
- Our natural environment is protected and conserved for future generations. We understand and value our unique natural environment and its cultural connections. We protect and restore our environment to conserve its unique biodiversity for future generations. We manage our resources and development sustainably.
- We are moving around easily, safely and sustainably. We make best use of an excellent, environmentally friendly public transport system. Many of us walk and cycle from place to place. We are well connected to each other and services.
- Our built environment connects us and supports us in living sustainably. We have designed our built environment for sustainable living. We have created through our urban spaces, a strong sense of community, identity and place. We have vibrant rural communities.
- Recent engagement initiatives have demonstrated the community's desire for Council to maintain its current infrastructure service levels despite resourcing issues and community aspirations for the enhancement of cultural facilities.

## Future Challenges

- Coffs Harbour has an ageing population presenting challenges including the provision of health, housing and other specialist services and creating local workforce issues.
- Funding for current infrastructure and services is a challenge requiring the ongoing review of service levels, delivery and resourcing. This challenge will increase as projected population growth creates matching demand for services and infrastructure.
- Climate Change represents a significant challenge. The assessment and mitigation of risk, associated with the city's extensive coastline and estuary systems, will require ongoing investment across the community.
- Traffic congestion will continue to worsen in the absence of a Pacific Highway bypass of Coffs Harbour.





## 2.3 Performance Against The Fit For The Future Benchmarks

Sustainability				
Measure/ benchmark	2013/2014	Achieves FFTF benchmark?	Forecast 2016/2017 performance	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-17.72%	No	-6.89%	No
<b>Own Source Revenue Ration</b> (Greater than 60% average over 3 years)	73.30%	Yes	76.42%	Yes
<b>Building and Infrastructure Asset Renewal Ratio</b> (Greater than 100% average over 3 years)	37.16%	No	86.34%	No-Improving

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

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

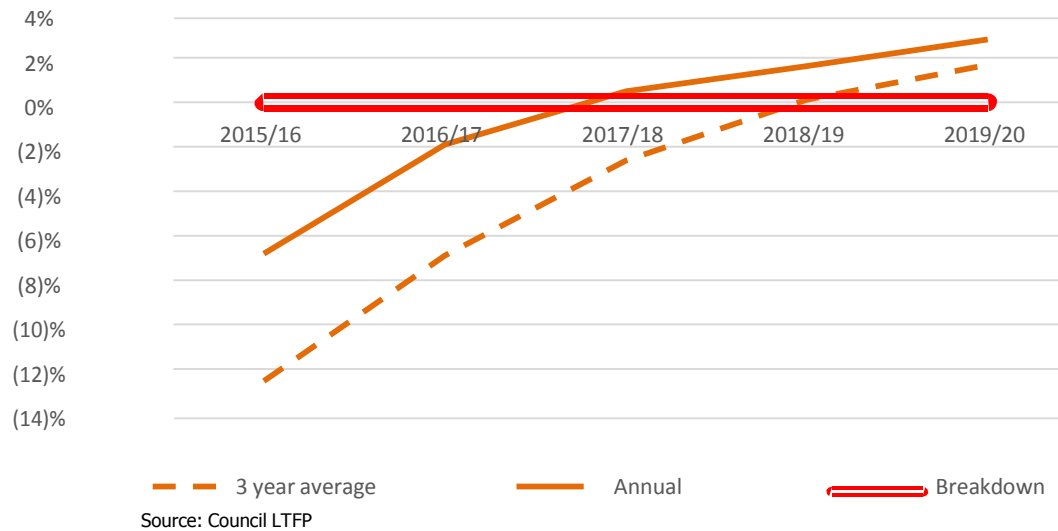
## Operating Performance Ratio

Council has operated with a negative Operating Performance Ratio since 2007/08 and this has been exacerbated by:

- Ongoing cost shifting from other tiers of government;
- Ongoing rate pegging at levels below relevant cost indices;
- Increased demands from the community for new services; and
- Improved recognition of assets and therefore increasing depreciation expense;

However, since 2011 Council has recognised its financial sustainability challenges and has taken proactive and substantive action to address the issue. As a consequence the operating deficit (before capital grants and contributions) is estimated at \$6.9 million in 2015/16, improving to a deficit of \$2.0 million in 2016/17 and returning a surplus in 2017/18 of \$0.6 million. The 3 year averaging shows a positive result in 2018/19 of 0.13%.

**Figure 2.3.1: Operating Performance Indicator, 2015/16-2019/20**



***Council achieves the requirement of 'must meet within 5 years' in relation to at least a break even operating position.***







## Infrastructure Backlog Ratio

The Infrastructure Backlog Ratio is widely recognised as being highly subjective in its measurement with the approach differing between Councils. Specific concerns with this ratio measurement are:

- The ratio contains the highly subjective component, Estimated Cost to bring Assets to a Satisfactory Condition. There is no consistency in the measurement of this across Local Government;
- The inclusion of Condition 3 assets in the ratio is spurious as the definition for these is that maintenance is required and not renewal. Renewal is only required for Conditions 4 and 5 and this should be the focus of this ratio; and
- The use of Written Down Value is inappropriate in an infrastructure sustainability measure as it is likely to lead to inconsistent and potentially unreliable policy decisions.

Coffs Harbour City Council as part of the Mid North Coast Regional Organisation of Councils (MIDROC) has developed a Regional Infrastructure Strategy, including an improved methodology for measuring the infrastructure backlog, which states:

*Asset condition is an objective measure (i.e. that can and should be consistent between councils) whereas “satisfactory” is a subjective measure (i.e. that must be determined by each community as part of IPR). This will differ between councils, and even within a council for different roads (e.g. a CBD road needs renewal at condition 3 whereas a rural road servicing two properties may be “satisfactory” up to the point of physical failure).*

*Ideally, asset condition and what is “satisfactory” should line up (i.e. an asset in condition 4 should need replacement). This is the assumption behind the OLG condition rating methodology in the IPR Manual; however, this is not the case at many councils. This is the reason the backlog is overstated and largely meaningless.*

*“Recalibration” of condition rating methodologies (e.g. increasing roughness and cracking scores necessary for a road to be as “condition 4”) is problematic. Data held by many councils is limited and the “trigger points” for what is satisfactory are influenced by many factors.*

*Anyway, changing condition scales so they align with renewal programs risks rendering comparisons of condition over time meaningless (because a condition 4 ten years ago is different to a condition 4 now). Understanding these trends is vital if we are to formulate predictive models of deterioration so as to forecast the required renewal funding.*

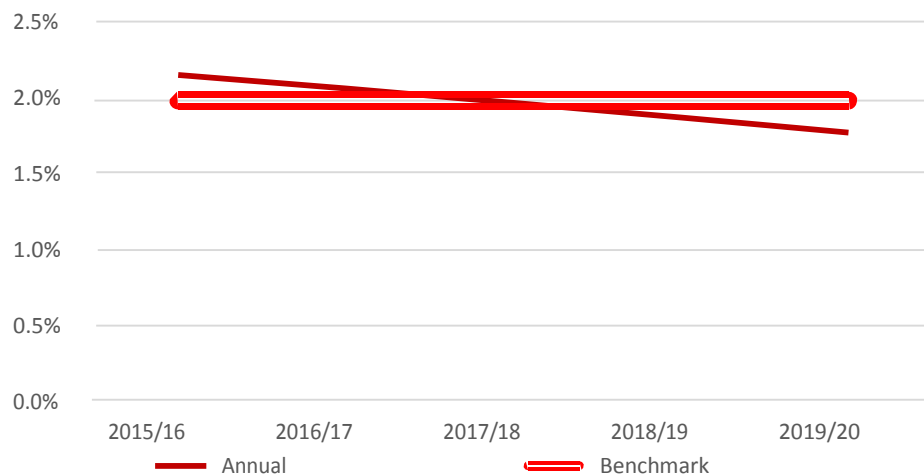
Instead MIDROC councils have endorsed a definition of “satisfactory” infrastructure based on why an asset is unsatisfactory. **Satisfactory infrastructure provides:**

- an **affordable level of service**
- at **minimum life cycle cost** and
- an **acceptable risk.**

Each of these factors can “trigger” an asset being deemed “unsatisfactory”. While asset condition is one of the most valuable pieces of information to determine whether or not an asset is “unsatisfactory”, it does not itself determine it. Each “trigger” may occur at a different point in the life cycle (a different asset condition)...

Coffs Harbour City Council plans to adopt this methodology moving forward once the necessary data is gathered and analysed. In the meantime Council has applied condition categories 4 and 5 as a proxy measure, consistent where asset renewal is likely. This reduces the Infrastructure Backlog Ratio to a realistic level of just over 2% in 2017/18. This continues on a declining trend as increased levels of asset renewal occur over coming years, funded from the recent Special Rate Variations.

**Figure.3.3: Infrastructure Backlog Indicator, 2015/16-2019/20**



Source: Council LTFP

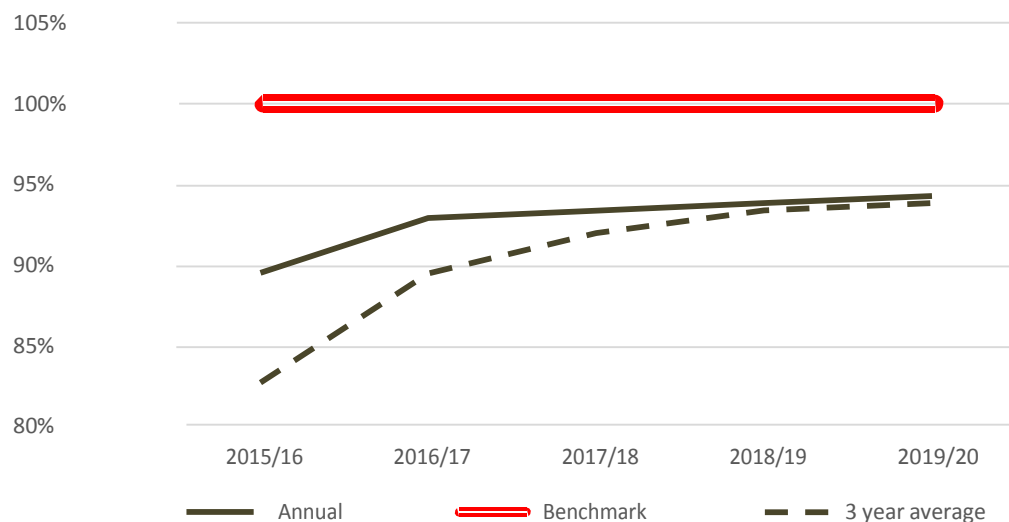
**Council achieves the requirement to ‘meet or improve/inform within 5 years’ in relation to the less than 2% benchmark.**



## Asset Maintenance Ratio

As with asset renewals Council's historic level of asset maintenance expense has been somewhat lower than the required levels. This has again been assessed and will be funded through the recent Special Rate Variations. Although the Asset Maintenance Ratio is still less than the benchmark of greater than 100% average over 3 years, it is considered at the required level for the sustainable management of Council's infrastructure. The level of this ratio cannot be considered in isolation from Building and Infrastructure Renewal Ratio and a correctly measured Infrastructure Backlog Ratio as the treatments applied to assets for ensuring the continued satisfactory provision of levels of service vary with a combination of maintenance, renewal and upgrade works.

**Figure 3.4: Asset Maintenance Financial Indicator, 2015/16 to 2019/20**



Source: Council LTFP

**Council achieves the requirement to 'meet or improve/inform within 5 years' in relation to the 100% benchmark.**

## Efficiency

Measure/ benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/2017 performance	Achieves FFTF benchmark?
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	2009/10 1.170 2010/11 1.255 2011/12 1.179 2012/13 1.351 2013/14 1.308 Increasing	No	2012/13 1.470 2013/14 1.423 2014/15 1.318 2015/16 1.307 2016/17 1.281 Decreasing	Yes

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

Although Council meets Efficiency benchmark, this is only forecast to occur from 2016/17 once expenditure normalises following the implementation of T2S and SRV strategies.

The proposed North Coast Joint Organisation (JO), which is composed of Coffs Harbour City, Clarence Valley, Bellingen and Nambucca Shire Councils, may present an opportunity to explore shared services which would likely have a positive impact on this ratio in the longer term.

## 2.4 Water Utility Performance

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

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

**Yes**

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

**\$2,439,000**

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
Wastewater Pump Stations, Mechanical Equipment and Rising Mains- New and Upgrade Works	2016/17	\$1,751,000	\$311,000 S64 contributions
	2017/18	\$1,804,000	Nil
	2018/19	\$1,858,000	\$23,000 S64 contributions
	2019/20	\$1,951,000	\$75,000 S64 contributions
	Total	\$7,364,000	\$409,000
Reticulation Mains from strategy	2016/17 – 2019/20	\$3,091,000	Fully funded by S64 contributions
Mains Renewals Water	2016/17	\$1,200,000	\$254,500 S64 contributions
	2017/18	\$1,248,000	\$264,000 S64 contributions
	2018/19	\$1,298,000	\$666,000 S64 contributions
	2019/20	\$1,350,000	\$704,000 S64 contributions
	Total	\$5,096,000	\$1,888,500
Sewer Rehabilitation	2016/17 – 2019/20	\$2,400,000	Fully funded by S64 contributions

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

**No**

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

Both the Water and Sewerage Funds have undertaken massive programs of capital works in recent years. Capital expenditure has been in excess of \$300M. These works have been essential to maintain the viability of the Coffs Harbour LGA in providing environmentally compliant water and sewerage infrastructure and capacity for the city's future growth. Work is soon to be completed on the final project of this program: the decommissioning of the Sawtell Sewerage Treatment Plant and the construction of a sewerage trunk main from Sawtell to Coffs Harbour.

This unprecedented program has been funded by a combination of loan funds, developer contributions, reserve funds and grants. Loan funds have been the major source with \$221M borrowed.

Water and Sewerage charges have been held to reasonable increases in recent years, despite the large increase in loan repayments. This has been achieved by using the cash reserves of each fund to meet annual budgeted cash deficits.

Although the Net Operating Result is positive for both Funds, once capital grants and contributions are removed, the results are currently in a loss position. The Operating Performance Ratio (not averaged) for each fund and combined for the Fit for the Future period are as set out below.

<b>Fund</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Water	-20.0%	-17.9%	-18.7%	-16.8%	-15.6%	-13.1%	-8.3%
Sewerage	-19.9%	-16.3%	-13.5%	-13.8%	-14.7%	-13.2%	-11.9%
Water & Sewerage	-19.9%	-17.0%	-15.6%	-15.0%	-15.1%	-13.1%	-10.3%

The decrease in the losses over time is achieved primarily due to reducing loan interest but also due to growth in assessments and developer contributions. The debt for the major capital program is scheduled to be fully repaid by 2029/30.

However, to address community concerns around affordability in relation to Council's recent Special Rate Variation, the water and sewerage annual charges have been frozen for the three years 2015/16 to 2017/18. Updated financial modelling of Council's Water and Sewerage Funds has revealed that this reduction in revenue can be accommodated over coming years. This approach provides a balance between Council's need to maintain public assets appropriately while also being able to continue to provide services. Although this causes a slowing of the improvement trend both funds will eventually reach a break-even position and eventually generate operating profits to enable appropriate dividends to be paid to the General Fund.

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
<b>1. Levels of Service</b> a) Monitor performance against levels of service b) Identify deficiencies and implement remedial actions	Annually  2016  2016  2018	a) Improve the existing monitoring system and review performance and prepare report b) Implement remedial actions and implement Drinking Water Quality Management Plan - Improvement Plan c) Implement actions from Strategic Business Plan d) Prepare and implement Integrated Water Cycle Management Strategy
<b>2. Areas Serviced</b> a) Ensure appropriate plans and policies in place b) Identify future urban release areas and plan infrastructure c) Include in capital works and financial plan	Annual  2018	a) Implement Coffs Harbour City Council's capital works findings of the strategies for urban release areas b) Develop Water and Wastewater Developer Services Plans
<b>3. Demand Management (Water Supply)</b> Ensure continuation of Demand Management Strategy	Annual 2016	a) Continue water efficiency measures b) Review and update Demand Management Plan and measures
<b>4. Inflow/Infiltration Management (Sewerage)</b> Implement inflow/ infiltration reduction program in accordance with investigation report	2016 to 2020	Investigate and reduce wet weather inflow and infiltration to performance target levels in sewerage system



Strategy	Timeframe	Anticipated outcome
5. <b>Reclaimed Water</b> Manage the reuse scheme effectively	2016  2016 2016  2018	a) Implement Reclaimed Water Management Plan - Improvement Plan b) Implement charging for recycled water c) Continue to review and update recycled water agreements d) Prepare and implement Biosolids Management Emergency Plan
6. <b>Pricing</b> Review and update pricing structure annually	2018  Annually  Annually	a) Review and update Water and Wastewater Developer Services Plans b) Review long term price path towards achievement of full cost recovery and ultimately a surplus position with appropriate dividends to the General Fund c) Review the budget
7. <b>Customer Satisfaction</b> Implement remedial actions to reduce customers complaints	Ongoing  Ongoing	a) Review complaints and take appropriate action b) Ensure industry service standards and KPIs are met
8. <b>Community Consultation</b> Ensure community consultation is built into the project implementation plan	Ongoing	Ensure effective community consultation regarding major decisions using Council's Consultation Policy

Strategy	Timeframe	Anticipated outcome
<p>9. <b>Environment Protection and Sustainable Development</b></p> <p>a) Undertake environmental assessment of all significant and legislative activities (operational, maintenance and capital works)</p> <p>b) Ensure the actions comply with the determination of the environmental assessment</p>	<p>Ongoing</p> <p>Ongoing</p> <p>2016</p> <p>Ongoing</p>	<p>a) Monitor impact of existing works and where the impact is not acceptable, implement works to reduce impacts.</p> <p>b) Meet all environmental licences conditions and Pollution Reduction Programs</p> <p>c) Develop and implement water and sewerage Environmental Management System</p> <p>d) Develop and maintain a Due Diligence Program</p>
<p>10. <b>Operations</b></p> <p>a) Monitor the performance of the system operations</p> <p>b) Implement continuous improvement processes</p> <p>c) Operate the schemes in accordance with documented operational procedures</p>	<p>Ongoing</p> <p>Annually</p> <p>2016</p> <p>2016</p> <p>2016</p>	<p>a) Maintain and update the telemetry system</p> <p>b) Review and optimise sewerage quality monitoring requirements</p> <p>c) Develop and implement odour and septicity control strategy</p> <p>d) Continue to develop asset condition assessment</p> <p>e) Prepare and implement Total Asset Management Plan to ensure optimal operational levels and maintenance intervention.</p>
<p>11. <b>Maintenance</b></p> <p>Maintain the systems in accordance with maintenance schedules.</p>	<p>2016</p> <p>2016</p> <p>2016</p>	<p>a) Implement Water and Wastewater Asset Criticality Assessment Plans</p> <p>b) Prepare and implement Total Asset Management Plan</p> <p>c) Implement Water and Wastewater Asset Management Plan - Improvement Plans to ensure appropriate maintenance versus renewal planning and cost/benefit assessment</p>

Strategy	Timeframe	Anticipated outcome
<p>12. <b>Capital Works</b></p> <p>a) Revise the capital works program with reference to the Water Supply and Sewerage Strategy Studies</p> <p>b) Construct the necessary capital works to ensure that existing and future demands can continue to be met at the agreed Levels of Service within financial constraints.</p>	<p>2016</p> <p>2016 to 2020</p> <p>Ongoing</p> <p>Ongoing Annually</p> <p>Annually</p>	<p>a) Review Water Supply and Sewerage Strategy Studies</p> <p>b) Continue to develop water and sewerage hydraulic models</p> <p>c) Revise the capital works program utilising advanced asset management based on Asset Management Plans, including condition assessment</p> <p>d) Implement Sewerage rehabilitation program</p> <p>e) Construct reclaimed water mains as in program</p> <p>f) Implement water mains renewals program</p>
<p>13. <b>Works Force Planning</b></p> <p>a) Define water and sewerage tasks and skills required to deliver Level of Service</p> <p>b) Ensure that job descriptions are kept up to date</p> <p>c) Train and recruit as required</p>	<p>2015 to 2017</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>	<p>a) Implement Transformation to Sustainability organizational structure</p> <p>b) Ensure that job description are kept up to date</p> <p>c) Develop succession plans</p> <p>d) Develop and implement training plan</p> <p>e) Recruit appropriate staff</p>
<p>14. <b>Finance</b></p> <p>a) Undertake financial planning to support operation</p> <p>b) Maximise income from grants</p>	<p>Annually</p> <p>Ongoing</p>	<p>a) Undertake financial planning to support operation, including reviewing long term price path towards achievement of full cost recovery and ultimately a surplus position with appropriate dividends to the General Fund</p> <p>b) Monitor availability of grants and apply when available</p>

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

## 3.1 Sustainability

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

Council's Transformation to Sustainability (T2S) Program, in conjunction with the Special Rate Variation (SRV) approved in May 2015, sets the platform for the future financial performance of Council.

### Transformation to Sustainability (T2S) Program

During 2013/14 Council engaged independent consultants to undertake an organisation diagnostic. The approach taken by the consultants was a strategic review of Council using international standards and benchmarks for well-governed organisations delivering high quality public services. The independent review resulted in a business case identifying opportunities for improvement to ensure improved service delivery and long term financial sustainability along with a detailed organisation diagnostic report with 32 recommendations.

The improvement journey Council has embarked on over the next three years is titled the Transformation to Sustainability (T2S) Program. This involves examining Council's internal and external services, systems, processes, financials and resources with a view to identifying areas for sustainable improvement.

The adopted T2S improvement strategy consists of three steps to achieve financially sustainable service provision that meets community expectations:

1. Improving short term financial viability by reducing the annual operating deficit without reducing services to the community. The design of new operating models across the organisation and development of new operating structures for each group within the organisation will enable Council to put in place a framework for sustainable service delivery and result in the identification of excess staff capacity.
2. Developing long term financial sustainability by fundamentally transforming the way the organisation works. This will be achieved by implementing the 32 recommendations identified in the organisation diagnostic which are focused on Council's strategy and vision and improving Council's strategic planning framework, leadership and organisational culture and managing performance. Key steps in the strategy to improve sustainability include the establishment of a service quality framework, reengineering business processes across the entire organisation and identification of procurement savings opportunities. This will result in efficient and sustainable business practices and identification of further excess staff capacity.

3. Developing continuous improvement and innovation within Council will be implemented after steps 1 and 2 have been completed. This will be ongoing and largely driven by the leadership development and cultural change program currently being undertaken.

The current focus of the T2S program is establishing the permanent staff structure which is forecast to generate \$2.6 million in ongoing annual savings as a result of reducing identified excess staff capacity and business process reengineering. A further \$750,000 in ongoing annual savings are projected through improved procurement methods.

During the 2014/2015 financial year annualised savings of \$866,000 have been realised in the first 8 months of the Program through the restructure of Levels 2 to 4 in the organisational structure. The Program is therefore on target to deliver the \$3.2M of annualised savings at the end of the three years.

For modelling purposes T2S reduces operating costs and invests in asset renewals (capital) (\$2M from 2016/2017 and \$3.2M from 2017/2018). Employee costs have been indexed at 3% p.a. and Material and Contracts indexed at 2.5% p.a. In terms of the Sustainability benchmarks this:

- improves the Operating Performance Ratio; and
- improves the Building and Infrastructure Asset Renewal Ratio.

### Special Rate Variations (SRV)

The three year SRV for the ordinary general rate, of which one year has been implemented and the remaining further two years approved by IPART on 19 May 2015, to generate after three years \$6.2 million in additional revenue dedicated for infrastructure maintenance and renewal. For modelling purposes the SRV increases revenue (growing to \$6.2M by 2016/2017) and invests in asset renewals (capital) and increases asset maintenance costs. In terms of the Sustainability benchmarks this:

- improves the Operating Performance Ratio;
- improves Own Source Revenue; and
- improves the Building and Infrastructure Asset Renewal Ratio.

## Improving Asset Management

Further improving Council's asset management to ensure appropriate policy and accurate information is used will optimise maintenance costs, asset renewals (useful lives), depreciation and the measurement of infrastructure backlog. For modelling purposes improved asset management reduces depreciation by \$4.5M p.a.

A new backlog methodology has also been applied, consistent with the new MIDROC regional approach, to include costs to bring to 'satisfactory' for condition 4 (where renewal is required) and condition 5 (where urgent renewal is required) assets only. This excludes condition 3 assets where maintenance is required, but not renewal. In terms of the Sustainability benchmarks this:

- improves the Operating Performance Ratio; and
- improves the Building and Infrastructure Asset Renewal Ratio;

## Additional Revenue Opportunities

There is potential to identify additional revenue or growth revenue opportunities, such as the returns from Council's commercial business units and the commercialisation of CityWorks. This strategy is being further progressed through the T2S Program; however, at this stage, no additional revenue sources or dividends have been included in the modelling to support Council's Improvement Proposal.

## Proposed North Coast Joint Organisation (JO)

The proposed North Coast Joint Organisation (JO), which is composed of Coffs Harbour City, Clarence Valley, Bellingen and Nambucca Shire Councils, may present an opportunity to explore shared services which would likely reduce costs and therefore have a positive impact on Council's Operating Performance Ratio. Although Council is supportive of exploring the JO concept, the arrangements for JOs are yet to be legislated and the necessary policy decisions from the proposed member Councils are yet to be taken. Therefore, at this stage, no cost savings or efficiencies have been included in the modelling to support Council's Improvement Proposal.

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 key assumption that underpins the strategies and expected outcomes is continuing to achieve the savings and milestones from the T2S Program. The actual savings realised to date provide confidence that they can be achieved. Other assumptions are:

1. The containment of employee cost increases to 3% per annum and materials and contracts cost increases to 2.5% per annum;
2. The full levying of the SRV granted by IPART in 2016/17; and
3. The reduction in depreciation by \$4.5M from improved asset management, particularly in relation to the application of more accurate unit rates and useful lives.

Outline your strategies and outcomes in the table below.

Sustainability				
Objective	Strategies	Key Milestones	Outcomes	Impact on other measures
1. T2S Program - Improve Council's short term viability	<ul style="list-style-type: none"> <li>a) Design new business operating models for each group across the organization.</li> <li>b) Develop a new operating structure for each group across the organization.</li> </ul>	<ul style="list-style-type: none"> <li>New operating model developed by 30/6/15.</li> <li>New operating structure approved by 30/9/15.</li> </ul>	<ul style="list-style-type: none"> <li>Framework for sustainable service delivery.</li> <li>Identification of excess staff capacity.</li> </ul>	Positive impact on operating performance ratio and real operating expenditure per capita.
2. T2S Program – Develop Council's long term financial sustainability	<ul style="list-style-type: none"> <li>a) Establish a Quality Framework for each Group.</li> <li>b) Reengineer business processes across the entire organisation, including implementation of Enterprise Planning (ERP) software.</li> <li>c) Identify procurement savings opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Quality Framework to be implemented across groups by 31/12/15</li> <li>Assess current state processes by 31/10/15.</li> <li>Identify improvement opportunities by 4/11/15.</li> <li>Design future state processes by 25/11/15.</li> <li>Implement future state processes by 21/12/15.</li> </ul>	<ul style="list-style-type: none"> <li>Ability to measure group performance.</li> <li>Development of efficient and sustainable business processes across each group in the organization.</li> <li>Identification of excess staff capacity.</li> <li>Improve procurement processes and ongoing cost savings through</li> </ul>	Positive impact on operating performance ratio and real operating expenditure per capita



Objective	Strategies	Key Milestones	Outcomes	Impact on other measures
		<p>Review existing expenditure and procurement framework by 30/9/15.</p> <p>Establish new procurement framework by 15/2/16.</p>	category management and supply chain rationalisation.	
3. T2S program – Deliver continuous improvement and innovation	<p>a) Leadership development and cultural change program</p> <p>b) Explore new opportunities for innovation in service delivery.</p>	<p>Completion of leadership development program phase 1 by 15/3/15.</p> <p>Ongoing improvement and innovation.</p>	<p>Leadership group with increased competencies and behavioural improvements to ensure change is both effective and sustainable.</p> <p>Improve sustainable service delivery to the community.</p>	Positive impact on operating performance ratio and real operating expenditure per capita.
4. Implement SRV funded asset maintenance and renewal program.	<p>a) Levy SRV</p> <p>b) Implement works program</p>	Delivery program adoption June 2015 and June 2016 and ongoing.	<p>Funding stream established.</p> <p>Works program delivered.</p>	Positive impact on operating performance ratio, building and asset renewal ratio and infrastructure backlog ratio.

## T2S Program Implementation Status

A summary of the status of implementation of the 32 recommendations in the T2S Program, as at May 2015, is as follows: R8

Reassess the organisation values ✓

R9 Develop and implement a leadership development program- Phase 1 ✓

R12 Develop a vision of the administration of the future ✓

R13 Formalise the internal change program using program management methodology and governance ✓

R14 Establish a formal program management office (PMO) ✓

R21 Establish a new transformational change program building on previous improvement initiatives ✓

R22 Establish an “Invest to Save” bank ✓

R24 Establish a corporate project management methodology and protocols overseen by the Program Management Office (PMO) ✓

R32 Introduce a Corporate Information Management Board ✓

R25 Reengineer all processes **In Progress**

## 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.

### Transformation to Sustainability (T2S) Program

The T2S Program will produce efficiencies and cost reductions in service delivery, currently estimated at \$3.2 million per annum after three years. For modelling purposes T2S reduces operating costs and invests in asset renewals (capital) (\$2M from 2016/2017 and \$3.2M from 2017/2018). In terms of Infrastructure and Service Management benchmarks this:

- improves the Infrastructure Backlog Ratio.

### Special Rate Variations (SRV)

The three year SRV for the ordinary general rate, of which one year has been implemented and the remaining further two years approved by IPART on 19 May 2015, to generate after three years \$6.2 million in additional revenue dedicated for infrastructure maintenance and renewal. For modelling purposes the SRV increases revenue (growing to \$6.2M by 2016/2017) and invests in asset renewals (capital) and increases asset maintenance costs. In terms of Infrastructure and Service Management benchmarks this:

- improves the Infrastructure Backlog Ratio; and
- improves the Asset Maintenance Ratio.

## Improving Asset Management

### Regional Collaboration

It is widely recognised that the reliability of infrastructure data within NSW local government is mixed. This brings into question comparisons between councils based on figures reported in Special Schedule 7 and elsewhere (particularly depreciation) which inform *Fit for the Future* ratios and also the auditability of these figures.

The “talking apples and apples about infrastructure” project was initiated by Coffs Harbour City Council within MIDROC specifically to address this issue and as such the project will positively influence all infrastructure related ratios. The project has been recognised as a case study that can help other regions address this issue and it is expected that the principles and many of the outcomes will be applied across the state.

The first component of the project is the development of a consistent methodology for asset condition, valuation, levels of service, backlog and required maintenance. The expected outcomes are consistency of reporting on assets between councils (improving the validity of benchmarking via *Fit for the Future* ratios) and confidence in the figures reported. The outcomes at the regional level will inform, and be informed by, Council’s own strategies as discussed below.

The second element of the project involves undertaking an Asset Management Maturity Assessment for each council (based on the National Assessment Framework for Local Government Asset Management and Financial Reporting – refer implementation proposal by ACELG, 2012) to establish a snapshot of asset management practices across the region that will inform a Regional Asset Management Strategy to be implemented by the MIDROC Asset Management Working Group (held accountable by regular reporting to MIDROC Mayors and GMs).

The expected outcomes arising from the second component are more rapid improvement in asset management capability and capacity as a result of collaboration and sharing best practice, as well as reduced duplication and increased economies of scale created by joint initiatives in both asset management planning and, potentially, infrastructure-related service delivery.

### Reducing the Backlog

With regards to reducing the backlog, Council is particularly focused on public roads, not only given the revaluation of transport assets is occurring this year, but also because this asset class represents 61% of the WDV of assets and 81% of the backlog for the General Fund. That said, the same principles are being applied to other asset classes.

The work Council is undertaking is informing, and will be informed by, the “talking apples” project through MIDROC.

The basic strategy is that Council is differentiating between asset renewal projects that are urgent (having regard to a range of risk drivers such as traffic speed, volume, the type of hazard, etc.) and those which can be programmed for completion within the short to medium term horizon. The former – deemed “unsatisfactory” – will be retained in reporting as the “backlog” and the latter will be recorded and reported via Council’s Asset Management Plans.

It is important to note (with reference to the commentary on Report on Infrastructure Assets i.e. Special Schedule 7 contained in the OLG Code of Accounting Practice update 22) that this policy approach is supported by Council’s Community Engagement Regarding Levels of Service undertaken in 2013, where a statistically-significant reference panel gave clear feedback to Council that, having regard to the costs of service delivery, they agreed to retain current levels of service across the network as a whole.

Thus, assets falling below a previous-defined standard (based on condition) are not “backlog” because the community has agreed to accept a certain percentage of the network (actual locations will change as the highest priority works are undertaken and other roads deteriorate over time) being in relatively poor condition.

However, in order to ensure that Council complies with its obligations under the NSW Civil Liabilities Act, 2002 (i.e. to assess risks and allocate its limited resources having regard to these) a relatively small percentage of assets will remain classified as “backlog” because they represent an “unsatisfactory” risk.

In addition to this portion of backlog arising from safety risk, it is anticipated that another category of backlog based on “economic risk” will be retained e.g. where some works should be undertaken as at the reporting date so as to avoid significantly higher renewal costs being incurred by Council in future (i.e. an unsustainable way to manage assets). Examples of assets presenting an “economic risk” are resealing of sealed roads to avoid rapid deterioration because of water ingress (meaning the road structure / pavement does not reach its assumed useful life / design life) or renewal of the roof of a building to avoid damage to the remainder of the structure (leading to far greater expense).

Council’s approach to reducing the backlog will be tempered via a “reasonableness” test by benchmarking against other MIDROC councils as part of the “talking apples” project.

The expected outcome of this approach will be a substantial reduction in the numerator of the infrastructure backlog ratio in the 2015/16 reporting year.

By focusing renewal expenditure on these assets identified as being “high risk” (i.e. unsatisfactory) and with a continued increase in funding for infrastructure renewal (via the Special Rate Variation agreed to by the community as part of the 2013 Community Engagement process) Council is confident in being able to significantly reduce the quantum of the backlog, and therefore the infrastructure backlog ratio, further.

### Improving Asset Maintenance

Council recognises the importance of preventative maintenance, particularly in order to ensure that assets reach their anticipated useful life / design life.

It is worthy of note, again, that as part of Council's Community Engagement Regarding Levels of Service from 2013, the community agreed to pay more for infrastructure maintenance via a Special Rate Variation in order to maintain current levels of service.

Council has made significant investments in the implementation of the Reflect maintenance management system (particularly for roads, but it is being rolled out across other asset classes) including GPS enabled mobile technology to that means maintenance activities are carried out more efficiently and also gathering data on assets requiring significant maintenance (which then informs renewal programs).

Over the medium term these initiatives, together with a focus on assets having a high maintenance cost (and those presenting an economic risk to Council) it is expected that both the cost of maintenance (the numerator) and required maintenance (the denominator) will decrease, thereby improving the result in the asset maintenance ratio.

### Improving Infrastructure Program Management

Council has established an infrastructure program management function with primary responsibility for delivering infrastructure related works programs through both internal and external service providers.

This has resulted in better forward programming and specification of works (doing the right treatment to renew assets), improved information being fed back to the strategic asset planning function (to refine future works programs) and greater accountability for internal service providers (decreasing costs of infrastructure maintenance and renewal).

Improved program management improves all infrastructure-related ratios including:

- Operating performance ratio, because depreciation is reduced by increasing useful life and decreasing renewal cost (both a focus of program management engineers for each asset class)
- Building and asset renewal ratio, because depreciation is reduced
- Infrastructure backlog ratio, because the "backlog" will be better targeted for reduction and the cost of renewal works (by both internal and external providers) will reduce

- Asset maintenance ratio, because actual maintenance costs will reduce as a result of greater accountability
- Real operating expenditure will reduce because of better program management

#### Improving the Competitiveness of Internal Service Provision

Council has also established its works department, CityWorks, as a commercialised business unit. In addition to providing services to council, CityWorks provides services to a range of state government and private customers (e.g. \$8.5M reconstruction of Cook Drive and Pacific Highway under an Alliance Contract with RMS, multi-million dollar projects to relocate water and sewerage mains for Leighton-Fulton Hogan Joint Venture and RMS, road and bridge construction for Bellingen Shire Council).

This exposure to the market is improving competitiveness and building capacity, which then applies to works carried out for council thereby reducing the unit cost of renewal works (meaning more work can be completed for current funding) to address “unsatisfactory” assets and therefore reducing the infrastructure backlog ratio.

#### Summary

Further improving Council’s asset management to ensure appropriate policy and accurate information is used will optimise maintenance costs, asset renewals (useful lives), depreciation and the measurement of infrastructure backlog. For modelling purposes improved asset management reduces depreciation by \$4.5M p.a.

A new backlog methodology has also been applied, consistent with the new MIDROC regional approach, to include costs to bring to ‘satisfactory’ for condition 4 (where renewal is required) and condition 5 (where urgent renewal is required) assets only. This excludes condition 3 assets where maintenance is required, but not renewal. In terms of Infrastructure and Service Management benchmarks this:

- improves the Infrastructure Backlog Ratio; and
- improves the Asset Maintenance Ratio.

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

Included in above commentary.

Outline your strategies and outcomes in the table below.

Infrastructure and Service Management				
Objective	Strategies	Key Milestones	Outcomes	Impact on other measures
1. Challenge the validity of current assumptions informing asset valuation	<ul style="list-style-type: none"> <li>a) Undertake a benchmarking exercise against other councils and industry experts to review useful life and renewal cost of all transport assets.</li> <li>b) Adopt revised values for useful life and replacement cost</li> </ul>	Completion of revaluation by June 2015.	It is expected that useful lives will increase, increasing WDV (denominator in infrastructure backlog ratio) and therefore improving the result.	The most significant impact is expected to be a reduction in depreciation, and therefore operating expenses (increasing the numerator in operating performance ratio and denominator in building and asset renewal ratio) and therefore improving both results.
2. Review asset renewal strategies	<ul style="list-style-type: none"> <li>a) Review drivers for renewal (levels of service, minimising life cycle cost, risk)</li> <li>b) Review classification of “unsatisfactory” assets</li> <li>c) Formulate new renewal program based on improved prioritisation methodology</li> </ul>	Finalisation of prioritisation methodologies for transport and buildings by May 2015 and production of revised renewal programs and list of backlog infrastructure.	Differentiating between assets that represent a high risk (and are therefore “unsatisfactory”) v’s assets requiring renewal in the medium term will potentially significantly reduce the	Potential for reduction in infrastructure related expenditure by better targeting available funds (reducing numerator in real operating expenditure) therefore improving the result.



## Infrastructure and Service Management

Objective	Strategies	Key Milestones	Outcomes	Impact on other measures
			estimated cost to bring to satisfactory (numerator in infrastructure backlog ratio) and therefore improving the result.	
3. Review asset maintenance strategies	<ul style="list-style-type: none"> <li>a) Detailed analysis of maintenance effort in the context of drivers (levels of service, minimising life- cycle cost, risk)</li> <li>b) Formulate revised maintenance strategies to improve prioritisation and resource effectiveness / efficiency</li> </ul>	Completion of review by May 2015	Better targeting maintenance expenditure may reduce required maintenance (denominator in asset maintenance ratio) although this is considered unlikely (Council has identified the need to invest more in preventative maintenance).	More effective maintenance techniques will extend useful life, reducing depreciation (increasing numerator in operating performance ratio and denominator in building and asset renewal ratio) therefore improving the result. May reduce required maintenance over time and therefore numerator in real operating expenditure, improving the result.
4. Increased competitiveness of infrastructure-related service provision	<ul style="list-style-type: none"> <li>a) Increase accountability for internal service providers through more effective program management</li> <li>b) Commercialisation of</li> </ul>	Ongoing implementation	Reduction in the unit costs of asset renewal and maintenance work will reduce numerator in infrastructure	Increased revenues from commercial activities (increasing the numerator in own source' revenue) will improve results.

## Infrastructure and Service Management

Objective	Strategies	Key Milestones	Outcomes	Impact on other measures	
	internal service provider (CityWorks)		backlog ratio and denominator in asset maintenance ratio) therefore improving both results		
5.	Implement SRV funded asset maintenance and renewal program	a) Levy SRV b) Implement works program	Delivery Program adoption June 2015 and June 2016 and ongoing	Funding stream established Works program delevered	Positive impact on operating performance ratio, building and asset renewal ratio and infrastructure backlog ratio

### 3.3 Efficiency

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

Real Operating Expenditure per capita is currently on an increasing trend and is expected to continue in the near term as the maintenance costs are increased to properly maintain transport, buildings and parks and reserves infrastructure assets in line with Council's proposed Special Rate Variations. This increase will reflect in achievement of an Asset Maintenance Ratio level, which is considered satisfactory. The full Special Rate Variation program of maintenance works will be in place by 2016/2017.

Council's Transformation to Sustainability (T2S) Program is currently being implemented to transform the organisation and find estimated annual efficiency savings of \$3.2M by 2016/2017. Therefore, once these efficiencies are realised and after the Special Rate Variation asset maintenance expenditure has stabilised, it is expected that the Real Operating Expenditure Per Capita ratio will start to decrease. However, in the long term any improvement is still constrained by factors, which the current measurement of the ratio may not adequately take into account, such as:

- the level of Award based salary increases;
- ongoing cost shifting from other tiers of government;
- community services levels remaining constant over time; and
- growth that does not necessarily improve economy of scale.

#### Transformation to Sustainability (T2S) Program

The T2S Program will produce efficiencies and cost reductions in service delivery, currently estimated at \$3.2 million per annum after three years. For modelling purposes T2S reduces operating costs and invests in asset renewals (capital) (\$2M from 2016/2017 and \$3.2M from 2017/2018). Employee costs have been indexed at 3% p.a. and Material and Contracts indexed at 2.5% p.a. In terms of the Efficiency benchmark this:

- decreases Real Operating Expenditure Per Capita.

## Special Rate Variations (SRV)

The three year SRV for the ordinary general rate, of which one year has been implemented and the remaining further two years approved by IPART on 19 May 2015, to generate after three years \$6.2 million in additional revenue dedicated for infrastructure maintenance and renewal. For modelling purposes the SRV increases revenue (growing to \$6.2M by 2016/2017) and invests in asset renewals (capital) and increases asset maintenance costs. In terms of the Efficiency benchmark this:

- increases Real Operating Expenditure Per Capita in the near term.

## Improving Asset Management

Further improving Council's asset management to ensure appropriate policy and accurate information is used will optimise maintenance costs, asset renewals (useful lives), depreciation and the measurement of infrastructure backlog. For modelling purposes improved asset management reduces depreciation by \$4.5M p.a.

A new backlog methodology has also been applied, consistent with the new MIDROC regional approach, to include costs to bring to 'satisfactory' for condition 4 (where renewal is required) and condition 5 (where urgent renewal is required) assets only. This excludes condition 3 assets where maintenance is required, but not renewal. In terms of the Efficiency benchmark this:

- decreases Real Operating Expenditure Per Capita.

## Additional Revenue Opportunities

There is potential to identify additional revenue or growth revenue opportunities, such as the returns from Council's commercial business units and the commercialisation of CityWorks. This strategy is being further progressed through the T2S Program; however, at this stage, no additional revenue sources or dividends have been included in the modelling to support Council's Improvement Proposal. Their inclusion would assist in further decreasing Real Operating Expenditure Per Capita.

## North Coast Joint Organisation (JO)

The Fit for the Future guidelines make it clear that councils need to be mindful of the specific recommendations of the Independent Local Government Review Panel (ILGRP) around scale and capacity. In our case, particularly regarding the options for non-metropolitan councils, Coffs Harbour City Council is listed in Group G of Table 11 of the ILGRP Report as a "Council in the North Coast JO". Clarence Valley, Bellingen Shire and Nambucca Shire Councils are proposed as the other members of the North Coast JO.

The Councils of Clarence Valley, Coffs Harbour City, Bellingen and Nambucca Shires took the opportunity to pursue the consideration of the Minister for Local Government and the Office of Local Government to be appointed as one of the Pilot Joint Organisations. The initial application was not successful and a subsequent revised application seeking consideration in the event that other Pilot JOs are to be endorsed has not thus far progressed. Nevertheless, the four Councils that make up the proposed North Coast JO are keen to progress this matter and have continued to meet periodically to discuss the strategic way forward.

Whilst the Councils collectively support the three identified core functions of regional strategic planning, working with state government and regional leadership and advocacy, the four councils also strongly believe that the JO has a role to play in facilitating shared service delivery sooner rather than later to improve financial sustainability, and understanding that this could take many forms.

The pursuit of shared service delivery between these four councils has the potential to yield efficiency gains for each of the member councils of the North Coast JO. These efficiency gains could manifest themselves in a variety of ways; however, it is expected that financial efficiencies could be expected to be realised. It is difficult to quantify the value of these financial efficiency gains until such time as there is the opportunity to examine the business case that would be produced to assist in the consideration of various options for shared service delivery. Nevertheless, we expect that there will be financial efficiencies that will impact the sustainability, infrastructure and service management, and efficiency criteria in a positive manner.

It is also acknowledged that prior to the individual members of the North Coast JO considering pursuit of shared service delivery across the JO region, the individual member councils will need to undertake a policy decision making process within their respective organisations regarding the pursuit of shared service delivery. The member Councils will need to consider the pros and cons of any shared service delivery proposal carefully and arguably in consultation with their respective workforces. This is part of a natural, considered and evidenced based decision making process.

Given the NSW Government's timetable for the implementation of Joint Organisations, at this stage the four Councils can expect to be part of a Joint Organisation from September 2016 at the latest. Allowing for a consultative decision making process as intimated above, it is likely that some level of financial efficiencies from shared service delivery could be anticipated toward 2020, albeit difficult to quantify at this point in time. This should influence the assessment of the efficiency criterion in a positive manner and accordingly should be taken into account when assessing Coffs Harbour City Council's submission regarding it being Fit for the Future.

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

Assumptions are the development of a more appropriate measure to adequately address external and other factors uncontrollable by Council; and the legislative mandate for a Joint Organisation to deliver shared services and the necessary policy decision by the member Councils.

Outline your strategies and outcomes in the table below.

Efficiency					
Objective	Strategies	Key Milestones	Outcomes	Impact on other measures	
1.	Establish baseline for cost structures	a) Implement existing strategies including T2S Program, SRV and Improved Asset Management	October 2016	Baseline established for cost structures as at 30 June 2016	N/A
2.	Improve efficiency performance	a) Identify additional efficiency actions	May 2017 and ongoing	Further improved efficiency performance	N/A
3.	Joint Organisation shared services delivery	a) Explore opportunities with member Councils	June 2017	Shared services identified for delivery	N/A

## 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. Continue implementation of Transformation to Sustainability (T2S) Program	September 2015	New operating structure finalised
	December 2015	Establish a service quality framework for each Division
	December 2015	Realise efficiency and improved service delivery in sourcing, purchasing and procurement
	December 2015	Develop a customer service improvement strategy
	March 2016	Reengineer all internal processes
2. Implement approved Special Rate Variation for 2015/2016 and 2016/2017	May 2015	IPART determination ✓
	June 2015	Make rates for 2015/16
	April 2015	Assessment of SRV requirement for 2016/17
	June 2015	Make rates for 2016/17
3. Continue the implementation of Asset Management Improvement initiatives	May 2015	Asset Management Strategy reviewed
	May 2015	Asset revaluations incorporating new methodology completed for Transport and Drainage
	July 2015	Asset Management Strategy adopted

	August 2015	Infrastructure Backlog calculated for 2014/15 based on new methodology
	December 2015	New Asset Management Plans adopted
4. Implement Enterprise Resource Planning modules to support the T2S Program and Asset Management Improvement	April 2015	Procurement of enterprise system modules completed
	June 2015	Recruitment of ERP Project Leader
	July 2015	Commencement of implementation
	July 2016 –	Go live for core system modules

\* **Please attach detailed action plan and supporting financial modelling**

Refer to list of attachments on page 54.



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

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

## Consultation

### Level of Service Community Engagement (October 2013)

Council at its meeting on 26 September 2013 endorsed a 'Level of Service' – community engagement process which was undertaken in October 2013. The objective of this process was to seek community feedback on preferred levels of service and proposed funding solutions to meet those service levels. This feedback was received through community responses and comments made via a 'Budget Allocator' tool.

Feedback from this engagement made clear that the community values the services Council currently delivers and was willing to pay more to maintain these rather than see levels of service reduced.

### Proposed 3-Year SRV Community Engagement (December 2013)

The second phase of the engagement process, which commenced in December 2013 sought community feedback on proposed steps to be taken to adopt a financially sustainable position, including the proposal for a three-year SRV and further funding options to close the remainder of the 'gap' to financial sustainability. Council in phase two engaged the community through various channels – all of which had a focus on seeking feedback via a 'proposed rate rise' survey.

The survey (in both on-line and hard copy formats) was made available to the open public as well as council's online community reference group. The survey asked if the community would support Council applying for a rate increase over a three-year period to help pay for ongoing renewal and maintenance of the assets needed to deliver services to the community.

In 2014, Council applied for a permanent Special Rate Variation (SRV) to be phased in over three years to generate revenue to address a \$6.2 million shortfall in funding for infrastructure maintenance and renewal across Coffs Harbour. The Independent Pricing and Regulatory Tribunal (IPART) acknowledged the merit of the application but approved only the first year of the SRV (2014/2015), suggesting that the extent of the 'rate rise' in percentage terms was communicated ambiguously.

### Proposed 2-Year SRV Community Engagement (November 2014)

Council's most recent Community Engagement Program, which commenced in November 2014, sought community feedback on a proposed SRV which incorporates a permanent multiple year rate increase over a two year period (commencing 2015/2016) – being the period previously not approved by IPART.

Council engaged the community through various channels including a 20-page community brochure 'Funding Our Future' which was sent to over 25,000 households, e-newsletters, various media releases, four information stalls (Growers Market and Harbour-side Market) and Council's page in *The Coffs Coast Advocate* – all of which had a focus on seeking feedback via Council's 'Funding Our Future' proposed rate rise survey.

The Funding Our Future brochure explained that in conjunction with the SRV proposal, Council was implementing significant cost reduction and efficiencies through the Transformation to Sustainability (T2S) Program.

## External Assistance

### Transformation to Sustainability (T2S) Program

On 14 November 2013 Council resolved to endorse the T2S project and proceed with the development of Terms of Reference for the engagement of a suitable consulting firm to conduct an organisational diagnostic and prepare a detailed business case and proposed implementation plan.

On 10 July 2014 Council resolved to:

1. Note the Organisation Diagnostic, Business Case and the Indicative Program Plan prepared by the consultants engaged to undertake this aspect of the T2S Project, namely LKS Quaero.
2. In acknowledging its civic leadership role, endorse the further implementation of the T2S Project, particularly in light of the projected efficiency gains that will assist Council in achieving financial and operational sustainability.

LKS Quaero Ltd formulated a total of 32 recommendations out of the Organisational Diagnostic in response to issues identified. These recommendations then informed the Business Case which proposes a 'transformational' program to achieve a 'step change' in the way the organisation thinks, works, leads and manages.

Council then called for tenders for the provision of consultancy services to support delivery of the T2S Program and on 23 October 2014 Council resolved to appoint LKS Quaero.

## Peer Review of Improvement Proposal

Council commissioned AEC Group to peer review its draft Fit for The Future Improvement Proposal to provide quality assurance to Council. The Executive Summary of the review report stated:

*Coffs Harbour City Council (Council) has prepared a draft Fit for the Future (FFTF) Improvement Proposal which aims to meet the requirements of the Fit for the Future program Expert Advisory Panel – the Independent Pricing and Regulatory Tribunal (IPART). AEC was commissioned to review relevant sections of the proposal for appropriateness of the financial inputs, assumptions and identify improvements or other strategies that may assist in enhancing Council’s overall financial sustainability position.*

*Council has demonstrated that it has been proactive towards becoming a financially sustainable, with approving the implementation of the Transformation to Sustainability (T2S) Program in July 2014, as developed by LKS Quaero Ltd. In addition, and providing certainty of future rating revenue, was the recent SRV approval by IPART in May 2015.*

*The following outcomes of AEC’s reasonableness test of Coffs Harbour City Council’s long-term financial modelling and FFTF Improvement Proposal are noted below:*

- The FFTF Improvement Proposal is comprehensive, with only minor changes recommended principally around the ratios (and in particular the efficiency ratio);*
- AEC can confirm that Council’s proposal includes strategies that are appropriate and robust and have a high degree of confidence attached to their resulting impact on financial sustainability outcomes and indicators;*
- Council is not reliant on a potential SRV to ensure its ongoing financial sustainability, having been approved for the second and third phases of its 2014/15 SRV proposal in May 2015 for implementation in 2015/16;*
- In conjunction with the approved SRV, Council has also been proactively undertaking a range of other reviews to maximise operational cost savings (e.g. the T2S Program which estimates that by year three there is projected savings of \$3.2 million, increasing to \$3.4 million after year three) and more accurately determine its consumption of assets;*
- It might be expected that other additional revenues and cost savings are realised moving forward as a result of other initiatives (e.g. property review to commence in 2015/16, potential North Coast JO) that are not quantified in the Improvement Proposal, all of which would further improve Council’s sustainability;*
- Council’s results show that it is able to meet or show improvement in all seven ratios for the 2016/17 to 2019/20 forecast period to meet the IPART requirements to be Fit for the Future; and*
- The key focus for Council beyond the forecast horizon is to ensure that the Building and Infrastructure Renewals Ratio and the Asset Maintenance Ratio are further progressed towards their respective targets.*

*A review by AEC of potential additional strategies beyond those already implemented or under investigation by Council highlighted that the scope for additional investigations and strategies is quite limited, given that Council is undertaking the T2S Program.*

## 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.

### Consideration of Reductions in Current Levels of Service Delivery

Council's 2013-2024 Resourcing Strategy, adopted by Council 11 April 2013, set out "Council's unsustainable position" in particular:

- A widening gap between revenue and expenditure (an underlying operating deficit) estimated at \$1.8M per annum.
- Deterioration of infrastructure (resulting from insufficient spending on maintenance, renewal and management) estimated at \$6.2 million per annum.

Four options to bridge the "financial sustainability gap" were identified, including:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of Council services)
- Reductions in current levels of service delivery
- Additional rate income

Over the course of 2013, a community engagement project was formulated in order to address the latter two options whereby the community had an opportunity through the 'budget allocator' process to provide input, with regards to all services Council provides, as to whether they were willing to pay more in rates in order to maintain current levels of service, or were willing to accept a lower level of service as a means of avoiding rate increases.

The consensus from this exercise, confirmed via a second stage of the process specifically regarding a special rate variation to fund infrastructure maintenance and renewal, was that the community were willing to accept an increase in rates in order to maintain current levels of service, particularly with regards to infrastructure.

## 4. How will your plan improve performance?

### 4.1 Expected Improvement in Performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-15.57%	-12.54%	-6.89%	-2.62%	-0.13%	1.68%	Yes
<b>Own Source Revenue</b> Ratio (Greater than 60% average over 3 years)	72.98%	75.19%	76.42%	79.49%	80.23%	80.54%	Yes
<b>Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)</b>	59.17%	77.84%	86.34%	83.09%	88.33%	91.65%	No - Improving
<b>Infrastructure Backlog Ratio</b> (Greater than 2%)	2.05%	2.17%	2.08%	1.98%	1.89%	1.79%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	80.16%	82.80%	89.56%	92.05%	93.46%	93.92%	No - Improving
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	6.05%	6.20%	5.66%	4.62%	3.61%	3.11%	Yes
<b>Real Operating Expenditure per capita</b>	10/11 1.285	11/12 1.244	12/13 1.470	13/14 1.473	14/15 1.417	15/16 1.446	Yes
	11/12 1.207	12/13 1.426	13/14 1.423	14/15 1.364	15/16 1.405	16/17 1.417	
A decrease in Real Operating	12/13 1.383	13/14 1.381	14/15 1.318	15/16 1.353	16/17 1.377	17/18 1.393	
Expenditure per capita over time	13/14 1.339	14/15 1.278	15/16 1.307	16/17 1.326	17/18 1.354	18/19 1.386	
	14/15 1.240	15/16 1.268	16/17 1.281	17/18 1.304	18/19 1.347	19/20 1.372	
	Decreasing	Increasing	Decreasing	Decreasing	Decreasing	Decreasing	

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

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

Although Council does not technically achieve the 100% benchmark thresholds for the Building and Infrastructure Asset Renewal Ratio and the Asset Maintenance Ratio, Council's General Fund has significant capacity to undertake further borrowings for asset renewal and maintenance. However, given both benchmarks by 2019/2020 are greater than 90% and have been improving, this strategy is not recommended at this time. Such borrowing would also reduce the Operating Performance Ratio which is considered even less desirable.

Finally, to improve other benchmarks, such as the Asset Maintenance Ratio, Real Operating Expenditure per Capita is actually increased in the near term. However, a reduction is achieved once expenditure becomes normalised from 2016/17 onwards.

## 5. Putting Your Plan Into Action

How will your council implement your Improvement Action Plan?

*For example, who is responsible, how the council will monitor and report progress against achieving the key strategies listed under Section 3.*

### Transformation to Sustainability (T2S) Program Implementation

At its ordinary meeting of 10 July 2014, Coffs Harbour City Council noted the outcomes of the first stage of the T2S Program (the Organisation Diagnostic, Business Case and the Indicative Program Plan) and endorsed its further implementation.

A key recommendation (R14) in the Organisation Diagnostic (which informs the Business Case and Implementation Plan) was the establishment of a formal Program Management Office (PMO) to oversee the implementation of the internal change program, and to monitor and communicate the benefits that are achieved.

The T2S Program Board oversees all activity related to the Transformation 2 Sustainability Program. More specifically the Program Board is responsible for:

- The overall governance of the T2S program;
- Approval of the detailed program plan;
- Resolving any potential corporate conflicts on the critical path of the T2S program;
- Ensuring the direction of the T2S program is aligned with the organisations strategic and corporate objectives;
- Reporting to Council on a regular basis on the progress of the T2S program, benefits realisation and risk management plans (this includes quarterly Councillor briefings) ;
- Ensuring the T2S program objectives are met;
- Determining costs and savings to be accounted for in in the Invest to Save Bank;
- Establishing the priority of projects, and resolving competing demands for resources and funds;
- Reviewing and approving new T2S program initiatives;
- Monitoring and acting on risks associated with T2S program initiatives;
- Taking action to ensure the T2S program is delivered within the agreed budget and timeframe;

- Ensuring the T2S program adopts a structured methodology that is consistently applied across all program initiatives;
- Modelling the behaviours that demonstrate the values of the T2S program and CHCC; and
- Ensuring a culture of personal and organisational accountability is consistent through the T2S program initiatives.

The T2S Program Board is comprised of the following - post structure recruitment:

- General Manager
- Director Business Services
- Director Sustainable Infrastructure
- Director Sustainable Communities

The detailed Program structure (attached) sets out the responsibilities for the individual projects within T2S.

### Special Rate Variation (SRV) Implementation

The responsibility of Council to monitor and report progress is clearly defined in IPART's determination in regard to the special rate variation application and the details are set out below.

IPART's approval of Coffs Harbour City Council's application for a special variation over the period from 2015/16 to 2016/17 is subject to the following conditions:

- The council uses the additional income from the special variation for the purposes of rehabilitation, maintenance and renewal of infrastructure as outlined in the council's application
- The council reports in its annual report for each year from 2015-16 to 2024-25 on:
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application,
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation



- expenditure consistent with the council's application and listed in Appendix A, and the reasons for any significant differences from the proposed expenditure, and
  - the outcomes achieved as a result of the actual program of expenditure.
- The council reports in its financial statements (currently in Special Schedule 9) each year from 2015-16 to 2024-25 on its compliance with the special variation and these conditions.

Council will consider the application of the SRV to ratepayers through the rating structure in each of June 2015 and June 2016.

### Improved Asset Management Implementation

Through the adoption of a new Asset Management Strategy and new Asset Management Plans during the second half of 2015, the basis for further asset management improvements will be in place. New full asset life cycle processes will be supported by a new Enterprise Asset Management System as part of the rollout of Enterprise Resource Planning (ERP) system modules programed for implementation and go-live by July 2016.

### Attachments

1. Long Term Financial Plan Update – General Fund – June 2015
2. Sustainable Services Delivery Report – Council Meeting - 28 November 2013
3. Transformation to Sustainability (T2S) Project – Council Meeting 10 July 2014
4. Transformation to Sustainability (T2S) – Program Structure
5. Transformation to Sustainability (T2S) – Status Report (Confidential)
6. Application for a Special Variation 2015/16 – IPART Determination – May 2015
7. MICROC Regional Infrastructure Strategy – May 2015
8. ERP Preliminary Project Plan (Confidential)

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