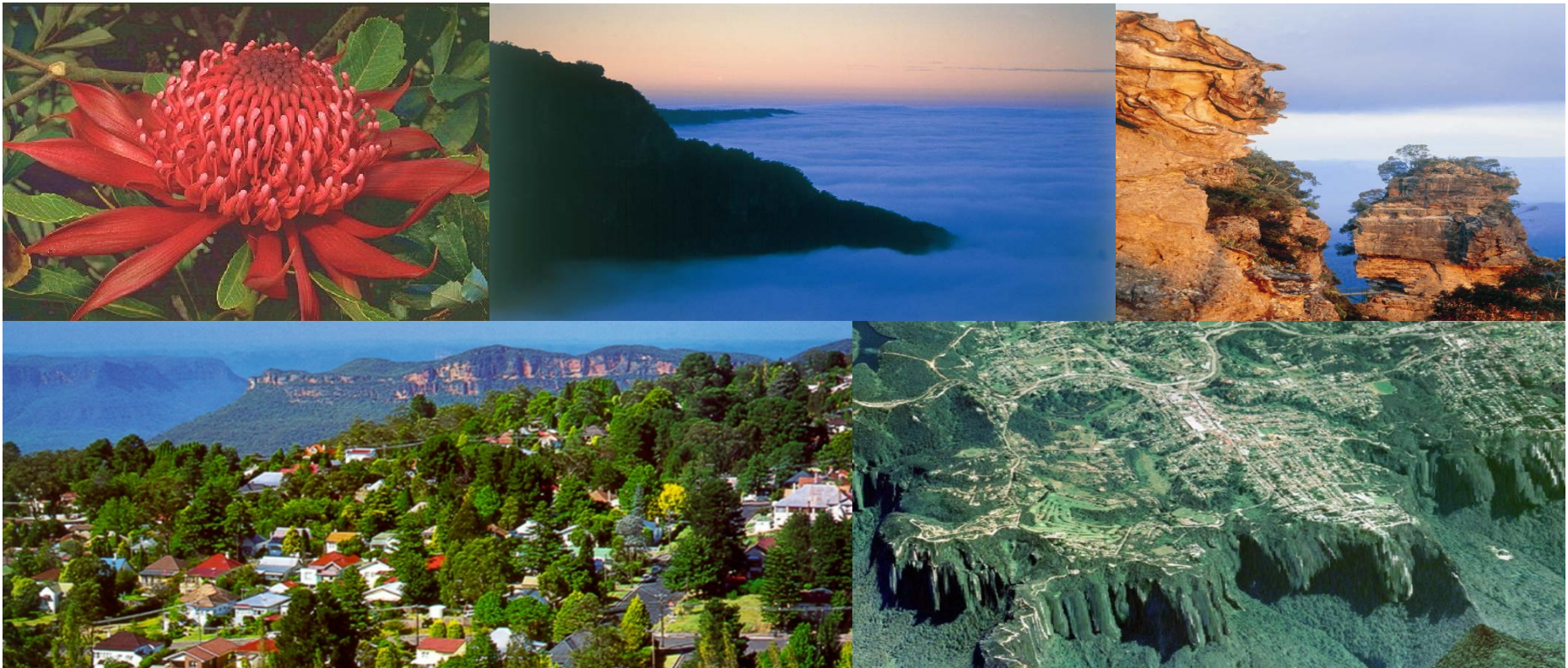
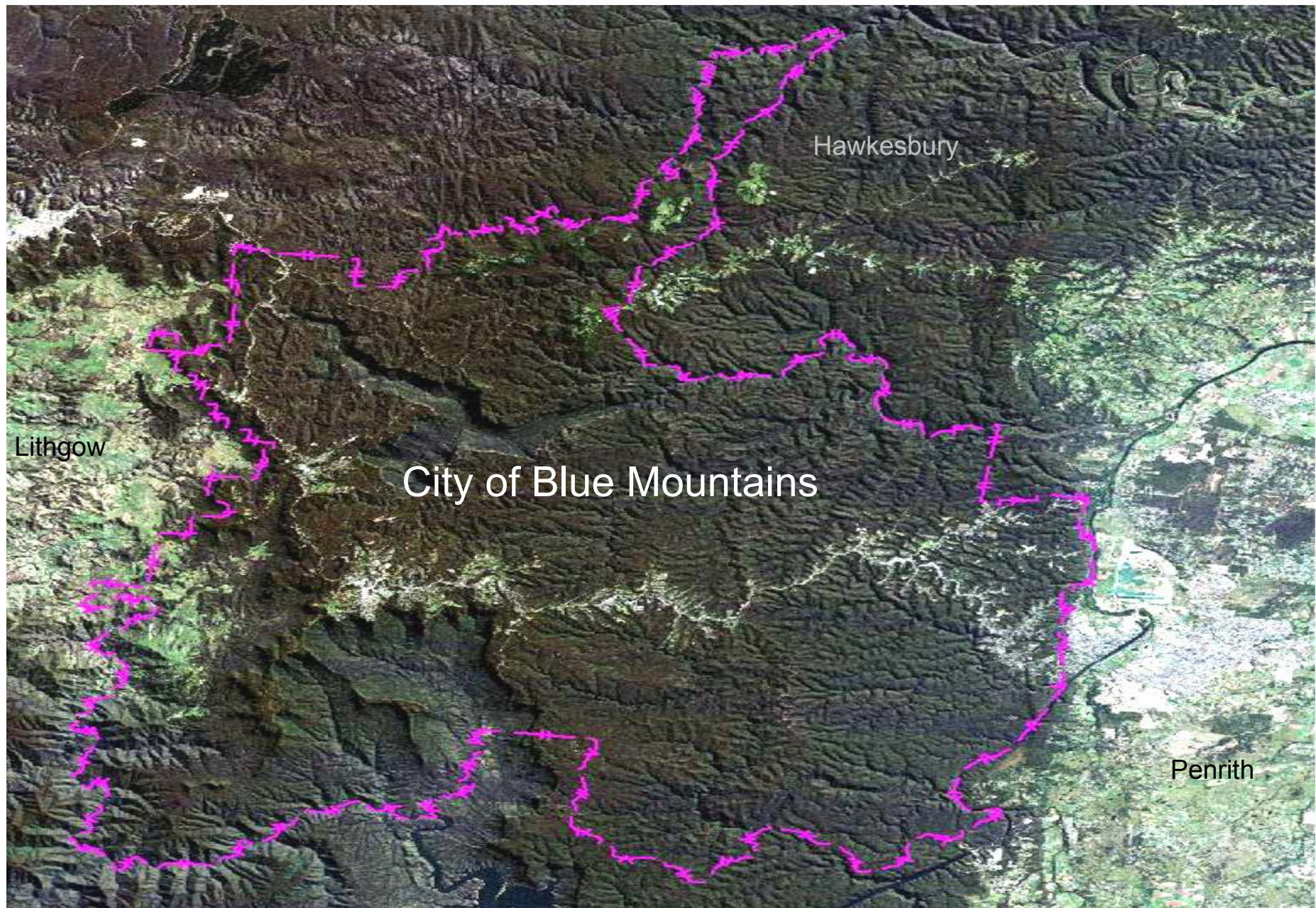


# Blue Mountains City Council Improvement Proposal

June 2015









**Council name:** Blue Mountains City Council

**Date of Council resolution endorsing this submission:** 23 June 2015

## 1.1 Executive summary

By 2019-20 BMCC meets all FFTF benchmarks. Currently three of the benchmarks are fully met, with strategies in place to ensure those not yet met will be met. The Council's Improvement Proposal focuses on continuing to implement key strategies in our Resourcing Strategy 2014-2024 (Attachment 1), including the *Six Strategies for Financial Sustainability* (see Section 3.4) and the Asset Management Improvement Plan (AMIP, see Section 4.10).

The Council's *Six Strategies for Financial Sustainability* have been successfully implemented since 2013, producing significant improvement in financial sustainability and asset management. As part of *Strategy 4: Increase Income*, an application was successfully made to IPART in 2015 for a special variation to obtain additional income to improve financial sustainability of the Council and reverse the decline in the City's \$1 billion worth of built assets. Additional income obtained will also be spent on improving important issues for our community including emergency preparedness and response associated with being an area prone to natural disasters, continuing the funding of environmental programs critical for a City surrounded by a World Heritage Listed Area and improving community services.

A key strategy in this Improvement Proposal is the initiative of entering into a cooperative agreement to form a Regional Strategic Alliance with neighbouring Penrith and Hawkesbury councils. The aim of this alliance is to strengthen strategic capacity, achieve economies of scale, deliver business efficiencies and achieve a unified approach to sub-regional planning and advocacy.

Implementing the AMIP is a key strategy of this Proposal including: improving asset information systems and data informing asset planning; and strengthening whole of life cycle strategic asset management, to extend the life of assets and reduce long term costs.

The Council's commitment to community is to ensure funding is targeted to reducing long term operating costs, managing priority risks and delivering value for money services, efficiently and cost effectively. Attachment 2 presents the Council's adopted *Guidelines for Achieving Best Value Services that Meet Community Needs*. Supporting the best value service provision will be a continued focus on service and infrastructure planning in consultation with community to establish a sustainable service and asset base for the City. The Council will continue to engage



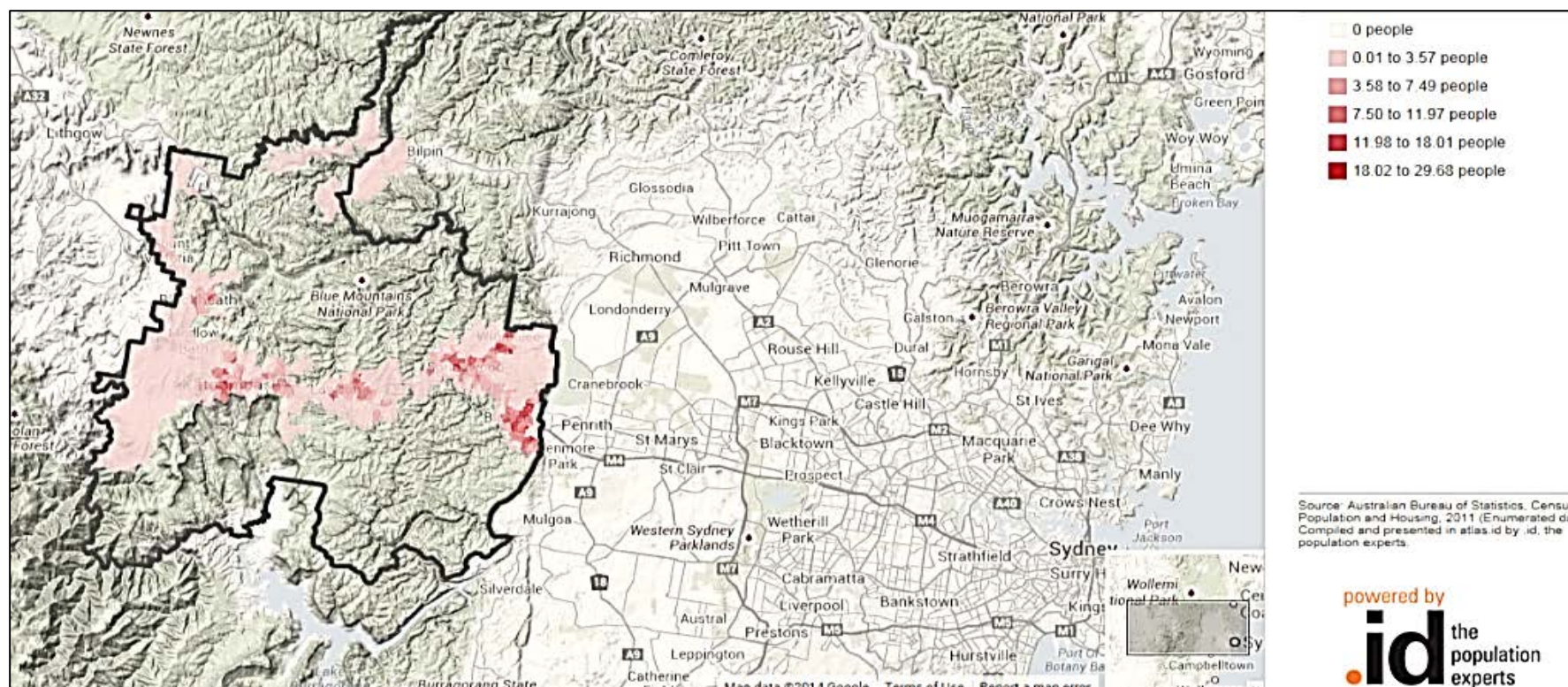
community on required and affordable levels of service, implement best value service reviews to ensure cost effective services responsive to changing needs, and address gaps in required service and infrastructure planning.

In 2016-17 the annual business planning process will be strengthened to support integrated service and asset planning. This work will be informed by the Council's *Service Dashboards: Summary Service & Asset Plans* (Attachment 3). The dashboards are a key planning and communication tool showing how available funding is being allocated across services, the impact on service levels and risks to be managed.

To support this Improvement Proposal, Blue Mountains City Council commissioned Jeff Roorda & Associates (JRA) to provide an independent assessment of the Council's infrastructure management, with particular focus on the infrastructure backlog. The results of this independent assessment are included in Attachment 4.

A detailed Improvement Action Plan for 2016-2017 can be found at Attachment 5, and the financial modelling that underpins this Proposal is at Attachment 6. The 2013-2017 Delivery Program and 2015-2016 Operational Plan which informed the Action Plan is included as Attachment 7 and further detail on the Council's Productivity Improvements and Cost Containment Strategies is provided in Attachment 8.

#### *Location of City of Blue Mountains relative to Sydney*



## Summary overview of expected improvement in performance

Measure/ benchmark	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark
<b>Operating Performance Ratio</b> (Greater than or equal to breakeven average over 3 years)	-6.5%	-3.9%	-1.2%	0.5%	<b>YES Meets</b>
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	85.0%	86.8%	87.5%	87.8%	<b>YES Meets</b>
<b>Building and Infrastructure Asset Renewal Ratio</b> (Greater than 100% average over 3 years)	29.8%	41.4%	60.4%	76.9%	<b>YES Improving</b>
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	3.2%	3.2%	3.0%	2.7%	<b>YES Improving</b>
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	96.0%	95.2%	96.1%	96.9%	<b>YES Improving</b>
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	9.1%	8.1%	7.2%	6.2%	<b>YES Meets</b>
<b>Real Operating Expenditure per capita</b> (A decrease in Real Operating Expenditure over time))	DECREASING	DECREASING	DECREASING	DECREASING	<b>YES Meets</b>



## 1.2 Scale and capacity

**Yes, BMCC has the required scale and capacity to operate as a stand-alone Local Government Area.**

The ILGRP recommended “no change” for the City of Blue Mountains noting the Blue Mountains has “*a specialised role in managing urban areas within National Parks.*” BMCC would further argue that this “specialised role” merits much stronger recognition in terms of funding, resources and partnerships from and with other levels of government.

The Blue Mountains is an area of outstanding natural values and one of only two cities in the world surrounded by a designated World Heritage Listed Area and the only council in NSW with the classification of “Urban Fringe Large”. The City has geographic scale, covering an area of 143,000 hectares, of which 70% forms part of the Greater Blue Mountains World Heritage Area. The City’s current population of 79,700 is projected to grow to 97,300 by 2031, according to the 2014 NSW Planning & Environment projections.

The Council’s strategic capacity has been well demonstrated, as highlighted by the following key factors:

- Strong and effective Council leadership working in partnership with a highly engaged community, local organisations, state and federal agencies - demonstrated recently through the Council’s response to the 2013 bushfire events. In 2015 BMCC is still coordinating the Local Bushfire Recovery process, on behalf of the State Government, with affected local community and ensuring learnings are captured and processes updated;
- Strong local environmental planning and land use management of a City surrounded by World Heritage Listed National Park;
- Initiative in entering into a cooperative agreement to form a Regional Strategic Alliance with neighbouring Penrith City Council and Hawkesbury City Council to strengthen strategic capacity, achieve economies of scale, deliver significant business efficiencies and achieve a unified approach to sub-regional planning and advocacy;
- Proven track record in successful in-house planning, project management and delivery on time and budget of major multi-million dollar projects including the Blaxland Waste and Resource Recovery Facility, the Blue Mountains Theatre and Community Hub and the Blue Mountains Cultural Centre;
- Within available resources, effective management of \$1 billion worth of built assets and a natural environment supporting terrestrial and aquatic ecosystems including 10,000ha of bushland, 300km of creeks, 20ha of open freshwater bodies and 500ha of endangered ecological communities and habitats for at least 90 rare and threatened species. The majority of the City’s natural assets form a critical buffer between urban and World Heritage Listed environmentally sensitive areas including Sydney Water catchment areas;
- The Council has proven ability to attract and retain a highly skilled, engaged and productive workforce adaptable to change, as evidenced by workforce productivity measures in the Council’s Workforce Management Strategy. BMCC has developed its position as the employer of choice in the region and is the single largest employer within the LGA;

- The Council has effectively implemented Integrated Planning and Reporting including:
  - A national award winning community engagement process underpinning the development of the City's Community Strategic Plan - *Sustainable Blue Mountains 2025*
  - A comprehensive 10 year Resourcing Strategy including *Six Strategies for Financial Sustainability* within the Council's Long Term Financial Plan – with successful implementation of a two-stage approach to engaging community on increasing income through special rate variations and other strategies of avoiding shocks through sound financial and asset management planning, reviewing and adjusting service levels in consultation with community, managing borrowings responsibly and implementing partnerships and advocacy with other levels of government.
  - Asset Management Strategies and Plans including an *Asset Management Improvement Plan* (AMIP);
- The Council has implemented extensive community engagement on affordable and acceptable levels of service in 2010, 2012, and most recently in 2014 as part of *Resourcing Our Future* consultation, supported by comprehensive *Service Dashboards* (see Attachment 3) showing the impact of funding scenarios on service levels and associated costs, benefits and risks for the City;
- The Council's commitment to living within its means and delivering best value services efficiently and effectively in line with its *Best Value Service Provision Framework* (Attachment 2);
- The Council has implemented a comprehensive reform of the City's rating structure (which was previously extremely complex and not equitable) in consultation with community to create a simpler, more broadly uniform and fairer rating structure implemented over a three year period (2012-13 to 2014-15);
- There is strong recognition of the capability of BMCC as a partner with State and Federal Governments, which is demonstrated by the proportion of grant funding received and significant projects undertaken in partnership with other levels of government - particularly in the area of grants for capital infrastructure and environmental management (e.g. Echo Point Revitalisation, Urban Run-off program, Hazelwood Child Care Centre, Relocation of Lawson Township to facilitate RMS highway widening); and
- BMCC has professional skills and capability to lead and manage change which it has developed as part of its management of the risks associated with being a City surrounded by World Heritage Listed Areas frequently exposed to significant natural disaster risk.

## 2. Your council's current position

### 2.1 About your local government area

#### **Key characteristics of Local Government Area (LGA)**

The Blue Mountains LGA is located on the western fringe of Sydney and covers an area of 143,000 hectares. While the City of Blue Mountains is classified by the State as part of the Sydney Metropolitan area, its urban fabric is uncharacteristic of metropolitan Sydney. Approximately 70% of the LGA forms part of the Greater Blue Mountains World Heritage Area, with only 11% of land available for settlement. The City comprises 27 towns and villages spread over 100km of mountainous ridgeline terrain that also forms the main transport corridor between Sydney and the western plains. With a current population of almost 80,000, the City had the lowest population growth of all council areas in Greater Sydney (1.5%) between 2001 and 2011.

The Blue Mountains is one of only two cities in the world surrounded by a designated World Heritage Area, and sits within the Sydney drinking water catchment servicing 3.7 million people. With this World Heritage Listing comes inherent responsibilities, liabilities and costs for our community. The City's unique geography and ribbon-like settlement pattern has created an extensive interface with the surrounding National Park, accentuating the requirement for managing bushfire risk as well as urban development impacts on internationally significant bio-diversity. As highlighted by the devastating October 2013 bushfires, the Blue Mountains is one of the most bushfire-prone areas in Australia and is subject to major storm, wind, ice and snow events. This presents significant responsibilities and costs in managing and mitigating the impact of such natural disasters, likely to be exacerbated by climate change.

The City of Blue Mountains is one of the most highly visited tourist destinations in Australia, with over 3 million visitors per year. The Greater Blue Mountains World Heritage Area is promoted by the Australian Government as one of 16 national landscapes that are a "must see" nature tourism destination. Council's branding as *The City within a World Heritage National Park* reflects that this is an area of outstanding natural value, with exceptional beauty, biological and geological diversity, and cultural and spiritual values. The Blue Mountains natural environment adds immeasurably to the local, regional, state and national economy, with 80% of all international visitors citing "Australia's natural environment" as their main motivation for visiting. It is estimated that tourism contributes over \$500 million annually to the local economy and supports over 5,000 local jobs.

The socio-economic and demographic characteristics of residents vary greatly across the City, with marked changes in age and income level influencing the provision of services in different parts of the City. In the east of the City, closest to Sydney, there is a higher proportion of younger families than in the western villages which have attracted more retirees. This means that while the overall population profile of the City is ageing, the western villages of the Upper Mountains have an even higher proportion of older residents.



The City has a relatively high ratio of infrastructure per resident compared with most other urban councils, with higher levels of emergency management facilities, environmental management service provision and built infrastructure such as roads, storm water drainage, walking tracks and community facilities. Despite the City's fringe location relative to Sydney, there is also significant expectation from the community for high levels of urban service. The proximity of significant natural areas has also influenced service provision both as a key driver of the local economy, where visitor facilities are an important part of attracting and servicing tourists, and as a significant risk to be managed through fire trails, asset protection zones, emergency service facilities and cliff top walks and lookouts.

### ***Community goals, priorities and challenges***

The community's goals, priorities and challenges are detailed in the Community Strategic Plan: *Sustainable Blue Mountains 2025* (SBM2025). This plan has been shaped through extensive engagement with the community over a period of many years. The community's vision, as expressed in SBM2025, is for *A More Sustainable Blue Mountains by 2025, environmentally, socially and economically*. The Key Directions supporting this vision are: *Looking after Environment; Using Land; Moving Around; Looking after People; Sustainable Economy; and Civic Leadership*.

Within each of these Key Directions, the current and emerging issues, challenges and community priorities are clearly identified, along with overarching objectives and the strategies for achieving these goals. The Blue Mountains community understands and supports the environmental significance of the natural area in which they live. The Council's independently conducted annual Community Survey assessing resident views on Council performance and service delivery asks residents about their top issues of concern at the local neighbourhood and whole of City levels. Over the past three years the top issues of concern at the neighbourhood level have focused on transport infrastructure, traffic safety and congestion, and bushfire prevention. While at the City-wide level, in addition to concerns about roads and bushfire prevention, there have also been concerns about environmental sustainability and land use. The Community Survey also asks respondents to rate overall performance of the Council, with results showing increasing community satisfaction over the last five years – from a score of 3.23 out of 5 in 2010 (where 1 is very dissatisfied and 5 is very satisfied) to a score of 3.60 in 2014.

In 2014 the Council undertook comprehensive engagement with the community on how best to achieve affordable and acceptable levels of service into the future while living within our means. This engagement looked at various options for *Resourcing Our Future*, two of which included a special rate variation to fund the improvement and/or maintenance of service levels. The response from this consultation process was overwhelming, with more submissions (over 4,300) than had ever been received through a public exhibition process. Approximately 80% of submissions supported a special variation with a focus on: maintaining and renewing built infrastructure and assets; protecting and restoring the natural environment; improving emergency preparedness and response; and improving services to the community.

## 2.2 Key challenges and opportunities

### Strengths

1	An award winning <b>Community Strategic Plan – Sustainable Blue Mountains 2025 (SBM2025)</b> - developed, updated and endorsed in close consultation and engagement with the community - informing legislatively required Integrated Planning and Reporting (IP&R) processes
2	<b>Strong, effective and strategic Council leadership</b> committed to implementing the IP&R process including improving financial sustainability, strategic asset management and providing best value service delivery
3	A <b>financially viable Council</b> managing \$1 billion worth of built assets, achieving balanced annual cash budgets, with adequate reserves for known risks and commitments and a projected surplus Operating Result (including depreciation) by 2019-2020
4	A Cooperative Agreement to form a <b>Regional Strategic Alliance</b> with neighbouring Penrith City Council and Hawkesbury City Council to strengthen strategic capacity, achieve economies of scale, deliver significant business efficiencies and achieve a unified approach to sub-regional planning and advocacy
5	A <b>Best Value approach</b> to service provision – driving achievement of defined affordable levels of service that efficiently and cost effectively meet the assessed and changing needs of the community – including addressing risk and reducing long term operating costs
6	An integrated and multi-pronged approach to financial sustainability through the Council adopted <b>Six Strategies for Financial Sustainability</b>
7	An <b>engaged, skilled and productive workforce</b> to deliver our plans and adapt to change
8	The <b>boundaries of the Blue Mountains LGA are logical</b> and reflect natural and social boundaries – they make sense for the local community, for stewardship of the surrounding World Heritage Listed environment and for service provision



## Weaknesses

1	<b>TCorp 2013 assessment</b> of Council's Financial Sustainability Rating in the short term is Weak with a Neutral Outlook.
2	<b>Operating Result currently in deficit</b> (including depreciation and excluding capital income) - with operating costs having increased in past at a greater rate than revenue
3	<b>Large size of asset portfolio</b> with significant <b>underfunding of required asset renewal and maintenance</b> over many years
4	The Council is <b>responsible for maintenance and management</b> of very large natural areas, and a high number of tourist facilities and Rural Fire Service and SES built assets
5	Twenty seven towns and villages spread along 100 km of mountainous terrain has historically encouraged <b>duplication of services and a higher proportion of facilities per person</b> than elsewhere in NSW
6.	State and Federal Government <b>one-off funding grants</b> for new community facilities and infrastructure <b>have not covered the long term costs associated with whole of life cycle asset maintenance and renewal</b> – many facilities that been funded by other levels of government in past decades are now in need of major renewal

## Opportunities

1	The Local Government Area includes significant <b>World Heritage Listed Area</b> which provides critical environmental services such as green space, water catchment areas and recreation opportunities for metropolitan Sydney which can attract funding from other levels of government and warrants further recognition and promotion as part of NSW and Australian Tourism
2	Completion of <b>Great Western Highway upgrade</b> from Emu Plains to Katoomba by 2016
3	<b>Federal grant funding and working with the private sector</b> will continue to provide opportunities to renew assets
4	Blue Mountains Local Government Area has a <b>strong brand</b> that the community, the nation and international visitors identify with and the City has a comparative advantage in the areas of tourism, environment, heritage and the arts
5	The City of Blue Mountains has a <b>highly engaged and skilled community</b> willing to work in partnership and advocate for the well-being of the Blue Mountains community and environment



## Threats

1	Exposure to high level of <b>natural disaster risk</b> which causes major shocks to the community and to the Council's budget e.g. when storms and bushfires occur. Extensive infrastructure needs to be maintained including fire trails, asset protection zones, lookouts and walking trails. Natural disaster resilience planning needs to be strengthened.
2	<b>Grants and other funding from State and Federal Government are not guaranteed</b> – our income streams are not certain and are exposed to uncertainties related to changes in legislation and shifting of responsibility to local government, which are beyond the control of local government e.g. freezing of Financial Assistance Grant and cuts to Family Day Care funding
3	Significant <b>increases to the statutory contributions for emergency services costs</b> that Council has to pay (far greater than CPI) and above rate peg
4	<b>Inadequate funding</b> to maintain and renew \$1 billion worth of ageing infrastructure which may lead to asset failures and significant risk management challenges – Council will need to implement all of its <i>Six Strategies for Financial Sustainability</i> given that even with increased income from a special variation the City still requires more funding to address required asset renewal and maintenance
5	<b>Economy is not as diversified as it needs to be</b> i.e. currently overly dependent on tourism which can be affected by natural disasters and other events
6	<b>Continued outward migration of young adults and ageing population</b> is resulting in an increasingly imbalanced demographic structure – which in turn if not corrected will adversely affect service needs

## 2.3 Performance against the Fit for the Future benchmarks

<b>Sustainability</b>				
Measure/ benchmark	2013 / 2014 Performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-10.7%	No	-6.5%	No However, achieved in 2019-2020
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	80.4%	Yes	85.0%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	48.1%*	No	29.8%	No However, achieved in 2019-2020

\* Includes major one-off renewal projects in 2011-12



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

## Operating Performance Ratio

This ratio has not been met due to:

### 1. *Costs rising faster than revenue, constraints on revenue generation and cost shifting*

Like many NSW councils, BMCC's ability to maintain financial sustainability is constrained due to a number of factors beyond its control. These factors include:

- **Rate peg** – for the past 37 years increases to the annual revenue for NSW councils has been constrained by rate pegging. As a result, NSW local government's share of the Australian taxation dollar has been decreasing since the 1960s. This is despite the fact that many major costs for councils have risen significantly in a number of areas. For example, for BMCC electricity and gas are estimated to have risen by 14.9% and 13.4% respectively in 2014-2015 however rate peg is only 2.3%;
- **Cost shifting** – it is estimated that over 2006/2007 to 2011/2012 the impact of cost shifting on BMCC is \$33.3 million (average of \$5.5 million per year). This includes the responsibility for maintaining Rural Fire Service and State Emergency Service buildings as well as the subsidy to the NSW Government for emergency management service provision in the City;
- **Share of infrastructure responsibilities** – local government in Australia is responsible for 36% of local infrastructure but only has access to 3.5% of total taxation; and
- **Federal and State Government funding reductions** – local governments are impacted by reductions to funding received from other levels of government. For example, the 2014 Australian Government Budget froze the indexation of the Financial Assistance Grants and ceased its contribution to the pensioner rates subsidy. It is estimated that this will impact BMCC by approximately \$2.9 million loss in revenue over the next four years plus a \$1 million ongoing loss.

### 2. *Factors Unique to BMCC*

The Blue Mountains Local Government Area is unique. As a result, BMCC faces additional costs compared with other NSW councils in servicing our community due to the following:

- **Duplicated services** – our 79,700 residents live across 27 towns and villages spread over 143,000ha and along 100km of mountainous terrain. As a result, many services and facilities are duplicated to ensure reasonable access by the majority of ratepayers. However, access remains an issue for many ageing residents living in isolated pockets, especially those with no car;
- **Size of asset portfolio** – BMCC manages a large portfolio of built assets, with an estimated value of \$1 billion, and over 10,000 ha of bushland (including 500ha of endangered ecological communities and habitats for at least 90 rare and threatened species) much of which includes or is surrounded by World Heritage Listed National Park;

- **Stewardship role in managing impacts on World Heritage environment** – Being surrounded by a World Heritage Area and forming the catchment for Sydney's drinking water, presents additional costs to the Council and the community in responsibly managing impacts of development on the environment, protecting and conserving internationally recognised natural values, and protecting drinking water;
- **Management of emergencies and bushfires** – due to its location within a National Park, the City is susceptible to major storm, wind and snow events as well as being one of the most bushfire prone areas in Australia. As a result, BMCC incurs additional expenses for managing our emergency risks and meeting our statutory obligations;
- **Demands for increasing service levels** – as a City located on the fringe of Sydney, residents expect levels of service similar to the metropolitan areas; and
- **Limited opportunity for increase in new rateable properties** – population growth and land use development is constrained by the City's topography and location within a National Park. In fact, the number of new rateable properties has been declining over the past 10 years. As a result, rating revenue essentially only increases due to rate pegging.

### **Building and Infrastructure Asset Renewal**

This ratio does not currently meet benchmark because BMCC has underfunded the renewal of its \$1 billion worth of assets for many years due to the financial challenges set out above. For BMCC to meet this ratio it would need to spend annually, on average, approximately \$16 million (or 15% of its annual revenue) rather than the \$6 million that it currently spends on building and infrastructure asset renewal.

The Council's 10 year Resourcing Strategy 2014-2024 (including the Long Term Financial Plan, Asset Management Strategy and Asset Management Improvement Plan) identifies required corrective action to ensure this ratio improves in the future, from 29.8% in 2016-17 to 76.9% by 2019-20.

## 2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management				
Measure/ benchmark	2013 / 2014 Performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2%)	1.7%	Yes	3.2%	No However, achieved in 2019-2020
Asset Maintenance Ratio (Greater than 100% average over 3 years)	80.8%	No	96.0%	No However, achieved in 2019-2020
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	7.6%	Yes	9.1%	Yes

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

### Infrastructure Backlog Ratio

This ratio does not meet benchmark by 2016-17 due to underfunding of required asset renewal for reasons detailed in comments above on the Operating Ratio. It should be noted however, that the Council is using a risk based approach to the definition of the infrastructure backlog, or cost to bring to satisfactory, defining it as: the total unfunded cost to renew all high residual risk assets in the current risk register.

This definition results in a much lower Bring to Satisfactory (BTS) amount and differs from Backlog definitions based on amount of infrastructure in Condition 4 (Poor) and Condition 5 (Very Poor) which would result in the Council having a BTS of more than \$183 million at 30 June 2014. Council's engagement with community on affordable and required service levels has shown that the community is willing to accept a proportion of assets in poor condition if they are still fit for purpose.

### Asset Maintenance Ratio

This ratio does not meet benchmark due to underfunding of required maintenance – for reasons detailed in comments on the Operating Performance Ratio. BMCC has not had sufficient revenue to fully fund maintenance expenditure requirements. As well, the underfunding of asset renewal has in turn exacerbated and increased maintenance requirements. This Proposal puts in place strategies and actions that will increase funding to required asset maintenance over the next five years so that by 2019-20 the ratio is at 97%, and within the following five years thereafter is fully funded in accordance with defined service provision standards/levels.

## 2.3 Performance against the Fit for the Future benchmarks

Efficiency				
Measure/ benchmark	2013 / 2014 Performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	Decreasing	Yes	Decreasing	Yes

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

Not applicable.



## 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:*

#### **Operating Performance Ratio**

This measure is currently in deficit and does not reach breakeven / surplus until 2019/20.

Key strategies to improve the Operating Result include:

- Continuing to implement the Council's 10 year Resourcing Strategy including simultaneous implementation of all *Six Strategies for Financial Sustainability* as detailed in the Long Term Financial Plan;
- Implementing a range of expenditure reduction and income generating strategies as detailed in the Council's Resourcing Strategy and summarised in this Improvement Proposal, so that available operating revenues cover operating expenditure over the long term (including expenditure funding requirements of assets). By 2019/20 Council will achieve a financially responsible surplus where operating revenues are sufficient to cover operating expenditure. By 2023/24 the Council will be in an even stronger position to address the significant infrastructure renewal and maintenance backlog;
- Applying the 2015 special rate variation funding smartly using best value criteria and optimised decision-making addressing whole of asset lifecycle funding requirements – so that the expenditure addresses the infrastructure backlog, extends asset life, reduces long term operating costs, reduces risks and provides required service delivery that meets the changing needs of the community;
- Continuing to implement service reviews or service component reviews to ensure cost effective and efficient value for money service delivery that meets changing needs of the community; and
- Progressing the development and implementation of a knowledge management program to support optimum decision making and resource allocation.

### Own Source Revenue Ratio

The Council's Own Source Revenue Ratio is currently at 80.4% and is projected to increase to 87.8% by 2019-20, well within the required benchmark. Key strategies to maintain and improve the Own Source Revenue Ratio include:

- Continuing to implement a range of existing income generating initiatives and strategies including implementing the: Council's Property Investment and Disposal Program; sound management of the Council's commercial property portfolio and Tourist Caravan Parks; and
- Identifying other revenue generating initiatives that can be implemented by the Council or through the Regional Strategic Alliance with Penrith and Hawkesbury councils or with other stakeholders.

### Building and Infrastructure Asset Renewal Ratio

The Council's Building and Infrastructure Asset Renewal Ratio improves over time from 29.8% in 2013-14 to 76.9% by 2019-20. These figures reflect past underfunding of required asset renewal. Key strategies to improve the Building and Infrastructure Asset Renewal Ratio include:

- Implementing the Council's *Asset Management Improvement Plan* (AMIP) with particular focus on targeting available funding to addressing high risk asset renewal and improving asset information / data informing strategic and operational asset management; and
- Continued maturity of the Council's Financial Asset Register so that it guides better decisions on asset renewal expenditure

### *Key assumptions underpinning strategies and expected outcomes:*

- The annual cash budget will be balanced each year, and over ten years the Operating Result (including depreciation) will be balanced;
- Council will proactively implement the Long Term Financial Plan and the Asset Management Strategy;
- Service and Asset Plans and related Asset Management Risk Registers will be updated annually;
- Best value resource allocation, whole of lifecycle and optimised decision making processes will be strengthened to support strategic asset management that reduces long term costs and extends asset useful lives
- Inflation is assumed to be 3% p.a. over the forecast period;
- The indexation of Financial Assistance Grants is frozen over the period 2014/15 to 2016/17 and the increase after this period is 4% p.a. according to advice from the Office of Local Government;
- Wage costs do not increase above inflation, superannuation costs are indexed according to the Superannuation Guarantee (Administration) Amendment Act 2012;
- The rate of pensioner subsidy is stable at \$250 but the Australian Government contribution of 5% is removed;
- Evidence related to the useful life of assets will support more accurate identification of renewal timeframes; and
- Accuracy of depreciation will improve.

*Sustainability strategies and outcomes are outlined in the table below.*

3.1 Sustainability				
Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>A. Achieve and maintain a balanced Operating Result by 2019-20</b>	1. Reduce long term operating costs through best value resource allocation	<p>By 2016-2017:</p> <ul style="list-style-type: none"> <li>The annual budgeting process is guided by a best value resource allocation framework that includes a focus on risk management</li> <li>The Council has strengthened its asset management decision making and resource allocation to reduce whole of life cycle asset costs, maximise life of assets and manage risks</li> <li><i>Please note that milestones beyond 2016-2017 generally to be determined with development of next four year Delivery Program (2017-2021) with new Council and community engagement – this applies for all strategy milestones below. However, most 2016-17 milestones will continue to be implemented over the next four years.</i></li> </ul>	<ul style="list-style-type: none"> <li>Long term operating costs are reduced contributing to improvement in the Operating Performance Ratio by 2019-2020</li> </ul>	<ul style="list-style-type: none"> <li>Building and Infrastructure Asset Renewal Ratio improved</li> <li>Real Operating Expenditure Ratio improved</li> <li>Infrastructure Backlog Ratio improved</li> <li>Asset Maintenance Ratio improved</li> </ul>

## 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>A. Achieve and maintain a balanced Operating Result by 2019-20 - Cont'd</b>	<b>2.</b> Continue to progress implementation of service planning and service reviews to ensure best value services that meets changing community needs	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>• Service reviews for parks, libraries and pools have been substantially progressed</li> <li>• Proposed new asset works are considered against best value criteria and appropriate business case assessment</li> <li>• Review of existing assets against required and affordable service levels has progressed in consultation with community and strategies developed to rationalise any assets no longer required.</li> <li>• Implementation of the - <i>BMCC Service Framework: Guidelines for Achieving Best Value Services that Meet Community Needs</i> - has progressed</li> </ul>	<ul style="list-style-type: none"> <li>• Will contribute to improved Operating Performance Ratio by 2019-20</li> </ul>	<ul style="list-style-type: none"> <li>• Building and Infrastructure Asset Renewal Ratio improved</li> <li>• Favourable impact on Real Operating Expenditure Ratio</li> <li>• Infrastructure Backlog Ratio improved</li> <li>• Asset Maintenance Ratio improved</li> </ul>



## 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>A. Achieve and maintain a balanced Operating Result by 2019-20 - Cont'd</b>	<p><b>3. Increase income through:</b></p> <ul style="list-style-type: none"> <li>Maximising returns from the Council's Property Disposal and Investment Program, Commercial Property Portfolio, Tourist Caravan Parks and Roads &amp; Maritime Service (BMCC is agent for RMS)</li> <li>Seeking grant funding that supports delivery of required services and facilities</li> <li>Maximising returns from Council's investments</li> </ul>	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>Property Disposal and Investment Program has been reviewed to maximise returns</li> <li>Key commercial activities are guided by 4-10 year business plans/ strategies</li> <li>Opportunities for introducing and/or increasing user pay where appropriate have been considered e.g. for tourism facilities</li> <li>Investments continue to be reviewed and monitored to ensure best returns in line with the Council's adopted Investment Policy</li> </ul>	<p>Operating Performance Ratio improves by 2019-2020</p>	<p>Increased revenue (including grant funding) will improve:</p> <ul style="list-style-type: none"> <li>Own Source Revenue Ratio</li> <li>Debt Service Ratio</li> <li>Asset Maintenance Ratio</li> <li>Building and Infrastructure Asset Renewal Ratio improved</li> <li>Infrastructure Backlog Ratio</li> </ul> <p>Reduced costs from any asset disposal will improve:</p> <ul style="list-style-type: none"> <li>Real Operating Expenditure Ratio</li> </ul> <p>Grant funding for operational purposes will be an unfavourable impact on:</p> <ul style="list-style-type: none"> <li>Real Operating Expenditure Ratio</li> </ul>

## 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>A. Achieve and maintain a balanced Operating Result by 2019-20 - Cont'd</b>	<b>4.</b> Continue to lobby federal and state governments for reduced cost shifting, fair distribution of and increased access to funding for local government / BMCC	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>Other levels of government lobbied on key matters adversely affecting financial sustainability of local government</li> <li>Regional Strategic Alliance (between Blue Mountains, Penrith and Hawkesbury City Councils) has strengthened its role in lobbying for and influencing regional initiatives that support local communities</li> </ul>	<ul style="list-style-type: none"> <li>Potential to achieve improved financial outcomes for local government including fairer distribution of funding</li> </ul>	<ul style="list-style-type: none"> <li>Operating Performance Ratio improved</li> <li>Building and Infrastructure Asset Renewal Ratio improved</li> <li>Infrastructure Backlog Ratio improved</li> </ul>
<b>B. Maintain and increase own source revenue</b>	<b>5.</b> Continue to implement strategies that increase own source revenue - including maximising returns from commercial activities and Property Disposal and Investment Program	<ul style="list-style-type: none"> <li>Refer to Item 3 above</li> </ul>	<ul style="list-style-type: none"> <li>Own source revenue increases by 2019-2020</li> </ul>	<ul style="list-style-type: none"> <li>Operating Performance Ratio improved</li> <li>Building and Infrastructure Asset Renewal Ratio improved</li> <li>Infrastructure Backlog Ratio improved</li> </ul>

## 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>C. Improve the Building and Infrastructure Asset Renewal Ratio</b>	<b>6.</b> Implement the Asset Management Improvement Plan (AMIP) – to guide and target required expenditure on asset renewal	<p>By 2016-2017 the <i>Asset Management Improvement Plan</i> has been implemented with a focus on:</p> <ul style="list-style-type: none"> <li>Improving data that informs asset renewal planning</li> <li>Targeting expenditure to high risk required asset renewal</li> <li>Reducing whole of lifecycle costs and extending asset lives</li> <li>Updating and preparing required Asset Plans and Policies</li> <li>Strengthening asset risk management and governance processes</li> <li>Identifying required intervention strategies</li> </ul>	<ul style="list-style-type: none"> <li>Building and Infrastructure Asset Renewal Ratio improved as expenditure on asset renewal is increased in accordance with optimal lifecycle expenditure requirements.</li> <li>Improved accuracy of: <ul style="list-style-type: none"> <li>- asset valuation and useful lives</li> <li>- depreciation</li> <li>- renewal cycles</li> <li>- capitalisation of asset renewal expenditure</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure Backlog Ratio improved</li> <li>Asset Maintenance Ratio improved</li> <li>Favourable impact on Real Operating Expenditure Ratio</li> </ul>

## 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>C. Improve the Building and Infrastructure Asset Renewal Ratio - Cont'd</b>	<b>7.</b> Improve the maturity of the Council's Financial Asset Register and alignment with required asset renewal expenditure	<ul style="list-style-type: none"> <li>• By July 2017 Asset Register is materially improved through:               <ul style="list-style-type: none"> <li>- Improving asset register data</li> <li>- Identifying and implementing required revaluations</li> <li>- Reviewing depreciation data including unit rates and assumptions on useful lives and unit costs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• More accurate depreciation - better reflecting true consumption of asset and better informing asset planning</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Performance Ratio improved</li> <li>• Infrastructure Backlog Ratio reduced</li> <li>• Favourable impact on Real Operating Expenditure Ratio</li> </ul>



## 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:*

### Infrastructure Backlog Ratio

Blue Mountains City Council's infrastructure backlog presents a manageable financial risk and the FFTF infrastructure backlog improvement target is achievable in five years with the current funding and service levels. However, fully addressing the backlog will require the implementation of a 10 year service and asset management funding program, targeting high risk asset renewal and including ongoing engagement with community on affordable and required levels of service.

In 2014-15 the Council's Infrastructure Backlog is estimated to be \$11.7 M (with the Infrastructure backlog defined as "unfunded high residual risk associated with assets essential to achieving the Council's Community Strategic Plan" – see Attachment 4). By 2017-18 the estimated backlog grows to \$19.0 M and then begins to reduce to \$17.3M by 2019-20, reaching \$0 by 2024-25.

The increase in the backlog up until 2017-18, reflects the Council having insufficient funding to clear the backlog over this period. The reduction in the backlog from 2018-19 occurs as a result of increased income from the Council's successful staged 2015 special variation being available for asset renewal, from this year on.

Key strategies to address the infrastructure backlog include:

- Targeting special variation expenditure to addressing renewal of assets with high residual risk
- Continuing to engage community on required and affordable levels of service

The key outcome from implementing these strategies will be improving the Infrastructure Backlog by 2019-20 and eliminating it by 2025.

### Asset Maintenance Ratio

The Council's Asset Maintenance Ratio remains in a range above 95% from 2016-17 to 2019-20. The trend is for the ratio to improve to 96.9% by 2019-20. Asset maintenance optimum targets are estimates based on the best available data and will be updated annually to align with Asset Management Plans.

Expenditure on determined required maintenance will be prioritised over asset renewal spending to ensure that sufficient funding is provided to continue required maintenance works at the optimum level.

The key strategy to improve the asset maintenance is to fund necessary maintenance using evidence based assessment.

The key outcome of implementing the strategy will be fully maintained assets which have an extended useful life until they require renewal or replacement.

### **Debt Service Ratio**

The Council's Debt Service Ratio reduces from 9.05% in 2016-17 to 6.22% in 2019-20. The declining trend in the ratio is a result of the Council's strategy to fund asset renewal work from special variation funds, rather than borrowings. The Council's payments for financing activities, reduces from \$4.6M in 2016-17 to \$4.0M in 2019-20. The Council has been implementing *Strategy 3: Manage Borrowings Responsibly* as one of its key Strategies for Financial Sustainability) since the LTFP identified that Council had reached its capacity to repay debt. The planned reduction in Loan Balance Outstanding from \$53.1 million in 2014-15 to \$16.8 million by 2024-25, allows the Council to strengthen its financial performance and rebuild capacity to borrow into the future.

The key strategy to reduce the Council's Debt Service Ratio is to implement the endorsed Borrowing Strategy. Borrowing capacity will be reviewed annually, opportunities will be taken to reduce debt, new borrowings will be supported by sound business cases and subsidised state loan funding will be used where effective.

The key outcome of implementing the Borrowing Strategy will be to rebuild the Council's capacity to borrow for new infrastructure projects within the next five to seven years (to support provision of assessed required infrastructure taking into consideration inter-generational funding consideration) as the Council generates Operating Surpluses from 2019-20.

### ***Key assumptions underpinning strategies and expected outcomes:***

- The Asset Management Improvement Plan (AMIP) will be reviewed and implemented to guide achievement of FFTF Infrastructure and Service Management targets
- Special Schedule 7 will be reviewed and updated based on Asset Plans and Asset Management Risk Registers - to provide an updated assessment of Council's Infrastructure Backlog based on high residual asset renewal risk;
- Engagement with community will continue to identify acceptable and affordable levels of service including assets that may need to be rationalised;
- Asset maintenance service level standards will be reviewed, monitored and implemented in accordance with Asset Management Plans and agreed levels of service provision;
- Required maintenance will be funded as a priority within available funding using evidence based best value resource allocation; and
- Any future borrowings will be supported by a sound business case.

*Infrastructure and Service Management strategies and outcomes are outlined in the table below.*

<b>3.2 Infrastructure and service management</b>				
<b>Objective</b>	<b>Strategies</b>	<b>Key milestones</b>	<b>Outcome</b>	<b>Impact on other measures</b>
<b>D. Improve Infrastructure Backlog Ratio</b>	<b>8.</b> Address the infrastructure backlog through targeting available revenue to high risk asset renewal using best value assessment	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>• Service and asset / infrastructure planning informs expenditure on asset renewal</li> <li>• Asset Management Plans and Asset Management Risk Registers updated annually to identify and target high risk renewal expenditure</li> </ul>	<ul style="list-style-type: none"> <li>• Contributes to reduction in infrastructure backlog by 2019-20</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Performance Ratio improved</li> <li>• Infrastructure Backlog Ratio improved</li> <li>• Asset Maintenance Ratio improved</li> <li>• Favourable impact on Real Operating Expenditure Ratio</li> </ul>

## 3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>D. Improve Infrastructure Backlog Ratio – Cont'd</b>	<p>9. Continue to engage with community on required and affordable levels of service to ensure best value service provision that meets changing community needs</p>	<p>By 2016- 17:</p> <ul style="list-style-type: none"> <li>The Council has engaged community on service levels through the required update of Integrated Plans including the Community Strategic Plan and Resourcing Strategy</li> <li>Community engagement progressed on service reviews including affordable service levels and trade-offs</li> </ul>	<ul style="list-style-type: none"> <li>Community engaged on required and affordable levels of service – with potential to improve Infrastructure Backlog</li> <li>Supports achievement of best value services that meet changing needs of community</li> </ul>	<p>Potential favourable impact on:</p> <ul style="list-style-type: none"> <li>Operating Performance Ratio improved</li> <li>Infrastructure Backlog Ratio improved</li> <li>Favourable impact on Real Operating Expenditure Ratio</li> </ul>



## 3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>E. Improve Asset Maintenance Ratio</b>	<b>10.</b> Fund required maintenance using evidence based assessment	<ul style="list-style-type: none"> <li>• Implement agreed maintenance service level standards and monitor and report performance</li> <li>• Implement best value assessment of maintenance expenditure requirements</li> <li>• Service and asset planning informs development and updating of required maintenance service level standards</li> </ul>	<ul style="list-style-type: none"> <li>• Contributes to improvement of Asset Maintenance Ratio through appropriate investment in required asset maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Performance Ratio improved in long-term</li> <li>• Building and Infrastructure Asset Renewal Ratio improved</li> <li>• Infrastructure Backlog Ratio improved</li> <li>• Favourable impact on Real Operating Expenditure Ratio in long-term</li> </ul>

## 3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>F. Improve/ Maintain Debt Service Ratio within Council's LTFP targets</b>	<b>11.</b> Implement the Council's endorsed Borrowing Strategy	Annual and ongoing: <ul style="list-style-type: none"> <li>Borrowing capacity reviewed annually</li> <li>Opportunities taken to reduce debt through one-off savings and appropriate use of cash reserves</li> <li>New borrowings supported by sound business case</li> <li>Subsidised state government / TCorp loan funding used where effective</li> </ul>	<ul style="list-style-type: none"> <li>Debt Service Ratio reduced from 9.05% in 2016-2017 to 6.22% in 2019-2020.</li> <li>Council rebuilds capacity to borrow as it generates operating surpluses after 2020</li> </ul>	<ul style="list-style-type: none"> <li>Operating Performance Ratio improved</li> <li>Favourable impact on Real Operating Expenditure Ratio</li> </ul>

## 3.3 Efficiencies

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

### **Real Operating Expenditure**

Reducing Real Operating Expenditure per capita is a challenge, given historically high levels of service duplication across the City, with 27 dispersed settlements. However, real operating expenditure per capita declines from 0.99 in 2016-17 to 0.94 in 2019-20, once IP&R supported (special variation) service improvements are excluded.

Over the last 10 years the Council has implemented a range of cost savings, efficiency and productivity improvement initiatives and programs as detailed in Attachment 8.

The delivery of best value services is a key focus of the Council's service delivery and is supported by the *BMCC Service Framework: Guidelines for Best Value Service Delivery* (Attachment 2) adopted by the Council in June 2013. Best value service provision includes cost effective, quality, value for money services responsive to the needs and requirements of service users. The aim is for the Council's service delivery to be targeted and responsive to the needs of users, with each service having:

- Defined quality and cost standards;
- Defined service levels and performance outcomes; and
- Demonstrable commitment to continuous improvement, efficiency and effectiveness.

The Council has developed Best Value Decision Making Criteria to guide resource allocation including the following five criteria:

- Meets financial strategy;
- Manages risks and avoid shocks;
- Minimises life cycle and operational costs;
- Meets assessed needs; and
- Builds internal capacity and capability.

Council has identified the provision of services in-house as a key strategy in containing costs. This also provides benefits of efficiency, flexibility, economy of scale, increased control over service provision and reduced costs. However, a range of service delivery modes are used to ensure that all services are provided in the most efficient and effective manner. These include:

- **Participation in joint ventures** and public/private partnerships such as public private partnership used between State Government/Council/Coles Group for the development of the Blue Mountains Cultural Centre/Coles supermarket in Katoomba
- **Shared service provision** such as the Council's implementation of a shared service delivery with the Roads and Maritime Service to provide a cost effective, income generating and improved front counter "one stop shop";
- **Outsourcing where appropriate** e.g. Blackheath Vacation Care program was outsourced to Blackheath Area Neighbourhood Centre;
- **Strategic partnerships** such as working to establish a formal "Strategic Alliance" between Blue Mountains, Penrith and Hawkesbury councils and in joint procurement of insurance through Westpool;
- **Peer review by other councils** of development applications;
- **Establishment of incorporated entities** such as the 2013 establishment of the Blue Mountains Economic Entity to drive economic outcomes in most productive and cost effective manner;
- **Commercial activities** that generate income including Tourism Parks, a commercial property portfolio, an effluent collection service and a Roads and Maritime Service through the Council's front counter; and
- **Limited use of consultants and contractors** on a case by case basis, for specialised projects requiring skills and expertise not available within the organisation, for building internal capacity and for risk mitigation. Annual expenditure on consultants has decreased by over \$1 million since 2009-10.

***Key strategies to reduce Real Operating Expenditure include:***

- Implementing the **Regional Strategic Alliance** with neighbouring Penrith and Hawkesbury councils to achieve economies of scale and business efficiencies and savings
- Continuing to implement the Council's adopted BMCC Service Framework and guidelines for achieving best value service delivery
- Continuing to implementing the Council's Procurement Strategy to achieve cost savings in procurement of goods and services through improved contract management, use of procurement aggregators and group purchasing
- Continuing to implement business and process improvement initiatives through an organisation business excellence framework
- Continue to implement the outcomes of the Waste Service Review including a change to fortnightly 240 litre recycling service with cost savings to rate payers

### *Key Assumptions:*

- Future projected population used to calculate Real Operating expenditure Per Capita is based on population projections for the City of Blue Mountains from the NSW Department of Planning & Environment (see Attachment 6);
- Additional revenue from the 2015 special variation will be used to improve service levels, and therefore this additional expenditure has been excluded from the calculation of this benchmark (being an IP&R supported service improvement);
- In-house delivery of services will continue to be the preferred delivery method of service delivery, if it is cost efficient and effective. Other means of service delivery will be considered as appropriate and relative to cost benefit analysis;
- The Council will continue to strengthen its best value service provision framework, including governance framework to support best value resource allocation and a rolling program of best value service reviews to support achievement of savings, efficiencies and productivity improvements; and
- The Council will continue to maximise opportunities for gaining cost savings and efficiencies through the Regional Strategic Alliance with Penrith and Hawkesbury and through use of procurement aggregators, joint procurement through Westpool and WSROC.



*Efficiency strategies and outcomes are outlined in the table below.*

### 3.3 Efficiencies

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>G. Decrease Real Operating Expenditure per capita over time</b>	<b>12.</b> Implement Regional Strategic Alliance between Blue Mountains, Penrith and Hawkesbury councils to drive strategic opportunities, capitalise on economies of scale and enhance sub-regional planning and advocacy.	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>Regional Strategic Alliance initiatives are being implemented with potential to reduce ongoing costs and achieve efficiencies through economies of scale e.g. joint procurement and/ or shared service provision</li> <li>Regional Strategic Alliance is contributing to development of sub-regional planning strategy that recognises and maximises potential of all three councils</li> </ul>	<ul style="list-style-type: none"> <li>Contributes to Real Operating Expenditure Ratio favourable decline from 0.99 in 2016-2017 to 0.94 in 2019-2020</li> <li>Operating expenditure expected to reduce as a result of economies of scale from Regional Alliance</li> <li>Buying costs minimised through participation in joint regional procurement</li> </ul>	<ul style="list-style-type: none"> <li>Operating Performance Ratio improved</li> <li>Building and Infrastructure Asset Renewal Ratio improved</li> <li>Infrastructure Backlog Ratio improved</li> <li>Asset Maintenance Ratio improved</li> </ul>

### 3.3 Efficiencies

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>G. Decrease Real Operating Expenditure per capita over time – Cont'd</b>	<b>13.</b> Implement the Council's Procurement Strategy	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>• Strategic Procurement strategy reviewed to maximise cost savings</li> <li>• Benefits continue to be obtained from joint procurement of insurance through membership of the Westpool insurance group</li> <li>• Procurement opportunities have been achieved through WSROC and other procurement aggregators</li> <li>• Contract management cost savings have been achieved e.g. electricity contracts.</li> </ul>	<ul style="list-style-type: none"> <li>• Contributes to Real Operating Expenditure Ratio favourable decline from 0.99 in 2016-2017 to 0.94 in 2019-2020</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Performance Ratio improved</li> </ul>

### 3.3 Efficiencies

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>G. Decrease Real Operating Expenditure per capita over time – Cont'd</b>	<b>14.</b> Continue to implement business and process improvement initiatives that reduce costs, improve productivity and achieve best value effective and efficient service delivery	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>• Organisational Business Excellence/ Improvement framework progressed</li> <li>• Work redesign, productivity, efficiency and cost saving initiatives implemented</li> <li>• Continue tracking of productivity, cost saving and efficiency initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Contributes to Real Operating Expenditure Ratio favourable decline from 0.99 in 2016-2017 to 0.94 in 2019-2020.</li> <li>• The Council maximises cost saving, efficiency and business improvement opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Performance Ratio improved</li> </ul>

### 3.3 Efficiencies

Objective	Strategies	Key milestones	Outcome	Impact on other measures
<b>G. Decrease Real Operating Expenditure per capita over time – Cont'd</b>	<b>15.</b> Implement Waste Service Strategy action for reducing Domestic Waste Charge to ratepayers through changing from weekly to fortnightly recycling service (with a larger recycling bin)	<p>By 2016-17:</p> <ul style="list-style-type: none"> <li>NetWaste tender implemented with change to fortnightly 240L kerb-side recycling service.</li> </ul>	<ul style="list-style-type: none"> <li>Contributes to Real Operating Expenditure Ratio favourable decline from 0.99 in 2016-2017 to 0.94 in 2019-2020.</li> <li>Landfill life extended</li> <li>Savings of \$30 per ratepayer per annum</li> </ul>	<ul style="list-style-type: none"> <li>Operating Performance Ratio improved</li> <li>Unfavourable impact on Own Source Revenue ratio – as savings from initiative passed on to ratepayers.</li> </ul>

## 3.4 Improvement Action Plan – 2016/17

The following table provides a summary of the key improvement actions that will be achieved in the first year of the plan. A more detailed action plan identifying costs, benefits and risks and assumptions can be found at Attachment 5.

The financial modelling that underpins the Improvement Proposal and Action Plan is included in Attachment 6.

Objective	Strategy	Actions	2016-17 Milestones
<b>A. Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>1. Reduce long term operating costs through best value resource allocation</b>	<b>1.1</b> The annual budgeting process is guided by a best value resource allocation framework that includes a focus on risk management  <i>2013-17 DP/OP: Pages 97, 98, 105 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>• Best value governance framework in place and guiding resource allocation</li> <li>• Service and Asset Plans updated to inform annual business planning and budget process</li> <li>• Operating Plan including budget complete within best value resource allocation</li> </ul>
<b>A. Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>1. continued</b>	<b>1.2</b> The Council has strengthened its asset management decision making and resource allocation to reduce whole of life cycle asset costs, maximise life of assets and manage risks  <i>2013-17 DP/OP: pages 97, 98, 105 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>• Optimised decision making framework/approach developed</li> <li>• Improved “whole of life cycle” asset planning and management data available to inform allocation and timing of expenditure</li> </ul>



Objective	Strategy	Actions	2016-17 Milestones
<b>A. continued</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>2.</b> <b>Continue to progress implementation of service planning and service reviews to ensure best value services that meet changing community needs</b>	<b>2.1</b> Service reviews for parks, libraries and pools have been progressed  <i>2013-17 DP/OP: pages 67, 84, 82, 86, 97, 98 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Community engagement on service reviews commenced</li> </ul>
<b>A.</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>2. continued</b>	<b>2.2</b> Review of existing assets against required service provision and service levels  <i>2013-17 DP/OP: pages 67, 84, 82, 86, 97, 98, 105 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Ensure any service reviews undertaken confirm assets required to meet assessed required service delivery</li> <li>Asset rationalisation strategies completed where required</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>A.</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>3.</b> <b>Increase income through:</b> <ul style="list-style-type: none"> <li>Maximising returns from the Council's Property Disposal and Investment Program, Commercial Property Portfolio, Tourist Caravan Parks; Roads &amp; Maritime Service Agency (BMCC is an agent for RMS at Katoomba)</li> <li>Seeking grant funding that supports delivery of required services and facilities</li> <li>Providing sound financial management of the Council's investments</li> </ul>	<b>3.1</b> Key commercial activities are guided by 4-10 year business plans/ strategies  <i>2013-17 DP/OP: pages 92-93, 104, 109 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Complete 4-10 year commercial activity business plans / strategies</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>A.</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>3. continued</b>	<b>3.2</b> Implement income generating activities to achieve revenue including: <ul style="list-style-type: none"> <li>Property Disposal and Investment Program, Commercial Property Portfolio, Tourist Caravan Parks and Roads and Maritime Service Agency has been reviewed to maximise returns</li> <li>Opportunities for introducing and/or increasing user pay where appropriate have been considered e.g. for tourism facilities</li> </ul> <p><i>2013-17 DP/OP: pages 92-93, 104, 109 (includes links to SBM 2025)</i></p>	Planned service delivery implemented and returns maximised for: <ul style="list-style-type: none"> <li>Property Disposal and Investment Program</li> <li>Commercial Property Portfolio</li> <li>Tourism Caravan Parks</li> <li>Roads &amp; Maritime Service Agency (BMCC is an agent for RMS at Katoomba)</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>A.</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>3. continued</b>	<b>3.3</b> Monitor and seek grants that align with required service provision <i>2013-17 DP/OP: pages 103-104, (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>• Monitor grant opportunities</li> <li>• Apply for grants that support delivery of required services and facilities</li> </ul>
<b>A.</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>3. continued</b>	<b>3.4</b> Investments continue to be monitored to ensure best returns in line with the Council's adopted Investment Policy <i>2013-17 DP/OP: page 103 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>• Review and monitor investments to ensure best returns within prudent risk parameters</li> <li>• Implement the Council's adopted Investment Policy and Strategy</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>A.</b> <b>Achieve and Maintain a balanced Operating Result by 2019/20</b>	<b>4.</b> <b>Continue to lobby federal and state governments for reduced cost shifting, fair distribution of and increased access to funding for local government / BMCC</b>	<b>4.1</b> <ul style="list-style-type: none"> <li>Continue to lobby other levels of government on key matters adversely affecting financial sustainability of the Council</li> <li>Strengthen Regional Strategic Alliance role in lobbying for and influencing regional initiatives that benefit the three alliance councils</li> </ul> <p><i>2013-17 DP/OP: pages 98 and 103 (includes links to SBM 2025)</i></p>	<ul style="list-style-type: none"> <li>Other levels of government lobbied as required</li> <li>Regional Strategic Alliance lobbies on relevant regional matters</li> </ul>
<b>B.</b> <b>Maintain &amp; increase own source revenue at 80%</b>	<b>5.</b> <b>Continue to implement strategies that increase own source revenue - including maximising returns from commercial activities and Property Disposal and Investment Program</b>	<p><i>See actions 3.1 and 3.2 above and associated Milestones, Costs. Benefits, Risks and Assumptions</i></p>	



Objective	Strategy	Actions	2016-17 Milestones
<b>C.</b> <b>Improve the Building and Infrastructure Asset Renewal Ratio</b>	<b>6.</b> <b>Implement the Asset Management Improvement Plan (AMIP) – to guide and target required expenditure on asset renewal</b>	<b>6.1</b> Implement the <i>Asset Management Improvement Plan</i> with a focus on: <ul style="list-style-type: none"> <li>• Improving data that informs asset renewal planning</li> <li>• Targeting expenditure to high risk required asset renewal</li> <li>• Reducing whole of lifecycle costs and extending asset lives</li> <li>• Updating / preparing required Asset Plans and Policies</li> <li>• Strengthening asset risk management and governance processes</li> <li>• Identifying required intervention strategies</li> </ul> <p><i>2013-17 DP/OP: page 105 (includes links to SBM 2025)</i></p> <p><i>2014-2024 Resourcing Strategy – Asset Management Strategy, Section 4.8.4: Asset Management Improvement Plan, pages 198-201</i></p>	2016-17 AMIP actions implemented

Objective	Strategy	Actions	2016-17 Milestones
<b>C.</b> <b>Improve the Building and Infrastructure Asset Renewal Ratio</b>	<b>7.</b> <b>Improve the accuracy of the Council's Financial Asset Register and alignment with required asset renewal expenditure</b>	<b>7.1</b> The Asset Register is materially improved through: <ul style="list-style-type: none"> <li>Improving asset register data</li> <li>Identifying and implementing required revaluations</li> <li>Reviewing depreciation data including unit rates and assumptions on useful lives and unit costs</li> </ul> <i>2013-17 DP/OP: page 105 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Asset register maturity improved</li> <li>Required revaluations implemented</li> </ul>
<b>D.</b> <b>Improve Infrastructure Backlog Ratio</b>	<b>8.</b> <b>Address the infrastructure backlog through targeting available revenue to residual high risk asset renewal</b>	<b>8.1</b> Service and asset/ infrastructure planning informs required expenditure on asset renewal  <i>2013-17 DP/OP: page 105 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Complete programmed service, infrastructure and asset planning work / strategies</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>D. Improve Infrastructure Backlog Ratio</b>	<b>8. continued</b>	<p><b>8.2</b> Asset Management Plans and Risk Registers updated annually to identify and target high risk renewal expenditure</p> <p><i>2013-17 DP/OP: page 105 (includes links to SBM 2025)</i></p> <p><i>2014-2024 Resourcing Strategy – Asset Management Strategy, Section 4.8.4: Asset Management Improvement Plan, pages 198-201</i></p>	<ul style="list-style-type: none"> <li>Asset Management Plans and risk registers updated</li> </ul>
<b>D. Improve Infrastructure Backlog Ratio</b>	<b>9. Continue to engage with community on required and affordable levels of service to ensure best value service provision that meets changing community needs</b>	<p><b>9.1</b></p> <ul style="list-style-type: none"> <li>Engage the community on required and affordable service levels as part of the community engagement on the update of the Council's Integrated Plans</li> <li>Engage community on service reviews including affordable service levels and trade-offs</li> </ul> <p><i>2013-17 DP/OP: page 97 (includes links to SBM 2025)</i></p>	<ul style="list-style-type: none"> <li>Required update of Integrated Plans completed in consultation with community</li> <li>Community engagement on service levels and trade-offs progressed</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>E. Improve Asset Maintenance Ratio</b>	<b>10. Fund required maintenance using evidence based assessment</b>	<b>10.1</b> Implement agreed maintenance service level standards and monitor and report performance  <i>2013-17 DP/OP: all Key Directions - service areas with maintenance requirements (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Programmed asset maintenance work completed within available resources and agreed service level standards</li> </ul>
<b>E. Improve Asset Maintenance Ratio</b>	<b>10. continued</b>	<b>10.2</b> Implement best value assessment of maintenance expenditure requirements  <i>2013-17 DP/OP: all Key Directions - service areas with maintenance requirements (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>Required maintenance is funded within available resources</li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>F.</b> <b>Improve / maintain Debt Service Ratio within LTFP targets</b>	<b>11.</b> <b>Implement the Council's endorsed Borrowing Strategy</b>	<b>11.1</b> Annual and ongoing: <ul style="list-style-type: none"> <li>• Borrowing capacity reviewed</li> <li>• Opportunities taken to reduce debt through one-off savings or appropriate use of cash reserves</li> <li>• New borrowings supported by sound business case</li> <li>• Subsidised state government / TCorp loan funding used where effective</li> </ul> <i>2013-17 DP/OP: page 103 (includes links to SBM 2025)</i>	<ul style="list-style-type: none"> <li>• Borrowing Strategy actions for 2016-17 implemented</li> </ul>
<b>G.</b> <b>Decrease Real Operating Expenditure per capita over time</b>	<b>12.</b> Implement Regional Strategic Alliance between Blue Mountains, Penrith and Hawkesbury councils to drive strategic opportunities, capitalise on economies of scale and enhance sub-regional planning and advocacy.	<b>12.1</b> <ul style="list-style-type: none"> <li>• Through the cooperative agreement or Regional Strategic Alliance, identify opportunities to reduce costs and/or increase efficiencies through economies of scale</li> <li>• Sub-regional planning strategy that recognises and maximises potential of all 3 councils developed</li> </ul>	<ul style="list-style-type: none"> <li>• Through the Regional Strategic Alliance:               <ul style="list-style-type: none"> <li>➤ Finalise the governance arrangements</li> <li>➤ Investigate and identify projects and initiatives</li> <li>➤ Develop Regional Alliance Action Plan</li> <li>➤ Implement 2016-17 agreed projects and efficiency initiatives</li> <li>➤ Monitor and report outcomes</li> </ul> </li> </ul>

Objective	Strategy	Actions	2016-17 Milestones
<b>G.</b> <b>Decrease Real Operating Expenditure per capita over time</b>	<b>13.</b> <b>Implement the Council's Procurement Strategy</b>	<b>13.1</b> <ul style="list-style-type: none"> <li>• Maintain organisation priority on Strategic Procurement</li> <li>• Implement revised procurement policy framework</li> <li>• Continue maximising benefits of joint procurement of insurance through membership of the Westpool insurance group and procurement opportunities through WSROC and other procurement aggregators</li> <li>• Continue to implement contract management efficiency initiatives e.g. electricity contracts.</li> </ul> <p><i>2013-17 DP/OP: page 110 (includes links to SBM 2025)</i></p>	<ul style="list-style-type: none"> <li>• New organisation structure for Strategic Procurement in place</li> <li>• Procurement strategy /policy framework reviewed.</li> <li>• Procurement of insurance through membership of the Westpool Insurance group continued</li> <li>• Contract management efficiency initiatives implemented</li> <li>• Review of energy contracts and energy efficiency projects commenced</li> </ul>



Objective	Strategy	Actions	2016-17 Milestones
<b>G.</b> <b>Decrease Real Operating Expenditure per capita over time</b>	<b>14.</b> <b>Continue to implement business and process improvement initiatives that reduce costs, improve productivity and achieve best value effective and efficient service delivery</b>	<b>14.1</b> <ul style="list-style-type: none"> <li>Implement work redesign, productivity, efficiency and cost saving initiatives</li> <li>Continue tracking of productivity, cost saving and efficiency initiatives</li> </ul> <p><i>2013-17 DP/OP: page 98 (includes links to SBM 2025)</i></p>	<ul style="list-style-type: none"> <li>Work redesign, productivity, efficiency and cost saving initiatives implemented</li> <li>Track savings, efficiencies and productivity improvements</li> </ul>
<b>G.</b> <b>Decrease Real Operating Expenditure per capita over time</b>	<b>15.</b> <b>Implement Waste Service review action for reducing Domestic Waste Charge to ratepayers through changing from a weekly to a fortnightly recycling service (with a larger recycling bin)</b>	<b>15.1</b> <p>NetWaste tender implemented with change to fortnightly 240L kerb-side recycling service</p> <p><i>2013-17 DP/OP: page 48 (includes links to SBM 2025)</i></p>	<ul style="list-style-type: none"> <li>Fortnightly recycling service implemented</li> </ul>

### *Outline the process that underpinned the development of your Action Plan*

The development of the Council's FFTF Improvement Proposal was led and directed by the Council through the Best Value Councillor Advisory Group and by the Executive Leadership Team. They established a project team comprising of key staff from across the organisation to support development of the Improvement Proposal, including consultative workshops with Councillors and staff. The draft Improvement Proposal was reported to and endorsed by the Council on 23 June 2015.

The modelling of asset related financial benchmarks was supported by Jeff Roorda and Associates (JRA) who were engaged to provide an independent assessment of Blue Mountains City Council's capacity to sustainably deliver infrastructure based services to its community. In particular, JRA assessed two primary indicators of financial sustainability being depreciation compared with asset renewal expenditure and the Council's Infrastructure Backlog.

The development of the BMCC Improvement Proposal and 2016-2017 Action Plan builds upon the extensive Integrated Planning and Reporting work undertaken since 2010, and in particular in 2014, as part of the *Resourcing Our Future* community engagement. This included a comprehensive consultation with the Blue Mountains community on preferred levels of service, and willingness to pay for these services through a special variation to rates. It also included a comprehensive review and update of our Integrated Planning documents, to test the impacts of the three options/ revenue scenarios on which the consultation was based.

Collaboration on FFTF strategies and actions has also occurred between key representatives from Blue Mountains City Council, Penrith City Council and Hawkesbury City Council through the new Regional Strategic Alliance between these councils. This Alliance provides significant opportunities for achieving efficiencies through economies of scale in joint procurement and shared service provision initiatives. It will also strengthen coordinated sub-regional planning and advocacy as evidenced already through the two workshops held between the three councils to support development of FFTF Improvement Proposals.

## 3.4 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.*

This Improvement Action Plan has been informed by comprehensive integrated planning work undertaken by the Council since 2010, including the 2014 community engagement on options for *Resourcing Our Future*. This work has included development of the *Six Strategies for Financial Sustainability*. Integrated planning has shown that addressing the financial and asset management challenges of the City requires a multi-pronged approach over the next five to ten years including implementing all six strategies.

In addition, over 2012/13 to 2014/15 the Council implemented a comprehensive reform to achieve a simpler, fairer and more broadly uniform rating structure.

This FFTF Improvement Proposal is the culmination of the Council's leadership in developing strategies to improve the financial sustainability of the City and build a successful future for the Blue Mountains.

## 4. How will your plan improve performance?

### 4.1 Expected improvement in performance

Measure/ benchmark	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark
<b>Operating Performance Ratio</b> (Greater than or equal to breakeven average over 3 years)	-6.5%	-3.9%	-1.2%	0.5%	<b>YES Meets</b>
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	85.0%	86.8%	87.5%	87.8%	<b>YES Meets</b>
<b>Building and Infrastructure Asset Renewal Ratio</b> (Greater than 100% average over 3 years)	29.8%	41.4%	60.4%	76.9%	<b>YES Improving</b>
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	3.2%	3.2%	3.0%	2.7%	<b>YES Improving</b>
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	96.0%	95.2%	96.1%	96.9%	<b>YES Improving</b>
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	9.1%	8.1%	7.2%	6.2%	<b>YES Meets</b>
<b>Real Operating Expenditure per capita</b> (A decrease in Real Operating Expenditure over time))	DECREASING	DECREASING	DECREASING	DECREASING	<b>YES Meets</b>

## 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 why.*

**All Fit for the Future benchmarks are met by 2019-2020.**

## 5. Putting your plan into action

### *How will your council implement your Improvement Action Plan?*

- The Fit for Future Improvement Plan will be incorporated into the appropriate Integrated Planning and Reporting documents and processes, including the update of the Council's Integrated Plans by June 2017;
- The Integrated Planning and Finance Group, under the direction of the Group Manager, will monitor and report on implementation of the Improvement Proposal and Action Plan to the Executive Leadership Team and to the Best Value Councillor Advisory Group; and
- Progress in implementing the Action Plan will be reported in the Council's Annual Report.



## List of Attachments

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- Attachment 1:**     Resourcing Strategy 2014-2024
- Attachment 2:**     Best Value Service Provision Framework
- Attachment 3:**     Service Dashboards: Summary Service and Asset Plans
- Attachment 4:**     Independent Infrastructure Assessment Report
- Attachment 5:**     2016-2017 Improvement Action Plan
- Attachment 6:**     Fit for the Future Financial Model
- Attachment 7:**     Delivery Program 2013-2017
- Attachment 8:**     Productivity Improvements & Cost Containment Strategies
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