Blacktown City Council
Improvement Proposal (existing structure)

In response to the NSW State Government's *Fit for the Future* requirements

ADOPTED
FOR SUBMISSION TO IPART
17 JUNE 2015

Contents

1. Introduction

1.1 Executive summary

Context

The Minister for Local Government released the State Government's response to the reports of the Independent Local Government Review Panel (ILGRP) and the Local Government Acts Taskforce in September 2014, under the name Fit for the Future.

All councils in NSW are required to submit a 'proposal' in response to the FFTF reform process by 30 June 2015. The proposal must indicate either the intention to amalgamate with other council/s ('merger proposal') or an improvement plan to enable the council to meet FFTF benchmarks ('improvement proposal').

The ILGRP did not recommend any merger for Blacktown City. Accordingly, Council prepared a *draft FFTF Improvement Proposal* for public consultation. Following exhibition, the draft proposal was adopted, with minor amendments arising from the assessment methodology published by IPART, at Council's Ordinary meeting of 17 June 2015.

Requirements for an improvement proposal

The essential areas of assessment in an improvement proposal are as follows:

- Scale and capacity – based on the ILGRP report, which found that Blacktown City meets the required criteria – this is addressed in **section 1.2**
- Financial benchmarks – these are addressed in **sections 2.3 – 2.4** and in **Appendices 1 - 3**
- Improvement strategies – this is addressed in **section 3**.

Financial benchmarks

Full details of Blacktown City's current and projected performance against the FFTF financial indicators and benchmarks are provided as **Appendix 1**. Blacktown City presently meets the benchmark for only 1 of the 7 indicators as originally required. According to the revised IPART methodology announced in June 2015, Blacktown City would meet 2 of the 7 indicators. We are unlikely to meet several of the other benchmarks in the near future, for reasons detailed in this document. This does not indicate an unsustainable financial position, but rather reflects the need for a more appropriate and realistic assessment method for growth councils.

Some of the indicators are inappropriate for councils in high growth areas such as Blacktown City. Three of the indicators are impacted by depreciation, for which there is no state-wide standard (this is addressed in detail in **Appendix 2**). Overall, the FFTF financial benchmarks do not provide an adequate or complete indication of a council's performance or long-term sustainability.

The FFTF financial criteria have been fully addressed in this proposal in the proper context of Council's actual financial position. Council's external auditor, PricewaterhouseCoopers, has provided a detailed analysis attesting to Council's actual position as one of the financially strongest councils in NSW. This document is included as **Appendix 3**.

Blacktown City's *Long Term Financial Plan 2015-2025* which is also included as part of this FFTF submission provides the detailed financial analysis and modelling to substantiate Council's position.

IPART has advised in its revised methodology that it will use an overall assessment of operating and capital expenditure sustainability to rate councils, rather than a benchmark pass/fail approach. On this basis, Blacktown City should clearly be assessed as 'fit for the future' and in fact, as one of the most sustainable councils in NSW.

Amalgamations and boundary adjustments

The position of Blacktown City Council regarding council amalgamations and boundary adjustments is outlined in **Appendix 4**.

Blacktown has consistently opposed any forced amalgamations of other councils.

Blacktown City is not seeking any boundary adjustments through the FFTF process. However, Council has identified those areas in which future adjustments may have merit, should current local government areas change. In the event that any circumstances make a review of boundaries a practical consideration, we would consult the views of the neighbouring councils concerned.

Improvement action plan

The improvement action plan identified by this proposal is in keeping with the adopted and proposed plans of Blacktown City Council and does not represent any change of strategic direction for the City. Council's strategy encompasses the requirements for future operational efficiency, sound management of infrastructure and services and financial sustainability.

1.2 Scale and capacity

Blacktown City clearly has the scale and capacity to stand alone as a strong and sustainable council in the future of NSW local government. This was recognised by the report of the Independent Local Government Review Panel (ILGRP) in 2013.

Blacktown City is the largest local government area by population in NSW and the fourth largest in Australia, with an estimated resident population in 2014 of over 332,000. More than 7,200 people moved into the area in the previous 12 months – the biggest population increase for a council area in NSW. The City is expecting a further 25 years of sustained growth, to reach a total population of some 540,000 residents.

Blacktown is a major economic and social centre of NSW and an emerging regional city in metropolitan Sydney planning. The Gross Regional Product of the local government area is over $13 billion per annum, making it the sixth most productive economy in NSW. The total forecast budget of Blacktown City Council in 2015/16 is $502 million.

Blacktown City Council has long established and well proven credentials in strategic planning and advocacy, as a representative of its local community, as a regional stakeholder and as an effective partner for government.

In the 5 year period to 2012, Blacktown City met and exceeded both its dwelling and employment targets as set by the State Government (under the North West Subregional Strategy of the metropolitan plan).

Through this response to the FFTF requirements, Blacktown City acknowledges and demonstrates its alignment to the scale and capacity criteria of the ILGRP, which were:

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ a wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and Federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

Due to the significance of Blacktown City in the NSW local government sector and the scale of operations of Blacktown City Council, as documented in this improvement proposal, Blacktown City is entitled to access any benefits and opportunities arising from the State Government's Fit for the Future reforms, such as a more flexible rating system, additional funding sources and a higher procurement threshold.

2. Council's current position

2.1 About Blacktown City

City Profile

Blacktown City is the largest local government area by population in NSW and the fourth largest in Australia, with an estimated resident population in 2014 of over 332,000. With most of Sydney's North West Growth Centre located in Blacktown, the City is expecting a further 25 years of sustained growth, to reach a total population of some 540,000 residents.

The Blacktown community is highly diverse in background, with residents from nearly 180 countries of origin speaking around 170 languages. 45% of the population is under 30 years of age and there are 135 schools located in the Blacktown local government area. There is also a significant aged population.

Blacktown City is an economic powerhouse of Western Sydney, with an economy measured at $13 billion per annum (some 2.8% of the NSW Gross State Product) and extensive employment areas supporting approximately 110,000 local jobs and 18,000 businesses. There are 16 industrial estates and major commercial centres in Blacktown.

Extensive transport links (including 3 motorways and 10 railway stations) make Blacktown a regional hub of the metropolitan area. The road network consists of over 1,200 km of local roads and 90 km of regional roads.

The City currently consists of 48 suburbs, with distinct socio economic diversity between long established residential areas, including some of Australia's most disadvantaged urban areas, together with several identified urban renewal areas and new residential developments with very different needs and expectations.

Council profile

Blacktown City Council currently employs over 1,800 staff (approximately 1,400 FTE), of whom the majority are local residents. This makes Council one of Australia's largest local government organisations and a significant local employer.

Council is responsible for some $2.8 billion in public assets (including road and transport infrastructure, community buildings and facilities, drainage networks and open space reserves). This asset base has grown by $1 billion since 2001. With the development of the North West Growth Sector, a further $2.5 billion worth of assets are expected to come under Council control.

Council provides over one hundred services to the community across 37 functional areas, as well as many essential internal support services. Council must change and evolve to meet the needs of its community and stakeholders. In this context, Council needs to ensure that as the City grows, its resources are used in the best way to provide optimum services.

The diversity of its community will require Blacktown City Council to continue to address the equity of service delivery to the different areas of the City. This will be an essential requirement of its future planning.

Blacktown City Council was a leader in the transition to local government Integrated Planning and Reporting in 2010. The formal adoption of this new framework was preceded by a long experience of strategic planning for the needs of the City, long term financial planning and strategic asset management.

2.2 Key challenges and opportunities

The size and growth challenges of Blacktown City, as noted in the previous section, mean that it is essential for Council to have a strategy of being ahead of external pressures of growth and establishing a clear, sustainable direction for its future. The need to maintain optimum services will intensify as Blacktown City continues to grow. Council's strategy must consider the impact of these community demands on the nature of Council's organisation and service delivery.

Planning for the future structure and needs of the Blacktown community is expressed in the *Blacktown Local Environmental Plan 2015* and the *Blacktown Planning Strategy*.

Council is currently conducting a comprehensive review of its social plans to develop a new *Social Plan 2015*.

Key challenges and opportunities for the City and for Council are outlined in the Community Strategic Plan, *Blacktown City 2030 – City of excellence* which was adopted in 2013 as the overarching policy document for Council's Integrated Planning and Reporting Framework.

The detailed financial planning and modelling which underpins Council's resourcing strategy to meet its future challenges is documented in the Long Term Financial Plan 2015-2025 (LTFP). The LTFP is provided as part of this FFTF Improvement Proposal.

Some issues of particular importance or urgency to Blacktown City are outlined briefly in this section.

- **Levels of Service to the Community**

The Long Term Financial Plan is based on the maintenance of existing Council services to the community at existing service levels. The LTFP will be reviewed as required when the type of service or service levels are varied by Council in reflection of City needs and community priorities. In such cases, the capacity of the Council to fund these services will be assessed against the financial policy framework provided in the LTFP.

Council's existing services are outlined in the Delivery Program 2013-2017. The present levels of service have generally been defined historically by a balance between the community's desired level of service (assessed by various means including surveys, service requests and informal feedback) and Council's resource capacity and strategic priorities. In some cases, service levels are set through major contracts or service level agreements.

Service levels are increasingly a matter of engagement and dialogue with the community under the Integrated Planning and Reporting Framework. The Delivery Program provides for a 'best value' approach to Council's services and an ongoing program of service review.

Service levels for asset-based or infrastructure services are of particular importance to Council's long term planning and the financial modeling which is provided in the LTFP. These service levels are discussed in more detail within Council's Asset Management Strategy.

Section 2.1 highlights the particular challenge for Council of ensuring equity of services (not necessarily "equal services") to the diverse sectors and communities of Blacktown City, as the area experiences a sustained period of very high growth.

- **Housing and population growth**

Blacktown will absorb almost a quarter of the future population growth expected for Western Sydney. The impact of the North West Growth Centre (NWGC) on Blacktown City's growth is noted in section 2.1. The current number of dwellings in the City is approximately 100,000 which will nearly double with the development of the NWGC as well as significant infill development.

The NWGC comprises approximately 10,000 hectares of land (located in 3 local government areas, but predominantly in Blacktown City). Future urban development within the Growth Centre will accommodate up to 70,000 new homes and account for a total population of around 200,000. The strategic vision for the Growth Centre is set out in the North West Structure Plan, which was adopted by the NSW Government in 2006.

There are 16 precincts for staged release in the NWGC, including 12 within Blacktown City in various stages of planning. This will pose a significant challenge to provide the required infrastructure and to support and manage this scale of growth.

Blacktown City Council is uniquely credentialed to meet this challenge, due to its scale, capacity and experience in managing growth. In the 5 year period to 2012, Blacktown City met and exceeded both its dwelling and employment targets as set by the State Government (under the North West Subregional Strategy of the metropolitan plan).

- **Urban renewal development**

A key element of the Blacktown LEP 2015 is the creation of 4 development hubs in Blacktown CBD, Seven Hills, Rooty Hill and Mount Druitt.

The Blacktown LEP 2015 is supported by a City-wide planning strategy and a series of master plans for the Urban Renewal Precincts that promote higher density housing, a mixture of employment uses and continued improvements to the public domain. The 4 precincts will provide attractive environments for business and government to invest in development that creates employment opportunities.

30,000 new job opportunities will be created in the Urban Renewal Precincts. Primarily this will be located in the Blacktown CBD, in new business parks in Blacktown and Seven Hills, and a health and education precinct surrounding Blacktown Hospital and TAFE.

50,000 new dwellings will be created in the Urban Renewal Precincts, in the form of higher density housing such as residential flat buildings and mixed used apartment buildings.

This represents a 25-year program of growth and renewal designed to create a positive identity and make significant improvements to the sense of place, character and amenity of Blacktown

- **Renewal of the City's infrastructure**

A major challenge confronting the whole NSW local government sector is the need to increase the amount of funding allocated to the maintenance and renewal of existing infrastructure. Despite significantly increased funding for asset renewal over the previous decade, Blacktown City's infrastructure renewal backlog as at 30 June 2014 was nearly $80 million. As noted in section 2.1, Council is custodian of infrastructure, property, plant and equipment assets that have a value of approximately $2.8 billion and this is growing rapidly. Without adequate funding, effective maintenance and renewal of these assets to maximise their potential life cannot be achieved.

Council adopted an asset renewal funding strategy in February 2014 which included the application to IPART for a Special Rate Variation directed to asset renewal, together with reallocated funding from new capital works and operational savings. This strategy increased the previous annual funding level by over $10 million. In 2015/16, the total funding allocated towards asset renewal in Council's Works Improvement Program is around $23 million.

Council's asset renewal funding requirements do not increase by a linear amount on an annual basis. Rather, the level of funding required increases significantly when the infrastructure assets from the older parts of the City reach the stage of their life cycle whereby more expensive renewal treatments are required. This means that in coming years, Council will be confronted with much higher funding requirements than it is now, as the infrastructure for those large areas of the City constructed in the 1980s will need to be renewed. For this reason, it is important that Council adequately addresses its current asset renewal requirements, so that it has a better basis to address future funding requirements.

Council's asset renewal backlog is expected to be around $60 million as at 30 June 2015 and is projected to be less than $50 million at 30 June 2016. Based on Council's current asset renewal funding strategy, around $247 million will be allocated towards asset renewal works over the 10 year period 2015/16 to 2024/25. It is forecast that the asset renewal funding backlog in 10 years' time will be around $68 million.

Whilst the asset renewal funding strategy does not eliminate the backlog, it is forecast that the current level of funding will allow Council to keep the annual backlog at a manageable level over the next 10 years.

- **Economic development**

The exceptional urban development and growth expected in Blacktown City is a main driver for the regional economy. There is strong evidence that investment in those regions experiencing sustained population growth brings about the greatest economic return. Blacktown has 3,000 hectares of employment land, spread over 22 precincts, and over 70 retail centres. Of the employment land area, 34% is still available for development.

Blacktown's economic profile is strong. It is growing and is well positioned to become a place of significant investment and prosperity in the medium to long term. Blacktown City has the 6th most productive economy in New South Wales. Its Gross Regional Product (GDP) is currently measured at $13 billion.

The City's economy is diversifying. Those sectors that have experienced the highest levels of business growth in the City include construction, arts and recreation services and Information media and telecommunications.

Net jobs in the local area are forecast to increase by 45,000 by 2036, but Council is keenly aware of the need for more employment opportunity and diversity, especially in highly skilled jobs. Blacktown City is youthful, with over half the population under 30 years of age. This gives greater labour force mobility, but also produces particular challenges of youth employment and opportunity.

Blacktown City is well serviced by public transport and road access with the M4, M7 and M2 Motorways within or adjacent to the City. Housing is a major economic driver in the local government area, commensurate with the scale of growth noted above.

- **The look of the City**

An underlying issue of great significance to Blacktown's future is the design and appearance of the City. The desire for a 'clean, green city' has been a focus of Council's strategic planning and the priority which is given to having a clean and attractive local area has been highlighted by community research.

Due to the nature of Blacktown's urban growth, quality design has often not been achieved and there are substantial challenges to achieve and maintain a quality urban environment.

These aspirations are being addressed by a range of Council initiatives. The role of City Architect has recently been established to provide vision and leadership to the design function. Two key programs which are being implemented by Council are:

Eyes on Blacktown – the 'Eyes on Blacktown' landscape strategy presents a guiding document to reposition the public image of the Blacktown area. The strategy provides design direction for future embellishment and development which prioritises investment in areas heavily within the public eye.

Clean Cities Strategy – this provides the foundations for improving public place amenity as a central element in building clean, safe communities with an improved sense of ownership and belonging.

TRIGGER PROJECTS FOR THE CITY

Council has identified in *Blacktown City 2030* a set of key priorities for the community which are termed 'trigger projects'. These include "breakthrough" areas for the City to advance the long term strategy. These 8 projects are as follow:

1. Blacktown City Centre

To provide a mix of business, employment, residential, recreation, health, cultural, entertainment and education uses that promote a vibrant City Centre.

2030 Statement – Where we will be

Blacktown City Centre will be the focal point of a vibrant City providing employment, housing, social, cultural, recreation and transport infrastructure within a framework of sustainability and design excellence. The City Centre will provide an attractive environment for businesses and government to invest in. It will provide choice in housing, together with facilities and services for city living.

The City Centre will celebrate its civic places, public domain, identity and amenity. It will exhibit design quality in building form, architectural treatment, and environmental performance. It will provide clear access routes and connections throughout and it will exhibit best practice in sustainable development.

The Warrick Lane site will be developed as a new landmark commercial and residential hub in the Blacktown CBD, providing the catalyst to further high quality sustainable development in accordance with the Blacktown City Centre Masterplan.

2. Asset management and renewal

Commit to the maintenance and renewal of existing infrastructure through long term financial planning based on renewal modelling.

2030 Statement – Where we will be

Council has no backlog of asset renewal projects and is committed to a sustainable asset renewal program into the future. This is as a result of a commitment of $80 million to asset renewal over the term of the Delivery Program 2013-2017 and further increases over the terms of subsequent Councils.

3. Digital networks and communications

To ensure that the residents of Blacktown have equitable access to evolving computer technologies and opportunities to develop their techno-literacy skills including awareness of cyber safety.

2030 Statement – Where we will be

There is equitable access to the internet and to developing computer technologies, including opportunities to continuously develop cyber safe digital skills and techno-literacy. Our community has equitable opportunities to engage online, facilitating civic engagement, digital networking and communication, employment opportunities, educational success, personal growth and lifelong learning. Through internal and external partnerships Council facilitates access and skill development throughout the City.

4. **Blacktown International Sportspark**

To provide a first-class multi-sport venue serving the needs of the local, regional, state, national and international sports market through a range of sports and sports related facilities and opportunities.

2030 Statement - Where we will be

Blacktown International Sportspark Sydney is a first-class multi-sport venue that provides elite and community sporting opportunity through Cricket, Baseball, Softball, Athletics, Soccer, Soccer Goalkeeping and AFL. Through partnerships with existing and potential stakeholders, Council will deliver a visionary masterplan that will create high quality sports training, playing facilities and other ancillary facilities, further developing a community asset into a destination for the sporting and non-sporting public.

5. **Becoming a Regional City**

To work with the State Government to gain Regional City status for Blacktown City Centre.

2030 Statement - Where we will be

Blacktown City Centre is now recognised by the NSW State Government as a Regional City. It is listed as a Regional City in the Metropolitan Plan for Sydney. Their decision to grant Regional City status was in recognition of the significant role it has played in providing future growth and creating employment for greater Metropolitan Sydney. Regional City status has generated market interest in the Blacktown City Centre. The State Government is now investing funds to improve infrastructure provision to support the vibrant and diverse characteristics that it now offers.

6. **Motor sport precinct**

To create an internationally recognised motor sport cluster that attracts new investment in the precinct by way of new motor sport facilities and motor sport related industries. This will provide passive recreation space that connects venues and makes it a tourist destination for all.

2030 Statement - Where we will be

The Blacktown Motor Sport Parklands is an internationally recognised cluster of motor sport facilities. The precinct brings together world leading businesses and motor sport facilities in a quality environment. The Blacktown Motor Sport Parklands is Australia’s first destination for visitors, enthusiasts and businesses involved in Australian motor sport.

7. **Blacktown Showground**

To deliver a showcase precinct encompassing quality cultural and recreational facilities connected to surrounding nodes through safe and convenient linkages.

2030 Statement - Where we will be

The Blacktown Showground is a lively cultural, entertainment and community precinct where people are able to interact both passively and actively through the provision of a range of quality cultural and recreational facilities. The development of this benchmark facility provides a park in the City that will serve both the local community and regional visitors. The facility also enhances the adjacent Blacktown City Centre through the creation of safe and convenient linkages.

8. Promoting the City: marketing, branding and community engagement

To promote Blacktown City as an emerging Regional City with unique attributes and to engage the Blacktown community and stakeholders in a shared vision – a city of excellence which is dynamic, diverse and progressive.

We will define and articulate the positive qualities of Blacktown City and develop a marketing and branding campaign to communicate its achievements, in order to strengthen existing networks and build new relationships to foster the future prosperity of Blacktown City.

We will strategically engage and build partnerships with our community and the wide range of City stakeholders, in order to further the shared vision and pursue the interests of Blacktown City and its broader region.

2030 Statement - Where we will be

A sustained and innovative campaign to promote the City to the community and the government and business sectors has been carried out. Blacktown City is widely recognised as a city of excellence and a desirable location to live, work, recreate and invest. Its community and stakeholders are partners in shaping the future of the City.

2.3 Performance against the Fit for the Future benchmarks

The Fit for the Future process is largely based on the evaluation of councils' performance against 7 specific benchmarks, as outlined below. These indicators are largely drawn from the 2013 NSW TCorp report on local government finances.

Provided as **Appendix 1** to this document is a detailed analysis of Blacktown City's current and projected performance against the FFTF benchmarks. This information includes:

- Description and purpose of each indicator
- Performance for the past 3 financial years and projected performance for the next 5 years against the benchmark provided for the indicator
- Commentary on the reasons for this result
- Discussion of how Council could meet this benchmark in the future (including comment on whether the necessary actions to achieve such a result would actually increase Blacktown City's sustainability).

Overall, Blacktown City presently meets the benchmark for only one of these indicators and is unlikely to meet several of the other benchmarks in future, for reasons given below and further detailed in Appendix 1. This does not indicate an unsustainable financial position, but rather reflects the limitations of the indicators and their benchmarks.

The Office of Local Government has previously acknowledged that some of these indicators are inappropriate for councils in high growth areas. Overall, the financial benchmarks do not provide an adequate or complete indication of a council's performance or long-term sustainability.

Because 3 of the benchmarks are significantly impacted by depreciation, a detailed analysis of this key issue is provided in **Appendix 2** to this document.

<u>Current performance against the FFTF benchmarks</u>

The benchmarks provided in the FFTF process all relate to the financial position of councils and are taken from current financial reporting (annual Financial Statements).

The indicators and Council's 2013/2014 rating against the required benchmarks are as follows. Commentary is provided where Blacktown City does not currently meet the benchmark.

- **Operating Performance Ratio (> or equal to break-even average over 3 years)**

Blacktown City does not currently meet this benchmark

Comment: The definition of "operating expenditure" includes depreciation. Whilst the calculation of this ratio is technically correct and an applicable measure for most industries, it does present a misleading result for some councils, particularly those such as Blacktown City that are experiencing a significant level of growth in their infrastructure asset base.

It is unlikely and not reasonable to expect that a growth council will be able to, nor should it be aiming to fully cash fund its depreciation whilst it is experiencing high levels of growth. In the case of Blacktown City, the reason for this is we currently have an annual depreciation expense of around $60 million. Over the next 20 years, we will build another $2.5 billion worth of infrastructure assets. Annually this will be around $100 million in additional infrastructure assets that will be depreciated each year. This means our depreciation expense will increase by around $2 million each year.

The issue this annual increase in depreciation has for this indicator is that the actual cost required to renew these assets will be incurred sometime in the future. That is, the annual depreciation expense is recognised once the asset is constructed, however as these are long life assets, they usually do not require large amounts of maintenance or renewal funding at this early stage of their life.

Additionally, a large portion of these infrastructure assets are funded from section 94 developer contributions and do not generate revenue as they are community assets. Therefore, during the growth period, the annual depreciation will increase at a much higher rate than operating revenues, most notably rates income. This ultimately means that a growth council will struggle to generate an operating surplus including depreciation during a period of significant growth.

It is recognised though, that when a growth council moves into the maintenance phase and is no longer growing, the annual depreciation expense will level out to a large degree. It is at this stage that it is reasonable to expect that the operating revenues will over time increase at a much faster rate than depreciation expense, at which time annual operating surpluses should be able to be achieved. As such, for a “growth” council this indicator is not considered as meaningful as it is for a “maintenance” council.

Growth councils need to be planning for the renewal of these assets when they are due, which means positioning themselves financially to have sufficient funding available in the long term when the actual renewals require funding.

- **Own Source Revenue Ratio (> 60% average over 3 years) – *excluding* Financial Assistance Grant**

Blacktown City does not currently meet this benchmark

Comment: Benchmark was achieved in 2013/2014, but not for all years. This indicator is largely affected by Council's exceptionally high level of development activity and Section 94 / works in kind income. To guarantee to meet the benchmark, Council would have to very substantially increase its rates and/or fees and charges.

- **Own Source Revenue Ratio (> 60% average over 3 years) – *including* Financial Assistance Grant**

Blacktown City currently meets this benchmark

Comment: Including the Financial Assistance Grant received from the Federal Government in revenue, Council does currently meet the benchmark.

This alternative and more realistic view is allowed for in IPART’s revised FFTF assessment methodology, published in June 2015.

- **Building and Asset Renewal Ratio (>100% average over 3 years)**

Blacktown City does not currently meet this benchmark

Comment: Due to the quantum of its assets ($2.8 billion), in order to achieve this benchmark, Council would need to spend around $47 million per annum on asset renewal. Council's 2013/2014 expenditure on asset renewal was around $20 million. Even following a major new funding strategy adopted from 2014/2015 (and about to be further increased), Council cannot realistically ever expect to meet this benchmark, but it is effectively managing its renewal backlog.

This benchmark is also impacted by the effect of depreciation (refer to **Appendix 2**).

- **Infrastructure Backlog Ratio (<2%) – using *Fair Value***

Blacktown City does not currently meet this benchmark, but expects to do so within 2 years

Comment: Due to the size of its asset base ($2.8 billion), the benchmark requires Council to have a renewal backlog of less than $52 million. Council's asset renewal funding strategy as adopted from 2014/2015 forecasts a reduction in the backlog to $34 million over 10 years. This may be further reduced by an additional allocation in the current year.

Due to its asset renewal funding strategy, it is projected that Council will have a backlog of less than $60 million by 30 June 2015 and less than $50 million by 30 June 2016.

- **Infrastructure Backlog Ratio (<2%) – using *Written Down Value***

Blacktown City does not currently meet this benchmark, but expects to do so within 3 years

Comment: This is the original measure announced in Fit for the Future. The same benchmark using Fair Value is the more appropriate industry standard. This is provided above.

- **Asset Maintenance Ratio (>100% average over 3 years)**

Blacktown City does not currently meet this benchmark

Comment: This benchmark (on 2013/2014 figures) would require Council to increase its asset maintenance expenditure by $3.5 million per annum. The asset renewal funding strategy adopted from 2014/2015 and likely further renewal allocation will somewhat reduce this, however Council does fall below the benchmark.

- **Debt Service Ratio (>0 and less than or equal to 20% average over 3 years)**

Blacktown City does not currently meet this benchmark

Comment: The formula for this indicator is obviously flawed. It is calculated such that Council "fails" the indicator because it is debt free. No credit is given for a council being debt free or spending within its means.

IPART has advised in its revised FFTF assessment methodology that it will consider whether debt is necessary for the council's asset base.

Blacktown City has operated an Infrastructure Sinking Fund as an alternative mechanism to debt since 1996/97. This fund was set up to be (in lieu of debt) a source of funding for major capital works, including infrastructure asset renewal. Its importance and effectiveness was validated by IPART through Council's Special Rate Variation application which was approved in 2014/15.

- **Real Operating Expenditure per capita over time (a decrease in real operating expenditure per capita over time)**

Blacktown City currently meets this benchmark and expects to continue to do so

2.4 Other key financial information and indicators

Blacktown City Council appreciates the challenge of ensuring that diverse councils across NSW are measured on a ‘level playing field’. Nevertheless, we have a significant concern with the FFTF guidelines and particularly the benchmarks which are provided for a council to be assessed as sustainable.

Blacktown City is clearly one of the financially strongest councils in NSW. This position is attested by a detailed analysis from Council’s external auditor, PricewaterhouseCoopers, which is provided as **Appendix 3** to this document.

Nevertheless, we presently meet the benchmark for only one of the seven FFTF indicators and are unlikely to meet several of the other benchmarks in the future, for the reasons detailed in section 2.3 and **Appendix 1**. This does not indicate an unsustainable financial position. In some instances, the measures which Council might need to undertake to meet the FFTF benchmarks in future, should it determine to do so, would not in fact improve Council’s current and projected financial sustainability.

The Office of Local Government has previously acknowledged that some of the FFTF indicators are inappropriate for councils in high growth areas, such as Blacktown City and Camden which contain the majority of the North West and South West Growth Sectors of Sydney. Overall, the financial and infrastructure benchmarks do not provide an adequate or complete indication of a council’s performance or long-term sustainability.

<u>Indicators not included as part of the assessment</u>

The indicators used as part of FFTF apply a one size fits all methodology. This is not necessarily appropriate for all councils which will have different local factors that impact the results.

Local Government NSW has recently published an independent review of the FFTF criteria and has proposed a number of improvements be made prior to the assessment of proposals. Blacktown City supports this request and has asked that the following specific matters be considered in a review of the benchmarks to be undertaken prior to the assessment phase:

- Depreciation – the current lack of consistency in NSW local government practice and reporting means that councils with a conservative policy regarding depreciation, such as Blacktown City, are disadvantaged by some of the FFTF benchmarks *(this issue is addressed in detail in **Appendix 2**).*
- Own source revenue – the benchmark is not appropriate for high growth councils which receive a large proportion of their revenue from section 94 developer contributions.
- Use of debt – while we acknowledge that the use of debt is practical for councils in some instances, a debt free status is of value to a council and it is inappropriate for the Government to set a benchmark which requires all councils to have debt. This does not recognise the value to some councils of being debt free and other financial budgeting measures they have in place for recurrent expenditure where debt is not appropriate. It is noted that state and federal governments over recent decades, have sort to significantly reduce the use of debt.
- Lack of any indicators which address liquidity, available working capital and debtor management, traditionally the major measures of local government financial sustainability.

Others key factors which should be included in a proper assessment of local government financial sustainability include cost shifting from federal and state governments and the impact of major changes to grant programs especially the Financial Assistance Grant (FAG).

Role of the Long Term Financial Plan (LTFP)

The most notable omission from the criteria used is that there is no assessment of a council's long term financial plan (LTFP) to assess financial sustainability. This contradicts the focus of the industry since the introduction of Integrated Planning and Reporting in 2009, which has been geared around tight integration of a council's resourcing strategy to deliver its long term strategic plan. The LTFP is developed to closely align the funding forecasts required for both asset renewal and workforce planning by integrating the requirements of the asset management strategy and the workforce plan to demonstrate how councils are going to sustainably manage their finances over the next 10 to 20 years.

A council's LTFP incorporates the long term financial projections that need to be managed as well as the required level of asset renewal funding. The LTFP projections for funding asset renewal should be the focus for assessing how a council plans to manage its infrastructure renewal funding challenges, not be based on a historical assessment of the theoretical (accounting) rate of depreciation (that may not reflect reality in the future and can be adjusted by policy).

Other indicators that should be considered for FFTF:

- Available and projected working capital balances
- Liquidity ratios such as the unrestricted current ratio
- Year end results against budget
- Re-votes of expenditure (assesses capacity issues and ability to deliver key projects)
- Debtor management

3. Becoming and remaining Fit for the Future

The Fit for the Future guidelines require a council to establish its viability and sustainability predominantly in terms of the 7 FFTF financial indicators and benchmarks. These are addressed in detail in sections 2.3 – 2.4 and **Appendix 1** of this improvement proposal and the relevant improvement areas are noted below.

The following sections 3.1 – 3.3 *Improvement strategies and outcomes* also briefly note Council's key adopted or intended initiatives which, together with the financial strategies, make up the *Improvement Action Plan*.

3.1 Sustainability

This criterion includes the following 3 FFTF indicators and benchmarks:

- **Operating Performance Ratio (> or equal to break-even average over 3 years)**

Position is not expected to improve, for the reasons detailed in section 2.3. The impact of depreciation on a high growth council makes this benchmark unrealistic *(refer also to **Appendix 2**)*.

- **Own Source Revenue Ratio (> 60% average over 3 years)**

As noted in section 2.3, the inclusion of Financial Assistance Grant revenue substantially improves Council's performance against this benchmark, as Blacktown City receives some $18 million - $19 million per annum in FAGs.

The current position is not expected to improve within the FFTF timeframe, as Council will continue for many years to have very high developer contribution / works in kind income due to the development of the North West Growth Centre.

- **Building and Infrastructure Asset Renewal Ratio (>100% average over 3 years)**

Council is effectively managing its renewal backlog, following the adoption in 2014 of its asset renewal funding strategy, including a special rate increase and further significant allocations of funding in 2014/15 and planned for 2015/16. However, due to the very large quantum of new assets from NWGC development (which will not require renewal at this stage) the benchmark is not achievable.

Other key improvement initiatives

It is noted that the definition of 'sustainability' in the FFTF process is very narrow, in terms of the prescribed indicators and benchmarks. Council's *Long Term Financial Plan 2015-2025* (to be provided as part of this proposal) and the analysis provided by its external auditors (**Appendix 3**) clearly demonstrate Blacktown City's financial sustainability.

- Quadruple Bottom Line (QBL) – The FFTF criteria do not provide for assessment of the long term sustainability and wellbeing of a city, measured against broader sustainability principles such as QBL, which is the basis for Integrated Planning and Reporting as provided by the Local Government Act. Blacktown City has adopted QBL as core to its strategic planning and is currently developing a leading practice framework for QBL measurement of both Council operations and City sustainability.

3.2 Infrastructure and Service Management

This criterion includes the following 3 FFTF indicators and benchmarks:

- **Infrastructure Backlog Ratio (<2%)**

This benchmark is expected to be met within the next two years and to be maintained, due to Council's asset renewal funding strategy, including the permanent Special Rate Variation approved in 2014/15 and significant additional injections of funding from other sources in the past year.

- **Asset Maintenance Ratio (>100% average over 3 years)**

This benchmark is also expected to be met within the next two years and to be maintained, due to Council's asset renewal funding strategy.

- **Debt Service Ratio (>0 and less than or equal to 20% average over 3 years)**

Blacktown City Council has been debt free for over 15 years and has no current intention to use borrowings. Council operates an Infrastructure Sinking Fund as an alternative to debt. The formula for this indicator is too generic and not appropriate to all councils, as a debt free status is in general an indicator of financial strength, not weakness.

It is noted that IPART has recognised in its revised FFTF assessment methodology that it will, more appropriately, consider whether debt is necessary for the council's asset base and is feasible.

Blacktown City has operated an Infrastructure Sinking Fund as an alternative mechanism to debt since 1996/97. This fund was set up to be (in lieu of debt) a source of funding for major capital works, including infrastructure asset renewal. Its importance and effectiveness was validated by IPART through Council's Special Rate Variation application which was approved in 2014/15.

Other key improvement initiatives

- Infrastructure planning and asset management – Council's strategic approach to infrastructure planning and asset management is reflected in its Resourcing Strategy. This approach enables Council to efficiently apply its allocated resources to maintain and implement an asset renewal program of each category of infrastructure. The application of 10-year modelling of maintenance and renewal requirements is based on condition assessments, statistical analysis of historical asset investment, existing asset conditions, together with the prioritisation of new or upgraded services. This process forms the basis of the annual Works Improvement Program (capital works program) and ensures that a longer term focus is maintained for works which will be required in future years. The Asset Management Strategy and LTFP are aligned over the 10 year planning period to ensure that a robust financial model provides for the appropriate investment in assets and services.

- Better Practice Reviews – Council is implementing a comprehensive program to review the direction and performance of all services and consider the balance of its future services. This involves a consistent review method for analysis, including the engagement of all appropriate stakeholders and setting effective benchmarks. It is the basis for a structured program of continuous business improvement.

3.3 Efficiency

This criterion includes the following FFTF indicator and benchmark:

- **Real Operating Expenditure per capita over time (a decrease in real operating expenditure per capita over time)**

Council currently meets this benchmark and expects to continue to so, due to the growth of the Blacktown City population and the operational efficiencies which it will continue to make.

Other key improvement initiatives

- Operational budget savings – Council operates a long established discipline in the preparation of its annual budget of limiting operating costs, other than employment related costs, at the previous year's level. It is estimated this discipline has helped achieve savings in the order of $1 million per year in the last decade. This practice helps ensure annual operational efficiencies are maximised, and opportunities are provided to allow for the expansion of functional areas in a prioritised approach.

- Service efficiencies – The Better Practice Reviews program noted above has a primary goal to ensure that Council provides the community with the services which it determines to deliver in the most effective and sustainable manner. While service improvement and best practice delivery is the fundamental aim of the program, every review will examine the impact of reduced or increased budget allocations through robust testing. Reviews will also be expected to identify any potential for significant operational savings.

- Development Application processing – Council will continue to make specific improvements and efficiencies in many of its operations over time. One significant example in 2015/16 is the target to improve processing performance for more complex planning applications by 50% over the level achieved in 2014/15. Blacktown City has the highest volume of development applications in NSW and is already highly efficient in processing complying and routine applications. Through the introduction of a planning ‘gateway’ approach, more complex applications will be streamlined and dealt with more efficiently.

3.4 Improvement Action Plan

The FFTF guidelines require Council to identify the specific actions which it will undertake to deliver its improvement objectives and the process which has been undertaken to develop the 'Improvement Action Plan'.

The actions to be undertaken by Blacktown City to respond to FFTF are as described in sections 3.1 – 3.3 above and in Appendix 1 to this proposal.

The Improvement Action Plan is in keeping with the policy settings and directions of Blacktown City as documented in its Integrated Planning and Reporting Framework documents, particularly Council's *Long Term Financial Plan 2015-2025*. The action plan also incorporates adopted or already intended enhancements to Council's management approaches and service delivery.

It is not considered that Blacktown City needs to undertake, in order to satisfy the FFTF requirements, any actions which are otherwise outside Council's existing strategic directions and Integrated Planning and Reporting Framework documents.

Blacktown City's draft FFTF Improvement Proposal was developed by staff overseen by the elected Council. No external assistance was engaged in the preparation of this proposal.

The draft proposal was exhibited for comment by the Blacktown City community and its stakeholders in the period 6 May – 2 June 2015. This was carried out in conjunction with the exhibition of Council's *Long Term Financial Plan 2015-2025* and the draft *Delivery Program 2013-2017 and Operational Plan 2015/16*.

Following consideration by Council of all these finalised documents, including the results of the consultation, the FFTF Improvement Proposal was adopted by Council at its Ordinary meeting of 17 June 2015 and submitted to IPART by 30 June 2015.

As the financial modelling (including costs/benefits, risks and assumptions) which supports the Improvement Action Plan is largely provided by the Long Term Financial Plan, this document also forms part of Council's submission.

3.5 Other actions considered

In order for Blacktown City to meet all of the FFTF benchmarks, it would be necessary for Council to depart from its well-considered strategy and to undertake actions which may not be prudent or realistic. This is discussed in terms of each of the indicators and benchmarks in **Appendix 1**.

As Council considers that the benchmarks overall do not provide an adequate or complete indication of a council's performance or long-term sustainability, it does not propose to pursue strategies which are not otherwise justified by their merit.

In summary, the strategies which could be undertaken by Council to meet the FFTF benchmarks (but are not presently proposed) include the following:

- Increasing own source operating revenue by $20 million to $30 million per annum (or in regard to other indicators, reducing operating expenditure) by methods such as:
  - significantly increased user fees and charges
  - discontinuing services or significantly reducing the level of services provided

- Special Rate Variation – Council has already undertaken a special variation application in 2014/15 which was approved by IPART and entirely directed to infrastructure asset renewal. This is fundamental to Council's asset renewal funding strategy for the next 10 years.

- Use of debt - While Council may further consider the appropriate use of borrowings in the future; there is no current intention to change Council's long standing debt free status. The use of debt to fund any operational or recurrent expenditure is not considered appropriate or necessary. Council has operated an Infrastructure Sinking Fund as an alternative mechanism to debt since 1996/97.

Overall, Council has not considered a significant change of its strategic direction or of its Long Term Financial Plan to be reasonable or necessary for Blacktown City to become and remain a strong and sustainable local government entity.

4. Expected improvement in performance (against the FFTF benchmarks)

Council's anticipated improvement in performance against the Fit for the Future benchmarks over the period 2015/16 to 2019/20 is provided in **Appendix 1**.

Detailed supporting information to verify these forecasts is provided by Councils *Long Term Financial Plan 2015 – 2025,* which is provided as part of this proposal.

5. Implementation

For the reasons detailed in this proposal, it is not considered that Blacktown City requires any change in strategic direction to become ‘fit for the future’ or to remain a strong and sustainable local government body.

The Improvement Action Plan which is identified in this proposal is therefore in keeping with the policy settings and directions of Blacktown City Council’s Integrated Planning and Reporting Framework, particularly its *Long Term Financial Plan 2015-2025* (provided as part of this proposal) and with adopted or planned enhancements to Council’s management approaches and service delivery.

No initiatives are proposed which are not in accordance with Council’s strategy for Blacktown City, as reflected in its IP&R documents.

Council’s *Delivery Program2013-2017 and Operational Plan 2015/16* identifies the accountability of Council officers for each aspect of Council’s program, including the response to the FFTF criteria as detailed in this document.

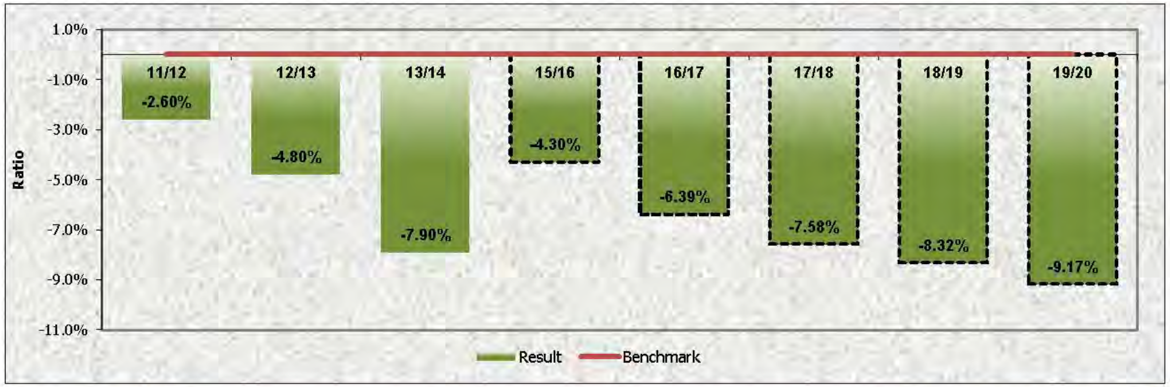
To reflect the importance of the Fit for the Future process, a coordinating action to respond to the reforms has been included in the 2015/16 Operational Plan, as follows:

> Strategic Direction 6 – Action 3.1.1
> Implement Council’s Fit for the Future improvement proposal

This action will be regularly reported to Council and the community through the normal quarterly review process.

Appendix 1 – Performance and forecast against the FFTF benchmarks

1. Operating Performance Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater or equal to break-even average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Total continuing operating revenue (excl. capital grants & contributions) less operating expenses Total continuing operating revenue (excl. capital grants & contributions)	-2.60%	-4.80%	-7.90%	-5.10%	☒	-4.30%	-6.39%	-7.58%	-8.32%	-9.17%
					Rolling 3 year average	-5.45%	-4.95%	-6.09%	-7.43%	-8.36%
					Meets the FFTF benchmark	☒	☒	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on result:

The benchmark for this ratio is +0% or better, meaning the operating result excluding capital grants and contributions needs to be a surplus. Council's average operating performance ratio over the past 3 years was -5.1%. This ratio is significantly impacted by the annual depreciation expense of Council assets. This ratio has also not been adjusted for the impact of the Federal Government ceasing to pay the Financial Assistance Grant (FAG) in advance as had been the case in previous years. This has also had a negative impact on Council's ratio for 2013/2014.

How could Council meet this benchmark in the future?

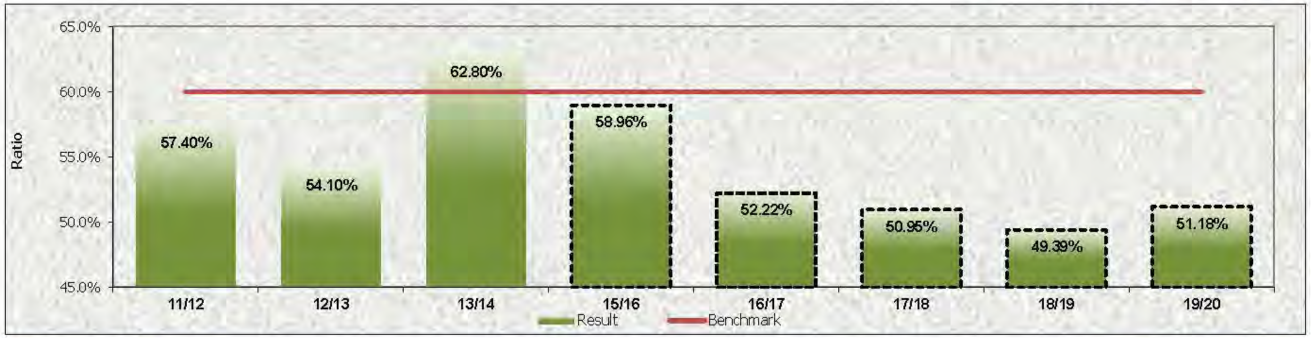
In order to meet this benchmark in the future, Council would need to implement strategies that would improve the net operating result significantly, so that it achieved an operating surplus.

Some options available for Council to consider are:

- Increasing operating revenues by methods such as increased income from user fees and charges or a special rate variation to increase rates income

- Decreasing operating expenditure through measures such as reducing the cost and or level of services provided.

2.a Own Source Revenue Ratio (excluding Financial Assistance Grant)	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than 60% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Total continuing operating revenue (less all grants & contributions) / Total continuing operating revenue (incl. all grants & contributions)	57.40%	54.10%	62.80%	58.10%	☒	58.96%	52.22%	50.95%	49.39%	51.18%
					Rolling 3 year average	64.82%	61.30%	54.04%	50.85%	50.51%
					Meets the FFTF benchmark	✓	✓	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures Council's achievement of containing operating expenditure within operating revenue.This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

Commentary on result:

Council exceeded the benchmark of 60% in 2013/14 with a ratio of 62.80%, however the 3 year average was below the benchmark at 58.1%. For Council, this indicator is largely affected by our high levels of development activity, which means a significant proportion of Council's revenue is from Section 94 developer contributions and non-cash contributions (works in kind). Whilst Council continues to experience the current extremely high level of development activity, it is unlikely in the short term that Council will achieve this indicator.

How could Council meet this benchmark in the future?

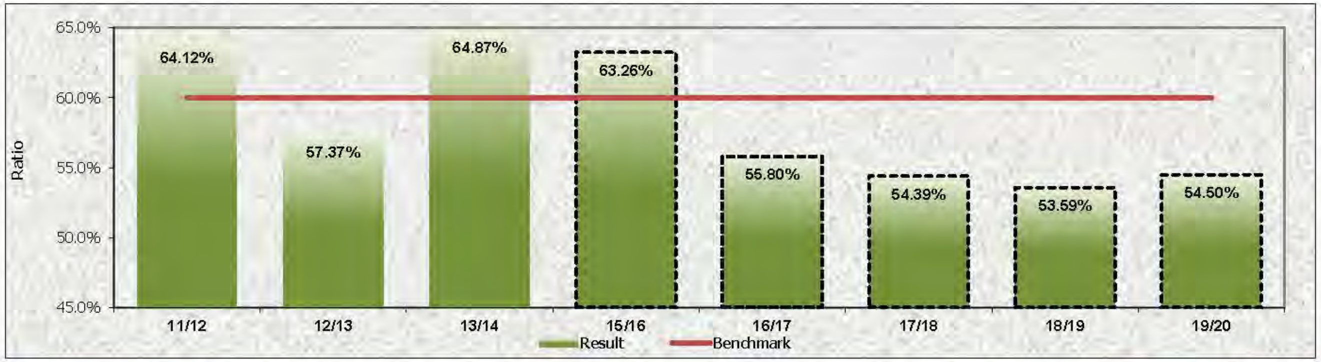
In order to achieve this indicator in the future, Council's own sources of revenue would need to increase by between $20 to $30 million. This increase could only be achieved through increased income from user fees and charges or rates income, such an increase would be highly dependent on the level of development activity at the time.

For this indicator to be relevant to Council's assessment of being considered fit for the future, it needs to factor in the impact of developer contributions and how the ratio is negatively affected for growth councils such as Blacktown.

It has been acknowledged by the Office of Local Government that this indicator may not be appropriate for councils in the growth sectors of Sydney such as Blacktown and Camden.

2.b Own Source Revenue Ratio (Including Financial Assistance Grant)	Historical					Projected				
	Financial year			3 year average	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than 60% average over 3 years)	2011/12	2012/13	2013/14			2015/16	2016/17	2017/18	2018/19	2019/20
Total continuing operating revenue (less all grants & contributions plus financial assistance grant) / Total continuing operating revenue (incl. all grants & contributions)	64.12%	57.37%	64.87%	62.12%	✓	63.26%	55.80%	54.39%	53.59%	54.50%

Rolling 3 year average	68.89%	65.87%	57.82%	54.59%	
Meets the FFTF benchmark	✓	✓	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures Council's achievement of containing operating expenditure within operating revenue.This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

Commentary on result:

Council exceeded the benchmark of 60% in 2011/12 with a ratio of 64.12% and 64.87% in 2013/14, while the 3 year average was above the benchmark at 62.12% when including the Financial Assistance Grant from the Federal Government.

For Council, this indicator is largely affected by our high levels of development activity, which means a significant proportion of Council's revenue is from Section 94 developer contributions and non-cash contributions (works in kind). Whilst Council continues to experience the current extremely high level of development activity, it is unlikely in the short term that Council will again achieve this indicator.

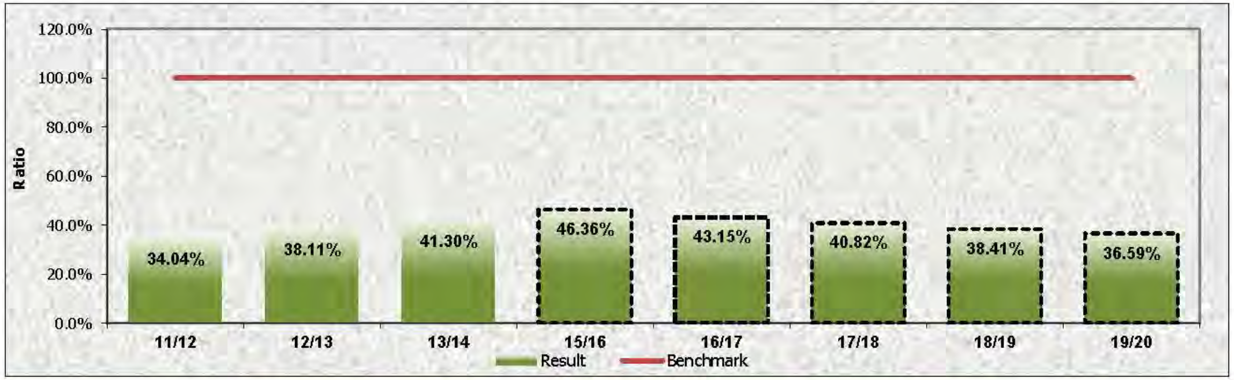
How could Council meet this benchmark in the future?

In order to achieve this indicator in the future, Council's own sources of revenue would need to increase by between $20 to $30 million. This increase could only be achieved through increased income from user fees and charges or rates income, such an increase would be highly dependent on the level of development activity at the time.

For this indicator to be relevant to Council's assessment of being considered fit for the future, it needs to factor in the impact of developer contributions and how the ratio is negatively affected for growth councils such as Blacktown.

It has been acknowledged by the Office of Local Government that this indicator may not be appropriate for councils in the growth sectors of Sydney such as Blacktown and Camden.

3. Building and Infrastructure Asset Renewal Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Asset renewals (building and infrastructure) / Depreciation, amortisation & impairment (building and infrastructure)	34.04%	38.11%	41.30%	37.82%	☒	46.36%	43.15%	40.82%	38.41%	36.59%
					Rolling 3 year average	42.68%	43.30%	43.44%	40.79%	38.61%
					Meets the FFTF benchmark	☒	☒	☒	☒	☒



Purpose of Operating Performance Ratio:

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on result:

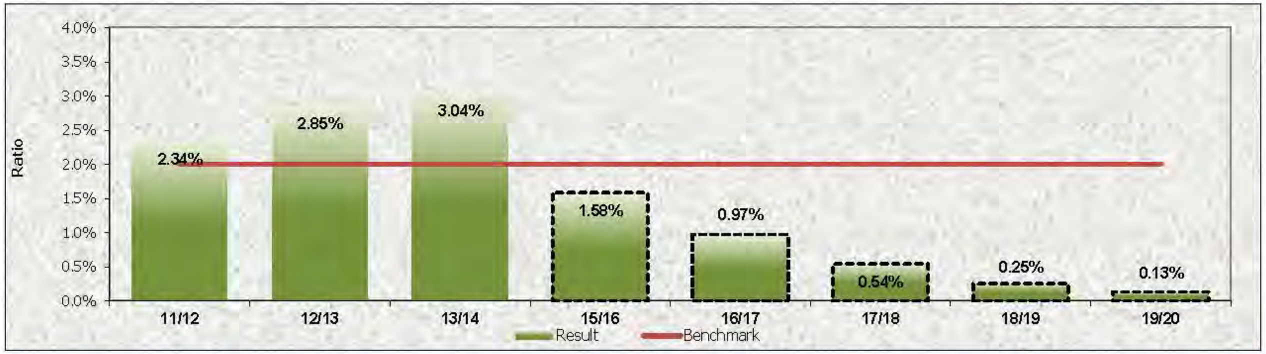
Council's 3 year average was 37.82%. In 2013/14, the ratio was 41.3%, which was an increase on the previous year. This was because Council increased the amount spent on renewing existing assets from $16.776 million in 2012/13 to $19.330 million in 2013/14. Following the approval of Council's special rate variation for asset renewal, the amount to be spent on asset renewal will increase by more than $10 million annually, however the ratio is unlikely to improve significantly due to the additional depreciation expense to be incurred with all the new assets being constructed in the North West Growth Centre over the next 10 to 20 years.

How could Council meet this benchmark in the future?

Due to the quantum of its assets ($2.8 billion), in order to achieve this benchmark, Council would need to spend around $47 million per annum on asset renewal. In 2013/2014, Council's expenditure on asset renewal was around $20 million, meaning we would need to increase our annual expenditure on asset renewal by around $27 million. After allowing for the recently adopted asset renewal funding strategy, which allocated an additional $10 million annually towards asset renewal, Council would still not realistically be able to meet this benchmark without significantly increasing income from rates or user fees and charges or reducing operational expenditure on other services.

Council has already adopted a sensible strategy of managing its asset renewal requirements based on mature asset renewal modeling. This approach is considered a more practical method of asset renewal management as it is aimed at matching the required expenditure for asset renewal with the actual condition of the assets based on physical asset condition assessments. This is considered a more sustainable and efficient use of Council resources as opposed to trying to match asset renewal expenditure against annual depreciation expense.

4.a Infrastructure Backlog Ratio (using Fair Value)	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (less than 2%)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Estimated cost to bring assets to a satisfactory condition / Total value of infrastructure & building assets	2.34%	2.85%	3.04%	2.74%	☒	1.58%	0.97%	0.54%	0.25%	0.13%
					Rolling 3 year average	2.29%	1.60%	1.03%	0.59%	0.31%
					Meets the FFTF benchmark	☒	✓	✓	✓	✓



Purpose of Operating Performance Ratio:

This ratio shows the asset renewal backlog as a proportion of the total value of a council's infrastructure.

Commentary on result:

The higher this ratio, the higher a council's relative backlog as a proportion of its total infrastructure portfolio. The benchmark for this ratio is for the backlog to be less than 2% of the fair value of council's infrastructure assets. Council's ratio for 2013/14 was 3.04%. This ratio will improve over the next few years due to Council's asset renewal funding strategy including the approved special rate variation.

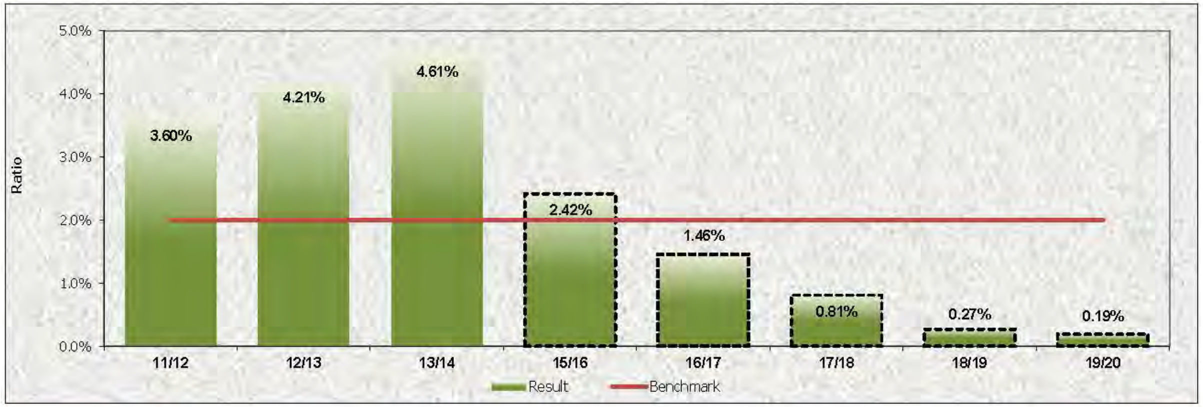
How could Council meet this benchmark in the future?

Due to the size of Council's asset base ($2.8 billion), the benchmark requires Council to have a renewal backlog of less than $52 million. Council's asset renewal funding strategy as adopted from 2014/15 forecasts a reduction in the backlog over the next 5 years.

Based on the current levels of annual funding for asset renewal and our long term asset renewal funding forecasts, it is expected that Council will be able to achieve this benchmark over the next 5 to 10 years. The challenge for Council will be in trying to meet this benchmark in the following 10 years when it is forecast that we will require a substantial increase in asset renewal funding for the older parts of the City.

4.b Infrastructure Backlog Ratio (using Written Down Value)	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (less than 2%)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Estimated cost to bring assets to a satisfactory condition / Total value of infrastructure & building assets	3.60%	4.21%	4.61%	4.14%	☒	2.42%	1.46%	0.81%	0.27%	0.19%

	2015/16	2016/17	2017/18	2018/19	2019/20
Rolling 3 year average	3.46%	2.41%	1.56%	0.85%	0.42%
Meets the FFTF benchmark	☒	☒	✓	✓	✓



Purpose of Operating Performance Ratio:

This ratio shows the asset renewal backlog as a proportion of the total value of a council's infrastructure.

Commentary on result:

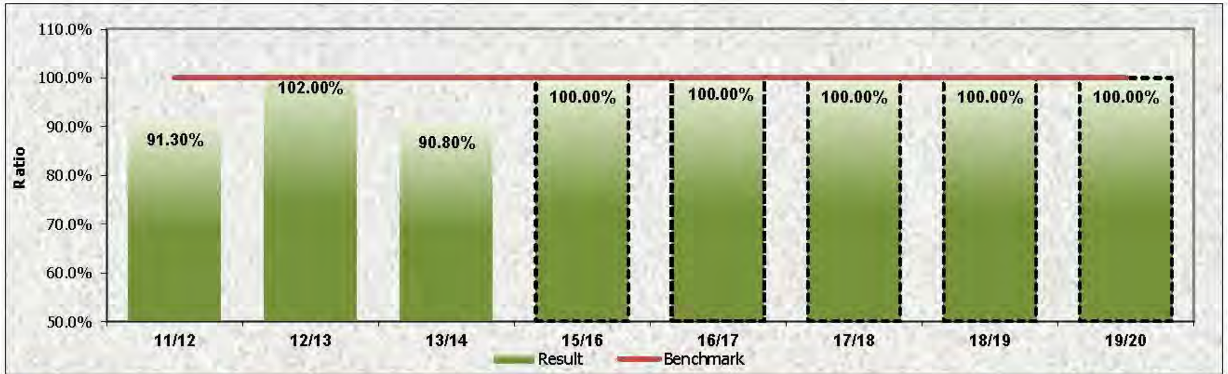
The higher this ratio, the higher a council's relative backlog as a proportion of its total infrastructure portfolio. The benchmark for this ratio is for the backlog to be less than 2% of the written down value of council's infrastructure assets. Council's ratio for 2013/14 was 4.61% . This ratio will improve over the next few years due to Council's asset renewal funding strategy including the approved special rate variation.

How could Council meet this benchmark in the future?

Due to the size of Council's asset base ($2.8 billion), the benchmark requires Council to have a renewal backlog of less than $52 million. Council's asset renewal funding strategy as adopted from 2014/15 forecasts a reduction in the backlog over the next 5 years.

Based on the current levels of annual funding for asset renewal and our long term asset renewal funding forecasts, it is expected that Council will be able to achieve this benchmark over the next 5 to 10 years. The challenge for Council will be in trying to meet this benchmark in the following 10 years when it is forecast that we will require a substantial increase in asset renewal funding for the older parts of the City.

5. Asset Maintenance Ratio	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than or equal to 100% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Actual asset maintenance / Required asset maintenance	91.30%	102.00%	90.80%	94.70%	✗	100.00%	100.00%	100.00%	100.00%	100.00%
					Rolling 3 year average	96.93%	100.00%	100.00%	100.00%	100.00%
					Meets the FFTF benchmark	✗	✓	✓	✓	✓



Purpose of Operating Performance Ratio:

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing through insufficient maintenance.

Commentary on result:

The benchmark for this ratio is for the 3 year average to be greater than or equal to 100%. That is a council should be spending at least the required expenditure on asset maintenance as shown in "Special Schedule 7 - Report on infrastructure assets" of their annual financial statements.

Council's 3 year average was 94.70%, this implies that Council is not currently spending enough on the maintenance of its assets.

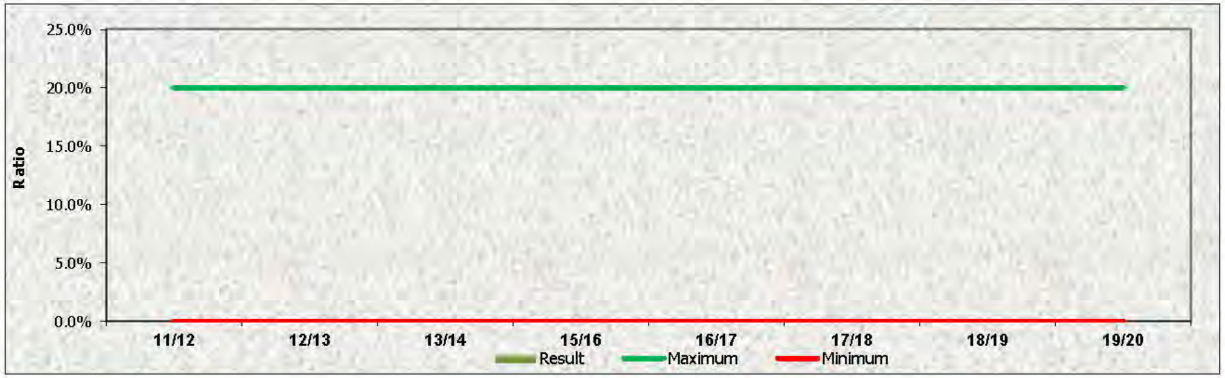
How could Council meet this benchmark in the future?

This benchmark (based on 2013/14 figures) would require Council to increase its annual asset maintenance expenditure by around $3.5 million. The flow on effect of Council already increasing its asset renewal expenditure as part of the recently adopted asset renewal funding strategy, is that it is anticipated that the required annual expenditure on asset maintenance will reduce and be more closely aligned to the actual annual expenditure for asset maintenance.

Rather than setting a benchmark of 100%, it is considered a more appropriate benchmark for this indicator would be to achieve a ratio within the range of 95% to 105%.

6. Debt Service Ratio

	Historical					Projected				
	Financial year			3 year	Meets the FFTF benchmark	Financial year				
Benchmark: (greater than 0 and less than or equal to 20% average over 3 years)	2011/12	2012/13	2013/14	average		2015/16	2016/17	2017/18	2018/19	2019/20
Debt service cost (interest expense & principal repayments) Income from continuing operations (excl. capital items & specific purpose grants/contributions)	0.00%	0.00%	0.00%	0.00%	☒	0.00%	0.00%	0.00%	0.00%	0.00%
Rolling 3 year average						0.00%	0.00%	0.00%	0.00%	0.00%
Meets the FFTF benchmark						☒	☒	☒	☒	☒



Purpose of Operating Performance Ratio:

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments.

Commentary on result:

This indicator is not considered relevant when assessing Blacktown's Fit For the Future creditentials. Blacktown is penalised by this indicator due to its strong long standing financial management strategies which have allowed Council to maintain a debt free status since 1999.

This indicator does not factor in our sound fiscal practices of maintaining an annual Infrastructure Sinking Fund, which was set up as a source of funding for major capital in lieu of debt, nor does it recognise the internal borrowings Council has approved to forward fund and expedite major capital works through out the City.

How could Council meet this benchmark in the future?

Council would need to give up its debt free status and would need to take on an annual debt servicing cost of up to a maximum of around $45 million to achieve this benchmark.

While Council may further consider the appropriate use of borrowings in the future, there is no current intention to change Council's long standing debt-free status.

The use of debt to fund any operational or recurrent expenditure is not considered appropriate or necessary.

7. Real Operating Expenditure per capita over time

	Historical						Projected				
	Financial year					Meets the FFTF benchmark	Financial year				
Benchmark: (a decrease in real operating expenditure per capita over time)	2009/10	2010/11	2011/12	2012/13	2013/14		2015/16	2016/17	2017/18	2018/19	2019/20
Expenditure deflated by CPI / Population	$ 684.09	$ 692.75	$ 709.29	$ 690.75	$ 689.17	✓	$ 694.43	$ 681.03	$ 689.72	$ 688.29	$ 687.22
						Meets the FFTF benchmark	✓	✓	☒	✓	✓

Purpose of Operating Performance Ratio:

This indicator measures productivity changes over time based on the movement in real per capita expenditure. Based on the assumption that service levels remain constant, a decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Commentary on result:

The basis for this indicator is that a council can realise natural efficiencies as population increases (through lower average cost of service delivery and representation). It can also assess how well a council is able to make the necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

For Council, this benchmark peaked in 2012 at $709.29 per capita which has then declined over the past 2 years reaching $689.17 as at the end of the 2014 financial year.

How could Council meet this benchmark in the future?

Council already meets this benchmark and should continue to meet this benchmark over the next 10 years provided the forecast growth of the City is realised and operational costs are contained.

Appendix 2 – Impact of depreciation on the FFTF benchmarks

The value of depreciation estimated by councils has a significant impact on the following 3 FFTF indicators:

- Operating performance ratio
- Building and asset renewal ratio
- Declining real operating expenditure per capita over time.

Problems with depreciation

- Can be subjective and thereby adjusted to provide a better result
- No industry standard on depreciation rates or useful lives for different types of assets
- Not necessarily a true reflection of the consumption of the asset or level of required intervention
- Can be difficult to accurately align with Asset Management Plans.

There is no State-wide standard for the application of depreciation in NSW local government and consequently there is a general lack of consistency across the industry in how depreciation is measured. This makes the FFTF criteria difficult to rely on, especially for comparative purposes.

It is not suggested that all councils should have exactly the same depreciation rates, as the useful life of an asset is dependent on many things such as when and how an asset was constructed, its level of use etc. Accordingly, the useful life of each local road may be different having regard for local factors. There would be many other such similar examples. The point is the FFtF benchmark analysis does not at all adequately take these individual characteristics into account.

Blacktown City context

Blacktown City Council is responsible for some $2.8 billion of public assets. This asset base has grown by $1 billion since 2001 (resulting in an overall increase in annual depreciation since 2001 of approximately $36 million) and will continue to grow rapidly with the expansion of the City *(refer to section 1)*. These new assets don't require funding now, they will require renewal funding in the future. Council currently depreciates all of its assets on average over 58 years, it being noted that infrastructure assets comprise a number of sub-categories with depreciation varying according to the useful life of the asset.

Our current approach to depreciation is based on:

- Condition assessments
- Different rates of depreciation for different asset components
- Expected useful life of each asset component
- Estimated remaining useful life of each asset.

The useful life of all assets is based on the detailed analysis of Council's infrastructure assets. Not all other councils have applied the same rigour to projecting the useful lives of infrastructure assets.

Required depreciation adjustment for the FFTF benchmarks to be achieved

If Blacktown City was able to increase the average useful life of its assets by 20 years, our annual depreciation expense would be reduced by around $10 million per annum. Even with this change to our depreciation methods, however, Blacktown City would still not meet the FFTF indicators.

A better measure would be to assess how well a council is funding its infrastructure asset renewal funding requirements on an annual basis. That is, as assets are due for renewal, how well are we actually matching the funding to the renewal requirements. Council has an asset renewal funding strategy, which is based on meeting the annual renewal funding requirements as projected through detailed asset management planning.

Since the TCorp review of local government finances in 2013, some councils may have been tempted to adjust their depreciation standards in order to improve their overall assessment on a number of financial indicators.

Blacktown City's depreciation rate is 1.733%, meaning our infrastructure assets are on average being fully depreciated over 58 years.

Blacktown City would need to reduce its depreciation by $27.5 million to achieve each of the FFTF indicators.

This means an average rate of depreciation of 1.05% annually or depreciating all of our assets over 95 years as opposed to our current average of 58 years.

Comparative information on Depreciation

The following table taken from the published annual accounts of other councils is a comparison of the different rates of depreciation used by a sample of councils for their depreciable infrastructure assets (roads, footpaths and drainage).

000's	Infrastructure (depreciable) Fair value	Depreciation expense	%	Average # Years to fully depreciate assets
Blacktown City Council	2,214,422	38,385	1.733%	57.69
The Hills Shire Council	1,240,816	12,055	0.972%	102.93
Penrith City Council	1,059,922	9,015	0.851%	117.57
City of Sydney	1,942,537	34,954	1.799%	55.57
Parramatta City Council	1,143,413	19,703	1.723%	58.03
Manly Council	299,188	3,044	1.017%	98.29
Lane Cove Council	254,729	3,358	1.318%	75.86
Average (excluding Blacktown)			**1.280%**	**78.12**
Recalculate Blacktown depreciation @ sample average	2,214,422	28,346	1.280%	**78.12**
Recalculate Blacktown depreciation @ 1%	2,214,422	22,144	1.000%	**100.00**

- Blacktown City's depreciation rate is 1.733%, meaning our infrastructure assets are on average being fully depreciated over 58 years
- The average rate for the other councils included in the table is 1.28% or 78 years
- If our infrastructure assets were depreciated at the same rate as the average of the sample group, our depreciation on these assets would be $10 million less
- This reduction still wouldn't be enough for us to achieve all the FFTF indicators.

Appendix 3 – Financial viability of Council (analysis by PricewaterhouseCoopers)

pwc

The General Manager
Blacktown Council
DX 8117
BLACKTOWN

Dear Sir

Financial Viability of Council

You have requested that we comment on the financial viability of Council based on observations we have made as Council's external auditors over the past six years. During that period we have held the view that Council was in a strong and stable financial position. The commentary below explains why we have held this view.

Factors we have considered to assess Council's financial viability include:

- Financial indicators from Note 13 to the General Purpose Financial Statements that were reported by all councils up until 2013 and upon which we regularly commented.
- The condition of infrastructure from Special Schedule 7 – Note 13 indicators may be sound but infrastructure may not be in good condition.
- Forward projections from Special Schedule 8 – the current position may be sound but negative trends may be forecast into the future.
- Operating Results (before and after capital items).
- The level and composition of cash and investments.

(a) Note 13

%	2009	2010	2011	2012	2013	2014	Benchmark
Unrestricted Current Ratio	521	477	523	426	440	429	>150%
Debt Service Ratio	0	0	0	0	0	0	<10%
Rates Coverage Ratio	42	42	42	42	39	46	>50%
Rates Outstanding Ratio	4.6	4.0	3.6	3.3	3.4	3.2	<5%
Building & Infrastructure Renewals Ratio	48	38	33	34	38	41	>100%

Unrestricted Current Ratio – The benchmark set for this ratio by the OLG is above 150%. PwC consider a benchmark above 100% to be an indication of sound liquidity. In either case, Council was substantially above these levels in each of the six years – indicating it had very strong liquidity. The table on page 3 shows that the level of cash and investments grew from $230m to $296m during the same period. Internally restricted and unrestricted cash and investments grew from $109m to $140m indicating Council was able to readily pay its debts as and when they fell due during the period.

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Debt Service Ratio – The benchmark for this ratio is less than 10%. Council has been debt free for at least 10 years and is therefore well below that benchmark. We consider the fact that Council can fund its operating and capital costs without recourse to borrowing to be a good indicator of its financial health. We understand that Council is not averse to borrowing but has simply never had the need to borrow in this period.

Rate Coverage Ratio – The benchmark for this ratio is greater than 50%. Council was below this benchmark in each of the 6 years under review. Council's ratio is impacted by the high levels of capital grants and contributions it receives – particularly in the form of developer contributions and dedications. If these are excluded then Council achieves a Rates Coverage Ratio of above 60% in each of the years.

%	2009	2010	2011	2012	2013	2014
Rates Coverage Ratio excluding capital grants and contributions	61	62	61	60	63	66

Rates Outstanding Ratio – The benchmark for this ratio is less than 5%. That means Council should collect at least 95% of the rates and annual charges it levies in any one year. Council was below the benchmark in each of the 6 years. It was well below the benchmark when arrears which are subject to deferral arrangements (pensioners, hardship) are excluded.

%	2009	2010	2011	2012	2013	2014
Rates Outstanding Ratio excluding deferral arrangements	2.6	2.5	2.1	1.7	1.8	1.5

Building & Infrastructure Renewals Ratio – This ratio measures the rate at which certain assets (building and infrastructure) are being renewed relative to their depreciation with the benchmark set at 100%. Council's ratios were well below 100% in each of the years which indicates that higher amounts could have been spent on asset renewals during the period.

Based on the indicators set out in Note 13 and their interpretation, Council was in a strong and stable financial position in each of the years examined. Council had strong liquidity, no debt and low outstanding rates in its favour. Its rate coverage ratio was impacted by abnormally high capital grants and contributions which, when excluded, moves the ratio to above 50% in each year.

(b) *Special Schedule 7*

$m	2009	2010	2011	2012	2013	2014
Cost to bring to satisfactory standard (backlog)	116	71	49	53	68	79

Council's backlog of infrastructure works moved considerably during the years examined. We understand this had more to do with interpretation than with action taken.

%	2009	2010	2011	2012	2013	2014
Backlog as % of Renewal Cost	7	4	3	2	3	3

The level of backlog relative to the replacement or renewal cost of these assets is quite reasonable in our view – particularly in the later years when higher replacement costs were recognised through revaluations.

(c) *Special Schedule 8 - $m*

	2009	2010	2011	2012	2013	2014
Operating Result Projections	Positive	Positive	Positive	Positive	Positive	Positive
New Capital and Renewal Works Projections	>50	>40	>40	>75	>80	>100

Council's forward projections for its operating results and capital works and renewals were positive for each of the years examined.

(d) *Operating Results - $m*

	2009	2010	2011	2012	2013	2014
Operating Result	90	89	89	99	136	97
Operating Result before Capital	2	(7)	(13)	(3)	(8)	(12)

Council had positive operating results in each of the six years examined. However, its operating results before capital were in deficit for 5 of the 6 years. As a percentage of operating revenue these deficits were relatively small in our view.

	2009	2010	2011	2012	2013	2014
ORBC as percentage of total revenue	0.7	(2.3)	(4.0)	(1.0)	(2.0)	(3.3)

(e) *Cash & Investments - $m*

	2009	2010	2011	2012	2013	2014
External Restrictions	121	137	150	142	174	156
Internal Restrictions	97	103	110	121	120	121
Unrestricted	12	9	11	21	26	19
Total	**230**	**249**	**271**	**284**	**320**	**296**

Council's cash and investments were generally increasing during the period examined. Total cash and investments increased from $230m to $296m. The unrestricted and internal restrictions over which Council has full control – increased from $109m to $140m. The level of, and the increase in, cash and investments is a good indicator of the improvement in Council's financial health during the period.

Conclusion

We believe that Council was in a strong and stable financial position during the past six years. The financial indicators during that period showed that Council had very strong liquidity and no debt. Its rating income was below 50% of its total income but this did not impact on its ability to deliver services as Council had abnormal levels of capital grants and contributions which pushed the ratio down. When excluded, the rate coverage ratio was above 50% in each year. Its rate collection levels were good but its asset renewals should possibly have been higher. Council did successfully apply for a special rating variation in 2014 to address the shortfall in renewals expenditure. Also, in each of those years, Council had positive operating results although the operating results before capital were in deficit for the past 5 years. As a percentage of total revenue these deficits were relatively modest. Council's cash and investment levels increased significantly during the period and, importantly, the balances over which Council had full control (unrestricted and internally restricted) were a significant part of that increase.

The cost to bring infrastructure to a satisfactory standard (backlog) varied considerably during the period but was generally around 3% of the replacement cost of these assets which we consider to be reasonable. In terms of financial projections, Council projected positive operating results and at least $40m in new capital works and renewals in each of the years examined. This information indicates that Council was managing its infrastructure and had a positive outlook in each of the six years.

General

Please contact the writer on 02 8266 3330 if you require further information.

Yours faithfully

[redacted]

Peter Buchholz
Partner

[redacted]

Dennis Banicevic
Director

4

Appendix 4 – Council's position on amalgamations and boundary adjustments

1. Local Government Amalgamations

Blacktown City Council has consistently opposed any forced amalgamations of councils throughout the local government review process. This remains Council's position in its response to Fit for the Future.

Council does not oppose the voluntary merger of other councils and is aware that several of Blacktown City's neighbouring councils may be involved in active consideration or response to potential mergers identified in the FFTF process. Any implications of this in regard to Blacktown City will be further considered should any merger process proceed.

2. Boundary adjustments

The OLG has previously advised Council that it will not consider boundary adjustment proposals through the FFTF process, other than those arising from agreed merger proposals.

Blacktown City does not seek any boundary adjustments through FFTF under the present local government structure. There are, however, certain aspects of possible future boundary adjustments which require comment by Council and these are discussed below.

2.1 North West Growth Centre (NWGC)

The ILGRP report did not suggest any merger or substantial boundary adjustment for Blacktown City, but did identify for consideration a rationalisation of the NWGC boundaries.

The growth centre is presently divided between three local government areas, namely Blacktown (which contains the great majority of the precincts), Hawkesbury (the Vineyard precinct) and The Hills (the Box Hill precinct and also North Kellyville). The ILGRP report raised the possibility of placing the whole NWGC into one local government area.

The possible rationalisation of these boundaries would increase the future population of Blacktown City by some 37,000 (to a potential total in 2036 of approximately 537,000 residents).

Such an adjustment of boundaries for the NWGC has some merit, as identified in Council's own submissions earlier in the local government reform process. However, given the now advanced state of the planning regime for the NWGC, the likely concerns of neighbouring councils and the lack of any direction from Government in regard to this matter, Blacktown City does not seek or support a boundary adjustment relating to the NWGC.

2.2 Potential boundary adjustments arising from changes to other local government areas

As noted above, Blacktown City does not seek any boundary adjustments with neighbouring councils through FFTF.

However, Council reserves the right to examine its boundaries should local government areas be substantially amended in future. Council therefore regards it as prudent to identify where future adjustments may have merit should current local government areas change.

There are three possible future boundary adjustments which are specifically noted by Blacktown City for future examination should the circumstances arise.

These areas are broadly as follows and would be discussed and considered with the Government and neighbouring councils in more detail should circumstances make this relevant:

i. **Pemulway industrial area**
The industrial area of the Pemulway suburb is presently mainly part of Holroyd City, with a smaller part in Blacktown City. This area would be a natural fit within Blacktown City as part of our employment lands.

ii. **Toongabbie**
The suburb of Toongabbie is presently divided between three local government areas, namely Blacktown City, Holroyd City and Parramatta City. This situation has created disadvantages for planning and services to this community and should be considered in any re-adjustment of boundaries.

iii. **Girraween**
The current placement of the suburb of Girraween in Holroyd City should be examined as a part of any significant re-adjustment of boundaries.