

FIT FOR THE FUTURE

MID-WESTERN REGIONAL COUNCIL
IMPROVEMENT PROPOSAL

30 JUNE 2015

MID-WESTERN REGIONAL COUNCIL
CORPORATE DEVELOPMENT

■ ■ ■ ■ ■ TOWARDS 2030



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1. Executive Summary

In September 2014, the NSW Office of Local Government released A Blueprint for the Future of Local Government focused on local government reform. The reform program requires all councils to prepare a plan to become Fit for the Future.

PURPOSE OF REPORT

This report represents Mid-Western Regional Council's submission under the Fit for the Future reforms, including:

- Completion of a self-assessment against the Fit for the Future benchmarks; and
- Development of a Council Improvement Proposal and Action Plan.

SCALE AND CAPACITY

The Final Report of the Independent Review Panel places Mid-Western Regional Council in Group G for Non-Metropolitan Regions. The commentary in the Final Report says that this group of Councils appears likely to be sustainable in their current form for several decades.

As Mid-Western Regional Council has been assessed as having sufficient Scale and Capacity to stand alone, it is therefore required to submit a Council Improvement Proposal for the purposes of the reform process.

Further discussion of Mid-Western Regional Council's ability to demonstrate that it has sufficient Scale and Capacity to become Fit for the Future is included in Section 3.3.

PERFORMANCE AGAINST FIT FOR THE FUTURE BENCHMARKS

Mid-Western Regional Council's current position and forecast future performance has been self-assessed against the three Fit for the Future Benchmarks of Sustainability, Infrastructure and Service Management and Efficiency.

The self-assessment shows that whilst Mid-Western Regional Council falls short of satisfying all of the ratios included in the Sustainability and Infrastructure and Service Management benchmarks in 2013/2014, it does show significant improvement against these benchmarks in the future. By 2019/20, it is expected that Mid-Western Regional Council will satisfy the majority of ratios included in the self-assessment. The analysis shows that Mid-Western Regional Council is already meeting the Efficiency benchmark and is expected to do so into the future.

Section 3.4 provides further discussion of the calculations and analysis undertaken.

Mid-Western Regional Council's water utility performance is considered in Section 3.5.

COUNCIL IMPROVEMENT PROPOSAL AND ACTION PLAN

A detailed review of Mid-Western Regional Council's current and forecast position has assisted in identifying potential areas for improvement in the future. The key strategies for improvement include:

- Strategy 1: Examine Opportunities to Raise Additional Revenue
- Strategy 2: Examine Opportunities to Reduce Operating Expenses
- Strategy 3: Improve Asset Management and Service Processes
- Strategy 4: Ensure Rational Asset Decisions Are Made
- Strategy 5: Address Infrastructure Backlog
- Strategy 6: Utilise Debt as Relevant
- Strategy 7: Pursue a Continuous Business Improvement Program

Section 4 of the report identifies Council's Improvement Plan and the timeline for implementing the activities identified in the plan.

The initiatives contained in Council's Improvement Plan will not only help Mid-Western Regional Council to improve its performance against the Fit for the Future benchmarks by 2019/20, but also ensure that it remains a Fit for the Future Council in the future.

2. Introduction

This section provides an overview of the report purpose and contents of the report.

2.1 Fit for the Future

In September 2014, the NSW Office of Local Government released A Blueprint for the Future of Local Government. The key message in this document was that the NSW Government are laying the foundations for a stronger and more viable local government sector.

The reform program is about enabling each council to put together a roadmap of how it will become Fit for the Future. A Fit for the Future council is one that is:

- Sustainable;
- Efficient;
- Effectively manages infrastructure and delivers services for communities; and
- Has the scale and capacity to engage effectively across community, industry and government.

All councils must prepare a plan to become Fit for the Future. These plans must be submitted to the Independent Pricing and Regulatory Tribunal (IPART) by 30 June 2015.

2.2 Purpose of Report

In order to demonstrate that Mid-Western Regional Council is Fit for the Future it must prepare a submission which will be assessed by IPART on behalf of the NSW Office of Local Government. Preparation of this submission involves:

- Completion of a self-assessment against the Fit for the Future Benchmarks (sustainability, efficiency, infrastructure service and management); and
- Development of a Council Improvement Proposal and Action Plan.

The purpose of this report is to document the results and analysis undertaken in completing this self-assessment and to support the development of Council's Improvement Proposal. The document is intended to provide a comprehensive response to the Fit for the Future requirements based on a self-assessment of Council's current position and to identify the key strategies it will use to improve this position in the future.

It includes relevant information sources and additional material which have been used to assess Council's current position and identify actions that will be implemented in the future to improve this position.

REPORT PREPARATION

The information in the report has been prepared in-house by Mid-Western Regional Council staff.

The information contained in the report is only accurate for the purposes for which it is intended and it should not be used or relied upon for any other purpose.

KEY REFERENCE DOCUMENTS

The following Mid-Western Regional Council documents have been used in preparing this report:

- Community Strategic Plan
- Delivery Program
- Operational Plan
- Resourcing Strategy including Long Term Financial Plan, Workforce Management Plan and Asset Management Plan
- Community Survey
- 2013/14 Annual Report

Other publications and resources used include:

- Revitalising Local Government, Final Report of the NSW Independent Government Review Panel (October 2013)
- Fit for the Future: A Roadmap for Stronger Smarter Councils, Office of Local Government (September 2014)
- Local Government NSW Fit for the Future Bootcamp Presentations (February 2015)

3. Council's Current Position

This section considers Mid-Western Regional Council's current position and its performance against the Fit for the Future benchmarks. It outlines the key characteristics of the Mid-Western Region and discusses the key challenges and opportunities which drive the current and future priorities of the Region.

3.1 About the Mid-Western Region

The Mid-Western Region is located just 3.5 hours (or 250 kilometres) from Sydney and offers a quality lifestyle in a dynamic economic environment. Located in the Central West of NSW, the area covers over 9,000 square kilometres and has a population of 24,000. The Region also attracts more than 500,000 visitors each year to experience local wine, food, sporting and cultural events, as well as its unique cultural heritage.

DEMOGRAPHIC PROFILE

The key features of the Region are summarised in the following table.

Table 1: Key Features of Mid-Western Region

| | |
|-------------------------|---|
| Population | 24,000 |
| Area | 9,000 sq km |
| Major towns and centres | Mudgee, Gulgong, Kandos, Rylstone |
| Major industries | Agriculture, Mining, Tourism, Viticulture, Retail |
| Competitive advantages | Diverse and growing economic base Centrally located to NSW metropolitan and major regional centres Good transport links Skilled workforce Strong business services sector Great lifestyle benefits Thriving tourism, arts and cultural sectors Adequate water supply |

A key feature of the Region's economy is its diversity.

The population of the Region continues to grow as a result of new economic and business opportunities associated with a diverse economic base and the increasing number of tree changers who are moving here for lifestyle reasons.

With new job and business opportunities across a range of industries, including agriculture, viticulture, tourism, mining and retail, the Region is an attractive location for those looking to relocate to a regional area. This results in a high quality and skilled local labour force, with relatively low levels of unemployment for a regional area.

Population Size

The table below provides population data for the Mid-Western Region Local Government Area for the last 5 years.

Table 2: Population of Mid-Western Region 2010-2014

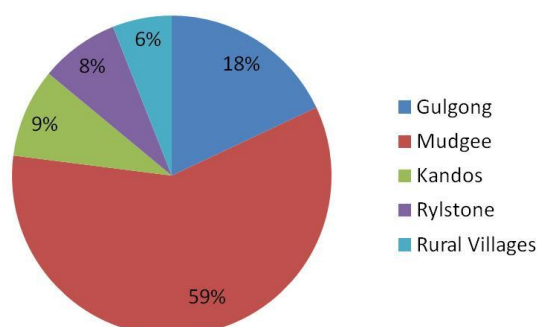
| 2010 | 2011 | 2012 | 2013 | 2014 | % Change Last 5 Yrs | % Change Annual Avg. |
|--------|--------|--------|--------|--------|---------------------|----------------------|
| 22,774 | 23,020 | 23,532 | 23,843 | 24,017 | 6.9% | 1.4% |

As at 30 June 2014, the estimated resident population of the Region was 24,017. Based on these statistics, the population of the Region grew by 0.7 percent in the 12 month period ending 30 June 2014. The annual average rate of growth (based on the last 5 years) was 1.4 percent.

Population by Town

The diagram below illustrates the breakdown of population across the towns in the Region, at the last Census date. It shows that the largest town in the Region is Mudgee, which includes almost 60 percent of the population. Just under 20 percent of the population lives in the Gulgong area, with a similar percentage of the population based in the Kandos and Rylstone areas.

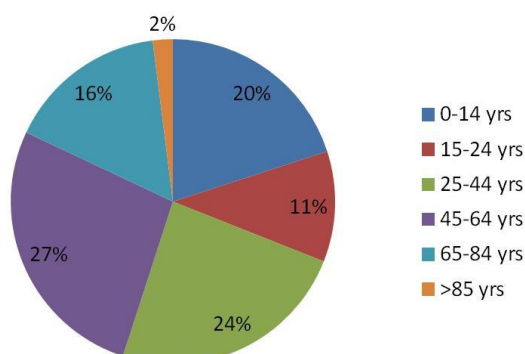
Diagram 1: Population by Town



Age of Population

The diagram below shows the age distribution profile of the population of the Region, as at the last Census date. It shows that despite an ageing population across Australia, the Region has a high percentage of youth (just over 20 percent of the population) and people of a working age (around 60 percent).

Diagram 2: Age Profile of Population



3.2 Key Challenges and Opportunities

The Mid-Western Region is a modern and growing region. It is experiencing unprecedented growth in industry and population, fuelled largely by the global demand for resources. Coupled with the significant agricultural sector and continued growth of tourism, this presents not only unique challenges but also opportunities for the local community.

SWOT ANALYSIS

A SWOT analysis has been undertaken to identify the key strengths, weaknesses, opportunities and threats that are working within Council and in the external environment, which influence Council's current position and ability to become Fit for the Future.

Diagram 3: SWOT Analysis for Mid-Western Region



A number of external documents support the SWOT analysis above.

TCorp Analysis

NSW Treasury Corporation (TCorp) prepared a Financial Assessment and Benchmarking Report for Mid-Western Regional Council in 2012. It reviewed 3 years of data including Council's 10 year forecasts. Key observations included:

- While Council has incurred operating deficits there has been an upward trend;
- Council's financial position has been well managed;
- Council has a strong record of successfully applying for grants and contributions;
- Council has sufficient liquidity and capacity to undertake additional borrowings; and
- Council's funding for asset maintenance and asset renewal investment is slightly below the benchmark, but Council has adequately invested in capital expenditure in the last 3 years.

TCorp Financial Sustainability Rating

TCorp undertook an assessment of the financial capacity and sustainability of all 152 councils in NSW as part of its work for the Independent Review Panel.

Mid-Western Regional Council was assessed as have a "Sound" financial sustainability rating. This is a very good rating for a regional council, and places Mid-Western Regional Council among the better performing councils across the state.

A council with a "Sound" rating is considered to:

- Have adequate capacity to meet its financial commitments in the short, medium and long term;
- Be well positioned to address operating deficits, manage unforeseen financial shocks and any adverse changes in its business with minor or moderate revenue and/or expense adjustments;
- Be able to change the range of and/or quality of services offered as a result of expense adjustments; and
- Have sound capacity to manage core business risks.

TCorp has also assessed Council's Outlook for potential movement in its financial sustainability rating. Council was assessed as having a "negative" outlook which means, not that the outlook is negative, but that there is a risk of dropping down from a "sound" rating in the next 3 years.

This is largely driven by Council's asset management. It highlights the importance of Council continuing to refine its asset management data and practices over the next 12 to 18 months, and implementing strategies for reducing the real infrastructure backlog.

Infrastructure Audit

A Local Government Infrastructure Audit was performed by the Division of Local Government in June 2013. It also looked at the financial position of councils with a specific focus on infrastructure management.

Council was assessed as being in a "weak" position in terms of its infrastructure management, with a \$96.8 million backlog of investment required to bring infrastructure to a satisfactory level, including water and sewer.

Analysis of this data for the 2013/14 financial year shows that the backlog is closer to \$80.0 million, including water and sewer, and \$41.0 million when water and sewer are excluded. It is expected that this would result in an improved rating.

As with the TCorp rating above, it again reinforces the priority action required by Council to improve its asset management and address its infrastructure backlog to maintain a sound financial position in the future.

Regional Growth

Regional growth and development strategies for both the RDA Orana and Central West Region to which Mid-Western Regional Council belongs, indicate positive economic opportunities associated with the growth of the mining industry and a strong tourism sector.

The Mid-Western Region is identified as being in a strong economic position, with a diverse economy and population growth projections above the state average. As many regional communities are faced with declining populations and limited opportunities for new economic activity, the Mid-Western Region has numerous major project developments and economic infrastructure which supports growth and ensures the region is attractive to new residents and potential investors.

Council Strategies

Council has current Economic Development and Land Use strategies which are integral to the long term strategic planning for the Region. Both strategies reflect the opportunities and threats faced by the Region and the planned activities to be undertaken by Council to maximise the outcomes and benefits for the community.

3.3 Scale and Capacity

Each Council has been asked to consider their scale and capacity using the recommendations of the Independent Review Panel as a starting point in preparing Fit for the Future documentation.

The Final Report of the Independent Review Panel places Mid-Western Regional Council in Group G for Non-Metropolitan Regions, with 27 other councils. The commentary in the Final Report says that this group of Councils appears likely to be sustainable in their current form for several decades.

As the assessment by the Independent Review Panel identifies Mid-Western Regional Council as having sufficient Scale and Capacity, Council is therefore required to complete a Council Improvement Proposal to meet its Fit for the Future requirements. Although a Council Improvement Proposal does not require a self-assessment of Scale and Capacity, it is important that Council continues to monitor its performance in this area.

This section discusses Council's ability to demonstrate that it has sufficient Scale and Capacity to become Fit for the Future.

SCALE AND CAPACITY

Scale is a key component of strategic capacity, both in creating councils with the resources and skills to provide leadership on regional planning and to advocate on behalf of communities by creating a system where both state and local government can work together effectively.

A Fit for the Future Council with scale and capacity:

- Saves money on bureaucracy and administration, freeing up funds for front-line services and community facilities;
- Can contribute to projects and tackles issues that impact on its residents and extend beyond the council boundary; and
- Has credibility and influence across councils, government and with industry.

The Final Report of the Independent Review Panel identified a number of key elements to demonstrate strategic capacity. These elements are discussed below in terms of Mid-Western Regional Council's current position.

More Robust Revenue Base and Increased Discretionary Spending

As discussed above, Mid-Western Regional Council has been assessed as having "Sound" financial sustainability by TCorp.

Mid-Western Regional Council has worked hard to maintain a sound financial position. This has been achieved by focusing on maintaining operational efficiencies across all service areas and functions, and raising revenue to support activities. Council has a deliberate focus on ensuring that resources are allocated to important community activities and not wasted on inefficient administrative processes or unnecessary bureaucracy.

The ability to manage essential administrative activities efficiently and raise revenue has allowed Mid-Western Regional Council to invest in new infrastructure and services which meet community needs and expectations. Recent examples of Council's discretionary spending include investment in airport infrastructure and services, continued development of its commercial property portfolio, development of a premier regional sports complex and introduction of monthly movies.

Scope to Undertake New Functions and Major Projects

Mid-Western Regional Council consistently demonstrates the ability to undertake new functions and major projects in the Region. This demand is largely driven by a strong and growing local economy and population base. Council is proactive in addressing the opportunities and challenges presented, and is well resourced (both financially and with a skilled workforce) to adapt its operations as required.

Examples of new functions or major projects undertaken by Mid-Western Regional Council in the last three years include development of an Early Childhood Hub, construction of the Glen Willow Regional Sports complex and a number of major road upgrades. These major projects have required additional resourcing by Council as well as strategic planning and partnerships with relevant organisations within the community.

Council has also taken a lead role in addressing a shortage of affordable housing in the Region in recent years. This included developing an affordable housing strategy, facilitating workshops with local agencies and hosting a developer's tour to encourage additional investment in new housing.

Ability to Employ Wider Range of Skilled Staff

Mid-Western Regional Council employs a broad range of highly skilled professional staff. This includes a workforce with expertise in planning, financial management, economic development, engineering, community services, communications, human resources and administration.

Overall, the Region is a very desirable and liveable place to work and raise a family, which makes it more attractive to new residents who are considering relocating to the Region to take up local employment and business opportunities.

Council does acknowledge that there are some challenges faced in attracting and maintaining a skilled workforce, particularly in specialty areas (such as Health and Building and ICT technical specialists) or where there is direct competition for skills from the resource sector. The relatively high cost of housing compared to other regional is also another challenge for the local workforce.

Knowledge, Creativity and Innovation

Mid-Western Regional Council has a strong track record of high performance, which resulted in Council being awarded the 2013 AR Bluett Award for Local Government. Council consistently punches above its weight in providing creative and innovative solutions to manage the many opportunities and challenges across the Region.

A recent example of Council's proactive and innovative approach was the investment made in regional aviation. The region has been without a regular air service for almost 18 months and worked extremely hard to identify a new service provider on the Mudgee to Sydney route. This service was successfully launched on 11 June 2015 and Council's initiative in securing the service has been well recognised by other regions and other levels of government.

Advanced Skills in Strategic Planning and Policy Development

The ability to respond quickly and effectively to changes in the community has been consistently demonstrated by Mid-Western Regional Council. This was most recently tested through the rapid expansion of major coal mining projects in the Region. The cumulative impact of these projects had impacts in a number of areas including affordable housing, competing land uses, difficulties accessing health and education facilities etc.

Mid-Western Regional Council's strategic planning and policy development, including its ability to prioritise and manage the various issues, has helped alleviate these pressures and placed the Region in a much stronger position to deal with the same or similar issues if they arise again in the future.

Mid-Western Regional Council has implemented the Integrated Planning and Reporting framework across the organisation and within the community. Council continues to pursue opportunities for ongoing business improvement and productivity gains. A recent example has been Council's recognition for improved integration of its Asset Management Plans with its Long Term Financial Plan.

Effective Regional Collaboration

Mid-Western Regional Council actively contributes to regional projects and tackles issues that impact not just local residents but extend beyond Council boundaries.

Council representatives regularly participate in a broad range of regional initiatives, groups and taskforces which contribute to the overall wellbeing of regional communities. Examples include: RDA Orana, Mining and Resource Development Taskforce, CENTROC, Central NSW Tourism.

Credibility for More Effective Advocacy

Mid-Western Regional Council has established a strong reputation for working with external stakeholders to shape and promote the key activities of local government. In the local community, the leadership and support of Council is regularly sought to highlight local issues with industry leaders or other levels of government. Council plays an effective advocacy role and is generally well respected by industry and other levels of government for presenting issues in an unbiased manner and with practical solutions, where this is possible.

Council regularly responds to government requests for feedback or submissions on policy and regulatory matters which impact regional communities. The submissions by Council are considered credible and influential because they draw upon the significant experience of Council on the relevant matter and demonstrate a thorough and comprehensive understanding of the subject/policy area.

Examples of Council's recent lobbying and advocacy efforts include securing funding for the development of a Gulgong MPS, achieving sign-off for the Ulan Road Strategy by government and private sector parties, and presenting the challenges faced in regional aviation at the NSW Parliamentary Inquiry into Regional Aviation.

Capable Partner for State and Federal Agencies

Mid-Western Regional Council has a strong track record of delivering projects in partnership with State and Federal Agencies. Council has skilled staff and effective project management procedures which mean that partner projects are completed on time and within budget. Given Council's strong track record in this area, it continues to be a capable partner for RMS contracts, Restart NSW projects and regional directors of relevant government departments and agencies.

Resources to Cope with Complex and Unexpected Change

As discussed above, Mid-Western Regional Council has demonstrated its flexibility and adaptability to deal with the cumulative impacts of the rapid growth in major coal mining projects in the Region. This has included not only reallocating resources to cope with complex and unexpected changes in local economic and social conditions, but also in building capacity and resources to be better equipped to accommodate growth and change in the future.

High Quality Political and Managerial Leadership

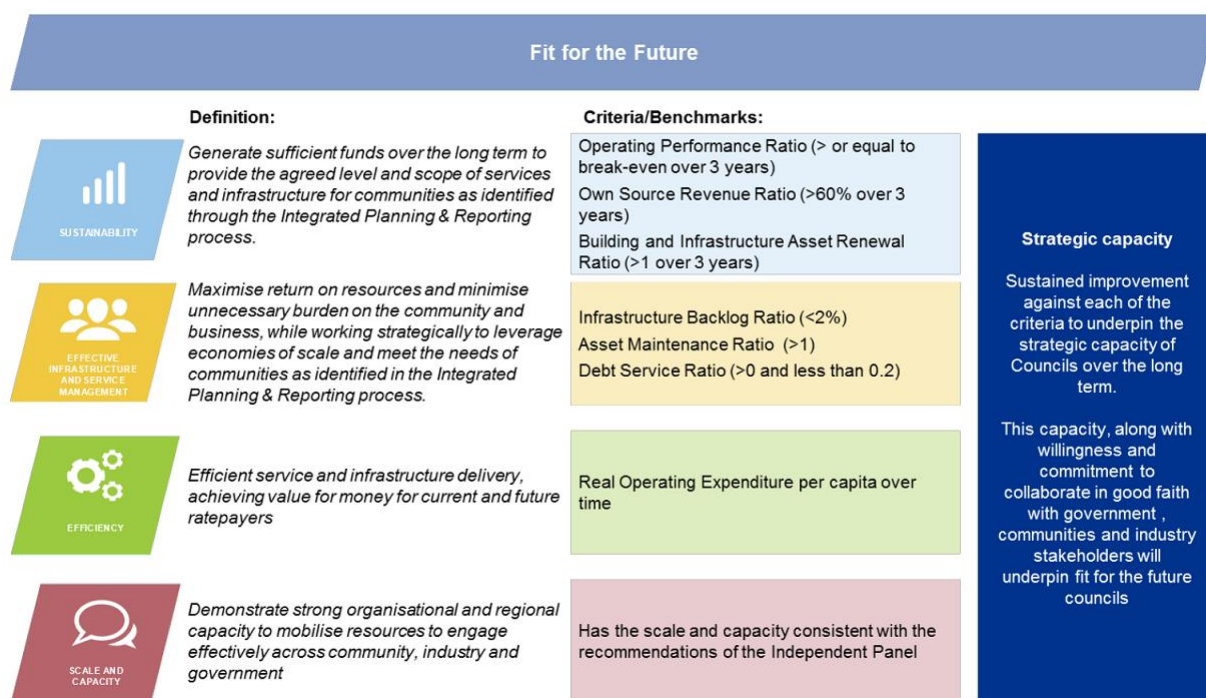
As discussed above, Mid-Western Regional Council was the winner of the 2013 AR Bluett Award for Local Government. Council has also received a number of other major awards including 2011 National Local Government Award for Excellence in Local Government, 2009 Australasian Champions for the Local Government Management Challenge and 2009 Young Manager of the Year. These rewards recognise the high quality political and managerial leadership in place and the continued efforts by Council to demonstrate strong leadership in local government.

FIT FOR THE FUTURE BENCHMARKS

The Office of Local Government has released A Roadmap for Stronger Smarter Councils, which includes criteria and benchmarks expected for a Fit for the Future council.

The following diagram provides an overview of the framework that will be used for each Council to perform a self-assessment as to whether it is Fit for the Future.

Diagram 4: Fit for the Future Criteria



The objective of the first step of the self-assessment process is to identify the key drivers of Council's current position and assess the gap areas against the Fit for the Future benchmarks.

The second step involves preparation of a Council Improvement Proposal. This requires Council to identify the key strategies it will use to improve its current position and actions that it will implement in the future to move towards the benchmarks provided.

3.4 Performance Against Fit for Future Benchmarks

This section establishes Mid-Western Regional Council's current position and where Council's future performance is forecast to be if nothing changes, against the three Fit for the Future Benchmarks. A review of Council's current and forecast position will assist in identifying potential areas for improvement in the future.

It is important to note that all of the Fit for the Future benchmarks have been calculated based on the current adopted budget and forecasts for the 2015/16 year and beyond. As Council will only complete its 2015/16 budgeting process mid-late in June, there may be minor changes to some of the data presented below. Whilst some changes will be expected, they are not expected to have a material impact on the ratios calculated. The underlying trends will not be impacted.

SUSTAINABILITY

A key message in the Fit for the Future documentation is that for councils to meet the service and infrastructure needs of their communities they need to be financially sustainable.

The NSW Treasury Corporation defined a financially sustainable council as one that, over the long term, is able to generate sufficient funds to provide the level and scope of services and infrastructure, agreed with its community, through the Integrated Planning & Reporting process.

The following tables summarises Mid-Western Regional Council's 2013/14 performance assessed against the sustainability benchmarks and the forecast performance for the 2019/20 year.

Table 3: Performance Against Sustainability Benchmarks

| Measure/Benchmark | Target | 2013/2014 Performance | Achieves FFTF Benchmark? | 2019/2020 Performance | Achieves FFTF Benchmark? |
|----------------------------|--------|-----------------------|--------------------------|-----------------------|--------------------------|
| Operating Performance | ≥ 0.00 | -3.9% | ✗ | -1.9% | ✗ |
| Own Source Revenue | ≥ 60% | 58% | ✗ | 63% | ✓ |
| Building and Asset Renewal | ≥ 100% | 87% | ✗ | 118% | ✓ |

The self-assessment calculations show that in the 2013/14 year, Council did not meet the sustainability benchmarks. Based on Council's forecast performance, Council will meet both the Own Source Revenue and Building and Asset Renewal benchmarks in 2019/20, and will be very close to satisfying the Operating Performance benchmark which improves from -3.9% in 2013/14 to -1.9% in 2019/20.

A more detailed examination and discussion of Council's current performance against each of the Fit for Future sustainability benchmarks is provided below.

Operating Performance Ratio

The benchmark measure is for an Operating Performance Ratio greater than or equal to break-even average over 3 years. The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years for the General Fund only.

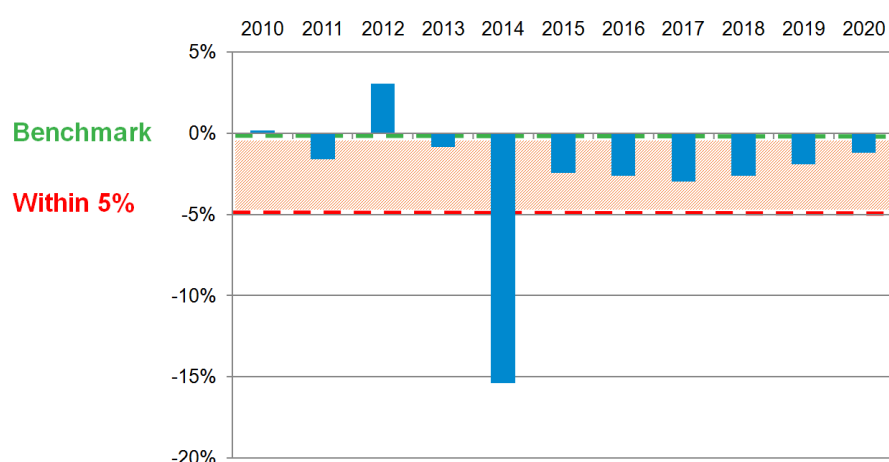
The Operating Performance Ratio has been calculated as:

$$\frac{\text{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses (A)}}{\text{Total continuing operating revenue (exc. capital grants and contributions)(B)}}$$

Table 4: Operating Performance Ratio: Actual and Forecast

| Operating Performance Ratio | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|----------|----------|----------|----------|----------|
| A | (5,318) | (1,327) | (1,200) | (895) | (581) |
| B | 34,601 | 44,876 | 46,179 | 47,333 | 48,517 |
| Target | ≥ 0.000 | ≥ 0.000 | ≥ 0.000 | ≥ 0.000 | ≥ 0.000 |
| Actual | (0.154) | (0.030) | (0.026) | (0.019) | (0.012) |
| 3 Year Average - FFTF assessment | -3.9% | -2.7% | -2.7% | -2.5% | -1.9% |
| Achieves FFTF Benchmark | x | x | x | x | x |

The diagram below shows that although Council does not currently meet this benchmark based on both historical and forecast information, Council's performance for this indicator is within 5% of the target. Council is very close to achieving this benchmark and recognises that ongoing deficits are unsustainable. If Council's depreciation expenses are overstated by just 10%, Council would meet this benchmark. The expectation is that a deliberate focus on managing the various drivers will ensure that this sustainability benchmark is achieved in the future.

Diagram 5: Annual Operating Performance Ratio – Current Position

The key drivers of this result are:

- Council's overall operating performance continues to remain relatively stable which demonstrates an already sound framework for raising revenue and managing expenses;
- Council has a history of managing its operating expenses closely and operating within its financial means, which has consistently resulted in an (almost) break even financial position;
- Depreciation is the second largest expense item for Council (averaging \$13.7 million per annum over the last 5 years, including water and sewer). This is a significant item which accounts for around one third of Council's total expenses. As Council does not have a consistent depreciation methodology or a high level of confidence in its existing asset data, there has been some volatility in the actual amount of depreciation in individual years, which has made it difficult to manage the overall financial position. As discussed above, if Council's depreciation expense is overstated by just 10%, Council meets this benchmark;

- Employee costs are the largest expense item for Council. Council has operated with a relatively lean workforce historically, which has resulted in only minimal increases in employee costs in the last 5 years. Whilst this has had positive impacts on operating performance, it has also contributed to additional overtime costs at times with insufficient labour resources available to complete various projects. It has also meant that limited time has been devoted to continuous business improvement and operational reviews; and
- Council has developed a strong commercial property portfolio in the last 5 years as an alternative revenue source. Whilst Council does have some borrowing costs associated with its property portfolio, these costs are relatively short term which provides a significant ongoing income stream for Council with long term lease arrangements in place.

It is important to note that the 2013/14 year is an anomaly. This was due to a change in the timing of payments of Financial Assistance Grants, which meant Council only received half of its FAG instalment in this year.

Own Source Revenue

The benchmark measure is for Own Source Revenue greater than 60% average over 3 years. The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years.

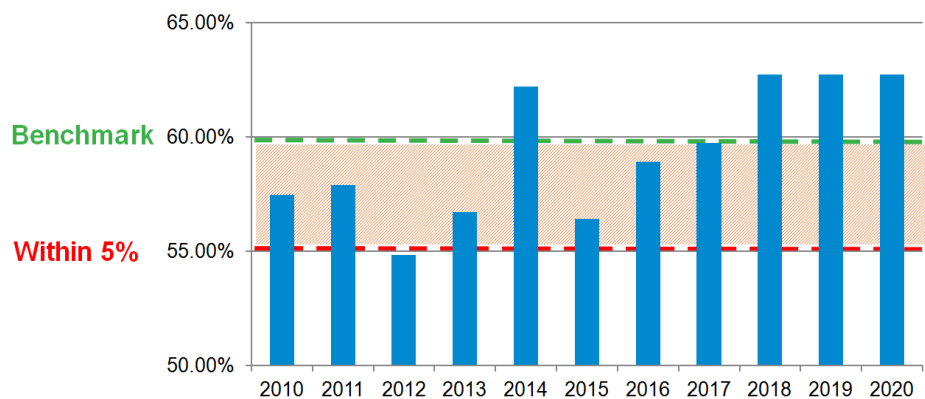
The Own Source Revenue Ratio has been calculated as:

$$\frac{\text{Total continuing operating revenue less all grants and contributions (A)}}{\text{Total continuing operating revenue including all grants and contributions (B)}}$$

Table 5: Own Source Revenue Ratio: Actual and Forecast

| Own Source Revenue Ratio | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|----------|----------|----------|----------|----------|
| A | 25,715 | 33,092 | 34,321 | 35,179 | 36,059 |
| B | 41,337 | 55,400 | 54,705 | 56,073 | 57,474 |
| Target | ≥ 60% | ≥ 60% | ≥ 60% | ≥ 60% | ≥ 60% |
| Actual | 62% | 60% | 63% | 63% | 63% |
| 3 Year Average - FFTF assessment | 58% | 58% | 60% | 62% | 63% |
| Achieves FFTF Benchmark | x | x | ✓ | ✓ | ✓ |

The diagram below shows that although Council does not currently meet this benchmark based on both historical and current information, Council's performance for this indicator is within 5% of the target (ie. 58% when 3 year averages are applied). Council's forecasts show that Council is expected to meet this benchmark in the 2017/18 and subsequent years.

Diagram 6: Annual Own Source Revenue Ratio – Current Position

The key drivers of this result are:

- Council has been relatively proactive in identifying additional sources of revenue (ie. own source revenue) to provide security and flexibility in its overall operations and activities. This includes developing a strong commercial property portfolio and identifying opportunities to introduce new fees and charges; and
- Council has had a successful track record of attracting both capital and operational grants. This is largely due to the quality of its applications and being able to demonstrate clear links between community strategic priorities and the grants available. It has also been due to Council's outstanding performance in managing and delivering grant funded projects and activities. Council is consistently recognised by grant funding bodies for its strong results in this area.

It is important to note that given Council's strong track record in obtaining competitive grants that this ratio will always be exposed to a degree of volatility. For example, Council has recently been advised that it has been successful in applying for an additional \$17.3 million for various grant funded capital projects in the future. Once the funding agreements are in place, this will dilute Council's future performance against this benchmark.

Council will continue to pursue grant funding, as it enables us to deliver new and upgraded infrastructure at a minimal cost to ratepayers. The volatility in this ratio will vary depending over time based on the competitive grant programs being run by the State and Federal Governments.

Council is very clear with the local community that if tied funding programs are reduced or cancelled (for example community service programs), that the relevant service will either need to be cut or an alternative revenue stream identified.

Building and Infrastructure Asset Renewal

The benchmark measure is for a Building and Infrastructure Asset Renewal Ratio greater than 100% average over 3 years. The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years.

The Building and Infrastructure Asset Renewal Ratio has been calculated as:

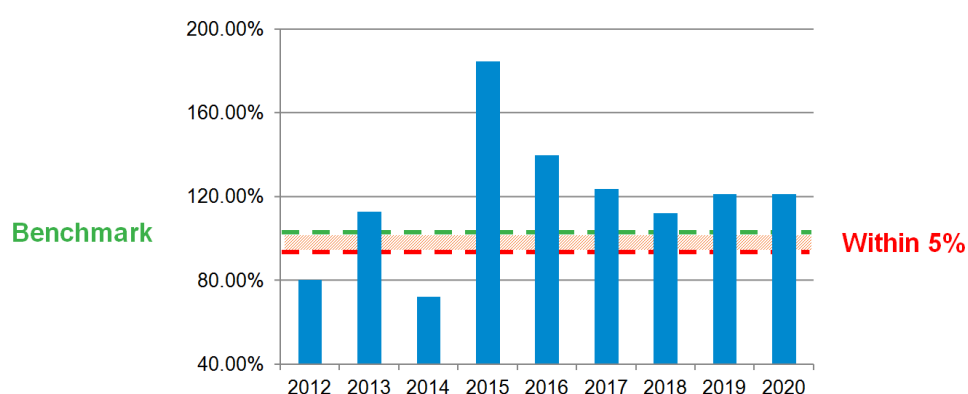
$$\frac{\text{Asset renewals (buildings and infrastructure)(A)}}{\text{Depreciation, amortisation and impairment (buildings and infrastructure)(B)}}$$

Table 6: Building & Infrastructure Asset Renewal Ratio: Actual and Forecast

| Building & Infrastructure Asset Renewal | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|----------|----------|----------|----------|----------|
| A | 7,126 | 13,274 | 12,391 | 13,383 | 13,383 |
| B | 9,854 | 10,740 | 11,043 | 11,043 | 11,043 |
| Target | > 100% | > 100% | > 100% | > 100% | > 100% |
| Actual | 72% | 124% | 112% | 121% | 121% |
| 3 Year Average - FFTF assessment | 87% | 148% | 125% | 119% | 118% |
| Achieves FFTF Benchmark | x | ✓ | ✓ | ✓ | ✓ |

The diagram below shows that Council is in a strong position to achieve and maintain its performance against this benchmark. Although the 2013/14 assessment is slightly below the required benchmark (ie. 87%), Council has previously recognised its performance in this area and has already implemented measures which will ensure that it is achieved in the future. Based on Council's current forecasts, the 100% benchmark will be consistently achieved each year from 2014/15 onwards.

Diagram 7: Annual Building & Infrastructure Asset Renewal Ratio – Current Position



The key drivers of this result are:

- A lack of consistency in Council's approach to managing its asset base and applying depreciation methodology has resulted in volatility in this benchmark historically. Council has already recognised that this is an area that needs attention and has committed resources to reviewing asset management systems and processes in 2014/15 and ongoing;
- Volatility in this indicator is also a reflection of the impact of depreciation. Renewal expenditure needs are typically lumpy (ie. they do not occur at the same rate in each year) and the use of straight line depreciation methods distorts the relative indicators;
- A further weakness in this area is that in the absence of a consistent local government standard for calculating these indicators, the interpretation of what constitutes a renewal is subjective, especially when different staff or departments are involved in preparing the data; and
- As discussed previously, Council has a successful track record of obtaining competitive grant funding. Council's projected results include grants from the Blackspot Funding program and the Resources for Regions program, which allows additional resources to be allocated to Asset and Building Infrastructure Renewal. Although significant grants have a negative impact on the Own Source Revenue Ratio, it has a positive impact on Council's Asset and Building Infrastructure Renewal Ratio.

INFRASTRUCTURE AND SERVICE MANAGEMENT

A key message in the Fit for the Future documentation is that councils must be able to demonstrate that they are maximising returns on resources and minimising unnecessary burdens on their community and businesses in delivering infrastructure and services.

A Fit for the Future Council will apply a strategic approach to delivering the infrastructure and services identified by the community in the Integrated Planning & Reporting process and leverage opportunities to improve productivity or increase economies of scale.

The following tables summarises Mid-Western Regional Council's 2013/14 performance assessed against the infrastructure and service management benchmarks and the forecast performance for the 2019/20 year.

Table 7: Performance Against Infrastructure & Service Management Benchmarks

| Measure/Benchmark | Target | 2013/2014 Performance | Achieves FFTF Benchmark? | 2019/2020 Performance | Achieves FFTF Benchmark? |
|------------------------------|-------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| Infrastructure Backlog Ratio | < 2.0% | 12% | ✗ | 8% | ✗ |
| Asset Maintenance Ratio | > 100% | 87% | ✗ | 84% | ✗ |
| Debt to Service Ratio | > 0%, < 20% | 4% | ✓ | 3% | ✓ |

The self-assessment calculations show that in the 2013/14 year, Council met 1 out of 3 of the infrastructure and service management benchmarks. Council meets the Debt to Service Ratio benchmark, but does not currently meet the Infrastructure Backlog Ratio or Asset Maintenance Ratio benchmarks. A similar performance against these benchmarks is forecast for the 2019/20 year.

A more detailed examination and discussion of Council's current performance against each of the Fit for the Future infrastructure and service management benchmarks is provided below.

Infrastructure Backlog Ratio

The benchmark measure is for an Infrastructure Backlog Ratio that does not exceed 2.0% averaged over 3 years. The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years.

The Infrastructure Backlog Ratio has been calculated as:

$$\frac{\text{Estimated costs to bring assets to a satisfactory condition (A)}}{\text{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets (B)}}$$

It is important to note that given there is low confidence in the reliability of Council's current asset management data, the forecasts are an estimate only. It is expected that improvements in the quality of asset management data will conservatively reduce the estimated costs to bring assets to a satisfactory condition by at least 10%.

Based on Council's current initiative to improve its asset management data and further refinement of the methodology used to calculate this ratio, it can be realistically assumed that the 2013/14 Infrastructure Backlog Ratio is overstated by 10%. This means that 20% of Council's annual "renewal" expenditure could be redirected to addressing the infrastructure backlog. This has the effect of reducing Council's infrastructure backlog from a 3 year average of 12% in 2013/14 down to 8% in 2019/20.

Table 8: Infrastructure Backlog Ratio: Actual and Forecast

| Infrastructure Backlog Result | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|----------|----------|----------|----------|----------|
| <i>A</i> | 40,426 | 27,149 | 24,670 | 21,994 | 19,317 |
| <i>B</i> | 288,407 | 288,407 | 288,407 | 288,407 | 288,407 |
| Target | < 2.0% | < 2.0% | < 2.0% | < 2.0% | < 2.0% |
| Actual | 14% | 9% | 9% | 8% | 7% |
| 3 Year Average - FFTF assessment | 12% | 10% | 9% | 9% | 8% |
| Achieves FFTF Benchmark | x | x | x | x | x |

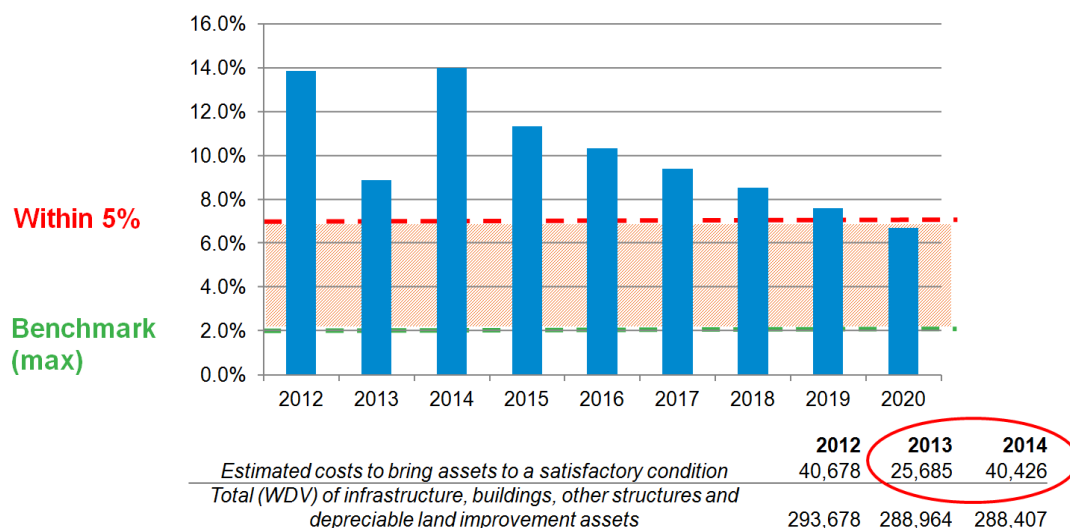
Further sensitivity analysis shows that if Council's Fair Value/Current Replacement Cost is used in the denominator (which is generally accepted as being a more appropriate calculation) and based on the assumptions above, Council's 3 year average Infrastructure Backlog Ratio would reduce to 8% in 2013/14 and 5% in 2019/20. This would mean that more than 95% of Council's assets are in a satisfactory or better condition which is a very positive result.

There is sufficient evidence to support the above sensitivity analysis, including:

- Council's asset condition assessments versus the age profile of assets, shows a significant over-depreciation trend historically. This has been recognised as an industry wide issue; and
- Costs to bring assets to satisfactory are generally assessed by Council engineers. This is typically taken as the cost to restore the asset to an "as new" condition. This grossly overstates the estimated cost to bring to satisfactory, and doesn't reflect community expectations or Council's likely course of action when faced with competing priorities for resources.

The diagram below shows that Council does not currently meet this benchmark based on both historical and forecast information. With an average infrastructure backlog ratio of 12% in the last 3 years, it is clear that this is an area for improvement and that Council's current position does not even fall within 5% of the target indicator.

Diagram 8: Annual Infrastructure Backlog Ratio – Current Position



The key drivers of this result are:

- Council has a large asset base, covering almost 9,000 square kilometres. This is the legacy of two previous amalgamations which means that Council has not only inherited duplicate (or triplicate) assets but it has also inherited a range of assets in varying conditions (or states of deterioration);
- Whilst Council does a commendable job in completing its annual works program, the ability to address its infrastructure backlog has been significantly impacted by the sheer number of legacy assets in multiple towns and therefore, Council has only addressed backlog issues on a piecemeal basis (ie. as it can be afforded);
- This ratio is impacted by the highly subjective nature of the data inputs that are used to perform these calculations. At the local government level there are significantly different views on what an assets condition is and the work that is required to bring it up to satisfactory. Likewise, there are varying interpretations of what is satisfactory. This is demonstrated in the above diagram where the estimated costs to bring assets to a satisfactory condition have varied significantly in individual years; and
- Council has recognised that its current asset management systems and procedures are inadequate and need to be improved so that accurate and reliable data can be used to not only monitor but improve Council's performance in this area.

Asset Maintenance Ratio

The benchmark measure is for an Asset Maintenance Ratio of greater than 100% average over 3 years. The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years.

The Asset Maintenance Ratio has been calculated as:

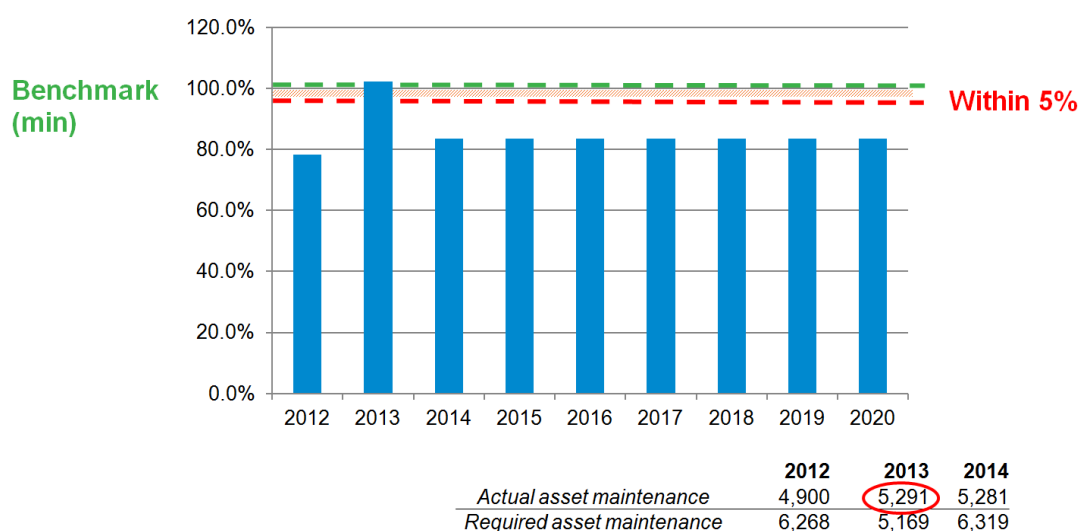
$$\frac{\text{Actual asset maintenance (A)}}{\text{Required asset maintenance (B)}}$$

Table 9: Asset Maintenance Ratio: Actual and Forecast (\$'000's)

| Asset Maintenance Ratio | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|----------|----------|----------|----------|----------|
| A | 5,281 | 5,687 | 5,829 | 5,975 | 6,124 |
| B | 6,319 | 6,805 | 6,975 | 7,149 | 7,328 |
| Target | ≥ 100% | ≥ 100% | ≥ 100% | ≥ 100% | ≥ 100% |
| Actual | 84% | 84% | 84% | 84% | 84% |
| 3 Year Average - FFTF assessment | 87% | 84% | 84% | 84% | 84% |
| Achieves FFTF Benchmark | x | x | x | x | x |

The diagram below shows that Council does not currently meet this benchmark based on both historical and forecast information. With an average asset maintenance ratio of 87% in the last 3 years, and as with the previous indicator, it is clear that this is an area for improvement.

Diagram 9: Annual Asset Maintenance Ratio – Current Position



The key drivers of this result are:

- Similar to the Infrastructure Backlog ratio above, this ratio is also impacted by subjective definitions and application of inconsistent methodology to produce relevant data. The diagram shows the impact of these differences in calculating the ratio from year to year;
- The impact of Council having a large asset base and inherited assets is also an important factor in driving historical results; and

- The sheer extent of Council's unsealed road network is a major driver of this result. With responsibility for a significant unsealed road network, which is seriously exposed to external factors such as weather, it represents Council's biggest funding gap. Further community engagement is required in this area to set realistic service levels and obtain an indication of the community's willingness to pay for the maintenance of these unsealed roads.

A further challenge for Council in assessing its asset maintenance requirements is that Council's existing General Ledger structure does not enable asset maintenance to be readily separated out from asset operations. This limitation has been recognised and the ability to dissect data in this manner will be incorporated into future asset management plans.

Debt Service Ratio

The benchmark measure is for a Debt Service Ratio between 0% and 20% average over 3 years. The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years.

The Debt Service Ratio has been calculated as:

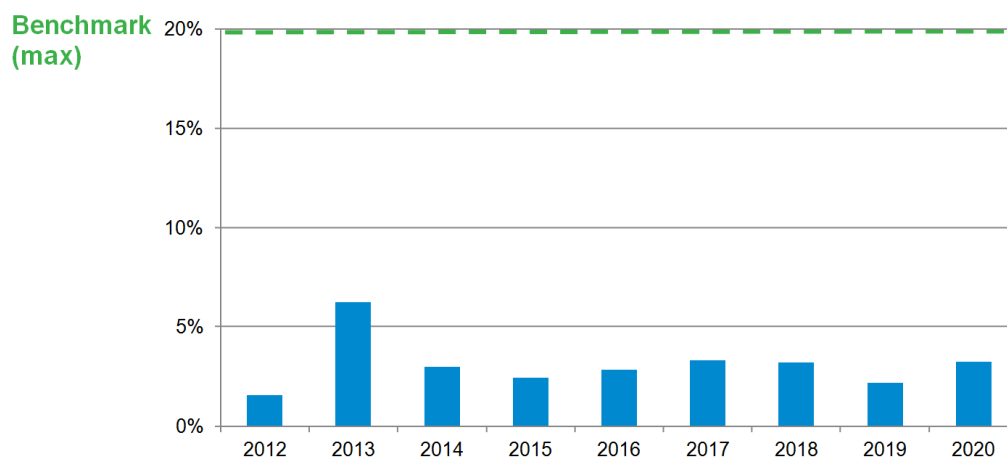
$$\frac{\text{Cost of debt service (interest expense plus principal repayments) (A)}}{\text{Total continuing operating revenue (excl. capital grants \& contributions) (B)}}$$

Table 10: Debt Service Ratio: Actual and Forecast (\$'000's)

| Debt Service Ratio | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| A | 1,041 | 1,490 | 1,482 | 1,046 | 1,583 |
| B | 34,601 | 44,876 | 46,179 | 47,333 | 48,517 |
| Target | >0%, <20% | >0%, <20% | >0%, <20% | >0%, <20% | >0%, <20% |
| Actual | 3% | 3% | 3% | 2% | 3% |
| 3 Year Average - FFTF assessment | 4% | 3% | 3% | 3% | 3% |
| Achieves FFTF Benchmark | ✓ | ✓ | ✓ | ✓ | ✓ |

The diagram below shows that both historically and in the future, Council lies within the benchmark for this indicator. With a Debt to Service ratio of 3%, it shows that Council does have the flexibility of being able to utilise debt for appropriate purposes.

Diagram 10: Annual Debt to Service Ratio – Current Position



The key drivers of this result are:

- Council has utilised its borrowing capacity in the past to deliver some priority projects. A recent example was the borrowing of funds to complete the major renovation of an existing building so that it could attract a long term commercial tenant; and
- Whilst Council does have sufficient borrowing capacity and is well placed to utilise this debt if and as required, Council is mindful of the impact that a significant increase in borrowings would have on its overall operating performance. Any loan undertakings are considered carefully to ensure that Council can afford the financial commitments (both interest expense and principal repayments). It is generally preferable that any loan funded projects have the revenue capacity to cover borrowing costs.

EFFICIENCY

A key message in the Fit for the Future documentation is that councils should seek to provide services and deliver infrastructure in a manner which provides value for money for current and future members of the community.

A Fit for the Future Council will demonstrate the efficient delivery of infrastructure and services as identified by the community in the Integrated Planning & Reporting process. This will include establishing and satisfying service level expectations which are within Council's capacity to deliver.

The following tables summarises Mid-Western Regional Council's 2013/14 performance assessed against the efficiency benchmark and the forecast performance for the 2019/20 year.

Table 11: Performance Against Efficiency Benchmark

| Measure/Benchmark | Target | 2013/2014 Performance | Achieves FFTF Benchmark? | 2019/2020 Performance | Achieves FFTF Benchmark? |
|----------------------------|-----------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| Real Operating Expenditure | Decrease each year | -1.0% | ✓ | -3.0% | ✓ |

The self-assessment calculations show that in the 2013/14 year, Council met the efficiency benchmark, with a reduction in real operating expenditure per capita of 1.0%. The forecast for the 2019/20 year is a reduction in real operating expenditure of 3.0%.

A more detailed examination and discussion of Council's current performance against the Fit for the Future efficiency benchmark is provided below.

Real Operating Expenditure Ratio

The benchmark measure is for a decrease in real operating expenditure per capita over time (ie. a negative Real Operating Expenditure Ratio). The following table shows the calculation of this ratio for the 2013/14 year as well as the forecast result for the 2016/17 to 2019/20 years.

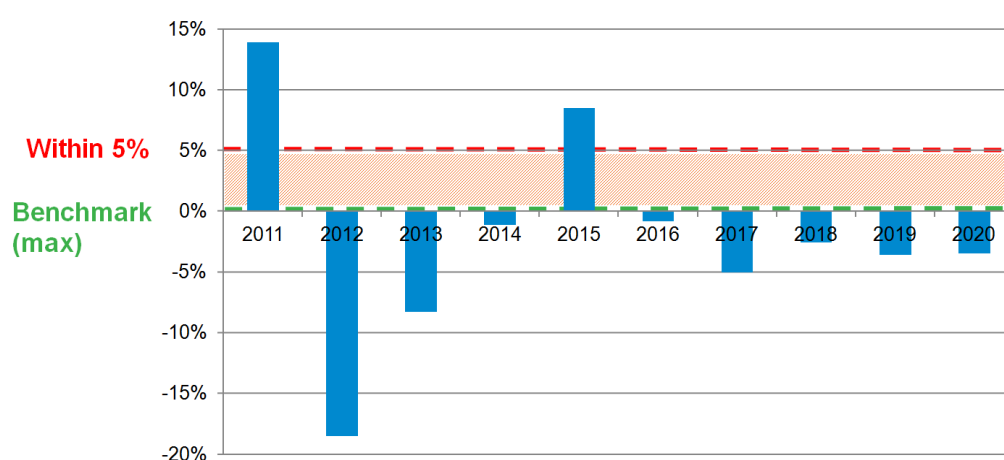
The Real Operating Expenditure Ratio has been calculated as:

$$\frac{\text{Operating Expense}}{\text{Population}}$$

Table 12: Real Operating Expenditure Ratio: Actual and Forecast (\$'000's)

| Real Operating Expenditure per capita | 2013/14 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---------------------------------------|---------|---------|---------|---------|---------|
| A | 34,137 | 36,658 | 36,651 | 36,376 | 36,106 |
| B | 23,843 | 25,154 | 25,607 | 26,068 | 26,537 |
| Target | < 0% | < 0% | < 0% | < 0% | < 0% |
| Actual | -1% | -5% | -3% | -4% | -3% |
| Achieves FFTF Benchmark | ✓ | ✓ | ✓ | ✓ | ✓ |

The diagram below shows that Council meets this benchmark in the majority of years (both historically and forecast). Council is expected to continue to achieve this benchmark in the future with a concerted focus on continuous business improvement and increased economies of scale.

Diagram 11: Annual Real Operating Expenditure Ratio – Current Position

The key drivers of this result are:

- As discussed above, Council manages its operating expenses carefully and regularly reports upon performance against budgets. Not only does this ensure that Council's operating expenses are contained, but it also provides opportunities to identify potential cost savings and increase economies of scale;
- Council has sound contract management and tender processes in place, which helps manage major project costs, reduce administrative duplication and ensures Council receives value for money from its contractors; and
- A growing population has contributed to achievement of this ratio. The Region has experienced strong population growth in recent years and with a strong and diverse local economy, this trend is expected to continue.

3.5 Water Utility Performance

This section considers Mid-Western Regional Council's water utility performance. Whilst not all councils have direct responsibility for water supply and sewerage management, Council is responsible for these facilities across the Region.

NSW GOVT BEST PRACTICE MANAGEMENT

Council does not currently achieve the requirements of the NSW Government Best Practice management of Water Supply and Sewerage Framework.

The key elements of the framework and Council's performance against these elements of the framework are discussed below:

Integrated Water Cycle Management

- Council has submitted a draft Integrated Water Cycle Management evaluation study to the NSW Office of Water for review. This is a necessary step that needs to be completed prior to Council being able to move on to the development of an Integrated Water Cycle Management Strategy; and
- Upon receiving feedback from the NSW Office of Water, Council will be able to proceed with the development of a strategy which meets the best practice framework.

Water Conservation

- Water Conservation will form an integral component of Council's Integrated Water Cycle Management Strategy; and
- As discussed above, the development of this strategy will be conducted upon receipt of feedback from the NSW Office of Water regarding the draft evaluation study.

Strategic Business Planning

- A 20-30 Year Strategic Business Plan is a key element of the best practice framework. Council has a Strategic Business Plan which is updated every 5 years. The current plan will be reviewed and updated within the next 6-12 months; and
- Council has a Long Term Financial Plan for Water and Sewer.

Drought Management

- Council has a Drought Management Plan which forms part of the Strategic Business Plan. As discussed above, the current plan will be reviewed and updated within the next 6-12 months. Although new guidelines have been issued for drought management purposes, at this stage the NSW Office for Water has recommended using the existing plans as the basis for updates in the short term.

Pricing and Regulation of Water Supply, Sewerage and Trade Waste

- Council does need to undertake further work in this area to meet the best practice framework. This includes managing pricing for the Development Servicing Plan (DSP) and a Trade Waste Regulation Policy;

- Council's current DSP does not satisfy the benchmark for cross-subsidisation. Council's current policy position is to provide a 50% discount on the calculated DSP charges. To meet State Government Best Practice Guidelines, Council needs to eliminate any subsidies. Council is in the process of formulating updated draft DSPs, with options being recommended to Council that would result in an elimination of the 50% subsidy, but overall only a slightly increased contribution level for developers; and
- Council has a draft Trade Waste Pricing Plan for local businesses however it is yet to be approved by Council for implementation purposes. As this involves the introduction of a new charge for local businesses, the next step in progressing the development of this pricing plan is to undertake community consultation. This will occur within the next 6-12 months.

WATER AND SEWERAGE INFRASTRUCTURE BACKLOG

Council's current water and sewerage infrastructure backlog based on the 2013/14 year was \$39.127 million. This is broken down by category in the following table.

Table 13: Water and Sewer Infrastructure Backlog 2013/14 (\$'000's)

| Asset Class | Asset Category | Estimated Cost to Bring to Satisfactory Standard (\$'000s) |
|----------------------|--------------------|--|
| Water Supply Network | Dams/Weirs | 30 |
| | Reservoirs | 1,650 |
| | Pumping Station | 70 |
| | Treatment Plants | 1,653 |
| | Bores | 30 |
| | Reticulation Mains | 12,371 |
| | Mains Delivery | 5,362 |
| | Sub Total | 21,166 |
| Sewerage Network | Pumping Station | 365 |
| | Treatment Works | 470 |
| | Reticulation Mains | 16,962 |
| | Rising Mains | 164 |
| | Sub Total | 17,961 |

The largest backlogs exist in distribution infrastructure (ie. mains). The majority of the distribution network is nearing the end of its projected useful life. Council's 30 year financial plans provide for a significant increase in the amount of funding allocated to mains renewal (80% increase) from 2016/17 onwards.

SIGNIFICANT CAPITAL WORKS PROPOSED

Council has planned a 5 year \$48 million capital expenditure program across its Water Supply and Sewerage Network business units. Major projects across the next 5 financial years are provided in the following table.

Table 14: Major Capital Works for Sewer and Water Funds

| Project | Year | Amount |
|---|-----------------|------------|
| Sewer Fund | | |
| Sewer Pump Station Construction | 2018/19 | 970,000 |
| Mudgee Sewer Augmentation | 2019/20 | 3,000,000 |
| Rylstone/Kandos Sewer Augmentation | 2019/20-2020/21 | 19,000,000 |
| Charbon Sewerage | 2018/19 | 2,800,000 |
| Water Fund | | |
| Water Distribution - West Mudgee | 2018/19 | 5,320,000 |
| Mudgee Water Headworks | 2018/19 | 11,755,000 |
| Water Reservoir Gulgong Flirtation Hill | 2016/17 | 1,500,000 |

FINANCIAL POSITION

Council currently manages its water and sewerage operations on a positive basis, targeting a minimum return on assets of 2%. Both Water and Sewer Funds have sustainable 30 year long term financial plans, demonstrating stable pricing paths and targeted reduction in outstanding infrastructure backlog. The following table demonstrates this financial position over the last 3 years.

Table 15: Financial Position for Sewer and Water Funds – Last 3 Years

| Water Fund | 2013/14 | 2012/13 | 2011/12 |
|---|---------|---------|---------|
| Net Operating Result for the Year (\$'000s) | 2,169 | 1,769 | 702 |
| Net Operating Result for the Year Before Capital Grants & Contributions (\$'000s) | 884 | 450 | -485 |
| | | | |
| Sewer Fund | 2013/14 | 2012/13 | 2011/12 |
| Net Operating Result for the Year (\$'000s) | 2,338 | 4,533 | 2,076 |
| Net Operating Result for the Year Before Capital Grants & Contributions (\$'000s) | 146 | 188 | 183 |

4. Council's Improvement Plan

This section outlines Mid-Western Regional Council's proposed improvement plan to become Fit for the Future. Council's Improvement Plan has been developed based on a self-assessment of Council's current position against the three Fit for the Future benchmarks as considered in this report.

4.1 Strategies for Improvement

The purpose of this section is to identify strategies that could be implemented as part of Council's Improvement Plan.

SUSTAINABILITY

Council's strategies to meet the Fit for the Future sustainability benchmarks are discussed below.

Strategy 1: Examine Opportunities to Raise Additional Revenue

Some of the opportunities identified by Council that will be used to raise additional revenue in the future include:

- Introducing new levies and charges
- Exploring a special rate variation with the community
- Building a strong commercial property portfolio
- Implementing best practice water and sewer management
- Lobbying for the removal of regulations on relevant fees and charges
- Attracting sponsorship for sports and recreational facilities
- Increasing fees and charges to achieve full cost recovery or at least establish a benchmark subsidy level which can be reduced over time
- Providing services to other Councils or businesses

Strategy 2: Examine Opportunities to Reduce Operating Expenses

Some of the opportunities identified by Council that will be used to reduce operating expenses in the future include:

- Undertaking a detailed review of major expense items to identify potential cost savings
- Investigating flexibility within the award structure to introduce split shifts in appropriate areas to reduce unnecessary overtime costs
- Reviewing the current depreciation methodology
- Introducing an annual program of service delivery reviews
- Reviewing large contracts

- Exploring alternate service delivery models for individual services
- Linking future decisions regarding operating expenses to Fit for the Future benchmarks
- Educating community on grant funded services

INFRASTRUCTURE AND SERVICE MANAGEMENT

Council's strategies to meet the Fit for the Future infrastructure and service management benchmarks are discussed below.

Strategy 3: Improve Asset Management and Service Processes

Some of the opportunities identified by Council that will be used to improve asset management and service processes in the future include:

- Reviewing the current depreciation methodology and process
- Reviewing the current methodology and process used to determine asset condition, asset value and asset life

Strategy 4: Ensure Rational Asset Decisions Are Made

Some of the opportunities identified by Council that will be used to ensure rational asset decisions are made in the future include:

- Providing reliable asset management data
- Ensuring appropriate asset management systems are in place
- Conducting annual condition checks on key assets
- Identify obsolete assets and opportunities for asset rationalisation
- Educating the community on current service level standards with a focus on the regionalisation of assets rather than duplication of assets around the region
- Consider the full life cycle costs associated with the investment in new assets, with a focus on capital investment in existing assets

Strategy 5: Address Infrastructure Backlog

Some of the opportunities identified by Council that will be used to address its infrastructure backlog in the future include:

- Reviewing the existing infrastructure backlog to fully understand what is required and establish clear parameters for reporting an accurate backlog in the future
- Developing a program to have the backlog reduced over a defined timeframe
- Increasing spending on asset maintenance to close the gap between required and actual spending

Strategy 6: Utilise Debt as Relevant

Some of the opportunities identified by Council that will be used to utilise debt in the future include:

- Understanding the level of borrowing that can be supported and understanding the impact that borrowing has on other Fit for the Future benchmarks
- Prioritising the utilisation of debt for major infrastructure projects only
- Advocating for NSW TCorp Local Government borrowing pool

EFFICIENCY

Council's strategy to meet the Fit for the Future efficiency benchmarks is discussed below.

Strategy 7: Pursue a Continuous Business Improvement Program

Some of the opportunities identified by Council to pursue continuous business improvement in the future include:

- Identifying areas to improve productivity and efficiency
- Understanding the full cost of services in order to measure efficiency gains
- Monitoring the demographic profile of the community to meet future needs
- Ensuring active contractor management
- Strengthening corporate support systems and enhanced use of technology

4.2 Action Plan for Improvement

The purpose of this section is to provide an outline of the key action improvements that will be pursued by Council to achieve the strategies outlined above and make significant progress towards meeting the Fit for the Future benchmarks.

This detailed action plan is provided in Attachment 1.

4.3 Implementation

The purpose of this section is to discuss the implementation of the Action Plan for Improvement.

RESPONSIBILITIES

The responsibilities for implementing the strategies that will be used to improve Council's performance against the Fit for the Future benchmarks will ultimately reside with the General Manager and Executive Management Team.

Council's Corporate Development team will be responsible for ensuring that Council's Fit for the Future documentation, monitoring and reporting requirements are met.

MONITORING AND REPORTING

Council's Corporate Development team will prepare quarterly reports to monitor and report on Council's progress towards achieving the strategies outlined in the Action Plan for Improvement. This will include reporting upon the achievement of key milestones in the action plan, as well as preparing an updated financial assessment of Council's position against the Fit for the Future benchmarks.

At the end of Year 1, the Action Plan for Improvement will be revised to ensure that the strategies, milestone activities and target dates remain relevant to achieve the overall objectives of the Fit for the Future reforms.

5. Attachment – Action Plan for Improvement

| Objective 1: Examine Opportunities to Raise Additional Revenue | | | | | | |
|--|--|----------------|--|-------------|---|--|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Introduce new levies and charges | i | Investigate any areas where there is scope to introduce new levies and charges over the next 2-3 years | 2015/16 | Identify future scope to introduce new levies and charges | Nil |
| | | ii | Use investigation above to inform and undertake community engagement as part of next round of IP&R | 2016/17 | Provide opportunities for community engagement and feedback | Nil |
| | | iii | Firm up policy position on the treatment of stormwater and trade waste charges with a view to implement in 2017/18 | 2015/16 | Stormwater and trade waste charges to be implemented from July 2017 | ↑ Operating Performance Ratio ↑ Own Source Revenue |
| b | Explore a special rate variation with the community | i | Increase reliability of asset management data to inform need for a special rate variation | 2016/17 | Reliable asset management data to assist decision making | Nil |
| | | ii | Undertake community engagement on special rate variation | 2017/18 | Provide opportunities for community engagement and feedback | Nil |
| c | Build a strong commercial property portfolio | i | Investigate feasibility of further retail development at Mortimer St site | 2015/16 | Sound business case for investment | ↑ Operating Performance Ratio ↑ Own Source Revenue |
| | | ii | Develop a target list of properties for future acquisition | 2015/16 | Strategic approach to developing commercial property portfolio | Nil |
| d | Implement best practice water and sewer management | i | Update DSP targeting elimination of cross subsidies | 2015/16 | 100% cost recovery per best practice framework | ↑ Operating Performance Ratio ↑ Own Source Revenue |
| | | ii | Update Strategic Business Plan for water and sewer | 2015/16 | Busines Plan meets best practice framework | Nil |
| | | iii | Commence Integrated Water Cycle Management Strategy following feedback from Office of Water | 2015/16 | Strategy meets best practice framework | Nil |
| e | Lobby for the removal of regulations on relevant fees and charges | i | Prepare submission outlining issues and impact | 2015/16 | Effective lobbying for changes to regulation of fees and charges | Nil |
| f | Attract sponsorship for sports and recreational facilities | i | Prepare sponsorship prospectus for Glen Willow | 2015/16 | Sponsorship prospectus for Glen Willow | ↑ Operating Performance Ratio ↑ Own Source Revenue |
| | | ii | Invest in the development of Stage 2 at Glen Willow to increase the economic benefits and sponsorship potential of the venue | 2017/18 | Further development of Glen Willow Stage 2 | ↑↓ Operating Performance Ratio ↑ Own Source Revenue ↑ Debt Service Ratio ↑ Real Operating Expenditure |
| g | Increase fees and charges to achieve full cost recovery or at least establish a benchmark subsidy level which can be reduced over time | i | Identify current level of subsidisation for all services | 2015/16 | Reliable data regarding current levels of subsidisation | Nil |
| | | ii | Develop a policy position for acceptable levels of subsidisation by service | 2015/16 | Service subsidisation policy | Nil |
| | | iii | Achieve benchmark levels of subsidisation over 4 year timeframe | 2019/20 | Reduce current subsidisation levels to established benchmarks | ↑ Operating Performance Ratio ↑ Own Source Revenue |
| h | Provide services to other Councils or businesses | i | Develop list of possible services and equipment | 2015/16 | Identify scope to provide services and equipment | Nil |
| | | ii | Consider feasibility of providing services | 2016/17 | Sound business case | Nil |

| Objective 2: Examine Opportunities to Reduce Operating Expenses | | | | | | |
|---|--|----------------|--|-------------|--|--|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Undertake a detailed review of major expense items to identify potential cost savings | i | Introduce a new process to drill down into major expenses by line item | 2015/16 | Ability to identify trends and target major expense items | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| b | Investigate flexibility within the award structure to introduce split shifts in appropriate areas to reduce unnecessary overtime costs | i | Consider options and ability to introduce this within Water and Waste Water team initially | 2015/16 | Reduction in overtime costs for Water and Waste team | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| c | Review current depreciation methodology and process | i | Refine asset management data and systems | 2015/16 | Reliable asset management data and systems to assist decision making | Nil |
| | | ii | Examine alternative depreciation options and what is required to demonstrate preferred option is fair and reasonable | 2016/17 | Preferred methodology for treatment of depreciation | Nil |
| | | iii | Confirm depreciation process and educate staff | 2016/17 | Consistent treatment of depreciation costs | Nil |
| | | iv | Implement in line with fair value assessment over 5 year period | 2021/22 | Accurate assessment of depreciation costs | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio ↓ Infrastructure Backlog |
| d | Introduce an annual program of service delivery reviews | i | Prepare agreed list of services provided | 2015/16 | List of Council services | Nil |
| | | ii | Prioritise timing of service delivery reviews over next 4 years | 2015/16 | Enhanced service delivery outcomes | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| e | Review large contracts | i | Review of tendering processes and documentation | 2015/16 | Effective tendering processes and documentation | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| | | ii | Improve reporting tools for major contract expenditure | 2015/16 | Reliable data to monitor delivery of major contracts | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| | | iii | Implement a service provider management framework | 2015/16 | Effective contract management | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| f | Explore alternate service delivery models for individual services | i | Prepare agreed list of services provided | 2015/16 | List of Council services | Nil |
| | | ii | Consider potential for alternate service delivery models as part of service delivery review program | 2017/18 | Enhanced service delivery outcomes | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| g | Link future decisions regarding operating expenses to Fit for the Future benchmarks | i | Develop new section to complete on Council reports | 2015/16 | Awareness of FFTF indicators for decision making purposes | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| h | Educate community on grant funded services | i | Discuss as part of community engagement process for next round of IP&R | 2016/17 | Provide opportunities for community engagement and feedback | Nil |

| Objective 3: Improve Asset Management and Service Processes | | | | | | |
|---|---|----------------|--|-------------|--|--|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Review current depreciation methodology and process | i | Refine asset management data and systems | 2015/16 | Reliable asset management data and systems to assist decision making | Nil |
| | | ii | Examine alternative depreciation options and what is required to demonstrate preferred option is fair and reasonable | 2016/17 | Preferred methodology for treatment of depreciation | Nil |
| | | iii | Confirm depreciation process and educate staff | 2016/17 | Consistent treatment of depreciation costs | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| | | iv | Implement in line with fair value assessment over 5 year period | 2021/22 | Accurate allocation of depreciation | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| b | Review current asset management methodology and process used to determine asset condition, asset value and asset life | i | Review current process and identify areas for improvement | 2015/16 | Effective asset management | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | ii | Increase confidence levels and reliability of asset management data | 2017/18 | Accurate asset management data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | iii | Link asset management decisions to community satisfaction levels and expectations | 2018/19 | Deliver services and infrastructure which meets community expectations | ↓ Infrastructure Backlog |

| Objective 4: Ensure Rational Asset Decisions Are Made | | | | | | |
|---|--|----------------|---|-------------|--|--|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Provide reliable asset management data | i | Increase confidence levels and reliability of asset management data | 2017/18 | Reliable asset management data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | ii | Ensure training is provided to relevant staff | 2017/18 | Consistent asset management practices | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| b | Ensure appropriate asset management systems are in place | i | Review current systems and identify areas for improvement | 2015/16 | Effective asset management | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | ii | Ensure training is provided to relevant staff | 2015/16 | Consistent asset management practices | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| c | Conduct annual condition checks on key assets | i | Define list of assets to be reviewed on an annual basis, ensuring major categories of assets are covered over 5 years | 2015/16 | Schedule of condition checks for major asset categories | Nil |
| | | ii | Develop framework for assessing asset conditions, with a focus on making assessments as objective as possible | 2016/17 | Preferred methodology for conducting annual condition checks | Nil |
| | | iii | Ensure training is provided to relevant staff | 2016/17 | Consistent annual condition check practices | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | iv | Implement annual condition checks | 2016/17 | Accurate asset condition data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| d | Identify obsolete assets and opportunities for asset rationalisation | i | Prepare list of all Council assets that may be considered surplus to requirements, starting with land and buildings | 2016/17 | Identify future scope to dispose of unused or duplicate land and building assets | Nil |
| | | ii | Identify land and buildings which are not used at all and/or have no future use | 2016/17 | Identify unused assets | Nil |
| | | iii | Identify land and buildings which can be rationalised | 2016/17 | Identify duplicate assets | Nil |
| | | iv | Develop a strategy for disposing of assets over a 5 year time period | 2017/18 | Asset rationalisation strategy | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| e | Educate community on current service level standards with a focus on the regionalisation of assets rather than duplication of assets around the region | i | Discuss as part of community engagement process for next round of IP&R | 2016/17 | Provide opportunities for community engagement and feedback | Nil |
| f | Consider the full life cycle costs associated with the investment in new assets, with a focus on capital investment in existing assets | i | Develop process/guideline for new asset investment | 2016/17 | Sound business case for investment | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |

| Objective 5: Address Infrastructure Backlog | | | | | | |
|---|--|----------------|---|-------------|---|---|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Review existing infrastructure backlog to fully understand what is required and establish clear parameters for reporting an accurate backlog in the future | i | Align activities to OLG planned changes to Special Schedule 7 | 2017/18 | Accurate infrastructure backlog data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| b | Develop a program to have the backlog reduced over a defined timeframe | i | Develop strategy to address backlog in next 10 years, prioritising areas to be addressed | 2017/18 | Strategy to address backlog | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| c | Increase spend on asset maintenance to close gap between required and actual spending | i | Increase confidence and reliability of data to identify actual and required expenditure | 2017/18 | Accurate asset maintenance data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | ii | Review general ledger and the capture of asset data to improve identification of operational vs maintenance costs | 2017/18 | Accurate asset maintenance data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | iii | Improve understanding of remaining useful life of assets and spending required to achieve this life | 2017/18 | Accurate asset maintenance data | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |
| | | iv | Identify options for funding to start closing infrastructure gap based on satisfaction levels of community | 2017/18 | Strategy to close asset maintenance gap | ↓ Infrastructure Backlog ↑ Asset Maintenance Ratio |

| Objective 6: Utilise Debt as Relevant | | | | | | |
|---------------------------------------|--|----------------|---|-------------|--|---|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Understand level of borrowing that can be supported and impact that borrowing has on FFTF benchmarks | i | Conduct analysis around borrowing capacity | 2015/16 | Demonstrate capacity to take on additional debt | Nil |
| | | ii | Investigate options to refinance existing borrowings | 2015/16 | Reduce current debt repayments | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| b | Prioritise utilisation of debt for major infrastructure projects only | i | Review borrowing policy | 2015/16 | Borrowing policy defining appropriate use of debt | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| c | Advocate for NSW Tcorp Local Government borrowing pool | i | Prepare submission supporting proposal and outlining benefits | 2015/16 | Effective advocacy for Local Government borrowing pool | Nil |

| Objective 7: Pursue a Continuous Business Improvement Program | | | | | | |
|---|---|----------------|--|-------------|--|---|
| Strategies | | Key Milestones | | Target Date | Expected Outcome | Impact on FFTF Measures |
| a | Identify areas to improve productivity and efficiency | i | Establish business improvement register | 2015/16 | List opportunities for continuous business improvement | Nil |
| | | ii | Introduce mapping of processes for each service | 2016/17 | Map processes to support continuous business improvement | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| b | Understand the full cost of services in order to measure efficiency gains | i | Prepare agreed list of services provided | 2015/16 | List of Council services | Nil |
| | | ii | Review business unit on-cost model | 2017/18 | Model for allocating business on-costs | Nil |
| | | iii | Undertake full cost analysis of each service as part of annual service delivery reviews | 2017/18 | Complete full cost analysis of individual services | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| c | Monitor the demographic profile of the community to meet future needs | i | Prepare and maintain relevant statistics to assist in profiling community | 2015/16 | Current demographic profile | Nil |
| d | Active contractor management | i | Implement a service provider management framework | 2015/16 | Service provider management framework | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| e | Strengthen corporate support systems and enhanced use of technology | i | Educate staff on better use of existing systems and technology | 2015/16 | Effective use of systems and technology | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |
| | | ii | Establish business improvement register and seek feedback on existing use of systems and technology | 2015/16 | List opportunities for continuous business improvement | Nil |
| | | iii | Invest in new technology to improve productivity and efficiency, including IP&R Planning, VOIP and fibre cable for MWRC Operations | 2016/17 | New systems and technology to improve business performance | ↑ Operating Performance Ratio ↓ Real Operating Expenditure Ratio |