

## Template 2

Fit for the Future

# Council Improvement Proposal

(Existing structure)



Council name:

Eurobodalla Shire Council

Date of Council resolution endorsing  
this submission:

23 June 2015

MINUTES OF THE ORDINARY COUNCIL MEETING OF EUROBODALLA SHIRE COUNCIL  
HELD ON TUESDAY 23 JUNE 2015

PAGE 13

**GMR15/014 FIT FOR THE FUTURE - COUNCIL'S IMPROVEMENT PROPOSAL**

File Ref: E12.6443

**15/118 MOTION** Councillor Burnside/Councillor Schwarz

THAT Council:

1. Endorse Council's Fit for the Future Improvement Proposal, including any further formatting or minor editorial changes as a result of the requirement for the submission to now go into a template, for submission to the Independent Pricing and Regulatory Tribunal (IPART).
2. Approve the creation of an internally restricted Infrastructure renewal fund.

(The Motion on being put was declared **CARRIED**)

## 1.1 Executive Summary

Provide a summary (up to 500 words) of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies and outcomes.

Eurobodalla Shire Council welcomes the Fit for the Future program and sees it as an opportunity to clearly articulate its plan for the future. Council has been identified as having the scale and capacity to continue as a stand alone council and is required to assess performance against the seven benchmarks<sup>1</sup>.

Council's 2016-17 forecast reflects our continued efforts to strengthen our financial position and shows we will meet five of the seven benchmarks required to be Fit for the Future prior to implementing an Improvement Action Plan.

Implementation of our Improvement Action Plan will result in achieving IPART's assessment criteria for all ratios in 2019-20 by showing progressive improvement in the Infrastructure Renewal and Backlog Ratios.

Council will meet all benchmarks through phased improvement within 10 years. This aligns with Council's Integrated Planning and Reporting (IPR) framework and ensures that community benefits are balanced and maintained into the future.

How our community will benefit from what we will deliver in a financially responsible way has been considered in every step of our proposal, building on the work that has already been completed in recent years to improve our position. This has placed Eurobodalla in a robust position to meet all of the benchmarks without significant cuts to services and infrastructure whilst maximising community benefit.

Fit for the Future is also an opportunity to review our operations and how we consult and engage with our community in determining our future.

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<sup>1</sup> Revitalising Local Government, Final Report of the NSW Independent Local Government Review Panel, October 2013 pp. 116; and Fit for the Future guidance material:  
<http://www.fitforthefuture.nsw.gov.au/sites/fftf/files/What-does-this-mean-for-my-council.pdf>

We will:

- collaborate with our community to review services as part of the IPR process to achieve a clear and agreed plan for how Council will meet the needs of the community in a financially responsible way
- strengthen and diversify revenue streams to continue to meet the ratios and achieve modest operating surpluses
- implement a prioritised renewals funding strategy including redirecting surplus funds into a new restricted infrastructure renewals fund and an increased, targeted renewals program
- further increase our capacity and focus on long term planning and organisational sustainability and invest in enhanced community relationships through a robust community engagement framework
- continue to advocate for improved funding and financing arrangements, to meet community service and infrastructure needs
- support economic growth and development through a new Integrated Economic Growth and Development Strategy.

Council's Improvement Action Plan clearly explains how its successful implementation will positively influence our ability to maintain and improve Council's performance against all benchmarks. It will realise efficiency savings and productivity improvements. This will ensure improvement in performance within five years to meet all benchmarks within 10 years.

Council's Improvement Proposal will be an important catalyst for us to reset our conversations with our community, partners in the South East Joint Organisation, key stakeholders and other levels of government and enable us to work collaboratively to deliver projects that will contribute to a financially sustainable future.

Council's Improvement Proposal will ensure that we retain scale and capacity, strengthen sustainability and deliver value for our community, while meeting the assessment criteria as shown in the table below.

*Table 1: Summary of Council's performance against IPART's assessment criteria after the implementation of Council's Improvement Action Plan.*

| Measure<br>Assessment Criteria  | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | Meets<br>Criteria? |
|---|---------|---------|---------|---------|---------|---------|--------------------|
| <b>Operating Performance Ratio</b><br>Must meet within 5 years  | -0.02   | -0.02   | -0.02   | 0.01    | 0.02    | 0.02    | ✓<br>Meet          |
| <b>Own Source Revenue Ratio</b><br>Meet or improve within 5 years   | 69.25%  | 69.72%  | 69.51%  | 70.87%  | 72.90%  | 74.99%  | ✓<br>Meet          |
| <b>Building and Infrastructure Asset Renewal Ratio</b><br>Meet or improve within 5 years  | 64.11%  | 98.77%  | 108.50% | 121.03% | 93.44%  | 93.55%  | ✓<br>Improving     |
| <b>Infrastructure Backlog Ratio</b><br>Meet or improve/inform within 5 years  | 15.34%  | 14.16%  | 13.15%  | 12.26%  | 11.55%  | 9.82%   | ✓<br>Improving     |
| <b>Asset Maintenance Ratio</b><br>Meet or improve/inform within 5 years   | 83.87%  | 85.84%  | 100.00% | 100.00% | 100.00% | 100.00% | ✓<br>Meet          |
| <b>Debt Service Ratio</b><br>Meet within 5 years  | 6.93%   | 7.49%   | 8.14%   | 8.93%   | 9.65%   | 10.15%  | ✓<br>Meet          |
| <b>Real Operating Expenditure per capita</b><br>Must demonstrate operational savings (net of IPR supported service improvements) over 5 years | 1.48    | 1.37    | 1.37    | 1.36    | 1.36    | 1.36    | ✓<br>Meet          |

For a detailed executive summary please refer to page 4 of Council's Improvement Proposal.

## 1.2 Scale and Capacity

Does your council have the scale and capacity broadly consistent with the recommendations of the Independent Local Government Review Panel?

(ie, the Panel did not recommend your council needed to merge or become a Rural Council).

**Yes**

| Council     | Population 2011 | Population 2031 | TCorp Financial Sustainability rating (April 2013) | TCorp Outlook (April 2013) | DLG Infrastructure Audit (May 2013) | Merger Potential | Options                                  |
|-------------|-----------------|-----------------|--|----------------------------|-------------------------------------|------------------|--|
| Eurobodalla | 36,993          | 43,400          | Moderate   | Neutral                    | Weak                                | Low              | Council in South East Joint Organisation |

Source: ILGRP Final Report, pp 114-116

For more information on how Council has scale and capacity, please refer to page 6 of Council's Improvement Proposal.

If No, please indicate why you are not proceeding with a voluntary merger or creation of a Rural Council as recommended by the Independent Panel and demonstrate how your council has scale and capacity (up to 500 words).

N/A

## 2. Your council's current position

### 2.1 About your local government area

Explain the key characteristics of your local government area, your community's goals and priorities and the challenges you face in the future (up to 500 words).

Eurobodalla's 110km coastline extends north of Batemans Bay to south of Narooma. More than three-quarters of the 3,400 square km land area is national park or state forest and within its borders are 83 beaches, 4 major river systems, 10 national parks and 15 state forests.

The major towns of Batemans Bay, Moruya and Narooma are connected by villages that are central to Eurobodalla's strong rural, coastal, heritage and indigenous culture. The local industry, once based on dairying, forestry and fishing, is now a diverse economy built around tourism, agriculture, aquaculture, retail, property and health services.

Eurobodalla's unique natural environment is both an opportunity and a challenge. There is a mix of urban and rural land uses along the coastline and development is influenced by environmental constraints such as threatened species, flooding, coastal hazards, steep topography, water quality and bushfire. Council maintains over 115km of urban bushland interface to mitigate fire risk.

Eurobodalla experienced strong subdivision growth in the 1960s and 70s. The infrastructure constructed during this period no longer meets current standards in terms of roads, stormwater drainage, pathways and accessibility, and will require significant upgrades.

Our demographics has led to multiple facilities such as three swimming pools, three libraries, and many halls and sports fields. Along with the spread of community and transport infrastructure, Council manages five sewage treatment plants, three waste facilities, two water treatment plants with three water sources and an extensive distribution network.

Eurobodalla's estimated resident population is 37,643<sup>2</sup> and this is projected to reach more than 40,000 by 2031. Eurobodalla attracts around 1.26 million<sup>3</sup> visitors annually with visitation at its peak in summer. On average, there is an estimated additional daily population of over 13,000<sup>4</sup> people which is more than one-third of the estimated resident population. 38% of ratepayers have their principal address outside of Eurobodalla and 31% of dwellings are not permanently occupied. Based on these estimates, in 2031 Eurobodalla can expect an average daily population of 55,000 and a peak population of more than 100,000.

The high variation in population due to tourism creates both opportunities and challenges for local businesses. It also results in a need to provide infrastructure capable of handling peak loadings, paid for by our ratepayers, and a lower ability to collect fees and charges relative to the scale of the infrastructure needed to service peak periods.

When compared to the Australian average, Eurobodalla's population has the following characteristics:

- significantly older with the average age increasing at a faster rate
- higher proportion of Indigenous residents and people needing assistance with core activities
- higher unemployment and lower income levels.

These population characteristics impact Council's operations and service delivery through:

- an increasing number of pensioner rebates resulting in a reduced rate base
- size, design and cost of essential services and infrastructure which must meet accessibility requirements and seasonal population peaks
- delivery of an expanded mix of community, transport and recreation infrastructure valued at \$1.9 billion<sup>5</sup>.

For more information on the Eurobodalla area please refer to page 17 of Council's Improvement Proposal.

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<sup>2</sup> ABS 2014 NSW State and LGA Population Projections: 2014 Final

<sup>3</sup> Destination NSW LGA Profile, September 2013

<sup>4</sup> National Sea Change Taskforce (based on 2011 data, Hugo and Harris, 2013)

<sup>5</sup> Current Replacement Cost of Council's **consolidated** assets as per Note 9a of Council's 2013-14 Financial Statements. Written down value is \$1.29 billion. Note 21 identifies the General Fund (incl. Waste and Environment) current replacement cost to be \$1.069 billion with a written down value \$0.76 billion.

## 2.2 Key challenges and opportunities

Please refer to page 19 of Council's Improvement Proposal for additional key challenges and opportunities. The points listed below are Council's top five for each category.

| Strengths   | Weaknesses  |
|---|---|
| <ul style="list-style-type: none"> <li>• Eurobodalla Shire Council has the scale and capacity to continue as an independent organisation without amalgamation or boundary adjustment, as recommended by the Independent Local Government Review Panel (ILGRP)<sup>6</sup>.</li> <li>• NSW Treasury Corporation (TCorp) 2013 assessment<sup>7</sup> of Eurobodalla's Financial Sustainability rating was 'Moderate' and its Outlook assessed as 'Neutral'<sup>8</sup>. This shows that Council has the necessary financial scale and capacity required to be a stand alone council, as well as being able to manage its finances in a sound manner.</li> <li>• Organisational focus on building a sustainable future was established and actioned prior to the release of the Fit for the Future program.</li> <li>• Sound fiscal flexibility as stated in the TCorp 2012 report<sup>9</sup> and evidenced by a strong historical and forecast Own Source Revenue Ratio performance.</li> <li>• Strong balance sheet and sound liquidity position allowing adequate servicing of all short term liabilities and scheduled capital expenditure programs.</li> </ul> | <ul style="list-style-type: none"> <li>• Council has limited ability to ensure growth in rate revenue keeps pace with service delivery expectations due to rate pegging increases which have not been in line with Local Government Cost Index increases and the current loss of indexation of Financial Assistance Grants.</li> <li>• An extensive open space network of 1,550Ha compared to the Group 4 average of 891Ha<sup>10</sup> and a NSW average of 991Ha, resulting in higher associated maintenance costs.</li> <li>• Council's General Fund has a history of operating deficits as noted by TCorp<sup>11</sup>.</li> <li>• The Eurobodalla local government area covers a large geographic area, 3,400 square kilometres, relative to population base 37,643, which is population density of 10.81 residents per square kilometre compared to the 59.81 Group 4 average.</li> <li>• Geographically dispersed settlements, with 3 major towns and 13 smaller villages and hamlets, requiring duplication and long lengths of infrastructure, resulting in increased costs for Council to provide, maintain and renew a large portfolio of assets.</li> </ul> |

<sup>6</sup> Revitalising Local Government, Final Report of the NSW Independent Local Government Review Panel, October 2013, pp. 116.

<sup>7</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013, pp 17.(Attachment 7)

<sup>8</sup> Consolidated position including General, Environment, Waste, Sewer and Water Funds.

<sup>9</sup> Financial Assessment and Benchmarking Report prepared by NSW Treasury Corporation as part of the Local Infrastructure Renewal Scheme, October 2012, pp 5 (Attachment 8)

<sup>10</sup> Comparative Information on NSW Local Government, Measuring Local Government Performance 2012-13, NSW Office of Local Government, June 2014, pp.130 (Attachment 9)

<sup>11</sup> Financial Assessment and Benchmarking Report prepared by NSW Treasury Corporation as part of the Local Infrastructure Renewal Scheme, October 2012, pp 5 (Attachment 8)

| Opportunities  | Threats   |
|--|---|
| <ul style="list-style-type: none"> <li>• Development of an Integrated Economic Growth and Development Strategy in collaboration with key stakeholders will allow Council to stimulate and facilitate economic growth within Eurobodalla.</li> <li>• Continuing to meet and exceed Fit for the Future benchmarks will attract benefits including favourable finance options, simplified reporting requirements and priority access to NSW Government funding and grants.</li> <li>• Collaboration with Office of Local Government and peak industry groups to establish a more reliable and consistent methodology for the calculation of 'cost to bring to satisfactory' and 'Infrastructure Backlog Ratio' which will improve forecasting.</li> <li>• Fit for the Future provides an opportunity to recalibrate our range of strategies and reset the community engagement framework with our community.</li> <li>• Operating as an effective member of the South East Joint Organisation.</li> </ul> | <ul style="list-style-type: none"> <li>• Australian and NSW Government budget cuts impacting grants such as loss or further diminishing of Financial Assistance Grants.</li> <li>• Further cost shifting from Australian and NSW Government without consultation with Council or appropriate financial recompense.</li> <li>• Potential removal or reduction of subsidisation of the Pensioner Rebate from Australian and NSW Government.</li> <li>• Limited ability to increase Council revenue streams. Main revenue stream constrained by rate pegging environment which does not keep pace with Local Government Cost Index or market increases for staff, materials and contracts.</li> <li>• Increasing legislative requirements and standards for community infrastructure and service delivery such as the Civil Liability Act 2002.</li> </ul> |

## 2.3 Performance against the Fit for the Future benchmarks

| Sustainability   |                            |                                |  |                                |
|--|----------------------------|--------------------------------|--|--------------------------------|
| Measure<br>(Benchmark)   | 2013 / 2014<br>performance | Achieves<br>FFTF<br>benchmark? | Forecast<br>2016 / 2017<br>performance | Achieves<br>FFTF<br>benchmark? |
| <b>Operating Performance Ratio</b><br>(Greater than or equal to break-even average over 3 years)   | -0.0004                    | ✗                              | -0.02                                  | ✗                              |
| <b>Own Source Revenue</b><br>Ratio (Greater than 60% average over 3 years)                         | 69.49%                     | ✓                              | 69.45%                                 | ✓                              |
| <b>Building and Infrastructure Asset Renewal</b><br>Ratio (Greater than 100% average over 3 years) | 62.4%                      | ✗                              | 108.50%                                | ✓                              |

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

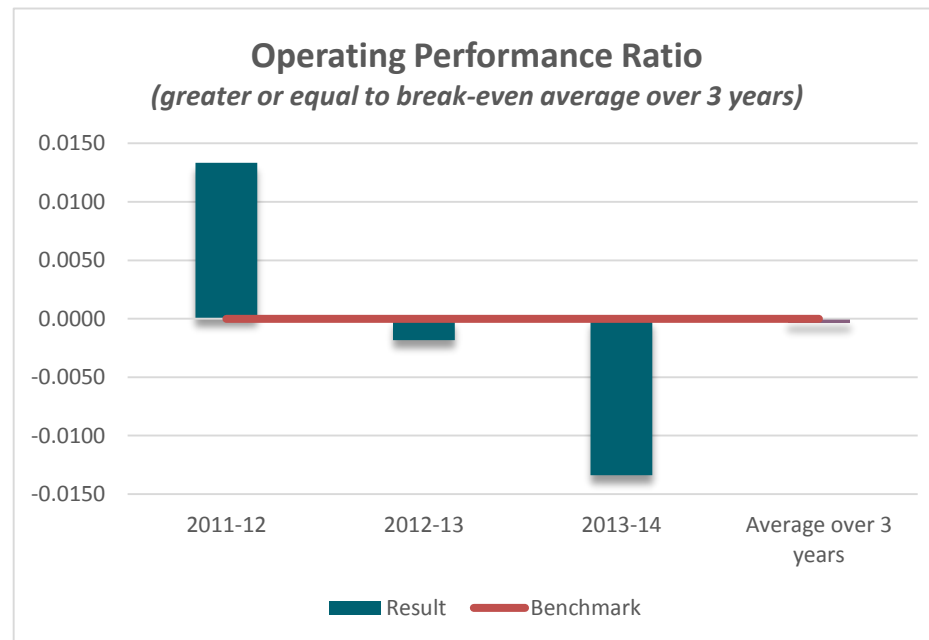
For further detail on Council's performance against the sustainability benchmarks please refer to pages 28-35 of Council's Improvement Proposal.

### Operating Performance Ratio

Council does not meet the Operating Performance Ratio in 2013-14 and is not expected to meet it in 2016-17, although it is only marginally below the benchmark. Council's Improvement Proposal, as outlined in Sections 3 and 4 will show Council meeting this benchmark within the required timeframe.

### 2013-14 Performance

The Operating Performance Ratio rolling three year average of -0.0004 for 2013-14 does not meet the benchmark of greater than or equal to break-even. Council's performance as calculated by the OLG Self Assessment tool is shown below.



Graph 1: Council's 2013-14 Operating Performance Ratio result

Council notes the OLG Self Assessment tool excludes loss on disposal of infrastructure assets from this calculation. Similar to all other NSW councils, Council's Operating Performance Ratio during this period shows the impact of the adjusted timing of the Financial Assistance Grants (FAGs). In 2011-12 Council received more instalments which resulted in the operating performance surplus compared to 2012-13 and 2013-14.

Historically, the General Fund has reported ongoing operating deficits. Council's 2012 Financial Assessment prepared by New South Wales Treasury Corporation (TCorp)<sup>12</sup> observed that the General Fund forecast shows deficit positions are expected in all 10 years

<sup>12</sup> Financial Assessment and Benchmarking Report prepared by NSW Treasury Corporation as part of the Local Infrastructure Renewal Scheme, October 2012, pp. 5 (Attachment 8)

and noted Council could face financial sustainability issues in the future. Council's response to the TCorp assessment resulted in the implementation of cost containment and revenue raising initiatives, the most recent being the successful rate variation.

The Environment Fund was established as a result of a rate variation in 1996-97 and has historically operated in a deficit position. These deficits are approximately \$0.2 million per year and are a result of allowable rate increases not meeting the increasing cost and community expectation of service delivery.

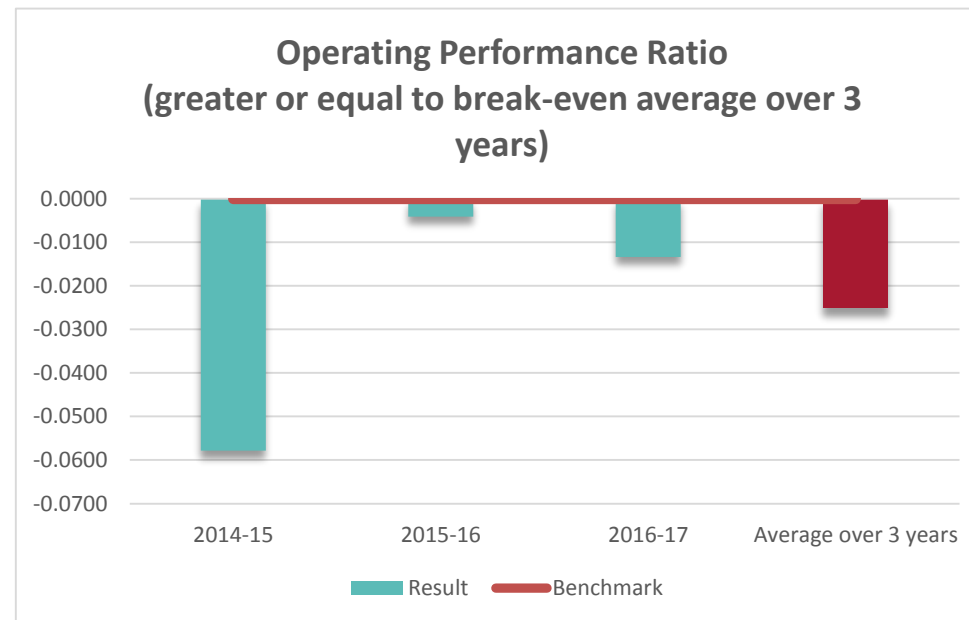
The Waste Fund has historically returned surpluses due to:

- increased landfill revenue as a result of higher than expected volumes primarily related to large development projects
- savings in the waste collection contract
- cyclical low capital investment resulting in low depreciation and financing costs.

### 2016-17 Forecast Performance

The Operating Performance Ratio rolling three year average of -0.02 for 2016-17 does not meet the benchmark of greater than or equal to break-even.

The graph below shows the three years making up the forecast average result for 2016-17.



Graph 2: Council's 2016-17 Operating Performance Ratio forecast

The 2016-17 three year rolling average forecast period includes recent and ongoing financial sustainability initiatives such as the rate variation commencing in 2015-16, the revision of the depreciation model and additional savings of \$0.58 million through Council's 2015-16 budgeting process. However, the forecast compares unfavourably to the 2013-14 result as calculated by the OLG Self Assessment tool. This is due to:

- the General Fund is forecast to remain in deficit for this period due to the ongoing challenge of balancing available revenue sources with the cost of expected service delivery
- the Environment Fund is forecast to remain in deficit

- the Waste Fund is forecast to return small surpluses in 2014-15 and 2015-16. An increased loan funded capital program in 2016-17 impacts depreciation and borrowing costs resulting in a small deficit.

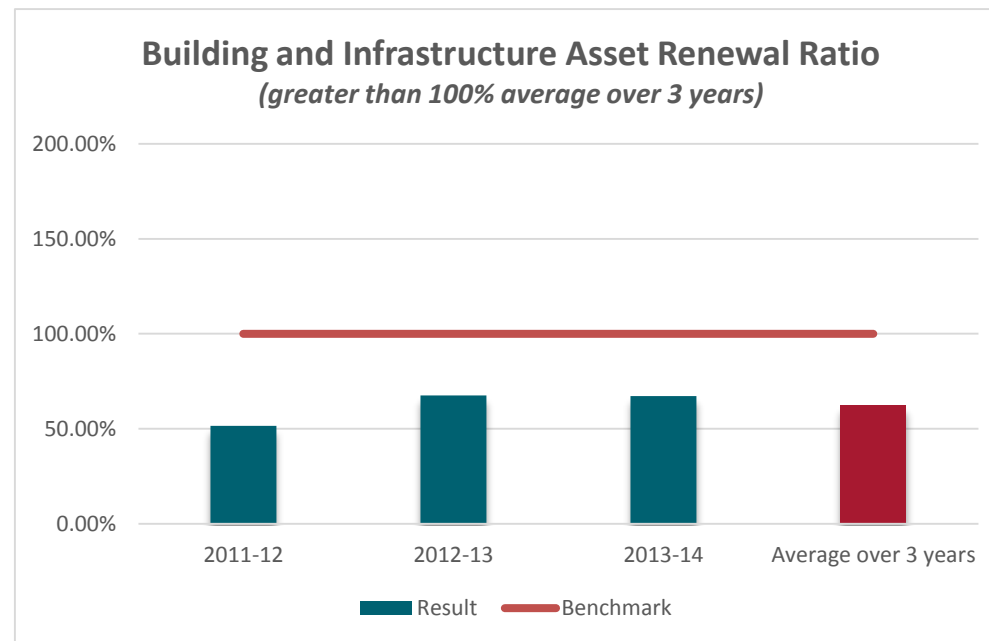
The full impact of the additional revenue generated by the rate variation is not evident in the 2016-17 forecast, however it will improve the operating position of the General Fund each year and enable Council to meet the Operating Performance Ratio benchmark by 2019-20 as required.

### Building and Infrastructure Asset Renewal Ratio

Council did not meet the Building and Infrastructure Asset Renewal Ratio in 2013-14. Council will meet the ratio in 2016-17 due to a spike in renewal works funded by the recent rate variation as explained in detail below. This result is prior to the implementation of Council's Improvement Proposal.

#### 2013-14 Performance

The Building and Infrastructure Asset Renewal Ratio rolling three year average of 62.4% for 2013-14 does not meet the benchmark of 100%. Council's performance as calculated by the OLG Self Assessment tool is shown below.



Graph 3: Council's 2013-14 Building and Infrastructure Asset Renewal Ratio result

Council's performance against the Building and Infrastructure Asset Renewal Ratio has been affected by the following historic constraints:

- dispersed settlement patterns requiring the duplication of infrastructure and resulting in a large infrastructure network to maintain, valued at \$1.9 billion<sup>13</sup>
- rate base that is constrained by rate pegging environment
- the long-lived nature of many council assets means the need for ongoing renewal can be 'lumpy'.

In recent years, Council has increased its focus on infrastructure renewal works through a targeted renewal program on short lived assets and a loan funded program to address high risk assets such as replacement of bridges in poor condition. Council has also increased the proportion of Roads to Recovery funding allocated to renewals.

Council has balanced its renewal program with the modest provision of new assets to address network deficiencies such as shared pathways in accordance with the Eurobodalla Pathways Strategy 2010 and accessibility needs under the Disability Action Plan 2012-17. To service growth, Council has a measured program of providing matching contributions for infrastructure such as rural roads, recreation and community facilities. Council's key infrastructure and land use strategies focus on consolidating and optimising existing facilities wherever possible, in preference to providing new facilities.

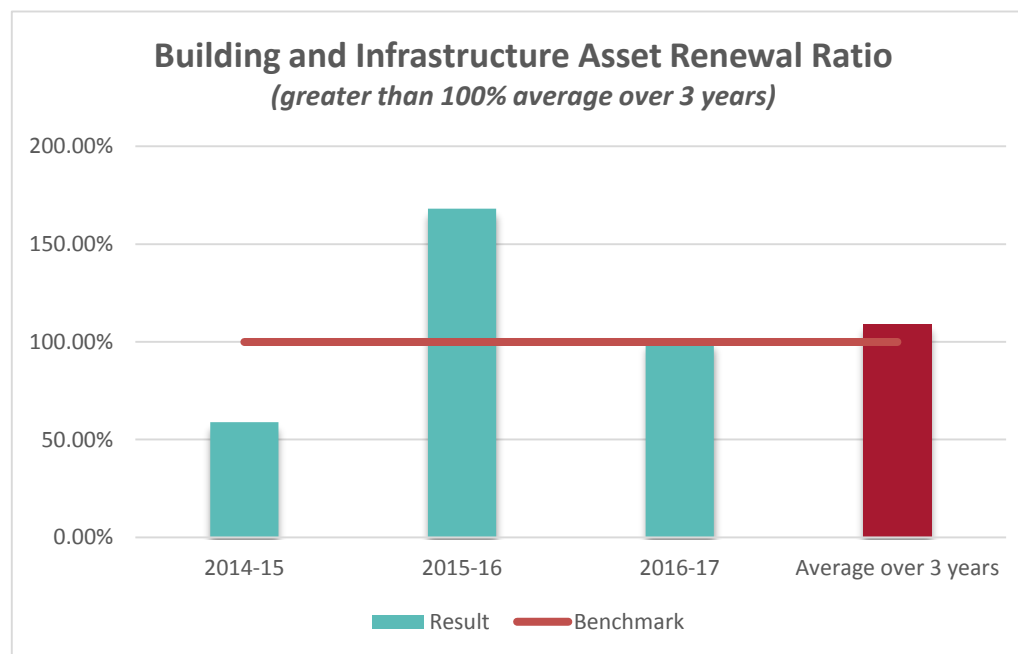
While Council did not meet the Building and Infrastructure Asset Renewal Ratio benchmark for 2013-14, Council has shown consistent improvement over time through these strategies.

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<sup>13</sup> Current Replacement Cost of Council's **consolidated** assets as per Note 9a of Council's 2013-14 Financial Statements. Written down value is \$1.29 billion. Note 21 identifies the General Fund (incl. Waste and Environment) current replacement cost to be \$1.069 billion with a written down value \$0.76 billion.

### 2016-17 Forecast Performance

The Building and Infrastructure Asset Renewal Ratio rolling three year average of 108.50% for 2016-17 meets the benchmark of greater than 100%.



Graph 4: Council's 2016-17 Building and Infrastructure Asset Renewal Ratio forecast

The primary driver for the 2016-17 result is due to an increase in asset renewals from \$8.22 million in 2013-14 to \$14.1 million in 2016-17. This is due to an increase in available revenue resulting from the rate variation, which will allow high priority renewal projects to be delivered through a mix of direct cash funding and loans. In 2015-16 this additional revenue enables Council to fund large scale renewal works including bridges and waste cells, resulting in a single year renewal ratio of 168%.

In addition to the rate variation, on-going grants such as Roads to Recovery are also being directed to renewal works.

This focus on infrastructure asset renewals assists to improve both the Building and Infrastructure Asset Renewal Ratio and the Infrastructure Backlog Ratio.

## 2.3 Performance against the Fit for the Future benchmarks

| Infrastructure and service management   |                           |                                |  |                                |
|---|---------------------------|--------------------------------|--|--------------------------------|
| Measure<br>(Benchmark)  | 2013 /2014<br>performance | Achieves<br>FFTF<br>benchmark? | Forecast<br>2016 / 2017<br>performance | Achieves<br>FFTF<br>benchmark? |
| <b>Infrastructure Backlog Ratio</b><br>(Less than 2%)   | 14.62%                    | ✗                              | 13.15%                                 | ✗                              |
| <b>Asset Maintenance Ratio</b><br>(Greater than 100% average over 3 years)                        | 68.58%                    | ✗                              | 100.00%                                | ✓                              |
| <b>Debt Service Ratio</b><br>(Greater than 0% and less than or equal to 20% average over 3 years) | 8.21%                     | ✓                              | 8.36%                                  | ✓                              |

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

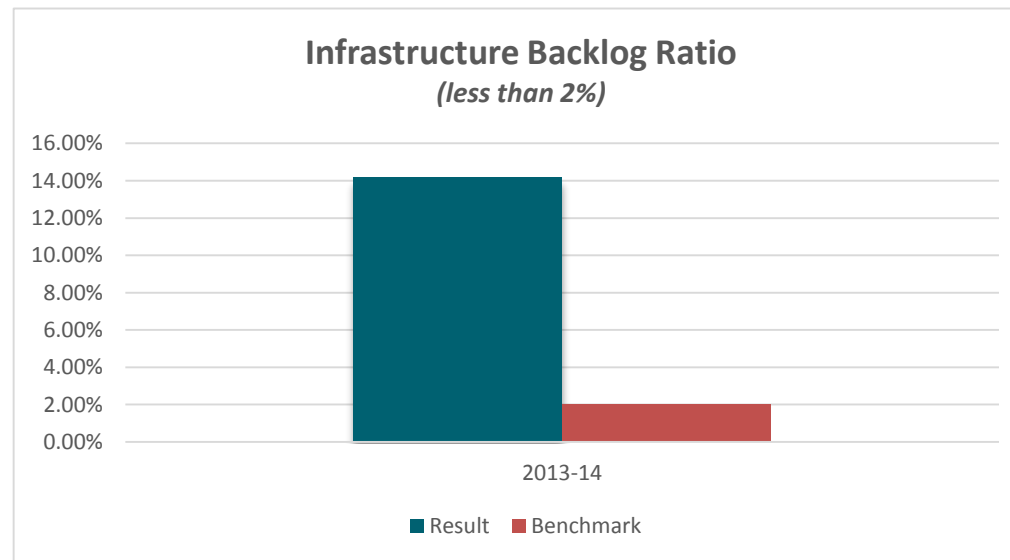
For further detail on Council's performance against the infrastructure and service management benchmarks please refer to pages 36-41 of Council's Improvement Proposal.

### Infrastructure Backlog Ratio

Council does not meet the Infrastructure Backlog Ratio in 2013-14 and is not expected to meet it in 2016-17. Council's Improvement Proposal, as outlined in Sections 3 and 4, will show Council improving this result over the next five years and meeting the benchmark within 10 years.

### 2013-14 Performance

The Infrastructure Backlog Ratio of 14.62% for 2013-14 does not meet the benchmark of less than 2%. Council's performance as calculated by the OLG Self Assessment tool is shown below.



Graph 5: Council's 2013-14 Infrastructure Backlog Ratio result

As at 2013-14 Council's infrastructure backlog was \$78.6 million. This is a result of infrastructure renewal funding being below the required amount to sustain assets in the long term due to the following historic constraints:

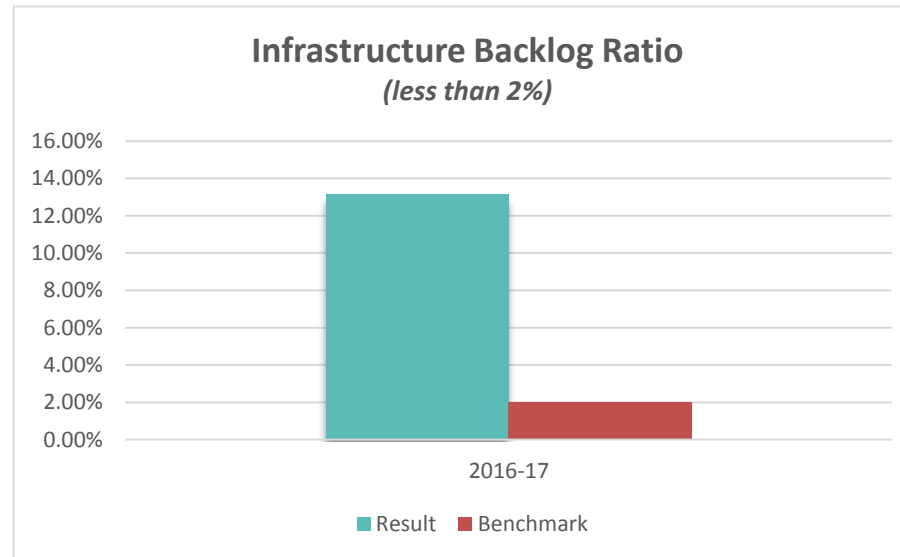
- dispersed settlement patterns requiring the duplication of infrastructure and resulting in a large infrastructure network to maintain, valued at \$1.9 billion<sup>14</sup>
- rate base that is constrained by rate pegging environment
- the long-lived nature of many council assets means the need for ongoing infrastructure renewal can be 'lumpy'.

<sup>14</sup> Current Replacement Cost of Council's **consolidated** assets as per Note 9a of Council's 2013-14 Financial Statements. Written down value is \$1.29 billion. Note 21 identifies the General Fund (incl. Waste and Environment) current replacement cost to be \$1.069 billion with a written down value \$0.76 billion.

In recent years, Council's increased focus on infrastructure renewals works has assisted in improving performance against the Infrastructure Backlog Ratio over time.

### **2016-17 Forecast Performance**

The Infrastructure Backlog Ratio of 13.15% for 2016-17 does not meet the benchmark of less than 2%.



*Graph 6: Council's 2016-17 Infrastructure Backlog Ratio forecast*

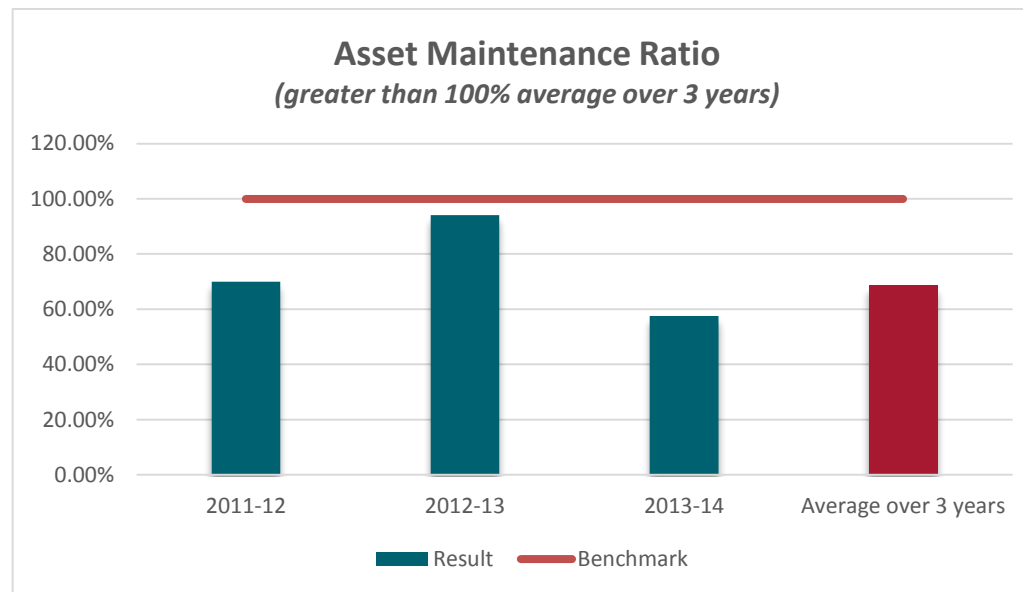
The improvement from 2013-14 result is due to an increase in available revenue from the re-direction of grant funds and the rate variation which will allow high priority infrastructure renewal projects to be delivered through a mix of direct funding and loans.

## Asset Maintenance Ratio

Council does not meet the Asset Maintenance Ratio in 2013-14. Council will meet the ratio in 2016-17.

### 2013-14 Performance

The Asset Maintenance Ratio rolling three year average of 68.58% for 2013-14 does not meet the benchmark of greater than 100%. Council's performance as calculated by the OLG Self Assessment tool is shown below.



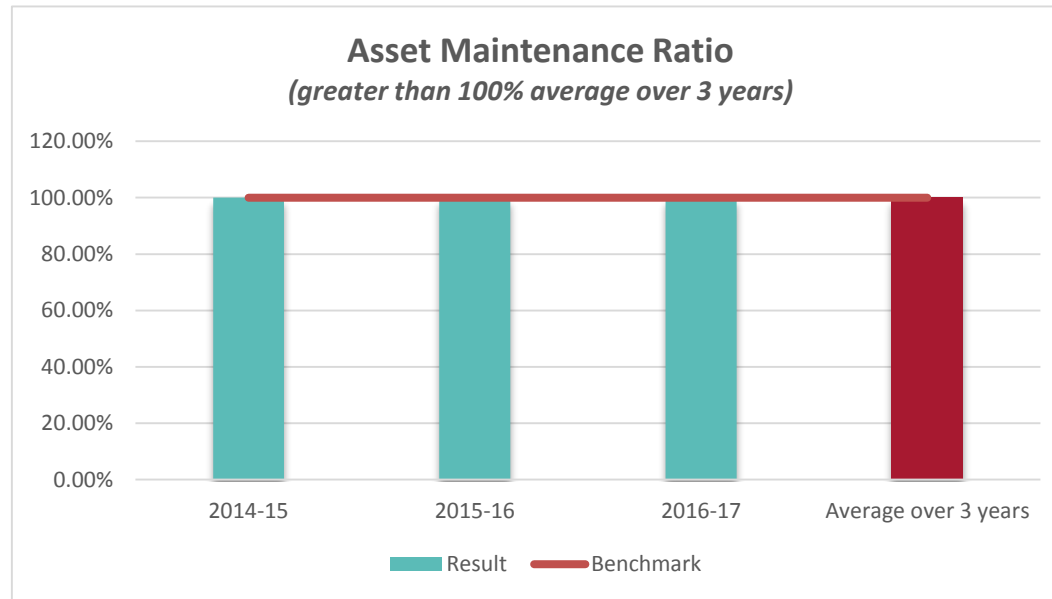
Graph 7: Council's 2013-14 Asset Maintenance Ratio result

Council's asset maintenance program has been focused on undertaking routine maintenance as it falls due to mitigate risk, ensure safety and maintain service levels.

Council has also made strategic decisions in utilisation of asset maintenance funding where one off renewal works, rather than regular ongoing maintenance of an asset would be more appropriate to improve outcomes and extend useful life.

### 2016-17 Forecast Performance

The Asset Maintenance Ratio rolling three year average of 100.00% for 2016-17 meets the benchmark of greater than 100%.



Graph 8: Council's 2016-17 Asset Maintenance Ratio forecast

The Office of Local Government has verified the definition for the Asset Maintenance Ratio relates only to routine maintenance activities. Council currently undertakes all routine maintenance activities and will continue to do so into the future. Therefore, Council's performance against the Asset Maintenance Ratio is calculated at 100% in future years.

## 2.3 Performance against the Fit for the Future benchmarks

### Efficiency

| Measure<br>(Benchmark)  | 2013 /2014<br>performance | Achieves<br>FFTF<br>benchmark? | Forecast<br>2016 / 2017<br>performance | Achieves<br>FFTF<br>benchmark? |
|---|---------------------------|--------------------------------|--|--------------------------------|
| <b>Real Operating Expenditure per capita</b><br>A decrease in Real Operating Expenditure per capita over time | 1.41<br><br>Decreasing    | ✓                              | 1.38<br><br>Decreasing                 | ✓                              |

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

For further detail on Council's performance against the efficiency benchmark please refer to pages 42-43 of Council's Improvement Proposal.

## 2.4 Water utility performance

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

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

**Yes**

Please refer to pages 47-48 of Council's Improvement Proposal for additional information on Council's water utility performance.

If NO, please explain the factors that influence your performance against the Framework.

N/A

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

Council's 2013-14 water and sewerage infrastructure backlog was valued at **\$3.4 million**<sup>15</sup>. The cost to bring water and sewer infrastructure to a satisfactory level is less than 0.5% of the current replacement value. Council has implemented asset renewal programs, such as water meter and valve replacement programs and investigations of water treatment plant sludge management and sewage treatment plant capacity assessments to address the infrastructure backlog.

<sup>15</sup> 0.4% current replacement costs.

## 2.4 Water utility performance

Identify any significant capital works (>\$1m) proposed for your council's water and sewer operations during the 2016-17 to 2019-20 period and any known grants or external funding to support these works.

### Capital works

| Proposed works                                   | Timeframe | Cost   | Grants or external funding                    |
|--|-----------|--|---|
| New southern dam                                 | 2015-21   | \$64 million (\$30.5 million 2016-20)                                | Section 64 \$20 million<br>Grant \$30 million |
| Tomakin sewage treatment plant augmentation      | 2016-20   | \$15.75 million  | Section 64<br>\$15.75 million                 |
| Bodalla new town sewerage scheme                 | 2015-18   | \$8 million (\$7.8 million from 2016)                                | \$2.1 million                                 |
| Rosedale/Guerrilla Bay new town sewerage scheme  | 2015-17   | \$7 million (\$2 million from 2016)                                  | \$2.8 million                                 |
| Batemans Bay sewage treatment plant augmentation | 2016-17   | \$5 million  | Section 64 \$5 million                        |
| Water main and meter replacement program         | 2015-20   | \$1.8 million per annum ongoing                                      | Nil   |
| Sewage pumping station upgrade                   | 2015-20   | \$1.5 million per annum ongoing<br>(except 17/18 \$0.5 million only) | Nil   |
| Bingie sewage treatment plant augmentation       | 2016-18   | \$1.15 million   | Section 64<br>\$0.575 million                 |

## 2.4 Water utility performance

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

**Yes**

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

N/A

## 2.4 Water utility performance

Identify some of your council's strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 period.

### Improvement strategies

| Strategy   | Timeframe | Anticipated outcome  |
|--|-----------|--|
| <b>Asset renewals programs</b><br>Renewal programs have been developed to address the infrastructure backlog.  | Ongoing   | Improved financial sustainability, reduced infrastructure backlog. Improved productivity and customer service. Improved equity of charging through metering. |
| <b>Water loss management system</b><br>Data management system improvements, in line with industry practice to continue to reduce unbilled water (e.g. underperforming water meters, water supply system leakage) and to establish water leakage triggers for discrete service areas to optimise leakage reduction programs.                            | Ongoing   | Identify and eliminate system leakage. Reduce operational expenditure.   |
| <b>Sewer infiltration reduction program</b><br>Continuation of the Sewer CCTV program, plus data management system improvements to identify discrete areas that contribute excessive stormwater inflows and infiltration to the sewerage networks, to provide input for prioritisation of maintenance and repair, sewer relining and renewal programs. | Ongoing   | Effective sewer transport system. Reduce operational expenditure and risk. Able to optimise timing of sewerage treatment plant capacity upgrades.            |

## Improvement strategies

| Strategy   | Timeframe | Anticipated outcome   |
|--|-----------|---|
| <b>Water and sewage treatment sludge management</b><br>Development of strategies to optimise water sludge and sewage biosolids handling and disposal, including investigation, negotiation and authority approval of biosolids reuse schemes.  | Ongoing   | Effective reuse of biosolids and sludge.  |
| <b>Investment in human resources</b><br>Skilled labour resource is a robust mix of a locally developed and new to the area, dedicated team, who have gained added skills from Council and TAFE's National award winning Certified Training Program. Skills are continually assessed and modified to meet both growth and environmental challenges. | Ongoing   | Dynamic training scheme. Skilled labour force delivers needs of community. Engaged and motivated workforce. |

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

### 3.1 Sustainability

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

Please refer to pages 49-57 of Council's Improvement Proposal for a detailed plan to improve performance against the Sustainability benchmarks.

Council will meet the Fit for the Future sustainability benchmarks within 10 years.

The following objectives will assist Council to retain scale and capacity, strengthen sustainability and deliver best value for money for the community:

- **Balance the cost of service delivery with income levels**

We will collaborate with our community to review services as part of the Integrated Planning and Reporting process to achieve a clear plan for how Council will meet the needs of the community in a financially responsible way.

We will strengthen and diversify Council's revenue streams through a review of commercial operations, fees and charges and dividends, and ensure growth in rate revenue matches service delivery expectations.

- **Optimise infrastructure financing**

We will develop a finance strategy and implement a prioritised infrastructure renewals funding plan which will redirect surpluses into a new restricted infrastructure renewals fund to deliver an increased, targeted infrastructure renewals program.

- **Increase capacity and focus on long term planning and sustainability**

We will support economic growth and development through a new Integrated Economic Growth and Development Strategy to increase regional focus on supporting population, business and tourism growth.

We will ensure collaborative, informed decision making and invest in better community relationships through a robust community engagement framework and organisational sustainability policy.

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

The following assumptions relate to the Financial Sustainability strategies as outlined above and are in addition to the budget forecast assumptions provided in Section 2.3 (pages 44-46) of Council's Improvement Proposal.

- Further rate variations were not assumed as a potential additional revenue source.
- Any increase in user fees and charges would not be a significant source of additional revenue.
- Depreciation estimates and forecast productivity savings from 2015-16 budget will be realised.
- Moderate operating surpluses will be acceptable going forward to allow redirection of funding to address Infrastructure Asset Renewal and Backlog Ratios.
- Fully funding depreciation will in the long term address the adequate funding of renewal requirements to maintain infrastructure at agreed levels of service.

## 3.1 Sustainability

Outline your strategies and outcomes in the table below.

| Sustainability   |   |   |  |  |
|--|---|---|--|--|
| Objective  | Strategy  | Key Milestones  | Outcome  | Impact on Fit for the Future ratios  |
| <b>Balance the cost of service delivery with income levels</b> | <i>Review service delivery and levels of service as part of the Integrated Planning and Reporting process</i> | Develop and implement community engagement strategy to guide the collaborative review of key Integrated Planning and Reporting documents. | Improved community engagement and relationships <sup>16</sup> ; legislative requirements met; robust engagement framework established, agreed and implemented; community expectations are voiced and heard; engagement informs development of key integrated planning and reporting documents and Council infrastructure strategies. | Assist in maintaining a balanced Operating Ratio. May have impacts on Own Source Operating Revenue and/or Efficiency Ratio dependant on engagement outcomes and service delivery needs and levels. |
|  |   | Prepare, exhibit and adopt State of the Shire Report.   | Current and future issues, and impacts are identified, quantified and communicated.  |  |
|  |   | Identify and explore potential partners and partnership opportunities for service delivery.   | Service delivery models are innovative, flexible and make best use of opportunities and resources.   |  |
|  |   | Develop, exhibit and adopt Community Strategic Plan.  | Community vision and expectations are established and agreed; Community Strategic Plan is supported by revised and current resourcing strategy ensuring appropriate people, assets and finances to deliver on vision.  |  |
|  |   | Delivery Program 2017-2021 developed to reflect agreed service delivery levels.   | Service delivery levels reflect engagement outcomes and resourcing constraints.  |  |
|  |   | Prepare and implement business case process for new or expanded services.   | New or expanded services or infrastructure are supported by a business case; whole of life costs are considered for new infrastructure; risk is assessed; decision making is informed, responsible and sustainable.  |  |
|  |   | Develop, exhibit and adopt delivery program and operational plans.  | Legislative requirements met; forward planning reflects engagement outcomes and resourcing constraints.  |  |
|  | <i>Strengthen and diversify Council's revenue streams</i>   | Support and advocate for change to the rating system.   | Rate increases meet the underlying cost of service delivery as well as annual growth in expenditure <sup>17</sup> ; streamlined rate process implemented; rate pegging keeps pace with LGCI at a minimum.  | Assist in maintaining a balanced Operating Ratio. Assist in maintaining Own Source Operating Revenue Ratio.  |
|  |   | Ensure Council is in a position to take advantage of Fit for the Future benefits.   | Growth in income streams keeps pace with costs; stable pricing path is in place and maintained <sup>18</sup> ; further deterioration of financial sustainability is prevented <sup>19</sup> .  |  |
|  |   | Review Property Strategy and portfolio with a focus on rationalisation and increased return on investment.                                | Council property assets are rationalised and managed responsibly and sustainably to achieve a return for the community.  | Assist in maintaining a balanced Operating Ratio. Assist in maintaining Own Source Operating Revenue Ratio.  |
|  |   | Improve, develop and promote the Moruya Airport.  | Council's key commercial venture is sustainable and produces a stable, growing revenue stream; Moruya airport is progressively upgraded to maximise development and revenue opportunities.   |  |
|  |   | Review lease and licence terms and fees and charges.  | Opportunities to increase revenue are identified and realised; commercial lease and licence agreements are appropriately charged.  |  |

<sup>16</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>17</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>18</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>19</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

| Sustainability  |  |  |   |   |
|---|--|--|---|---|
| Objective   | Strategy   | Key Milestones   | Outcome   | Impact on Fit for the Future ratios   |
| Balance the cost of service delivery with income levels cont. |  | Maximise opportunity to receive dividends.   | Annual dividend is paid from water and sewer businesses and used to fund infrastructure renewals; Council's water and sewer businesses meet best practice guidelines; Shareholder relationship with Southern Phone business is fully utilised.  |   |
|   |  | Review opportunity to develop commercial and community assets that generate a return to Council. | Opportunities to increase revenue are identified and realised; council commercial and community assets are optimised and maximum potential realised.  |   |
|   | Strengthen and diversify Council's revenue streams cont. | Undertake benchmarking of fees and charges.  | Fees and charges are comparable, reasonable and sustainable.  | Assist in maintaining a balanced Operating Ratio. Assist in maintaining Own Source Operating Revenue Ratio.   |
|   |  | Undertake annual review and increase of fees and charges.  | Fees and charges increase in line with Local Government Cost Index opportunities for full cost recovery are explored and actioned; opportunities to introduce new fees and charges are identified.  |   |
|   |  | Maximise opportunities to increase use of council facilities through upgrades and/or marketing.  | Potential revenue from fees and charges is maximised; Council facilities are of a high standard and well marketed. Community need and affordability are balanced with sustainable fees and charges.   |   |
|   |  | Develop a policy for donations and discounts.  | Applications for donations and discounts are assessed against a set framework/criteria; donations and discounts are equitable, consistent and measurable.   |   |
|   |  | Continued advocacy for redistribution of State and Federal funding to councils with most need.   | Increased awareness of issues with current distribution of state and federal grant funding; more equitable distribution of funding from NSW and Australian Governments.   | Assist in maintaining a balanced Operating Ratio. Assist in maintaining Own Source Operating Revenue Ratio. Assist in addressing Infrastructure Renewal and Backlog Ratios to ensure council is able to improve within 5 years and meet benchmarks within the 10 year period. |
|   |  | Continued advocacy for Financial Assistance Grants to be indexed.                                | Increased awareness of issues with ceasing indexation of Financial Assistance Grants; recommencement of indexation of Financial Assistance Grants.  |   |
|   |  | Continued pursuit of grant funding to fund increased renewals programs.                          | Continued successful grant applications; increased funding available to address renewal and backlog works; grant funding applications and programs that address renewal works are prioritised; grant funding for new infrastructure supported by the business case process prior to application.  |   |
| Optimise infrastructure financing (see Section 3.2)           | Prioritise funding for infrastructure renewals           | Review, document and implement organisation financial strategy.                                  | Financing sources are planned to meet investment requirements and minimise cost to the organisation; improved financial management processes; improved use of restricted and unrestricted funds <sup>20</sup> ; additional income and savings earmarked to address renewal and backlog ratios; improved use of internal loan funds; ongoing performance against the Fit for the Future ratios is monitored and achieved; regular ongoing independent review of council's financial position <sup>21</sup> . | Assist in progressively addressing infrastructure backlog and renewal ratios to ensure council is able to improve within 5 years and meet benchmarks within the 10 year period.   |
|   |  | Create an infrastructure renewal reserve fund.   | 'Lumpy' need for renewal due to significant infrastructure is addressed; provision exists for renewal to occur in most appropriate year.  |   |
|   |  | Allocate dividends from Water and Sewer businesses and Southern Phone to infrastructure renewal. | Increased spend on infrastructure renewals.   |   |
| Increase capacity and focus on long                           |  | Develop Community Engagement Framework and Toolkit.  | Improved level of community involvement in decision making <sup>22</sup> ; improved management of community expectation, engagement and relationships; increased involvement and improved planning outcome.   | Assist in maintaining and improving Council's performance   |

<sup>20</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>21</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>22</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

| Sustainability   |  |   |  |   |
|--|--|---|--|---|
| Objective  | Strategy   | Key Milestones  | Outcome  | Impact on Fit for the Future ratios   |
| term planning and sustainability   | <i>Ensure a collaborative, informed decision making process</i>                | Develop and circulate information on integrated planning and reporting and key asset and financial management challenges to Councillors, staff and the community. | Improved level of awareness and understanding of financial sustainability challenges and opportunities; benefits of the Integrated Planning and Reporting process are articulated <sup>23</sup> ; enhanced knowledge and skills in the area of financial and asset management <sup>24</sup> .  | against all 7 Fit for the Future ratios.  |
|  |  | Embed financially sustainable principles in council decision making processes.  | Decision making is based on sustainability principles and linked to sound long term planning <sup>25</sup> ; decision making is informed, responsible and sustainable.   |   |
|  |  | Integrate Fit for the Future ratios and improvement action plan in regular reporting processes.   | Councillors, managers and community regularly informed about progress in meeting and maintaining Fit for the Future ratios; ongoing performance is effectively communicated to all stakeholders; legislative requirements are met; decision making is informed by historical data; increased ability to benchmark.   |   |
| Increase capacity and focus on long term planning and sustainability (cont.) | <i>Develop and implement enhanced budgetary processes and controls (TCorp)</i> | Review, document and implement organisation financial strategy.   | Improved financial management processes; improved use of restricted and unrestricted funds <sup>26</sup> ; additional income and savings earmarked to address renewal and backlog ratios; improved use of internal loan funds; ongoing performance against the Fit for the Future ratios is monitored and achieved; regular ongoing independent review of council's financial position <sup>27</sup> . | Maintain and improve Council's performance against all seven Fit for the Future ratios.   |
|  |  | Revise fiscal responsibility policy and develop supporting code of practice.  | Financially responsible decision making; improved financial management processes.  |   |
|  |  | Review budget methodology and systems.  | Enhanced efficiency, effectiveness and managerial accountability; introduction of new and improved financial and budgeting software.   |   |
|  |  | Increase level of financial management and budgeting knowledge of managers and coordinators to advanced level.  | Improved financial sustainability in decision making processes; highly skilled and knowledgeable staff.  |   |
|  | <i>Stimulate economic growth and development</i>                               | Develop and implement an Integrated Economic Growth and Development Strategy in partnership with key stakeholders.  | Council plays a key role in stimulating and driving economic growth and development in our region.   | Assist in maintaining Operating Ratio and Own source revenue ratio. Assist in realising cost savings and containment and the redirection of funding to address Infrastructure Renewal and Backlog Ratios to ensure Council is able to improve within 5 years and meet benchmarks within the 10 year period. |
|  |  | Work effectively as a full member of the South East Joint Organisation.   | Regional collaboration occurs; improved opportunities and outcomes for community and Council; regional priorities identified and acted upon.   |   |
|  |  | Review and update land use planning strategies to facilitate population growth.   | Growth occurs in appropriate timeframes and areas through provision of available land, infrastructure and services as per planning instrument; infrastructure utilisation and expansion managed through strategies that do not result in adverse cost to the community or compromise Council's ability to be Fit for The Future.   |   |
|  |  | Review development contributions plans and policies to ensure consistency and the equitable sharing of infrastructure costs.                                      | The cost of key growth infrastructure is adequately shared and funded over time, supporting growth and development.  |   |
|  |  | Promote Eurobodalla as a place to live, visit, work and invest.   | Growth in residents, visitors and business is stimulated and increased over time; Eurobodalla is broadly recognised as an area of choice.  |   |

<sup>23</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>24</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>25</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>26</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>27</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

## 3.2 Infrastructure and Service Management

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

Please refer to pages 58-63 of Council's Improvement Proposal for a detailed plan to improve performance against the Infrastructure and service management benchmarks.

Council will meet the Fit for the Future infrastructure and service management benchmarks within 10 years.

The following objectives will assist Council to retain scale and capacity, improve infrastructure and service management and deliver value for money for the community:

- **Optimise infrastructure to meet community need**

We will continue to undertake revaluations of assets, implement key asset and infrastructure strategies and undertake an independent audit of Council's asset management position which will provide improved ability to plan and address the Building and Infrastructure Asset Renewal and Infrastructure Backlog ratios.

We will continue to adequately fund and undertake routine maintenance in accordance with asset management plans.

- **Optimise infrastructure financing**

We will review explore opportunities for more cost effective borrowing and debt management and review supporting policy documents to allow strategic use of debt to address the Building and Infrastructure Asset Renewal and Infrastructure Backlog ratios.

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

The following assumptions relate to the Infrastructure and Service Management strategies as outlined above and are in addition to the budget forecast assumptions provided in Section 2.3 (pages 44-46) of Council's Improvement Proposal..

- A restricted Infrastructure Renewal fund will be developed for the purpose of renewing General Fund assets. Any operating surpluses realised will be directed to the fund as well as additional income from:
  - Dividends from Council's Water and Sewer businesses
  - Dividends from Southern Phone shareholder relationship
  - Productivity and internal efficiency savings
  - Additional revenue raised from increases in fees and charges resulting from benchmarking and review in 2015-16.
- Restricted funds will not be accessed to deliver increased renewals program until 2019-20.
- Utilisation of the fund is forecast to be 60% of the amount required for asset renewals based on allowing a minimum level in the fund by 2024-25 and subject to treasury and borrowing management outcomes.
- Where 60% of funds are to be utilised from the Infrastructure Renewal fund the remaining is to be funded with borrowings.
- It is recognised that year to year renewal of assets is somewhat 'lumpy'. In such cases the restricted Infrastructure Renewal fund will only be drawn down for the amounts required.
- Borrowings are forecast using conservative assumptions.
- Unrestricted working capital is not included as a source of financing of renewal programs. Available cash balances will be reviewed during the annual borrowing program in each year to minimise debt servicing costs.
- Fully funding depreciation in the long term allows future renewal requirements to be funded from cash. Borrowings will only be required to smooth renewal expenditure peaks and troughs.

## 3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

| Infrastructure and Service Management                      |   |   |  |  |
|--|---|---|--|--|
| Objective  | Strategy  | Key milestones  | Outcome  | Impact on Fit for the Future ratios  |
| <b>Optimise infrastructure to meet community need</b>      | <i>Further enhance Council's asset management practices</i> | Independent analysis and assessment of Council's asset management practices, systems and position <sup>28</sup> . | Clarification of current position and benchmarks for improvement <sup>29</sup> ; accurate depreciation costs available <sup>30</sup> ; ability to accurately benchmark asset management practices; Independent assurance asset management process are robust and accurate; alignment with National Asset Management and Assessment Framework performance measurement; clear picture of financial status and future financial and asset requirements. | Assist in progressively addressing Infrastructure Renewal and Backlog Ratios to ensure Council is able to improve within 5 years and meet benchmarks within the 10 year period.  |
|  |   | Develop and implement asset management improvement plan.  | Improved links between strategic plans, asset management plans and long term financial plan <sup>31</sup> ; improved data to feed into key Integrated Planning and Reporting documents.  |  |
|  |   | Undertake continued revaluation of assets and refinement of data and plans <sup>32</sup> .                        | Improved ability to plan to address backlog and renewals in a sustainable systemic approach; continued update and review of data; improved knowledge and practices; improved performance against Fit for the Future ratios; technical data on condition and remaining useful life is current ; improved data on infrastructure backlog to feed into Long Term Financial Plan <sup>33</sup> .   |  |
|  |   | Develop, review and implement key asset and infrastructure strategies.  | New assets are based on community need and supported by sound business case and cater for population growth and tourism influx; appropriate input for Long Term Financial Plan and strategic planning available.   |  |
|  |   | Undertake broad and robust community engagement on infrastructure levels of service to establish expectations.    | Levels of service able to be tailored to meet community need and expectation; ability to accurately forecast future funding requirements and implement appropriate strategies <sup>34</sup> .  |  |
|  | <i>Maintain assets effectively</i>                          | Implement asset management plans for infrastructure maintenance (AMP).  | Infrastructure maintained appropriately.   | Maintain performance against asset maintenance ratio. Prevent further increase in backlog ratio.   |
|  |   | Adequately fund routine maintenance and operations (AMP).   | Optimised community investment; safety and risk mitigated; useful life of assets optimised.  |  |
| <b>Optimise infrastructure financing (see section 3.1)</b> | <i>Manage Council's borrowings responsibly</i>              | Employ strategic use of debt to target infrastructure renewals and backlog <sup>35</sup> .                        | Intergenerational equity in distributing costs of major infrastructure; improved quality of assets and services; enhanced value for ratepayers; ability to meet ongoing infrastructure needs.  | Maintain performance against debt service ratio. Assist in progressively addressing infrastructure backlog and renewal ratios to ensure Council is able to improve within 5 years and meet benchmarks within the 10 year period. |
|  |   | Explore opportunities for more cost effective borrowing and debt management <sup>36</sup> .                       | Reduced interest and borrowing costs for Council; targeted renegotiation of loans; use of subsidised loan funding from other levels of government is maximised.  |  |
|  |   | Review Council's borrowings policy and program.   | Borrowing policy and strategies comply with sound financial management principles; planned borrowing program ensures finances are available to meet infrastructure requirements.   |  |

<sup>28</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>29</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>30</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>31</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>32</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>33</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>34</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>35</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

<sup>36</sup> NSW Treasury Corporation Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations and Analysis, April 2013 (TCorp).

### 3.3 Efficiency

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

Please refer to pages 64-67 of Council's Improvement Proposal for a detailed plan to improve performance against the Efficiency benchmarks.

Council meets the Fit for the Future efficiency benchmark.

The following objectives will assist Council to retain scale and capacity, enhance efficiency and continue to deliver value for money for the community:

- **Increase organisational efficiency**

We will ensure achievement and monitoring of ongoing efficiencies by developing the Information Technology Strategy and Procurement Strategy, Implementing the Greenhouse Action Plan and developing a productivity and cost containment register to track total savings over time.

We will review and implement the Workforce Management Plan and Learning and Development Plan and continue to review our organisation structure to ensure we have skilled staff in an optimal organisation configuration to deliver services to our community.

- **Ensure ratepayers receive value for money in service delivery**

We will continue to undertake organisational service reviews to ensure services are innovative, flexible, meet community need and represent value for money and work effectively as a full member of the South East Joint Organisation in partnership with NSW and Australian Government.

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

The following assumptions relate to the Efficiency strategies as outlined above and are in addition to the budget forecast assumptions provided in Section 2.3 (pages 44-46) of Council's Improvement Proposal.

- Existing service levels have been used for financial modelling.
- Total expenditure includes depreciation and grant funded program expenditure.
- Total income includes Road to Recovery and Financial Assistance Grants.

### 3.3 Efficiency

Outline your strategies and outcomes in the table below.

| Efficiency   |   |   |  |  |
|--|---|---|--|--|
| Objective  | Strategy  | Key milestones  | Outcome  | Impact on Fit for the Future ratios  |
| <b>Increase organisational efficiency</b>                            | <i>Continually seek productivity and efficiency gains in operations</i> | Develop and endorse organisation Information Technology Strategy.   | Streamlined processes; productivity improvements; manual processing time reduced; optimal mobile infield technologies identified and implemented; simplified internal systems; improved business processes.  | Assist in maintaining and improving Council's performance against all seven Fit for the Future ratios.   |
|  |   | Review and strengthen Procurement Strategy.   | Improved probity, streamlined processes; actual savings on items procured; accountability and transparency, sustainable procurement practices.   |  |
|  |   | Implementation of Greenhouse Action Plan.   | Increased revenue and savings from Greenhouse Action Plan projects; Council is a more efficient organisation; recurrent savings in operational budget able to be directed to address Fit for the Future ratios.  |  |
|  |   | Continued participation in relevant sector benchmarking programs.   | Ongoing comparative performance is regularly and comprehensively communicated to all stakeholders; decision making is informed by historical data; increased ability to benchmark and availability of benchmarking information.  |  |
|  |   | Develop savings, productivity improvement and cost containment register.  | Savings and efficiencies are measureable and able to be reported to relevant stakeholders; ongoing historical record of organisational efficiency gains.   |  |
|  |   | Review and implement Council's Workforce Management Plan.   | Improved linkage to Council's suite of Integrated Planning and Reporting documents; council has the right people in the right positions to deliver on community need and expectations.   | Assist in maintaining and improving Council's performance against all seven Fit for the Future ratios.   |
|  |   | Review organisation structure.  | Optimal organisational configuration to respond to service reviews and agreed levels of service; labour costs, management tiers, staff numbers and reporting lines are appropriate and sustainable; improved and innovated contracting options are investigated.   |  |
|  |   | Implement the Learning and Development Plan.  | Council staff are skilled and able to best deliver services to the community.  |  |
|  |   | Benchmark and review corporate functions.   | Attributions reflect level of use of corporate functions and are fair and equitable; corporate performance measures are established and implemented; efficiency gains and productivity savings are made.   |  |
| <b>Ensure ratepayers receive value for money in service delivery</b> | <i>Ongoing program of organisational service reviews</i>                | Review mix and level of services delivered by Council in line with key Integrated Planning and Reporting documents.   | Council services meet community need and represent value for money; opportunities to reduce cost of service delivery are explored and implemented; new and innovative revenue generation ideas are identified; staff productivity gains are identified; continuous improvement of service delivery and cost savings. | Assist in maintaining a balanced Operating Ratio. May have impacts on Own Source Operating Revenue and/or Efficiency Ratio dependant on engagement outcomes and service delivery needs and levels. |
|  |   | Undertake broad and robust community engagement on service delivery levels and methods to establish expectation.  | Service delivery models are innovative, flexible and make best use of opportunities and resources; service delivery models reflect community engagement outcomes.  |  |
|  | <i>Maintain and strengthen strategic partnerships</i>                   | Work effectively as a full member of the South East Joint Organisation.   | Regional collaboration occurs; improved opportunities and outcomes for community and council; increased efficiency and reduced costs in service delivery.  | Assist in maintaining a balanced Operating Ratio. May have impacts on Efficiency Ratio dependant on advocacy outcomes, partnership outcomes and final details of Fit for the Future benefits.      |
|  |   | Advocate to rationalise and redistribute costing for emergency services in regional areas.  | Increased awareness of Council's funding of emergency services in regional areas; rationalisation of services and reduction in cost to Council and the community.  |  |
|  |   | Ensure Council is in a position to take advantage of Fit for the Future benefits including streamlined process for working in partnership with State and Federal Governments. | Increased funding and assistance from other levels of government; maintained scale and capacity and ability to work as a positive partner with NSW and Australian Governments.   |  |

## 3.4 Improvement Action Plan

Summarise the key improvement actions that will be achieved in the first year of your plan.

Please refer to pages 72-75 of Council's Improvement Proposal for a comprehensive Improvement Action Plan and confidential attachment 2 for financial modelling.

The following table outlines the high level actions to be undertaken in the next two years. While Council is only required to outline actions for 2016-17 to satisfy Fit for the Future Improvement Proposal requirements, Council has planned to undertake a significant amount of work in 2015-16 that assists in setting and building the foundation for the success of key strategies and Council's Improvement Proposal.

### Action plan

| Actions   | Milestones |
|---|------------|
| 1. Balance the cost of service delivery with income levels              | 2015-17    |
| 2. Optimise infrastructure financing                                    | 2015-17    |
| 3. Increase capacity and focus on long term planning and sustainability | 2015-17    |
| 4. Optimise infrastructure to meet community need                       | 2015-17    |
| 5. Increase organisational efficiency                                   | 2015-17    |
| 6. Ensure ratepayers receive value for money in service delivery        | 2015-17    |

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

Please refer to pages 68-71 of Council's Improvement Proposal for further information on the development of Council's Improvement Action Plan.

A cross Council collaborative working group was established involving Council's General Manager, Executive Leadership Team, and key staff from finance, community planning, asset management, infrastructure, environment and business development. The working group comprehensively reviewed existing strategies, consultation outcomes and data that would inform the development of Council's Improvement Action Plan including:

- 2013-14 performance against the Fit for the Future benchmarks
- 2016-17 forecast performance against the Fit for the Future benchmarks
- actions underway during the current 2014-15 year and planned for the 2015-16 year that would impact forecasts
- extensive community consultation outcomes from the last five years for Council's Integrated Planning and Reporting documents and key infrastructure strategy development.

Following this review the working group explored new and innovative strategies that would assist in ensuring Council's continued performance against the Fit for the Future benchmarks while maximising community benefit.

These strategies were then workshopped over a series of meetings and developed a two year Improvement Action Plan with the aim of working within current budget and resourcing constraints to build a strong strategic policy, information base and foundation to become and remain Fit for the Future.

Council assessed its scale and capacity internally and supported the ILGRP's recommendation. External consultants were not utilised in the development of Council's Improvement Proposal.

### How was the community involved?

During the extensive community engagement that took place to inform the development of the Integrated Planning and Reporting documents, our community indicated that they recognise the financial sustainability challenge we face and clearly identified the services and infrastructure they need and expect both now, and in the future.

Development of the Community Strategic Plan, Delivery Program and Operational Plan has been informed and supported by the Resourcing Strategy (Long Term Financial Plan, Workforce Management Plan and Asset Management Strategy) as well as supporting strategies, such as the Recreation and Open Space Strategy, Pathways Strategy, Traffic, and transport planning studies and the Disability Action Plan, all of which included consultation processes focused on infrastructure and social planning and optimisation.

Council has embraced the opportunities offered by Integrated Planning and Reporting to genuinely engage the community in a vision for the future, foster greater awareness of Council's services, ensure alignment of service planning and delivery with community needs and expectations, highlight the financial and asset challenges facing the organisation and finally, develop a solution to meet community expectations and move towards financial sustainability in the future.

The outcomes and details of this engagement has informed the development of the first two years of Council's Improvement Action Plan.

In addition, Council developed a dedicated website to inform the community about the Fit for the Future program and invited interested community members to a series of information sessions about our revised Delivery Program 2013-17 and Draft Operational Plan 2015-16 where Fit for the Future was also discussed.

Council's Improvement Proposal will continue to involve conversations with our community as we work together to refine and implement Council's Improvement Action Plan to build a financially sustainable future for Eurobodalla. The review of the Community Strategic Plan which is due to commence later in 2015 will be the start of this next phase of community conversations.

At its meeting on 16 June 2015, Council's Independent Audit Committee resolved to support Council's Improvement Proposal and were satisfied that due process had been followed.

### How Councillors were involved and approved the plan

Since the release of the Fit for the Future program Councillors have received regular briefings outlining progress in developing Council's Fit for the Future Improvement Proposal.

Councillors were also involved in the extensive engagement exercises outlined above, the outcomes of which were the foundation for development of Council's Improvement Action Plan. Other key strategies, such as the Pathway Strategy, Disability Action Plan and the Recreation and Open Space Strategy which also underpin Council's Improvement Proposal have been adopted by Council.

At its ordinary meeting on 12 May 2015 Councillors considered a report<sup>37</sup> on Fit for the Future which outlined the process, way forward and community consultation to date to inform the development of Council's Improvement Proposal.

At its ordinary meeting on 23 June 2015 Councillors considered Council's Improvement Proposal and resolved:

**15/118 MOTION** *Councillor Burnside/Councillor Schwarz*

*THAT Council:*

1. *Endorse Council's Fit for the Future Improvement Proposal, including any further formatting or minor editorial changes as a result of the requirement for the submission to now go into a template, for submission to the Independent Pricing and Regulatory Tribunal (IPART).*
2. *Approve the creation of an internally restricted Infrastructure renewal fund.*

*(The Motion on being put was declared **CARRIED**)*<sup>38</sup>

The development of Council's Improvement Action Plan was a comprehensive collaborative process, which made use of Council's previous engagement outcomes to deliver an informed, achievable and robust Improvement Action Plan.

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<sup>37</sup> Attachment 2

<sup>38</sup> Attachment 2

### 3.5 Other actions considered

In preparing your Improvement Action Plan, you may have considered other strategies/actions but decided not to adopt them. Please identify what these strategies/actions were and explain why you chose not to pursue them.

In developing its Improvement Proposal and Action Plan, Council focussed on meeting Fit for the Future requirements and maximising community benefit. As part of this, Council considered and explored some actions that were not included in the final Improvement Action Plan. These actions and the reasons for not including them in the final Proposal are outlined below:

#### ***Amalgamation***

Eurobodalla was not recommended for amalgamation by the Independent Review Panel. This recommendation was subsequently endorsed by the NSW Government.

Council approached neighbouring councils, Bega Valley and Shoalhaven, who were also recommended to continue as stand alone councils, for initial discussions regarding the potential for mergers. This was to ensure that any potential advantages were considered as part of the Fit for the Future process.

The option was not viewed as providing significant community benefit and would not improve Council's capacity to meet Fit for the Future requirements. All three councils decided not to pursue this option.

Eurobodalla Council did not include amalgamation as a possible strategy in its Improvement Proposal for the following reasons:

- Eurobodalla was not identified for amalgamation by the Independent Review Panel.
- Eurobodalla was identified as having the scale and capacity to stand alone. Council's starting position is that it meets five out of seven benchmarks prior to improvement actions being implemented.
- Council will meet all seven Fit for the Future benchmarks within 10 years.
- Eurobodalla has a strong sense of local identity and place which is important to the community and could likely be compromised if Council were to amalgamate.
- Geographic spread and topography of Eurobodalla and neighbouring councils does not support amalgamation.

### ***Reducing service levels and staff numbers***

Council considered cutting services to find additional operating expenditure to direct to infrastructure renewals and improve the Operating Performance, Building and Infrastructure Asset Renewal and Infrastructure Backlog Ratios. Any reduction in service delivery or level was not supported by the community as evidenced through Council's previous community engagement activities.

Council did not include reduction to services as a possible strategy in its Improvement Proposal for the following reasons:

- Community consultation to date indicates current service delivery is valued with 89% of residents surveyed very satisfied to somewhat satisfied with the level of service and facilities provided by Council<sup>39</sup>.
- The action would be considered pre-emptive given an intensive community engagement process will be undertaken as part of the Integrated Planning and Reporting process to determine type and level of services to be delivered and any service reduction or expansion would occur as part of this process or Council's ongoing organisational service reviews.

Council's organisational structure is already considered as part of an ongoing, evidence based review process, which takes into account internal efficiencies, technology improvements, service delivery and community benefit outcomes. Further consideration of this action will also be undertaken as part of the Integrated Planning and Reporting process to determine type and level of services to be delivered and any service reduction or expansion would take place as part of this process.

### ***Timeframe to meet***

The principle Fit for the Future benchmarks that Council's Improvement Action Plan addresses are the Building and Infrastructure Asset Renewal and Infrastructure Backlog Ratios. In determining the timeframe to improve and meet both benchmarks, Council considered financial sustainability, infrastructure asset planning and most importantly, how the timing of implementation would impact our community.

Council plans to improve these two ratios by year five and meet by year 10 and make incremental savings and improvements in the Operating Performance Ratio to ensure measured progress. This aligns with Council's Integrated Planning and Reporting and Long Term Financial Plan and ensures that the community benefits are balanced and maintained into the future.

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<sup>39</sup> Micromex Research Survey Report – Eurobodalla Shire Council, November 2014, pp 7 (Attachment 4)

## 4. How will your plan improve performance?

For detail information on how Council plans to improve performance, please refer to pages 78-80 of Council's Improvement Proposal.

### 4.1 Expected improvement in performance

| Measure<br>(benchmark)  | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | Achieves<br>FFTF<br>benchmark? |
|---|---------|---------|---------|---------|---------|---------|--------------------------------|
| <b>Operating Performance Ratio</b><br>(Greater than or equal to break-even average over 3 years)              | -0.02   | -0.02   | -0.02   | 0.01    | 0.02    | 0.02    | ✓<br>Meet                      |
| <b>Own Source Revenue</b><br>Ratio (Greater than 60% average over 3 years)                                    | 69.25%  | 69.72%  | 69.51%  | 70.87%  | 72.90%  | 74.99%  | ✓<br>Meet                      |
| <b>Building and Infrastructure Asset Renewal</b><br>Ratio (Greater than 100% average over 3 years)            | 64.11%  | 98.77%  | 108.50% | 121.03% | 93.44%  | 93.55%  | ✗<br>Improving                 |
| <b>Infrastructure Backlog Ratio</b><br>(Less than 2%)   | 15.34%  | 14.16%  | 13.15%  | 12.26%  | 11.55%  | 9.82%   | ✗<br>Improving                 |
| <b>Asset Maintenance Ratio</b><br>(Greater than 100% average over 3 years)                                    | 83.87%  | 85.84%  | 100.00% | 100.00% | 100.00% | 100.00% | ✓<br>Meet                      |
| <b>Debt Service Ratio</b><br>(Greater than 0% and less than or equal to 20% average over 3 years)             | 6.93%   | 7.49%   | 8.14%   | 8.93%   | 9.65%   | 10.15%  | ✓<br>Meet                      |
| <b>Real Operating Expenditure per capita</b><br>A decrease in Real Operating Expenditure per capita over time | 1.48    | 1.37    | 1.37    | 1.36    | 1.36    | 1.36    | ✓<br>Meet                      |

**Note:** IPART will assess this table in accordance with section 3.3 in the [Methodology for Assessment of Council Fit for the Future Proposals](#)

## 4.1 Expected improvement in performance

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

For further detail on Council's forecast performance against the benchmarks please refer to pages 49-67 of Council's Improvement Proposal.

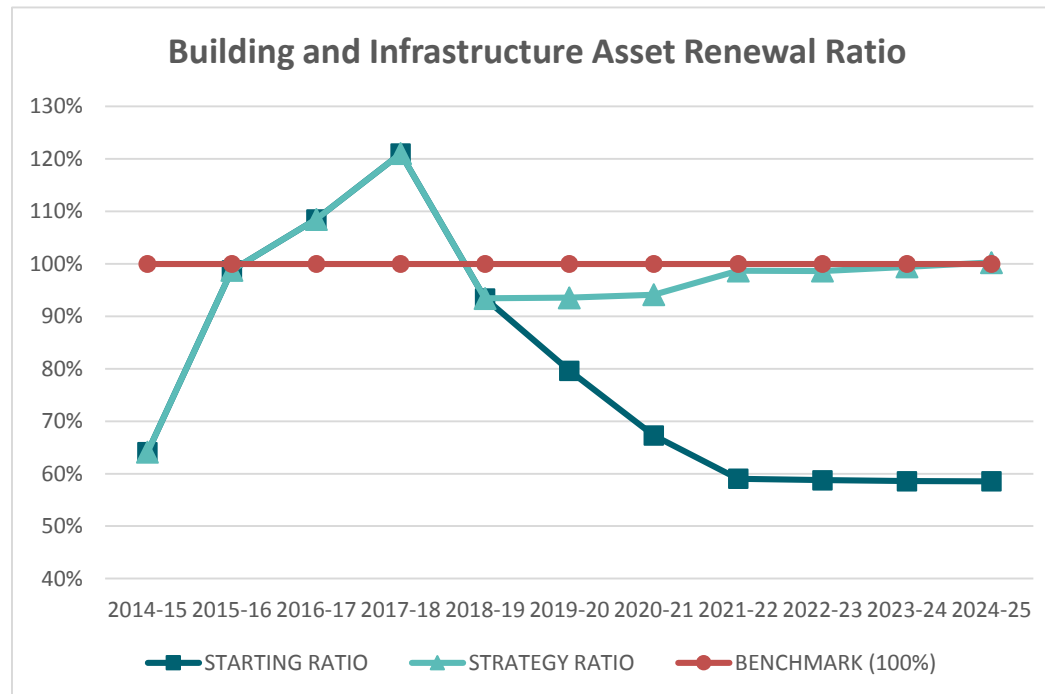
Council's program of community and transport infrastructure works to be delivered as a result of the rate variation and an ongoing increased focus on renewal will contribute significantly to improving the performance against the Building and Infrastructure Asset Renewal and the Infrastructure Backlog Ratios. The impact on each ratio is outlined below:

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

The increased focus on renewals sees a spike above 100% in years 2016-17 and 2017-18 (average over three years) and then drops back to 93% and 94% for 2018-19 and 2019-20. While Council does not meet the ratio in 2019-20, it does show progressive improvement and meets the improvement proposal assessment criteria which is to meet or improve within five years.

An increased focus and spend on renewals from 2019-20 as a result of key strategies will see Council meet the ratio in full within 10 years and continue to do so on an ongoing basis, ensuring long term infrastructure sustainability balanced with community benefit.

The graph below highlights Council's forecast over the next 10 years after implementation of its Improvement Action Plan (strategy ratio) compared to its starting position:



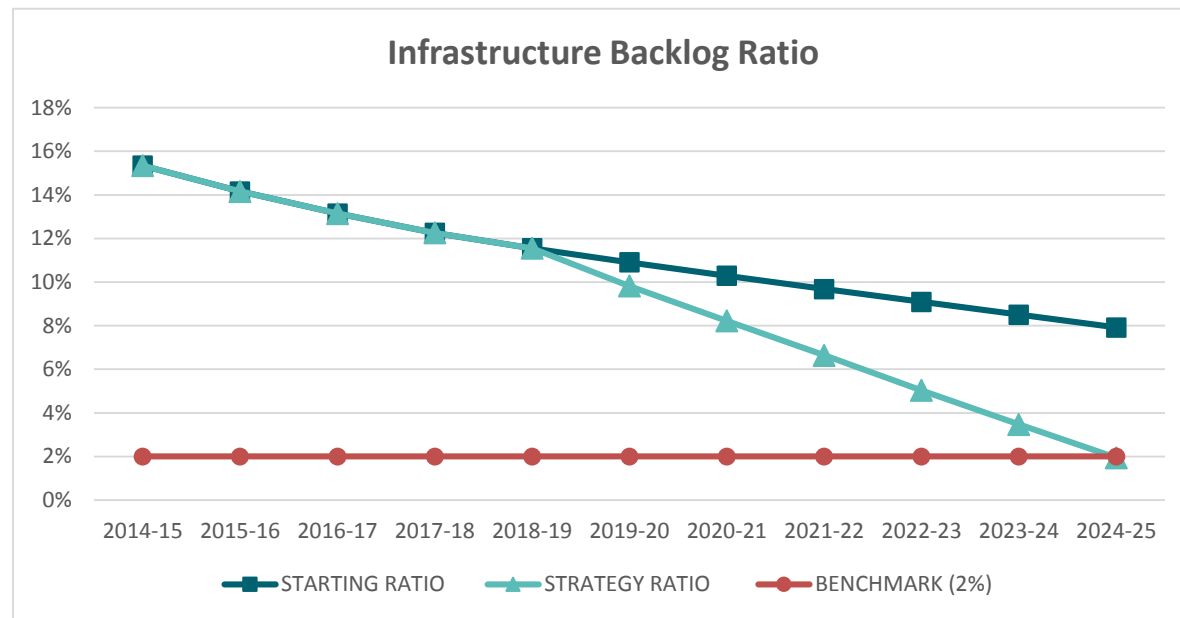
Graph 9: Council's Building and Infrastructure Asset Renewal Ratio forecast

### Infrastructure Backlog Ratio

While Council does not meet the ratio in 2019-20, it does show progressive improvement and meets the Improvement Proposal assessment criteria of meet or improve/inform within five years.

It is expected that ongoing revaluation of asset classes and depreciation models will contribute to improvement in performance as data becomes more reliable. An increased focus and spend on infrastructure renewals from 2019-20 as a result of key strategies will see Council meet the ratio in full within 10 years and continue to do so on an ongoing basis, ensuring a real reduction in the Infrastructure Backlog over time.

The graph below highlights Council's forecast over the next 10 years after implementation of its Improvement Action Plan (strategy ratio) compared to its starting position:



Graph 10: Council's Infrastructure Backlog Ratio forecast

## 5. Putting your plan into action

How will your council implement your Improvement Action Plan?

Overall responsibility for the implementation of this Improvement Proposal and Action Plan rests with Council and the Executive Leadership Team.

Improvement Action Plan items are integrated into Council's Delivery Program 2013-17 and Operational Plans and Budget 2015-16<sup>40</sup> and 2016-17. Responsible officers for each item are identified in these documents to ensure accountability in delivery.

Council's Improvement Action Plan items will be reported on in Council's six monthly progress reports and Annual Report as part of current legislated Integrated Planning and Reporting process. Council's Internal Audit Committee will monitor the financial outcomes including progress towards achieving the benchmarks within the required time.

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<sup>40</sup> Eurobodalla Shire Council, Delivery Program 2013-17 and Operational Plan and Budget 2015-16, pp 4-10 (Attachment 3)