ATTACHMENT 13

FIT FOR THE FUTURE PLAN – JUNE 2015

PENRITH

FIT FOR THE FUTURE IMPROVEMENT PLAN

PENRITH
CITY COUNCIL

Executive Summary

This is Penrith City Council's improvement plan in response to the Office of Local Government's Fit for the Future criteria and associated benchmarks. This plan outlines how our performance will be maintained or improved against those benchmarks we currently meet, and improved against those benchmarks we do not currently meet.

Penrith City is a high growth local government that pursues its community's aspirations and builds strong international and local partnerships. Penrith City Council meets the Scale and Capacity benchmark as determined by the Independent Local Government Review Panel's preferred published options.

Modelling which reflects the actions and assumptions included in this plan indicates that we will meet all 7 benchmarks by 2019-20, as shown below:

		FFF 13-14		FFF 19-20
Operating Performance Ratio	***-4.3%***	**No**	**2.64%**	**Yes**
Own Source Revenue	**67.54%**	**Yes**	**78.70%**	**Yes**
Asset Renewal Ratio	**44.38%**	**No**	**63.83%**	**Yes**
Infrastructure Backlog Ratio	***4.43%***	**No**	**1.17%**	**Yes**
Asset Maintenance Ratio	**114.10%**	**Yes**	**100.74%**	**Yes**
Debt Service Ratio	**7.03%**	**Yes**	**6.29%**	**Yes**
Real operating expenditure	**0.86**	**No**	**0.84**	**Yes**

The key strategies that will be used to realise this improvement are:

1. Implement the Building and Infrastructure Asset Renewal program as outlined in the Asset Management Strategy
2. Growth to own source revenue
3. Improved operating performance through realisation of targeted cost savings and productivity improvements
4. Introduction of a comprehensive asset management strategy that identifies assets that are critical to the council's operations; sets expenditure in proportion to standard, level and risk rating and includes rationalisation of assets,
5. Complete the Assets Review, and endorse a program of action, including scaling of assets (service level)
6. Update and maintain Asset Management Plans to identify contemporary asset service standards and asset risk management, following comprehensive community engagement
7. Confirmation of service levels following comprehensive community engagement
8. Introduce service level agreements and service specifications that reduce duplication and double handling
9. Improve overall performance of key business processes, including transformational change in ICT

10. Comprehensive improvement plans that show a decrease in operating expenditure per capita over time achieved through savings realised through improved productivity and efficiency in service delivery and asset management
11. Pursue efficiencies, economies of scale, resource and knowledge sharing through the Strategic Alliance with Blue Mountains City Council and Hawkesbury City Council

The projected impact of this improvement plan and additional actions identified through the Capacity Review are modelled in the Long Term Financial Plan. Actions under each of these strategies for 2015-16 and 2016-17 are detailed in this plan. Actions beyond 30 June 2017 will be discussed with the new Council when elected in September 2016, and aligned with the preparation of the new Integrated Planning and Reporting Documents, particularly the Delivery Program and Resourcing Strategy. Reporting against all actions to senior management, Councillors and the Community will occur within the reporting framework set by IPR. Key actions which Council has already commenced (and committed resources where required) include completion of the services review ($363,000 plus additional staff), completion of the assets review ($46,000 plus additional staff), restructure to facilitate better asset management; comprehensive plan to modernise ICT ($1.5 million plus additional staff); review of business processes ($26,000) and comprehensive community engagement ($230,000 plus additional staff).

All underlying assumptions relating to preparation of the Long Term Financial Plan are included in the extract from the Resourcing Strategy attached to this report. In addition to financial assumptions, there are a number of other key assumptions which underpin this improvement plan, as follows:

1. The Asset Renewal and Established Areas Strategy Special Rate Variation (AREAS SRV) will continue beyond 30 June 2016, at its current rate
2. An additional 508(A) Special Rate Variation of 2.4% above the estimated rate peg will be approved for each of the four years from 1 July 2016, after which time this increase will be permanently included in the rate base (this increase is included in the LTFP)
3. The following business improvements will be implemented:
    a. Service specifications including service level agreements
    b. Allocation of resources required to realise savings from the business process review
    c. Proposals for mutually beneficial shared services through the strategic alliance
    d. Changes to the organisational structure that have been investigated to ensure they deliver expected benefits
    e. Reinvestment of capacity generated to areas of greatest organisational need that will generate further efficiencies or improvements in service delivery
    f. Levels of service as agreed with the community through community engagement
4. Transport assets (roads, footpaths etc.) grow by no more than 1%-2% per year
5. Managed growth in building and open space assets (additional assets received are partly offset by rationalisation of or existing assets; consideration is given to upgrade of existing assets as an alternative to provision of new assets)
6. Financial Assistance Grants will remain at a similar level to 2014-15
7. Annual IPART determined rate peg in the 2%-3% range
8. $4 million per year will be added to the current allocation for building asset renewal for the first 8 years, giving a total building asset renewal budget per annum of $6 million. This is to be funded in conjunction with the proposed Special Rate Variation of 2.4% in addition to the renewal of the existing AREAS SRV. The program will address backlog, renewal, compliance and agreed upgrade; with backlog and renewal works identified by the Asset Management Plan taking priority.
9. Asset renewal is defined as follows:
   Asset renewal is any capital expenditure on an asset which does not increase its capacity or service level, including capital works which bring it into compliance with current construction standards (e.g. replacing a toilet with an accessible toilet, and associated works to make the building accessible)

10. Funding asset renewal to the same level as anticipated depreciation is not reasonable for Penrith City Council at this time, given the age, expected useful life and growth in assets arising from development of new release areas. This position will be reviewed as part of reviewing the Asset Management Strategy and Asset Management Plans and an appropriate target set to ensure renewal funding is sufficient to reduce or eliminate backlog.
11. Asset backlog is defined as follows:
    Asset backlog is unfunded high residual risk associated with assets essential to achieving the outcomes stated in Council's Community Strategic Plan
12. In addition to the general assumptions previously listed, calculation of this benchmark is based on the population growth projections prepared by the Department of Planning, as follows:

	2011	2016	2017	2018	2019	2020
Total population	184,600	203,950	207,940	211,930	215,920	219,910

There are also a number of risks associated with strategies, actions and assumptions underpinning this plan. Risks applicable to each indicator are discussed separately, however they can be broadly categorised as follows:

- Assumptions prove inaccurate over time, particularly in relation to growth in revenue and assets
- Failure to implement recommended changes arising from the services review and assets review, resulting in expected efficiencies and savings not being realised
- Failure to implement endorsed changes (through organisational or political resistance to change) resulting in expected efficiencies and savings not being realised
- Failure to resolve conflicting priorities between Council and community expectations resulting in competing demands for limited resources
- Inaccurate costing of recommendations resulting in expected benefit not being realised
- Recommendations not be implemented within anticipated timeframes, resulting in reduced or slower realisation of benefits

The key strategy being implemented to mitigate these risks is comprehensive engagement with staff, Councillors and the community. This engagement will provide the opportunity for clear communication of why change is needed and the capacity of the organisation to deliver on expectations, as well as early understanding of issues of concern and potential conflict. This will in turn reduce risks associated with resistance to change and competing priorities. Regular monitoring and reporting of progress on key actions and changes in the financial benchmarks will enable early identification of benefits or costs not being as expected, and allow remedial action to be planned if required.

Contents

Introduction

This is Penrith City Council's Improvement Plan, Action Plan and Implementation Plan to support our submission to IPART in response to the Office of Local Government's Fit for the Future requirements. This document provides additional detail around how Penrith City Council will work to improve in all areas of our operations, not just those where we do not currently meet the benchmarks set by the OLG.

Capacity Review

Penrith City Council identified a need to improve productivity in 2013 and established a series of Corporate Priority Project Teams to review key aspects of business, Information Technology, Performance Management, Decision Making, Priority Setting and Long Term Financial planning, in response to a request from our Councillors to increase our capacity to deliver city shaping projects. A Financial Capacity Review commenced to look specifically at whether our current long term financial strategies were appropriate to meet both our current and long term needs. The initial results of this review indicated that, although we could continue to meet day to day operational costs, addressing the infrastructure backlog and planning for larger capital projects presented a challenge. In response, an organisation wide Capacity Review commenced in July 2014 that included activation of a new senior body to oversee Information Communication Technology (ICT) who commissioned Beyond Technology to review and develop a new ICT strategy and, arising from the strategy, implement a new ICT structure and direction.

The Capacity Review was a long term project to examine all key areas of Council's operations. As part of the Capacity Review Council engaged ACELG (now CLG) to work with a dedicated internal business improvement team to review Council's 44 services. A business process review is also occurring, that started in early 2014 with participation in the PwC Local Government Management Effectiveness Survey and along with the findings from the review into ICT and Customer Service is focussing on those processes which cross multiple service boundaries and therefore provide the most opportunity for savings and productivity improvements. As part of this, Council engaged ArcBlue to review our purchasing and supply process, to build on the findings of their review of WSROC's procurement function. An Asset Review is also underway, with the dual aims of updating the Asset Management Policy, Strategy and Plans, and of examining whether the current processes and responsibilities around asset management are the most appropriate given the growth in assets expected over the next 10-15 years. Jeff Roorda and Associates have been commissioned to assist with the Asset Review.

Penrith City Council recognises that, even given the expected savings and productivity improvements arising from the other components of the Capacity Review, we will have insufficient resources to deliver everything our community would like. A priority setting tool, incorporating the principles of Social Return on Investment, has been designed to provide a framework to help rank requests for funding of different types so that an informed choice can be made. Social Ventures Australia was commissioned to assist with development of this tool, in conjunction with a Manager's working group to ensure the tool captured the costs and benefits of different proposals.

A community engagement program commenced in November 2014 and so far has covered methods of consultation and general principles for reinvestment of funds gained through the sale of assets. Additional engagement will roll out from July 2015 to confirm which issues are most important to our community, levels of service expected from different levels of asset within key asset classes, willingness to pay for increased levels of service and overall community priorities. This engagement program will employ different techniques to engage with different parts of our community, and will inform not just the Asset Management Strategy and Plans, but also a potential application for a Special Rate Variation and the development of our new Community Strategic Plan. One of the key elements of this engagement program is a community panel, which will be drawn from a statistically representative sample of our community and go through an in-depth consultation on key issues over several months. Council is consulting with the New Democracy Foundation and it is proposed to engage them to assist in selecting and running a Community Panel. The Panel will be provided with comprehensive background information and asked to deliberate on the following issue: What services and infrastructure do we need in Penrith?

Although not originally focussed on the Fit for the Future benchmarks the Capacity Review addresses the same issues. Expert assistance commissioned for the Capacity Review has also assisted the development of this plan. Key features of the Capacity Review and their links to the benchmarks are set out in the table below. Additional information on all components can be provided on request.

Capacity Review Component	Overall objectives	Links to FFF benchmarks
Organisation wide service review.	Save costs Improve productivity Improve quality of service to the community Consider alternative delivery models	Own source revenue Asset Maintenance Ratio Real Operating Expenditure Operating Performance Ratio
Business process review	Save costs Improve productivity	Real Operating Expenditure Operating Performance Ratio
Assets review	Save costs Improve productivity Improve long term asset management and planning	Asset Maintenance Ratio Building and Asset Renewal Ratio Infrastructure Backlog Ratio
Priority setting	Ensure that we allocate resources to meet community priorities including forward funding through debt where appropriate	Debt service ratio
Community engagement (July 2015 to November 2016).	Clarify community priorities Clarify expected levels of service Establish agreed standard of infrastructure	Asset Maintenance Ratio Real Operating Expenditure Infrastructure Backlog Ratio Debt Service Ratio
Review and modernize ICT	Improve productivity Improve quality of service to the community Facilitate alternative delivery models Save costs	All benchmarks
Customer Service review	Improve quality of service to the community Improve productivity	Asset Maintenance Ratio Real Operating Expenditure Infrastructure Backlog Ratio Debt Service Ratio

Identifying a need for a capacity building exercise and responding to this need by commencing the Capacity Review in June 2014 demonstrates that Penrith City Council has a genuine commitment to improving long term financial sustainability. The majority of the actions identified in this improvement plan have been developed from the Capacity Review, and have been informed through ongoing consultation around the Capacity Review with the community, Councillors, senior management and staff.

Information and Communications Technology (ICT) Strategy

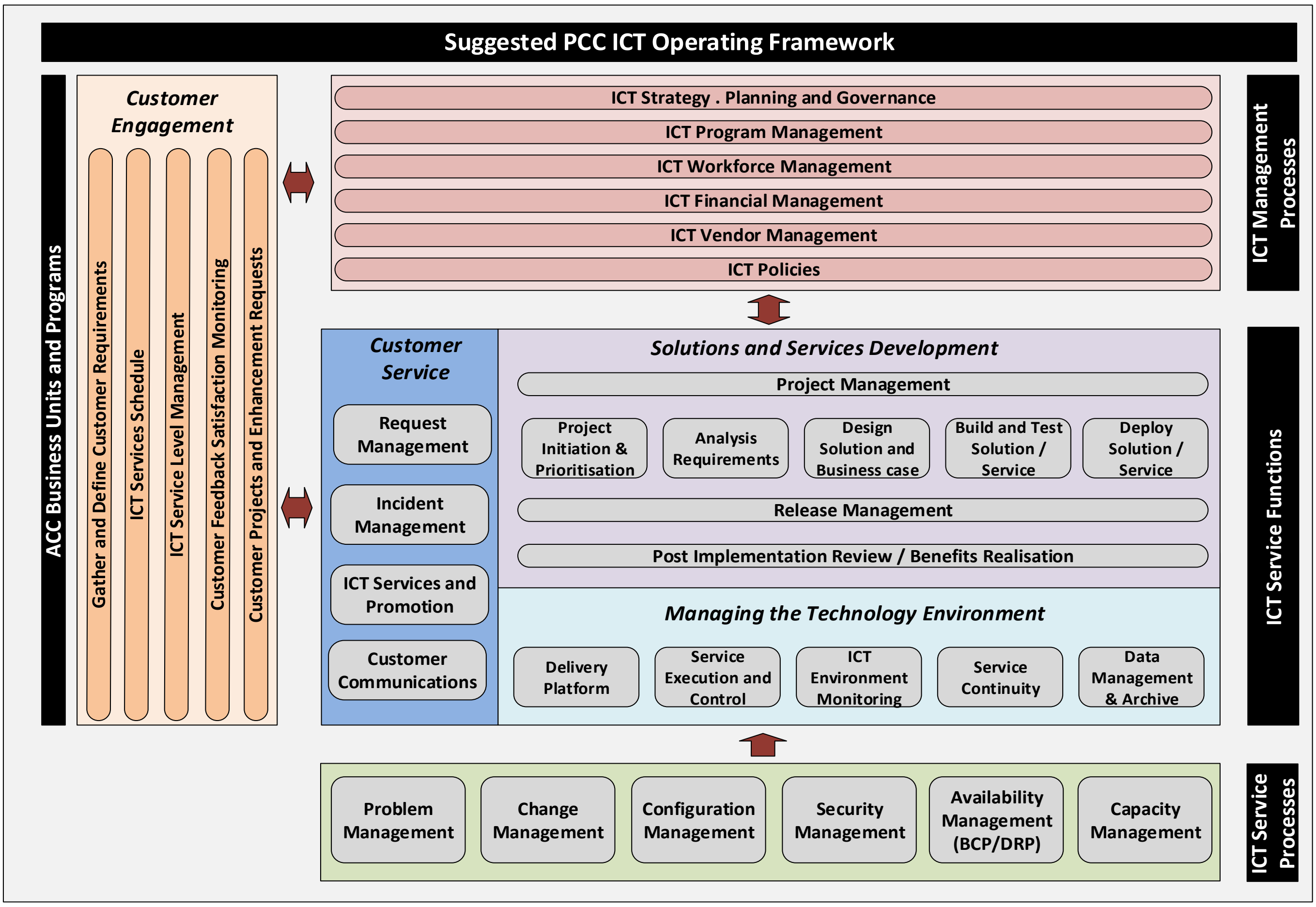
Council identified in 2014 that ICT was an area of significant potential to improve efficiency across all areas of operations. It was acknowledged that major investment was need to transform our ICT environment and Beyond Technology were commissioned to develop a new ICT Strategy to identify what was needed to allow Council to leverage opportunities presented by the NBN and mobile technology. The findings of the review and the recommendations of the strategy were far reaching, involving a substantial refocus and restructure of the ICT Department as well as a significant investment in hardware, software and training for ICT staff. These recommendations were endorsed in January 2015 and are in the process of being implemented.

The reform of Penrith City Council's ICT is the key enabler for all other projects within the Capacity Review. It will enable business process innovation, improved business efficiency, productivity and improved quality and timeliness of service to the community. Implementation of the new ICT Strategy began in February 2015 with a restructure of the IT Department and appointment of a Chief Information Officer (CIO) and is scheduled to complete in February 2016. Significant resources have already been allocated to this process, and will continue to be allocated as each stage rolls out. In addition, a dedicated communications strategy is being implemented to both inform staff of the opportunities and identify areas of concern.

The following guiding principles have been established to underpin the transformation of Penrith City Council's ICT philosophy:

1. **Integrated Systems**
   Fully integrated systems to improve access to information, leading to a more responsive service and better relationship with customers and suppliers; ensure better use of staff time.
2. **Cloud first**
   Cloud based services will improve scalability and reliability, upgrades, agility, resilience against system failures and responsiveness to changing business needs.
3. **Mobility enablement**
   Services available everywhere with appropriate security embedded into design and operation.
4. **Application delivery**
   IT applications will be simple and easy to adopt.
5. **Device and form factor**
   The service or application will be appropriate for the form factor of the prime audience or use responsive design.
6. **Self or guided service access**
   Applications will be procured or developed with the concept of customer self-service being the preferred delivery platform.
7. **Maintain currency of software**
   Installed versions will be no more than one major version behind the current version in the market place.

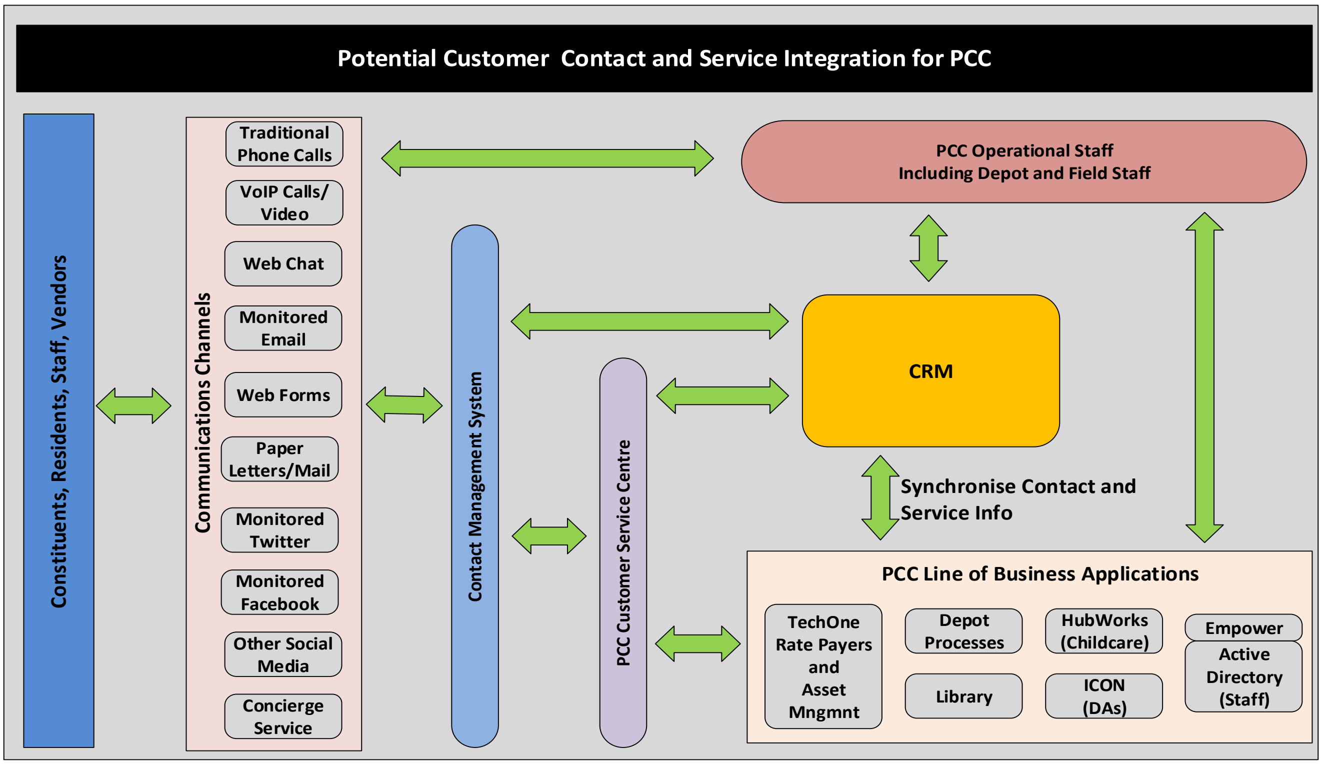
Penrith City Council's new ICT Operating Model



Customer Experience Review

In addition to the modernisation of ICT a Customer Experience Review has also been undertaken by Fifth Quadrant to look at how customers interact with Council, including touch points, preferred methods of both providing and receiving information, potential inefficiencies and areas where customer experience could be improved. This represents a substantial commitment to improving customer service. This review looked broadly at how the community would like to experience Council's services, while the community engagement program planned for the second half of 2015 will look at what services (and to what level) our community would like us to deliver.

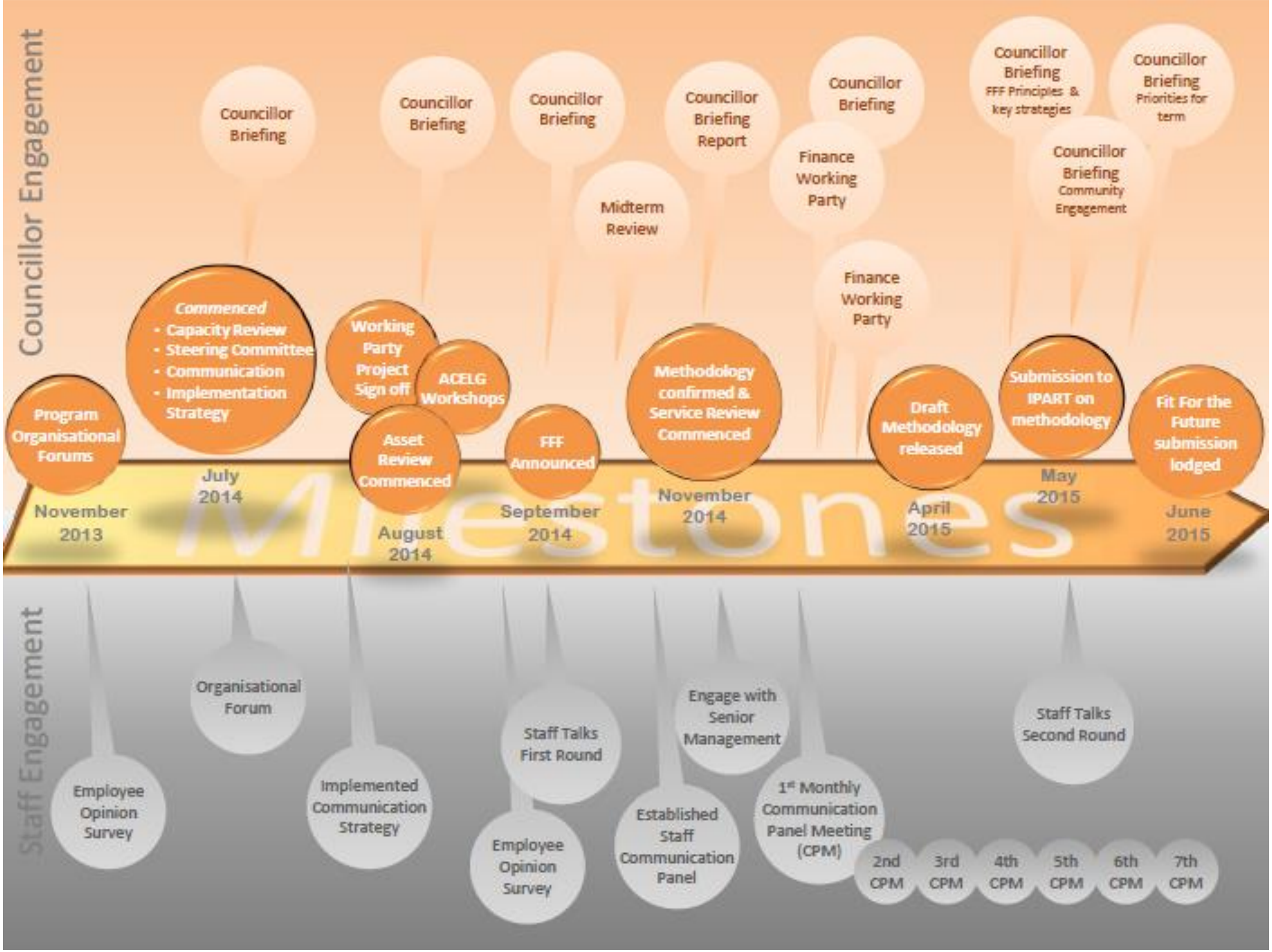
The new ICT Strategy will support service integration and synchronise customer contact and service information. Realisation of the Customer Service review recommendations relies on implementation of the ICT Strategy, scheduled for delivery by early 2016.



Councillor and staff engagement

Engagement with Councillors and staff is critical to the success of this improvement plan, as its implementation will require difficult discussions, and quite significant changes to the way we work. Accordingly, Councillors and staff have been involved in key decisions and discussion of outcomes since the beginning of the capacity review. Critically, the Financial Capacity Review itself was initiated by our Councillors, and key aspects of the broader Capacity Review were initiated by staff.

An indicative timeline of key dates appears on the following page.


Councillor Engagement
Staff Engagement
Milestones
Program Organisational Forums
November 2013
Commenced
• Capacity Review
• Steering Committee
• Communication
• Implementation Strategy
July 2014
Councillor Briefing
Working Party Project Sign off
ACELG Workshops
Asset Review Commenced
August 2014
Councillor Briefing
Councillor Briefing
FFF Announced
September 2014
Midterm Review
Councillor Briefing Report
Methodology confirmed & Service Review Commenced
November 2014
Councillor Briefing
Finance Working Party
Finance Working Party
Draft Methodology released
April 2015
Councillor Briefing FFF Principles & key strategies
Councillor Briefing Community Engagement
Submission to IPART on methodology
May 2015
Councillor Briefing Priorities for term
Fit For the Future submission lodged
June 2015
Employee Opinion Survey
Organisational Forum
Implemented Communication Strategy
Staff Talks First Round
Employee Opinion Survey
Established Staff Communication Panel
Engage with Senior Management
1st Monthly Communication Panel Meeting (CPM)
2nd CPM
3rd CPM
4th CPM
5th CPM
6th CPM
7th CPM
Staff Talks Second Round

Reporting

Having started a long term, comprehensive journey to improvement it is critical that it be continued. Regular reporting on particular projects and monitoring to see that expected outcomes are being delivered is a key part of the overall journey to improvement.

The Integrated Planning and Reporting Framework sets regular reporting requirements for Councillors and the community. In addition, Penrith City Council prepares a monthly financial health report which tracks revenue and key expenditure categories. The projects and targets that form part of this plan will be incorporated into this reporting schedule, as outlined below:

Reporting mechanism	Content and audience	When?	Outcome
Financial Health Report	Year to date budget and variance for operating expenditure; employee costs; plant materials and contracts; capital expenditure; and revenue. Explanation of key variance provided by managers. Senior Management	Monthly	All benchmarks
Quarterly report	As per financial health report, with progress on identified projects and budget by service. Projects identified as critical to the success of this improvement plan (as identified in the Section 5 – Action Plan) will be included in the quarterly report. Senior Management; Councillors; Community	March and September each year	All benchmarks plus key actions
6 monthly report	As per quarterly report, plus progress report on all service activities. Senior Management; Councillors; Community	December and June each year	All benchmarks plus key actions
Annual Report	As per the requirements of the Local Government Act. Progress on the Delivery Program including identified indicators and full financial statements. Progress against this improvement plan will be reported as a separate item. Councillors; Community	November each year	All benchmarks plus key actions

Section 1 - Summary of proposed actions against all criteria

This section summarises information on the strategies and actions Council proposes to undertake in the next 3-5 years to maintain or improve performance against the criteria of sustainability; infrastructure and services; and efficiency. Assumptions underpinning these actions are also outlined, as are anticipated outcomes, proposed milestones and expected impact of each action on the other benchmarks.

More detailed information on the strategies to maintain or improve performance for the benchmarks Penrith City Council currently meets is contained in Appendix 1; information on the benchmarks Penrith City Council does not currently meet is in Appendix 2.

Assumptions

The following assumptions underpin the improvement plans for the above criteria:

1. The Asset Renewal and Established Areas Strategy Special Rate Variation (AREAS SRV) will continue beyond 30 June 2016, at its current rate
2. An additional 508(A) Special Rate Variation of 2.4% above the estimated rate peg will be approved for each of the four years from 1 July 2016, after which time this increase will be permanently included in the rate base (this increase is included in the LTFP)
3. The following business improvements will be implemented:
    a. Service specifications including service level agreements
    b. Allocation of resources required to realise savings from the business process review
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    d. Changes to the organisational structure that have been investigated to ensure they deliver expected benefits
    e. Reinvestment of capacity generated to areas of greatest organisational need that will generate further efficiencies or improvements in service delivery
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5. Managed growth in building and open space assets (additional assets received are partly offset by rationalisation of or existing assets; consideration is given to upgrade of existing assets as an alternative to provision of new assets)
6. Financial Assistance Grants will remain at a similar level to 2014-15
7. Annual IPART determined rate peg in the 2%-3% range
8. $4 million per year will be added to the current allocation for building asset renewal for the first 8 years, giving a total building asset renewal budget per annum of $6 million. This is to be funded in conjunction with the proposed Special Rate Variation of 2.4% in addition to the renewal of the existing AREAS SRV. The program will address backlog, renewal, compliance and agreed upgrade; with backlog and renewal works identified by the Asset Management Plan taking priority.
9. Asset renewal is defined as follows:
   Asset renewal is any capital expenditure on an asset which does not increase its capacity or service level, including capital works which bring it into compliance with current construction standards (e.g. replacing a toilet with an accessible toilet, and associated works to make the building accessible)
10. Funding asset renewal to the same level as anticipated depreciation is not reasonable for Penrith City Council at this time, given the age, expected useful life and growth in assets arising from development of new release areas. This position will be reviewed as part of reviewing the

Asset Management Strategy and Asset Management Plans and an appropriate target set to ensure renewal funding is sufficient to reduce or eliminate backlog.

11. Asset backlog is defined as follows:
    Asset backlog is unfunded high residual risk associated with assets essential to achieving the outcomes stated in Council's Community Strategic Plan
12. In addition to the general assumptions previously listed, calculation of this benchmark is based on the population growth projections prepared by the Department of Planning, as follows:

Total population	2011	2016	2017	2018	2019	2020
	184,600	203,950	207,940	211,930	215,920	219,910

Outcomes

The primary outcome of all strategies and actions is an improvement in the benchmarks as outlined in the table below, within a 5% variance. Specific outcome for individual strategies are outlined in the summary table.

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Operating performance ratio *Greater or equal to break even average over 3 years* ***Meet by 2018-19***	-4.3%	-2.07%	-0.41%	1.31%	2.64%	3.57%
Own source revenue *Greater than 60% average over 3 years* ***Benchmark met. Performance maintained***	65.7%	76.06%	76.98%	77.77%	78.70%	79.88%
Building and Asset Renewal Ratio *Improvement within 5 years, towards greater than 100% average over 3 years* ***Ongoing improvement from 2017-18***	44.4%	39.43%	53.70%	56.45%	63.83%	63.34%
Infrastructure Backlog Ratio *Less than 2%* ***Meet by 2016-17***	4.43%	1.6%	1.44%	1.28%	1.17%	1.09%
Asset Maintenance Ratio *Greater than 100% average over 3 years* ***Benchmark met. Performance maintained***	114.1%	101.85%	102.31%	100.72%	100.74%	100.64%
Debt service ratio *Greater than 0% and less than or equal to 20% average over 3 years* ***Benchmark met. Performance maintained***	7.03%	7.42%	7.34%	6.92%	6.29%	5.37%
Real operating expenditure *A decrease in Real Operating Expenditure per capita over time* ***Ongoing improvement from 2018-19***	0.86	0.90	0.88	0.86	0.84	0.82

Milestones

Milestones are as outlined in the summary table. It is noted that, even though the Fit for the Future submission guidelines and template assume that 2016-17 will be the first year of the improvements plan, many of the actions proposed by Penrith City Council to improve performance are already underway. For that reason milestones are presented from 2015-16 onwards.

Costs, Benefits and Risks

Detailed information on costs, benefits and risks associated with the strategies to address individual benchmarks are presented in Appendix 1 and Appendix 2.

Generally, short term costs associated with endorsed strategies in this plan have either been funded, or had funds committed through Long Term Financial Plan, or are 'opportunity' costs resulting from diversion of staff resources to priority tasks. As specific actions arise from the services review, assets review, business process review and other actions they will go through a governance process which will look at each recommendation and assess:

1. Priority - particularly with regard to potential savings, addressing risk or as a catalyst / enabler for other projects
2. Cost – the cost of both acting on and not acting on the recommendation, in terms of both staff and financial resources
3. Benefit – primarily in terms of measurable savings or productivity gains
4. Interaction with other services and recommendations – impact of an action on other functions and services within council, to limit the likelihood of hidden or unexpected costs
5. Timeframe – both time required to complete the recommendation, but also whether it would be more efficient to undertake it once other projects (for example the ICT Strategy) are further advanced

This process has been designed to ensure the costs and benefits of each action included in and arising from this improvement plan is properly assessed prior to a decision being made to proceed.

There are also a number of risks associated with strategies, actions and assumptions underpinning this plan. Risks can arise from a number of areas, however the most significant risks are associated with Council failing to act in accordance with this plan. This could be the result of organisational resistance to change, lack of commitment from managerial or political leadership, misunderstanding of community expectations or inadequate research into potential recommendations resulting in unexpected and unacceptable consequences.

Risks applicable to each indicator are discussed separately, however they can be broadly categorised as follows:

- Assumptions prove inaccurate over time, particularly in relation to growth in revenue and assets
- Failure to implement recommended changes arising from the services review and assets review, resulting in expected efficiencies and savings not being realised
- Failure to implement endorsed changes (through organisational or political resistance to change) resulting in expected efficiencies and savings not being realised
- Failure to resolve conflicting priorities between Council and community expectations resulting in competing demands for limited resources
- Inaccurate costing of recommendations resulting in expected benefit not being realised
- Recommendations not be implemented within anticipated timeframes, resulting in reduced or slower realisation of benefits

These risks, although real, are considered minimal given that the drive for improvement which has led to many of the actions in this plan has been led by Councillors and has strong staff support. Ongoing comprehensive engagement with staff, Councillors and the community will continue to mitigate risks associated with resistance to change and competing priorities. Regular monitoring and reporting of progress on key actions and changes in the financial benchmarks will enable early identification of benefits or costs not being as expected, and allow remedial action to be planned if required.

Sustainability Benchmarks

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
Implement the Building and Infrastructure Asset Renewal program	Improve tracking / allocation of asset maintenance and renewal expenditure to ensure that information on expenditure for asset maintenance and asset renewal is accurate	Improved tracking of expenditure	In place by 30 June 2015	**Asset Renewal Ratio** (increased spending on renewal) **Asset Maintenance Ratio** (reduced maintenance as assets are renewed) **Own Source Revenue** (potential for increased fees and charges)
	Review depreciation rates for asset classes and individual components	Endorsement of the Asset Management Strategy, including documented depreciation rates	Endorsed by 31 December 2015	**Asset Renewal Ratio** (better understanding of renewal required)
	Look for efficiencies in renewal projects though the Strategic Alliance	Endorsement by all three councils of the scope of benefit to be explored through the Strategic Alliance	First meeting – 21 May 2015 Areas for investigation for potential mutual benefit agreed – October 2015	**Operating Performance Ratio** (potential operating efficiencies)
	Continue to include compliance based upgrades in the renewal program	Compliance renewal continues	Ongoing	**Own Source Revenue** (potential for increased fees and charges)
Growth to own source revenue	Improve financial strategies and planning to better track the cost of delivering individual services	Improved strategies in place	By November 2015 (for use in development of 2016-17 budget)	**Impact anticipated once results are incorporated into other actions**
	Investigate setting preliminary goals for cost recovery for services which generate an income	Targets investigated as part of engagement for 2017-21 IPR documents	Preliminary information available by April 2016 Targets set by June 2017	**Own Source Revenue** (potential for increased fees and charges)
	Look at opportunities for increased revenue through the services review, including matching service delivery with community expectations and reviewing involvement in services delivered by other organisations	Service Reviews complete and actions endorsed	By June 2016	**Operating Performance Ratio** (potential operating efficiencies)

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
	Maximise opportunities presented by Councils' property portfolio	Property service review complete and future direction set	By June 2016	**Operating Performance Ratio** (potential operating efficiencies) **Own Source Revenue** (potential for increased fees and charges)
	Community engagement as part of gaining approval for a 508(A) SRV	Increased operating revenue	Application submitted by February 2016	**Operating Performance Ratio** (if cost of engagement exceeds allocated resources) **SRV will have a positive impact on all ratios**
Improve our operating performance through targeted cost savings and productivity improvements	Develop and implement a priority setting system which takes account of community priorities and organisational capacity to ensure best value resource allocation	Priority setting framework identified and ready for testing in budget process	By December 2015	**Own source revenue** (potential for increased fees and charges, income from sale of assets)
	Implement the ICT strategy to facilitate productivity improvements in all operational areas	First stages of ICT strategy in place, including system stabilisation; rollout of Office 2013, rollout of Connect and initial integration of key systems Budget adopted and resources allocated for implementation of the remainder of the ICT Strategy	By March 2016 By June 2016	**Operating Performance Ratio** (potential operating efficiencies)
	Complete the service reviews and develop a program for actioning endorsed recommendations	Service Reviews complete and actions endorsed	By June 2016	**Operating Performance Ratio** (potential operating efficiencies) **Own Source Revenue** (potential for increased fees and charges)
	Complete the assets review and develop a program for actioning endorsed recommendations	Assets Review complete and actions endorsed	By June 2016	**Operating Performance Ratio** (potential operating efficiencies) **Own Source Revenue** (potential for increased fees and charges and sale of assets)

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
	Adopt targets for renewable energy supported by business case, and implement strategies to reduce energy and water use	Target set for renewable energy use	By December 2015	**Operating Performance Ratio** (potential operating efficiencies)
	Build capacity for City shaping projects	Financial strategies that build long term sustainability Refocused use of debt	Commencing with preparation of the 2015-16 budget, and ongoing	Positive impact on all ratios

Infrastructure and Services Benchmarks

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
Introduction of a comprehensive asset management strategy including rationalisation of assets	Complete the Asset Management Strategy	Endorsement of the Asset Management Strategy, including risk, priorities, critical assets and levels of service	Endorsed by 31 December 2015	**Own Source Revenue** (potential for increased fees and charges, income from sale of assets) **Asset Renewal Ratio** (renewal targets and priorities set)
	Complete the Public Open Space Reinvestment Project	Sale of some assets currently within Council's open space portfolio	Initial sales by July 2017 Further sales by July 2020	**Own Source Revenue** (income from sale of assets) **Asset Maintenance Ratio** (reduced maintenance) **Asset Renewal Ratio** (reduced renewal) **Infrastructure Backlog Ratio** (reduced backlog)
	Finalise the Neighbourhood Facilities Management Study and endorse an action plan	Sale or lease of some assets currently within Council's building portfolio	Initial sales or lease by July 2017 Further sales by July 2020	**Own source revenue** (potential for increased fees and charges, income from sale of assets) **Infrastructure Backlog Ratio** (reduced backlog)
	Complete the Recreation Study	Completion of Recreation Study	Study completed by July 2017	Impact will come from incorporation of Study into Asset Strategy and Asset Management Plan
Complete the Assets Review and endorse a program for action	Definition of and allocation of responsibility for Strategic Asset Management, maximising links with Integrated Planning and Reporting and financial planning	Identified responsibility for strategic asset management incorporated into the Organisational Structure	Desired structure, resourcing and skills identified by 31 March 2016, implemented from 1 July 2016	**Operating Performance Ratio** (potential operating efficiencies) **Asset Renewal Ratio** (better understanding of renewal required) **Asset Maintenance Ratio** (better understanding of maintenance required)

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
	Confirmation of responsibility for all asset classes and sub classes	Identified responsibility for strategic asset management incorporated into the Organisational Structure	Desired structure, resourcing and skills identified by 31 March 2016, implemented from 1 July 2016	**Operating Performance Ratio** (potential operating efficiencies) **Asset Renewal Ratio** (better understanding of renewal required) **Asset Maintenance Ratio** (better understanding of maintenance required)
Update Asset Management Plan to identify asset service standards and risk management	Up to date Asset Management Plan prepared and adopted for all asset classes, including those not currently included in asset management plans	Endorsement of Asset Management Plan, including levels of service, maintenance expenditure, renewal expenditure and anticipated backlog	By 30 June each year	**Asset Renewal Ratio** (better understanding of renewal required) **Asset Maintenance Ratio** (better understanding of maintenance required)
	Endorse a clear definition of 'backlog'; based on risk with the level of backlog reassessed annually Review assumptions made around backlog by asset managers to ensure consistency and accuracy Develop a consistent program for forecasting backlog in for all asset types, based on risk	Consistent definition of backlog used for calculation of ratios for Special Schedule 7; forecasting and annual reassessment used to ensure that backlog is addressed each year; ultimately resulting in no unfunded high risk work	Definition adopted for use in financial statements from 2015-16 Forecasting and annual reassessment in place from January 2017	**Infrastructure Backlog Ratio** (clearer understanding of existing backlog) **Asset Renewal Ratio** (better understanding of renewal required) **Asset Maintenance Ratio** (better understanding of maintenance required)
	Engage with the community around purpose of and required levels of service for building and road assets; ensuring that there is a balance between a risk based approach and desired level of service Establish a clear standard for 'satisfactory' for key assets in conjunction with the community	Agreed standard for 'satisfactory' for all asset classes	Initial community engagement compete by December 2015 'Satisfactory' defined for key assets by June 2016 'Satisfactory' defined for all assets by June 2018	**Asset Renewal Ratio** (better understanding of renewal required) **Asset Maintenance Ratio** (better understanding of maintenance required)

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
	Clarify links between the Asset Management Plan, Long Term Financial Plan and Annual Report		Links in place for preparation of 2017-21 Resourcing Strategy	Impact will come from incorporation of links into Resourcing Strategy and Annual Report

Efficiency Benchmark

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
Introduce service level agreements and service specifications that reduce duplication and double handling	Identify and prioritise service relationships that would benefit from a service level agreement	Prioritised list of required service level agreements	Developed by December 2015	Impact expected once results incorporated into other actions
	Develop service level agreements according to a prioritised schedule, following a standard process	Service level agreements in place for key services to facilitate improved planning and resource allocation	First agreements in place by June 2016 All agreements in place by June 2017	**Operating Performance Ratio** (potential operating efficiencies)
	Review service specifications according to a prioritised schedule, following a standard process	Service specifications in place for all services to set performance standards, required resourcing and future direction	First specifications reviewed by June 2016 All specifications reviewed by June 2017	**Operating Performance Ratio** (potential operating efficiencies)
Improve overall performance of key business processes	Complete the business process review in conjunction with ArcBlue and develop a program for actioning endorsed recommendations	Resources allocated and procurement processes changed	Complete – September 2015 First stage implementation – December 2015	**Real operating expenditure** (reduction in procurement costs) **Debt service ratio** (reduced need for operational borrowing)
Improvement plans in place to increase productivity and efficiency in service delivery and asset management	Complete the service reviews and develop a program for actioning endorsed recommendations	Service Reviews complete and actions endorsed	By June 2016	**Operating Performance Ratio** (potential operating efficiencies) **Own Source Revenue** (potential for increased fees and charges)

STRATEGY	ACTION	OUTCOME	MILESTONE	IMPACT ON BENCHMARKS
	Complete the assets review and develop a program for actioning endorsed recommendations	Assets Review complete and actions endorsed	Complete - September 2015 First stage implementation – March 2016	**Infrastructure backlog ratio** (clearer definition of backlog, targeted expenditure) **Own source revenue** (review of fees and charges, sale of assets)
	Adopt targets for renewable energy supported by business case, and implement strategies to reduce energy and water use	Target set for renewable energy use	By December 2015	**Operating Performance Ratio** (potential operating efficiencies)
	Develop a Workforce Strategy that identifies training and skill needs, job descriptions, demographic trends, barriers and opportunities to increase the flexibility and responsiveness of the workforce	Workforce needs identified and planned for.	Complete by June 2017 and integrated into Asset Management and Long Term Financial Planning through Resourcing Strategy	**Operating Performance Ratio** (potential operating efficiencies)

Section 2 – Financial Modelling

As part of the Council Resource Strategy each Council prepares a Long Term Financial Plan (LTFP) for a minimum of ten years which is to be updated at least annually as part of the development of the annual Budget. The aim of the LTFP is to ensure that Council identifies financial issues at an early stage and reviews their effect on future activities. The LTFP must be reviewed in detail as part of the four yearly review of the Community Strategic Plan. The LTFP process involves four main elements:

- Planning Assumptions
- Revenue Forecasts
- Expenditure Forecasts
- Sensitivity Analysis.

Council's LTFP and model is capable of extrapolating the current year base budget, incorporating recurrent projects, future capital projects and associated recurrent costs, debt servicing, rates projections, and has the capacity for a number of budget variables to be applied. Future years' forecasts are linked to the current budget and provide a means of assessing the long-term financial implication of current year decisions. The Model is able to hold multiple views of possible future outcomes with each view representing a particular set of assumptions and what the outcomes would be if these assumptions happen to occur.

Penrith City Council has long been faced with the challenge of establishing and maintaining long term financial sustainability. The last five years has seen an increasing focus on the overall financial sustainability of local government in NSW, with none more so than the requirements of this submission. In addition several key events have highlighted our vulnerability to changes in the financial climate including the Global Financial Crisis (GFC), that saw both investment losses for Council and an increased contribution required by the Local Government Super Scheme (LGSS) for the Defined Benefits Scheme (DBS) along with reduced income resulting from the slowdown in the economy; Penrith's 'weak' rating as part of the TCorp review of local government financial sustainability, review of the Federal Assistance Grants, proposed changes to section 94 developer contributions and the Asset Renewal & Established Areas Strategy (AREAS) Special Rate Variation (SRV) which is set to end in 2015-16.

The combination of these factors triggered the current review of Council's financial capacity ahead of the announcement of Fit for the Future. Consequently over the past 12-18 months, and in preparation for the expiry of the AREAS SRV (details of the AREAS SRV can be found in the "Special Initiatives" section of the 2013-17 Delivery Program), detailed discussions have been occurring with management, the Finance Working Party (FWP), Councillors and the Community as we review Council's financial capacity. The review to date has focused on our current sustainable position, established following the now completed implementation of the 2011-12 SRV, and also considered future aspirations that are outside our current capacity along with structural budget changes that will better secure our long term financial future.

The LTFP continues to foreshadow Council's intention to apply to renew the AREAS SRV.

A key and immediate element of the Financial Capacity Review has been the development of a revised borrowing strategy. The revised strategy will reduce Council's annual general infrastructure borrowings from $3.2m to nil over 5 years, with the implementation commencing with the draft 2015-16 budget and the full strategy being incorporated into the base scenario of the LTFP.

In addition, the ongoing potential legislative changes that have been proposed by the NSW Government in relation to the planning legislation are yet to be fully confirmed, however two of the known issues Penrith City Council will face in the very near future are the termination of the Cultural Facilities Plan, and challenges collecting contributions for the Lambridge Industrial Estate Plan, which are both supporting external loans that delivered works in advance of contributions. The

LTFP has acknowledged these additional calls on general revenue with the following strategies incorporated into the base scenario.

Implemented Strategy	Impact ('000)	From	Comment
Cultural Facilities Plan	$650	2016-17	Over 10 years
Lambridge Industrial Estate	$375	2016-17	Over 10 years

As mentioned above the base scenario for Council's LTFP continue to incorporate the renewal of the AREAS SRV and now incorporates the revised Borrowings Strategy and implemented strategy to address s94 deficits that are unlikely to be recovered. Further details of Council's underlying LTFP assumptions are included in Council's adopted Resource Strategy 2011-2021. These assumptions are continually refined to produce a LTFP for inclusion in Council's Annual Operational Plan.

Alternate Scenario – *Basis of our Improvement Plans and submission*

The progress of the Financial Capacity Review has seen a number of identified financial initiatives developed that will strengthen our long term financial position including fundamental changes to service cost alignments, Property Development "dividends" and increased investments in Asset Management, ICT and Major Project funding and design. Community Engagement has been undertaken and as outlined throughout this submission with further engagement planned prior to a proposed SRV being finalised. A summary of the recommended strategies are provided following;

<u>Asset Management, Renewal and backlog</u>

The 2011-12 SRV strengthened asset renewal funding for all asset classes. As IPART did not approve the full SRV request it resulted in these programs being funded at reduced levels and the program needing to be recast over a longer timeframe. A detailed review of our programs, including the impact of the reduced funding on the progress of asset renewal, the impact of accelerating the reduction of the current backlog along with how these programs and maintenance provisions will accommodate the growth of the City has been undertaken. The Capacity Review and Fit for the Future consultations have informed the Community's service level and asset condition expectations, however further engagement including any trade off discussions will be completed as part of the proposed SRV. Council engaged Jeff Roorda and Associates to undertake a complete review of our Asset Management Plans, underlying assumptions and costings. This independent review has confirmed Council's estimates that a further $4m of annual funding (for 8 years) will be required for the Building Asset Renewal Program in order for Council's backlog to be addressed, accessibility and compliance requirements met and a sustainable Asset Renewal and program continued. In addition the current $650,000 annual contribution to the Building Asset Renewal Program from the Property Development Reserve will not be sustainable beyond 2015-16. The alternate scenario of the LTFP recommends the following additional funding allocations of:

Recommended Strategy	Impact ('000)	From	Comment
Address Buildings Backlog and compliance	$1,500	2018-19	Over 8 years
Additional Building Renewal	$2,500	2018-19	Ongoing
Alternate source for renewal funds (Reduce reliance on Property Development Reserve)	$650	2016-17	Ongoing

Realign Service Costs

The comprehensive service review being completed ensures that all service costs are realigned, where required. A key influence on this recommendation has been the Property Strategy that has been developed by the Finance Working Party and is to be implemented over the coming months. Refocusing the activities of Council's Property Development function to ensure that an alternate and sustainable revenue stream is provided has been central to the work done by the Finance Working Party and to achieve this capacity must be built. This is forecast to enable the payment of an annual dividend of $1.8m back to Council's general operations from 2021-22 to support service delivery. In addition this strategy recommends that the bulk of parking enforcement activities be funded from general revenue, thereby leaving revenue in the Parking Reserve to help finance future parking infrastructure. The alternate scenario of the LTFP recommends the following additional funding allocations of:

Recommended Strategy	Impact ('000)	From	Comment
Property			
Property Development "Dividend"	$1,800	2021-22	Ongoing
Fund subsidised rental	($775)	2016-17	Ongoing
Loan for 'City Park' property	($384)	2016-17	2018-19
Car Parking			
Re-establish Parking proceeds Reserve	($815)	2016-17	Ongoing

Productivity Initiatives

New savings resulting from the current service review and continuous improvement have been targeted by this strategy which has also recognised the need for increased investment in ICT to drive productivity initiatives. The alternate scenario of the LTFP recommends the following additional funding allocations/ (savings) of:

Recommended Strategy	Impact ('000)	From	Comment
Operational Budget savings – 0.5%	($1,000)	2016-17	0.25% in 2015-16
Increased base investment in ICT	$200	2016-17	Ongoing
Once off ICT investment	$1,500	2016-17	Over 2 years

Major Projects and Regional City infrastructure

As the City matures into our Regional City status capacity will need to be established for both project planning and implementation to ensure that we are in the best position to obtain the expanded infrastructure we will require. Detailed options will need to be modelled to create this capacity and ensure that our City's needs are identified and mapped, particularly over a 5-10 year horizon and this has been a key focus of "Penrith Progression" as outlined earlier in this submission. The alternate scenario of the LTFP recommends the following additional funding allocations of:

Recommended Strategy	Impact ('000)	From	Comment
Major Projects Contribution	$1,500	2018-19	$3.3m from 2021-22
Design cost allowance	$200	2016-17	Ongoing

Accommodating responsiveness

As the demands on the organisation grow it will be essential that the budget has capacity to quickly respond to any emerging priorities and opportunities as they arise. A number of initiatives have been developed to provide that flexibility and respond to the pressures of the day. The alternate scenario of the LTFP recommends the following additional funding allocations of:

Recommended Strategy	Impact ('000)	From	Comment
Annual once off Project allocation	($450)	2016-17	Ongoing
Recurring costs (Service adjustments)	($100)	2016-17	Cumulative/ongoing
Surplus Budget	($1,000)	2020-21	0.5% Op Ex

In addition to the proposed strategies discussed above, which include some funding mechanisms, the Alternate Scenario for the LTFP acknowledges that additional revenues will be required to provide a long term financially sustainable position and has incorporated a future SRV that will ensure Council is well placed to address our obligations to the Community and demonstrated that we are Fit For the Future.

The extensive community consultation already underway will continue to ensure their expectations are aligned and to inform the willingness to pursue a future SRV, phased over a number of years, to achieve the outcomes of the alternate scenario, and any other funding or service changes that may be required. It is on this basis that Council's Fit for the Future submission has been made in line with the Alternate Scenario of the LTFP.

Penrith City Council – Fit For the Future
The following outlines the projected indicators and budget results modelling in line with the above assumption of the Fit for the Future submission.

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Operating performance ratio *Greater or equal to break even average over 3 years* ***Meet by 2018-19***	-4.3%	-2.07%	-0.41%	1.31%	2.64%	3.57%
Own source revenue *Greater than 60% average over 3 years* ***Benchmark met. Performance maintained***	65.7%	76.06%	76.98%	77.77%	78.70%	79.88%
Building and Asset Renewal Ratio *Improvement within 5 years, towards greater than 100% average over 3 years* ***Ongoing improvement from 2017-18***	44.4%	39.43%	53.70%	56.45%	63.83%	63.34%
Infrastructure Backlog Ratio *Less than 2%* ***Meet by 2016-17***	4.43%	1.6%	1.44%	1.28%	1.17%	1.09%
Asset Maintenance Ratio *Greater than 100% average over 3 years* ***Benchmark met. Performance maintained***	114.1%	101.85%	102.31%	100.72%	100.74%	100.64%
Debt service ratio *Greater than 0% and less than or equal to 20% average over 3 years* ***Benchmark met. Performance maintained***	7.03%	7.42%	7.34%	6.92%	6.29%	5.37%

Real operating expenditure *A decrease in Real Operating Expenditure per capita over time* ***Ongoing improvement from 2018-19***	**0.86**	**0.90**	**0.88**	**0.86**	**0.84**	**0.82**

Long Term Financial Plan Alternative Scenario ($'000s)

	Base Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
OPERATIONS FROM ORDINARY ACTIVITIES											
Operating Revenue											
Rates & Annual Charges	121,814.0	123,217.3	129,223.2	135,717.5	142,742.8	150,248.6	155,256.0	160,429.7	165,775.0	171,297.7	177,003.6
User Charges & Fees	5,502.1	5,582.6	5,582.6	5,582.6	5,582.6	5,582.6	5,582.6	5,582.6	5,582.6	5,582.6	5,582.6
Fees for Commercially Available Services	32,184.3	32,223.8	32,745.9	33,320.0	33,911.3	34,518.8	35,144.5	35,789.0	36,452.9	37,136.6	37,840.9
Interest Income	2,064.2	2,051.8	2,070.4	2,089.2	2,109.6	2,131.5	2,145.4	2,159.8	2,174.7	2,190.1	2,206.0
Other Operating Revenues	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1	1,876.1
Operating Grants	22,522.8	23,875.9	21,184.3	21,421.8	21,665.1	21,914.2	22,176.7	22,445.6	22,721.2	23,003.4	23,292.6
Operating Contributions	2,970.8	3,049.7	3,016.6	2,982.5	2,947.4	2,911.1	2,873.7	2,835.1	2,797.0	2,765.1	2,743.2
Profit on Sale of Assets	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)	(485.9)
TOTAL OPERATING REVENUE	**188,448.4**	**191,391.3**	**195,213.2**	**202,503.8**	**210,349.0**	**218,697.0**	**224,569.1**	**230,632.0**	**236,893.6**	**243,365.7**	**250,059.1**
Operating Expenditure											
Employee Costs	(86,501.8)	(87,390.2)	(89,796.7)	(92,655.6)	(95,819.7)	(99,081.9)	(102,445.4)	(105,913.2)	(110,009.6)	(114,274.7)	(118,715.2)
Employee Costs - ELE	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)	(2,731.6)
Interest Charges	(3,337.4)	(3,345.3)	(3,048.7)	(2,756.0)	(2,333.6)	(2,187.9)	(1,778.2)	(1,352.0)	(1,039.6)	(767.8)	(537.2)
Depreciation & Amortisation	(22,796.4)	(22,796.4)	(22,685.9)	(22,994.5)	(23,307.5)	(23,624.8)	(23,946.6)	(24,273.0)	(24,604.0)	(24,939.6)	(25,279.9)
Materials	(28,313.9)	(29,821.7)	(26,111.7)	(26,668.8)	(27,286.9)	(27,982.5)	(28,698.9)	(29,436.8)	(30,196.8)	(30,979.4)	(31,786.0)
Contracts	(33,632.1)	(34,267.5)	(34,796.2)	(35,541.4)	(36,382.7)	(37,256.2)	(38,163.4)	(39,105.5)	(40,084.0)	(41,100.4)	(42,156.3)
Other Operating Expenses	(16,181.9)	(15,778.6)	(16,212.8)	(16,512.9)	(16,861.3)	(17,231.2)	(17,615.5)	(18,014.9)	(18,430.2)	(18,861.9)	(19,310.8)
Other Expenses - Internal Charges	510.2	510.2	510.2	511.0	511.0	511.0	511.0	511.0	511.0	511.0	511.0
TOTAL EXPENDITURE	**(192,984.9)**	**(195,621.1)**	**(194,873.4)**	**(199,349.8)**	**(204,212.3)**	**(209,585.1)**	**(214,868.6)**	**(220,316.0)**	**(226,584.8)**	**(233,144.4)**	**(240,006.0)**
Operating Result before Capital	**(4,536.5)**	**(4,229.8)**	**339.8**	**3,154.0**	**6,136.7**	**9,111.9**	**9,700.5**	**10,316.0**	**10,308.8**	**10,221.3**	**10,053.1**
Grants & Contributions											
Capital Grants and Contributions	22,414.3	22,414.3	25,646.5	28,532.0	23,945.4	22,937.0	22,894.6	22,243.5	28,348.7	20,734.0	19,900.4
OPERATING RESULT	**17,877.8**	**18,184.5**	**25,986.3**	**31,686.0**	**30,082.1**	**32,048.9**	**32,595.1**	**32,559.5**	**38,657.5**	**30,955.3**	**29,953.5**
FUNDING STATEMENT (Source & Application)											
Add back non funded Expenses - Depreciation	22,796.4	22,796.4	22,685.9	22,994.5	23,307.5	23,624.8	23,946.6	24,273.0	24,604.0	24,939.6	25,279.9
Add back non funded Expenses - ELE	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6	2,731.6
Funds Received from Sales of Assets	7,094.0	7,094.0	9,534.0	2,934.0	3,934.0	2,434.0	2,434.0	2,434.0	2,434.0	2,434.0	2,434.0
Loans Received	5,324.9	5,324.9	5,302.7	2,411.9	6,064.5	1,311.9	211.9	211.9	211.9	211.9	211.9
3803 - Budget Surplus	(502.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Funds Transferred (to) / from Reserves held	4,089.2	4,536.8	(8,045.5)	(1,216.4)	(11,422.3)	(3,181.5)	2,097.5	(7,800.1)	(3,117.9)	(7,387.5)	(7,224.8)
Net Fund Available	**59,411.1**	**60,668.2**	**58,195.0**	**61,541.6**	**54,697.4**	**58,969.7**	**64,016.7**	**54,409.9**	**65,521.1**	**53,884.9**	**53,386.1**
Application of Funds											
Asset Acquired (non current)	(48,117.2)	(49,463.2)	(48,079.0)	(47,691.8)	(44,122.5)	(45,799.3)	(52,508.3)	(42,848.1)	(54,169.7)	(42,376.5)	(42,500.7)
Loan Repayments Made	(11,293.9)	(11,205.0)	(11,251.6)	(11,736.5)	(10,981.3)	(9,700.3)	(8,043.2)	(6,159.1)	(5,237.4)	(4,129.2)	(3,004.0)
Total Application	**(59,411.1)**	**(60,668.2)**	**(59,330.6)**	**(59,428.3)**	**(55,103.8)**	**(55,499.6)**	**(60,551.5)**	**(49,007.2)**	**(59,407.1)**	**(46,505.7)**	**(45,504.7)**
Net Cost funded from Rates & Other Income	**0.0**	**0.0**	**(1,135.6)**	**2,113.3**	**(406.4)**	**3,470.1**	**3,465.2**	**5,402.7**	**6,114.0**	**7,379.2**	**7,881.4**

Major Assumptions

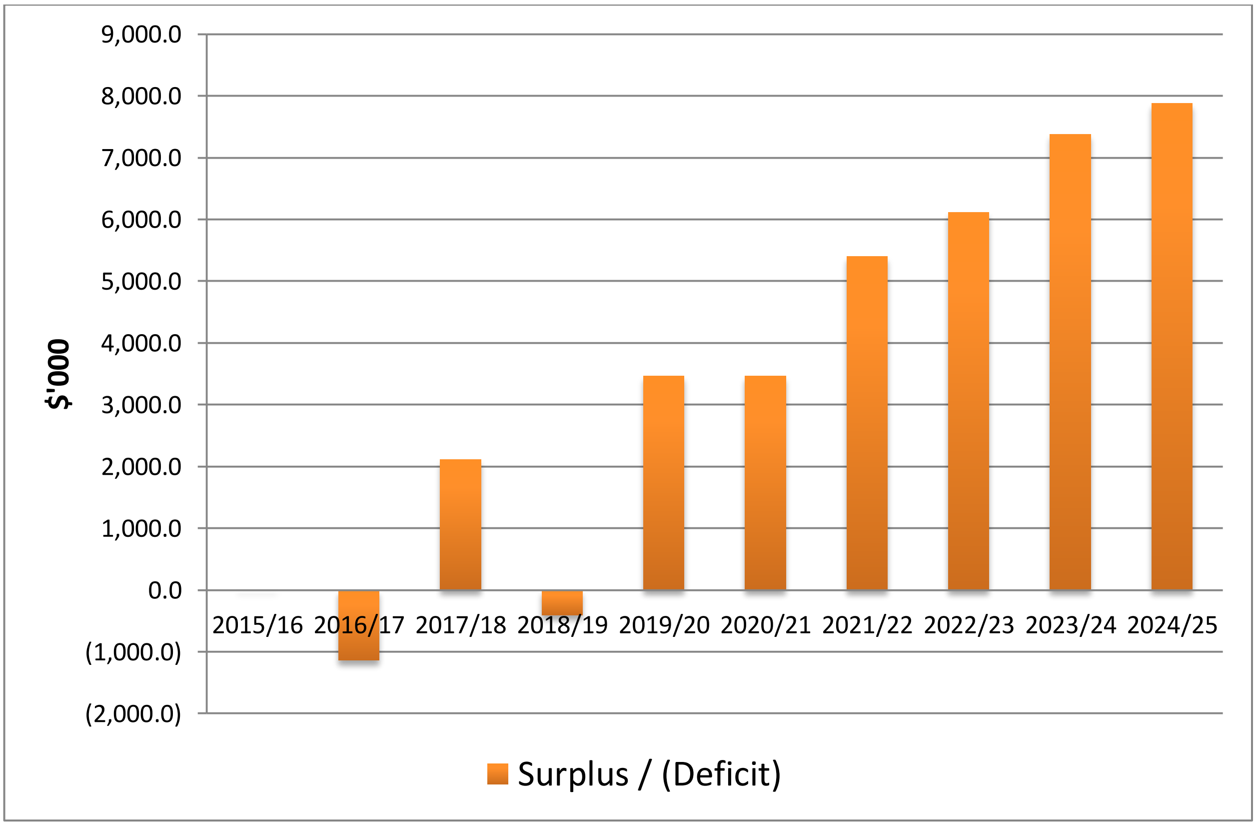
Income

- Rate Peg of 2.4% in 16/17, 2.6% in 17/18, 2.8% in 18/19 & 3.0% thereafter
- New Rate Growth is based on estimated development new income ranges between $500k - $550k
- Asset Renewal and Established Areas Special Rate Variation is renewed at current levels
- Special Rate Variation of 2.4% for 4 years from 16/17
- Financial Assistance Grant is maintained at current level and indexed at 2.5% from 17/18

Expenditure

- Salaries & Wages increase by 2.8% in 16/17 & 3.0% thereafter
- Superannuation has increased in line with governments methodology to increase the minimum contribution to 12%
- Indexation for expenditure ranges between 3.0% & 5.0% based on expenditure type
- Current Asset Maintenance is indexed at the same rates as rate peg
- Maintenance for new assets has been included based on estimated development
- Loan Borrowing Program reduced to nil over 5 years
- Termination payments gradually increases to $2m annually to accommodate challenges of an ageing workforce

Long Term Financial Plan



Section 3 - Implementation plan

The primary means of implementing this improvement plan is by inserting actions into the Operational Plan. This ensures that responsibility is allocated and provides a clear timeframe for action. Longer term projects, such as the Public Open Space Reinvestment Strategy, will appear in several Operational Plans.

A table showing relevant service activities and 2015-16 actions in the Operational Plan for 2015-16 is provided at the end of this section. Progress will be monitored through regular quarterly, 6 monthly and annual reporting on our Delivery Program. Key projects are reported on quarterly with all service activities and actions reported on every 6 months. These progress reports are presented to Council and made available on our website in accordance with the provisions of Integrated Planning and Reporting. Actions that have been designated as critical for the success of the improvement plan have been designated in the table below, and will be reported on quarterly.

This improvement plan will continue into the 2016-17 Operational Plan and the 2017-21 Delivery program and associated Operational Plans. The development of the 2017-21 Delivery Program, however, will follow a comprehensive program of community engagement and the election of the new Council in September 2016. The community engagement process in particular will focus on expected levels of service and standards of provision for key assets. Given that a significant proportion of this improvement plan is focussed on asset management the results of this engagement will be critical in determining long term actions.

Outcome 1 We can work close to home		
Strategy 1.1 *Diversity the region's economy and attract investment, particularly targeting new and emerging employment sectors*	**Service**	**Contributes to:**
1.1.3 Utilise Council's property portfolio to stimulate growth and development opportunities in the City **2015-16 actions** a. Guide and promote the development of the City Centre, consistent with Penrith Progression b. Investigate council owned sites in the Penrith City Centre and St Marys Town Centre for future development	Property Development & Management	Operating Performance Ratio Own source revenue
1.1.4 Drive the delivery of the Penrith Progression Action Plan **2015-16 actions** a. Undertake a feasibility study to test the business case for a hotel	Economic Initiatives	

Outcome 2 We plan for our future growth		
Strategy 2.1 *Facilitate quality development that encourages a range of housing types, employment, recreation and lifestyle opportunities*	**Service**	**Contributes to:**
2.1.1 Deliver timely assessment of development in accordance with statutory requirements **2015-16 actions** a. Implement an electronic DA process b. Establish a fast track approvals program for minor development	Development Applications	Real Operating Expenditure Own Source Revenue

2.1.3 Facilitate quality development that contributes to a growing Regional City **2015-16 actions** a. Conduct a forum with the development industry on ways to enhance the development application process		

Outcome 3 We can get around the City		
Strategy 3.2 *Provide a safe, efficient road network supported by parking*	**Service**	**Contributes to:**
3.2.1 Construct, manage and maintain council's roads, drains, bridges and paths *(Includes all maintenance and renewal programs for all transport and drainage assets)* 3.2.8 Advocate and provide advice on all modes of transport services, parking and facilities **2015-16 actions** a. Investigate and adopt a position on paid parking scheme for the Penrith City Centre including consideration of timeline implications b. Confirm a location and funding options of additional decked parking in the City Centre	Civil Construction and Maintenance Traffic Management, Parking and Road Safety	Infrastructure Backlog Ratio Asset Maintenance Ratio Asset Renewal Ratio Operating Performance Ratio Own Source Revenue

Outcome 4 We have safe, vibrant places		
Strategy 4.1 *Improve our public spaces and places*	**Service**	**Contributes to**
4.1.1 Manage the construction, renewal and maintenance of Council's buildings and facilities 4.1.2 Implement the Building Asset Renewal Program *(includes bus shelters)* 4.1.4 Manage and maintain the City's sports grounds, parks and open space 4.1.5 Implement the Parks Asset Renewal Program 4.1.15 Implement the Public Amenity Replacement Program	Building Maintenance and Construction City Parks Public Domain Maintenance	Building and Infrastructure Asset Renewal Ratio Infrastructure Backlog Ratio Operating Performance Ratio Own Source Revenue
Strategy 4.2 *Grow and revitalise our centres and neighbourhoods*	**Service**	**Contributes to**
4.2.1 Manage neighbourhood facilities using adopted management practice 4.2.2 Implement the Neighbourhood Facilities Improvement Program 4.2.6 Utilise Council's property portfolio to stimulate growth and development opportunities in the City	Neighbourhood Facilities Management Property Development and Management	Operating Performance Ratio Own Source Revenue

Outcome 5 We care for our environment		
Strategy	**Service**	**Contributes to:**
No relevant actions or strategies under Outcome 5		

Outcome 6 – We are healthy and share strong community spirit		
Strategy 6.1 *Provide opportunities for our community to be healthy and active*	**Service**	**Contributes to:**
6.1.5 Manage sport and recreation facilities, programs and services **2015-16 actions** a. Develop a business feasibility study investigating the provision of a fitness gym facility at St Clair Leisure Centre 6.1.6 Provide and maintain sport and recreation facilities that meet community needs **2015-16 actions** a. Confirm the location, cost and management of a synthetic sports ground surface and associated infrastructure for grant application and project readiness b. Develop a business model for the operation of an all-weather synthetic athletics track and identify funding opportunities for its installation d. Investigate funding opportunities for the implementation of the master plans for Ripples St Marys and Ripples Penrith e. Develop a contemporary Recreation and Leisure Strategy for the City, incorporating investigation of the provision of skate parks at South St Marys and Cambridge Park 6.1.8 Support sport and recreation partners and networks **2015-16 actions** a. Review opportunities to develop facility development partnerships with state and national sports organisations	Recreation & Leisure Facilities Management	Own source revenue Asset maintenance Ratio Asset renewal Ratio Infrastructure backlog Ratio Operating Performance Ratio

Outcome 7 We have confidence in our Council		
Strategy 7.1 *Demonstrate transparency and ethical behaviour*	**Service**	**Contributes to:**
7.1.2 Ensure that the organisation promotes ethical behaviour, risk management, transparent decision making and meets contemporary governance standards	Corporate Governance	Operating Performance ratio Real Operating Expenditure
7.1.3 Manage Council's corporate reporting	Corporate Planning	
7.1.7 Provide the information technology infrastructure and support to enable effective and efficient delivery of the organisation's services	Information Technology	
7.1.14. Support Council in managing enterprise risk and compliance **2015-16 actions** a. Finalise implementation of a business strategic risk management framework	Risk Management & Insurance	

7.1.16 Provide a human resources management service that responds to contemporary and emerging workforce and workplace issues through strategy and policy development	Workforce and Workplace	
Strategy 7.2 *Ensure our finances are sustainable and our services are delivered efficiently*	**Service**	**Contributes to:**
7.2.1 Support organisational development and change initiatives **2015-16 actions** a. Improve customer service to provide a better customer experience 7.2.3 Manage Council's financial sustainability and meet statutory requirements **2015-16 actions** b. Complete community consultation to ensure all services and infrastructure needs are being addressed and explore associated funding options, including and additional special rate variation alongside the renewal of the AREAS special rate variation c. Conduct consultation to inform and then implement the Public Open Space Reinvestment Strategy 7.2.4 Manage and maintain Council's fleet, plant and equipment 7.2.5 Manage Council's property portfolio **2015-16 actions** a. Identify surplus land sites with opportunity for better utilisation for the benefit of the City and community 7.2.6 Manage Council's procurement policies and procedures	Business Improvement Financial Services Fleet and Plant Maintenance Property Devt & Management Purchasing and Supply	Operating Performance ratio Real Operating Expenditure Own source revenue Asset Renewal Ratio Infrastructure Backlog Ratio Debt Service Ratio
Strategy 7.3 *Provide opportunities for our community to participate in making decisions about the City's future*	**Service**	**Contributes to:**
7.3.2 Manage Council's corporate planning and engagement program	Corporate Planning	Operating Performance ratio Real Operating Expenditure

Appendix 1– Benchmarks where performance is to be maintained

Based on financial data for 2011-12; 2012-13 and 2013-14, Penrith City Council meets three of the seven benchmarks. Projections after incorporating recommended strategies show that we will continue to meet these, and all other benchmarks, into the future.

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Own source revenue *Greater than 60% average over 3 years*	**65.7%**	**76.06%**	**76.98%**	**77.77%**	**78.70%**	**79.88%**
Asset Maintenance Ratio *Greater than 100% average over 3 years*	**114.1%**	**101.85%**	**102.31%**	**100.72%**	**100.74%**	**100.64%**
Debt service ratio *Greater than 0% and less than or equal to 20% average over 3 years*	**7.03%**	**7.42%**	**7.34%**	**6.92%**	**6.29%**	**5.37%**

Strategies

Our key strategies to maintain performance against these benchmarks are:

1. *Introduce service level agreements and service specifications that reduce duplication and double handling*
   - Identify and prioritise service relationships that would benefit from a service level agreement
   - Develop service level agreements according to a prioritised schedule, following a standard process
   - Review service specifications according to a prioritised schedule, following a standard process

   ### Costs, benefits and risks
   Preparation of service level agreements and renewal of service specifications will represent a cost, but primarily an opportunity cost as resources are diverted from other tasks. This work has been programmed for 2015-16 and 2016-17 so impact on resources has already been estimated. There may also be additional 'real' costs associated with this work if software or modelling tools are required to support it. Some are already in place, e.g. Promapp, however additional licencing or additional software may be needed as the process is developed.

   The key risk involved is this work will be undertaken, but that, once complete, it is not adopted by the organisation and therefore benefits are not realised. The need for change management, engagement and formal processes to ensure that managers adhere to new processes is being considered as the work program is developed, which should minimise this risk. Even given these strategies, however, it is expected that it will take several years once work is complete for a streamlines process to be embedded in the organisation and for full benefits to begin to be realised.

2. *Improve overall performance of key business processes*
   - Complete the business process review in conjunction with ArcBlue and develop a program for actioning endorsed recommendations

   ### Costs, benefits and risks
   Initial recommendations of the ArcBlue review of procurement include allocating additional staff resources to the Finance Service to implement the recommendations, to a maximum estimated cost of $100,000 per year. This is expected to generate $2.4 million (gross) in benefits provided implementation is successful.

Risks associated with actual implementation are minimal, the greatest risk is that recommendations for savings, once agreed to, will not be fully implemented meaning that benefit is not fully realised.

3. *Comprehensive improvement plans that show a decrease in operating expenditure per capita over time achieved through savings realised through improved productivity and efficiency in service delivery and asset management*
   - Complete the service reviews and develop a program for actioning endorsed recommendations
   - Complete the assets review and develop a program for actioning endorsed recommendations
   - Adopt targets for renewable energy supported by business case, and implement strategies to reduce energy and water use
   - Develop a Workforce Strategy that identifies training and skill needs, job descriptions, demographic trends, barriers and opportunities to increase the flexibility and responsiveness of the workforce

Costs, benefits and risks

The benefits of the service review and assets review were established prior to commencing the process – anecdotal evidence is clear that there is potential for both cost saving and increased efficiency in both service delivery and asset management. The cost of undertaking these reviews has been calculated and allocated in the 2014-15 and 2015-16 budget. As recommendations are adopted from the various reviews where is it possible to track efficiencies gained this is being done, and will be reported through the mechanisms outlined above.

Implementing recommendations will, in some cases, incur additional cost. A preliminary examination of financial and resourcing implications of recommendations is undertaken as they are identified, if these implications appear substantial the initial task is always to define costs and benefits further to be sure that a decision to act on any recommendation is well informed. Costs must be defined and appropriate resources allocated prior to any recommendation being included in the Operational Plan for action.

There are a number of risks associated with implementation of the improvement for these benchmarks, the most significant being a lack of willingness to implement recommendations arising from the service reviews, assets review, ICT review and business process review. This may be due to competing political priorities, or due to other organisational factors including resistance to change. A communication strategy, including a staff communication panel, has already been implemented to assist in the change process, disseminate information across the organisation about proposed change and expected benefits, and provide a path for staff to raise issues of concern.

Failure to implement the recommendations will result in either identified savings and operational efficiencies not being realised, or being realised over a longer timeframe than anticipated. As the details of recommendations and their impacts become clearer it will be possible to assess the exact level and nature of the risk. It is possible, however that some of the proposed changes arising from this review will result in structural change or require allocation of substantial resources, so the risk must be managed. As the various reviews are completed and recommendations finalised this risk will be continually reassessed, to ensure that, where possible, the severity of the risk is well understood and mitigation strategies are in place.

Energy and water use represent substantial ongoing operating costs. Council has saved over $5 million in reduced energy and water costs due to efficiency initiatives implemented since 2002. Focus has now shifted to potential savings through implementation of renewable energy. These are always investigated for cost / benefit and a payback period established before a decision is made to implement, maximising benefit and minimising risk. Although less of a focus, water saving initiatives are also investigated and reported.

One of the key initial findings from the services review is the need for a more flexible workforce going forward, to respond to the changing needs of the community and new methods of service delivery. As workforce planning is a requirement of IP&R an update to the workforce strategy has already been planned. This will address key issues such as an ageing workforce, up skilling and multiskilling (particularly in outdoor staff) and options to increase flexibility within job descriptions and work environments. Development of the strategy itself will be primarily an opportunity cost as resources will need to be diverted to complete it. Once recommendations are known, they will be assessed for cost / benefit prior to implementation.

4. *Pursue efficiencies, economies of scale, resource and knowledge sharing through the Strategic Alliance with Blue Mountains City Council and Hawkesbury City Council*
   - Investigate opportunities for joint advocacy and lobbying
   - Investigate opportunities for knowledge sharing and resource sharing

Costs, benefits and risks

On 20th April Council agreed to investigate a governance structure to facilitate a Strategic Alliance with Blue Mountains City Council and Hawkesbury City Council. The Strategic Alliance has the potential for significant benefit for all three councils, primarily in the areas of strategic capacity; knowledge sharing and identification of tourism and marketing opportunities. In some cases this is already occurring – examples include joint submission to state government on sub-regional planning matters, sharing of knowledge in the areas of housing demand, and recycling of road surface materials between Penrith and Blue Mountains.

There is intent among all parties to continue to look for specific opportunities to share resources and utilise economies of scale, however any initiative in these areas must first be negotiated with the Councillors and potentially the community of each council. This presents a risk if agreement cannot be reached.

Actions and milestones

Initial actions and milestones to achieve these strategies are listed below, together with anticipated impact on each benchmark. Additional actions will be identified as the service reviews, asset review and workforce strategy are completed.

Action	Milestones	Impact on:
Service reviews completed for all services and recommendations adopted	All reviews complete - December 2015 First stage implementation – June 2016	Own source revenue (review of fees and charges; assessment of appropriate recovery of cost of service delivery) Real operating expenditure (Reduce costs / increase efficiencies) Debt service ratio (reduce need for operational borrowing)
Business process review completed and recommendations adopted	Complete – September 2015 First stage implementation – December 2015	Real operating expenditure (reduction in procurement costs) Debt service ratio (reduced need for operational borrowing)
Asset review	Complete - September 2015 First stage implementation – March 2016	Infrastructure backlog ratio (clearer definition of backlog, targeted expenditure) Own source revenue (review of fees and charges, sale of assets)
First stages of ICT strategy in place,	Priority systems implemented – by July 2015	Real operating expenditure (Increased productivity, reduce overtime)

Action	Milestones	Impact on:
including system stabilisation; rollout of Office 2013, rollout of Connect and initial integration of key systems	Office 2013 – by 30 September 2015 Connect implemented – by December 2015 Initial integration of systems – by March 2016	
Endorsement by all three councils of the scope of benefit to be explored through the Strategic Alliance	First meeting – 21 May 2015 Areas for investigation for potential mutual benefit agreed – October 2015	Real operating expenditure (Reduce costs / increase efficiencies; potential for shared services)

Additional actions will be identified with completion of the service reviews and the assets reviews. Work undertaken to date indicates that actions arising from the service reviews will address issues around:

- Service roles and responsibilities
- Priority activities and secondary activities for each service
- Review and refinement of key processes to reduce bottlenecks and duplication
- Review of fees and charges, including assessment of appropriate levels of cost recovery
- Clarification of expected internal levels of service through engagement with staff
- Clarification of expected external levels of service through engagement with the community
- Appropriate structure and resource levels within services and divisions
- Strategies to ensure service review is ongoing

Outcomes

Expected outcomes from implementing the above actions and strategies are:

1. All necessary service level agreements (as identified by the service reviews) written and in place by June 2016
2. Measurable efficiency improvements for 2016-17 identified and adopted by June 2016
3. Adopted measurable efficiency improvements reported through the 2016-17 financial year, and included in the 2017 Annual Report
4. New service specifications for all key services written and adopted by June 2016; the remainder written and adopted by June 2017
5. Savings of between $0.9 million and $2.3 million through implementation of the business process review in procurement – realised for the 2016-17 financial year
6. Agreed areas for investigation for mutual benefit within the Strategic Alliance by December 2015
7. Measurable efficiency improvements for 2017-18 identified and adopted by June 2017
8. Adopted measurable efficiency improvements reported through the 2017-18 financial year, and included in the 2018 Annual Report
9. Confirmation of community priorities through the process of preparing a new Community Plan and Delivery Program to be endorsed by June 2017, including proposed measurable efficiency improvements for implementation over the period July 2017 to June 2021
10. Improvement in financial benchmarks realised as per modelling (with a 5% tolerance)

Assumptions

The following assumptions underpin the improvement plans for the above criteria:

1. The Asset Renewal and Established Areas Strategy Special Rate Variation (AREAS SRV) will continue beyond 30 June 2016, at its current rate

2. An additional 508(A) Special Rate Variation of 2.4% above the estimated rate peg will be approved for each of the four years from 1 July 2016, after which time this increase will be permanently included in the rate base (this increase is included in the LTFP)
3. The following business improvements will be implemented:
    a. Service specifications including service level agreements
    b. Allocation of resources required to realise savings from the business process review
    c. Proposals for mutually beneficial shared services through the strategic alliance
    d. Changes to the organisational structure that have been investigated to ensure they deliver expected benefits
    e. Reinvestment of capacity generated to areas of greatest organisational need that will generate further efficiencies or improvements in service delivery
    f. Levels of service as agreed with the community through community engagement
4. Transport assets (roads, footpaths etc.) grow by no more than 1%-2% per year
5. Managed growth in building and open space assets (additional assets received are partly offset by rationalisation of or existing assets; consideration is given to upgrade of existing assets as an alternative to provision of new assets)
6. Financial Assistance Grants will remain at a similar level to 2014-15
7. Annual IPART determined rate peg in the 2%-3% range

Impact on other benchmarks

Overall impact on all benchmarks is expected to be positive, as most strategies focus on reducing costs and increasing efficiency, with some also expected to deliver increased income.

Operating performance ratio	Improvement expected, as income increases and costs decrease. This may be offset by increased levels of service agreed with the community through the engagement process; however this process will focus on levels of service within Council's capacity to deliver. Council's continued and increased focus on asset renewal will also contribute to this improvement.
Own source revenue	An improvement in this ratio is expected, due to reviews of fees and charges and potential sale of assets and the proposed 508(A) SRV
Infrastructure Backlog Ratio	The asset review has clarified the definition of backlog using a risk based approach. It is expected that this ratio will improve substantially over the 5 year timeframe, again aided by increased Asset Renewal expenditure funded by the proposed 508(A) SRV
Asset Maintenance Ratio	Minimal impact is expected over the short term. Assets review will clarify maintenance required and may change where funding is allocated, but overall required maintenance will continue to be funded.
Debt service ratio	Positive impact expected as a result of Council's revised and now implemented decrease in operating costs reduces the borrowing strategy, combined with opportunities for savings identified for councils declared 'Fit for the Future' by the Office of Local Government.
Real operating expenditure	Excluding increases in service levels agreed with the community through the Integrated Planning and Reporting process, real operating expenditure is modelled to decrease. Council has

	adopted an LGA appropriate population growth estimate, based on Department of Planning figures.

Appendix 2 – Benchmarks where performance is to be improved

This section of the improvement plan provides information on the benchmarks that Penrith City Council does meet at this time. Under this improvement plan, provided assumptions are correct, Penrith City Council will show improvement in all these benchmarks within 3 years, and will meet all benchmarks by 2018-19. Strategies to improve performance against each benchmark are discussed in the following pages. Strategies which will improve performance against more than one benchmark are discussed under each applicable benchmark.

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Operating performance ratio Greater or equal to break even average over 3 years	**-4.3%**	**-2.07%**	**-0.41%**	**1.31%**	**2.64%**	**3.57%**
Building and Asset Renewal Ratio *Improvement within 5 years, towards greater than 100% average over 3 years*	**44.4%**	**39.43%**	**53.70%**	**56.45%**	**63.83%**	**63.34%**
Infrastructure Backlog Ratio *Less than 2%*	**4.43%**	**1.6%**	**1.44%**	**1.28%**	**1.17%**	**1.09%**
Real operating expenditure *A decrease in Real Operating Expenditure per capita over time*	**0.86**	**0.90**	**0.88**	**0.86**	**0.84**	**0.82**

The following assumptions underpin each of the individual improvement plans for the above criteria. Additional assumptions (where relevant) underpinning the response to particular criteria are listed as part of the discussion on that criteria.

1. The Asset Renewal and Established Areas Strategy Special Rate Variation (AREAS SRV) will continue beyond 30 June 2016, at its current rate
2. An additional 508(A) Special Rate Variation of 2.4% above the estimated rate peg will be approved for each of the four years from 1 July 2016, after which time this increase will be permanently included in the rate base (this increase is included in the LTFP)
3. The following business improvements will be implemented:
    a. Service specifications including service level agreements
    b. Allocation of resources required to realise savings from the business process review
    c. Proposals for mutually beneficial shared services through the strategic alliance
    d. Changes to the organisational structure that have been investigated to ensure they deliver expected benefits
    e. Reinvestment of capacity generated to areas of greatest organisational need that will generate further efficiencies or improvements in service delivery
    f. Levels of service as agreed with the community through community engagement
4. Transport assets (roads, footpaths etc.) grow by no more than 1%-2% per year
5. Managed growth in building and open space assets (additional assets received are partly offset by rationalisation of existing assets; consideration is given to upgrade of existing assets as an alternative to provision of new assets)
6. Financial Assistance Grants will remain at a similar level to 2014-15
7. Annual IPART determined rate peg in the 2%-3% range

Operating Performance Ratio

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

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	**-4.3%**	**-2.07%**	**-0.41%**	**1.31%**	**2.64%**	**3.57%**

Key strategies

Our key strategy and sub tasks to improve performance on the Operating Performance ratio in the 2016-20 period are:

1. *Implement the Building and Infrastructure Asset Renewal program as outlined in the Asset Management Strategy*
   - Improve tracking / allocation of asset maintenance and renewal expenditure to ensure that information on expenditure for asset maintenance and asset renewal is accurate
   - Work with industry to assess the appropriateness of depreciation rates for asset classes and individual components within asset classes
   - Look for possible efficiencies in some renewal projects as part of the potential Strategic Alliance with Hawkesbury City Council and Blue Mountains City Council, including (but not limited to) sharing of expertise in project management and design and economies of scale in purchase of materials
   - Continue to include modifications to assets required for compliance reasons (e.g. kitchen upgrades) in the renewal program

Costs, benefits and risks

Improvement in tracking expenditure on asset maintenance and renewal will incur an initial cost as processes are changed and data is checked. Once this is complete there should be no ongoing cost and minimal risk associated with this action.

Development of depreciation rates based on industry standard presents a risk – if depreciation is substantially different it will result in a need to repeat financial modelling with the different figures. This may impact on our performance in this criterion and could, if the difference is substantial, impact on other criteria as well.

There is significant potential benefit to be gained through the Strategic Alliance; however it will require ongoing dedication of resources and political will from all three councils for the full benefit to be realised. Given current combined projects and the number of possible areas to investigate it is clear that sufficient benefit will be gained to offset all costs.

Council has a number of assets which require upgrade due to compliance issues rather than condition. Primarily these revolve around accessibility (modifications to buildings to make them accessible, including installation of accessible toilets) and food handing (upgrade of canteens in sporting amenities to meet food handling standards). Although this approach increases the overall cost of the renewal program, the reputational risk of closing non-compliant canteens and the social justice issues of non-accessible buildings are considered too great to cease this type of asset renewal.

2. *Growth to our own source revenue*
   - Improve financial strategies and planning to better track the cost of delivering individual services
   - Investigate setting preliminary goals for cost recovery for services which generate an income
   - Look at opportunities for increased revenue through the services review, including matching service delivery with community expectations and reviewing involvement in services delivered by other organisations
   - Maximise opportunities presented by Councils' property portfolio
   - Community engagement as part of gaining approval for a 508(A) SRV

Costs, benefits and risks

With the possible exception of setting goals for cost recovery, it is likely that the identified options to improve own source revenue will have an initial start-up cost. Council currently meets the own source revenue ratio supporting the position that 'easy' options to grow own source revenue have already been identified and implemented. Increasing alternate sources of revenue and therefore long term financial sustainability was a key driver for the initial establishment of the capacity review. Council recognised the need to reduce dependence operational borrowing and on grant income for major capital works.

The benefit of increasing own source revenue is clear. Risks associated with these actions primarily relate to insufficient or inaccurate cost benefit analysis being undertaken prior to decisions being made to commence projects, which has the potential for costs to be underestimated or benefits to be overestimated. In some cases longer term actions (such as making the most of the property portfolio and various investment strategies) have the potential to be impacted by market forces beyond council's control. This could also result in anticipated benefits not being realised, or higher than expected costs.

3. *Improve our operating performance through realisation of targeted cost savings and productivity improvements*
   - Develop and implement a priority setting system which takes account of community priorities and organisational capacity to ensure best value resource allocation
   - Implement the ICT strategy to facilitate productivity improvements in all operational areas
   - Complete the service reviews and develop a program for actioning endorsed recommendations
   - Complete the assets review and develop a program for actioning endorsed recommendations
   - Adopt targets for renewable energy supported by business case, and implement strategies to reduce energy and water use

Costs, benefits and risks

The ICT Strategy is discussed in detail in the Introduction. Improved ICT systems, hardware and skills have been identified as the primary enabler for all other productivity improvement across the organisation. The cost of implementing this strategy is significant and has been spread over 2014-15 to 2016-17. Primary costs (purchase of systems, integration, upgrade of hardware etc.) are funded, secondary costs (training, communications strategy, initial productivity loss as staff adjust) have not been specifically funded however allowance has been made in the 2015-16 budget allocation for those services most likely to be impacted.

Benefits of implementing the ICT Strategy have been clearly identified and are also discussed in the Introduction. There are also clear risks, including funding being diverted to other areas resulting in only partial implementation, issues with integration of existing systems proving more difficult than intended, and staff adjustment being more complex than anticipated (requiring greater training and delaying implementation). Monitoring of the implementation of the strategy, combined with extensive proactive staff engagement are being used to mitigate these risks.

The benefits of the service review and assets review were established prior to commencing the process – anecdotal evidence is clear that there is potential for both cost saving and increased efficiency in both service delivery and asset management. The costs of undertaking these reviews has been calculated and allocated in the 2014-15 and 2015-16 budget. As recommendations are adopted from the various reviews where it is possible to track efficiencies gained this is being done, and will be reported through the mechanisms outlined above.

Implementing recommendations will, in some cases, incur additional cost. A preliminary examination of financial and resourcing implications of recommendations is undertaken as they are identified, if these implications appear substantial the initial task is always to define costs and benefits further to be sure that a decision to act on any recommendation is well informed. Costs must be defined and appropriate resources allocated prior to any recommendation being included in the Operational Plan for action.

There are a number of risks associated with implementation of the improvement for these benchmarks, the most significant being a lack of willingness to implement recommendations arising from the service reviews, assets review, ICT review and business process review. This may be due to competing political priorities, or due to other organisational factors including resistance to change. A communication strategy, including a staff communication panel, has already been implemented to assist in the change process, disseminate information across the organisation about proposed change and expected benefits, and provide a path for staff to raise issues of concern.

Failure to implement the recommendations will result in either identified savings and operational efficiencies not being realised, or being realised over a longer timeframe than anticipated. Given that some of the proposed changes arising from this review may result in structural change or require allocation of substantial resources this risk is quite high, though as the details of recommendations and their impact has not yet been determined it is difficult to anticipate the exact level and nature of the risk. As the various reviews are completed and recommendations finalised this risk will be continually reassessed, to ensure that, where possible, the severity of the risk is well understood and mitigation strategies are in place.

Energy and water use represent substantial ongoing operating costs. Council has saved over $5 million in reduced energy and water costs due to efficiency initiatives implemented since 2002. Focus has now shifted to potential savings through implementation of renewable energy. These are always investigated for cost / benefit and a payback period established before a decision is made to implement, maximising benefit and minimising risk. Although less of a focus, water saving initiatives are also investigated and reported.

Outcome	**Milestone**
Improvement in financial benchmarks realised as per modelling (with a 5% tolerance)	Tracked as per reporting outlined in section 1
Target set for renewable energy use	By December 2015
Priority setting framework identified and ready for testing in budget process	By December 2015
First stages of ICT strategy in place, including system stabilisation; rollout of Office 2013, rollout of Connect and initial integration of key systems	By March 2016
Budget adopted and resources allocated for implementation of the remainder of the ICT Strategy	By June 2016
Adopted position on cost recovery for appropriate services	By June 2016

Impact on other benchmarks

A summary of the expected impact on other benchmarks is outlined below. Additionally, comprehensive financial modelling is provided in section 3 which includes anticipated performance against each benchmark.

Own source revenue	Review costs of service delivery and look at whether fees should be increased to generate a greater proportion of cost of service; in addition, the improvement plan assumes a 508(A) SRV that will also strengthen this benchmark
Building and Infrastructure Asset Renewal Ratio	No short term impact expected. Increased funding for asset renewal is expected to come from an SRV in place from 1 July 2016.
Infrastructure Backlog Ratio	No short term impact expected.
Asset Maintenance Ratio	No short term impact expected.
Debt service ratio	No impact is expected on this benchmark.
Real operating expenditure	Positive impact expected as efficiencies are identified and implemented. This may, however, be limited in the short term due to the need to fund the ICT strategy and own source revenue based projects with up-front costs and longer pay back periods.

Assumptions

There are no additional assumptions beyond the general assumptions already listed.

Building and Asset Renewal Ratio

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

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Building and Asset Renewal Ratio *Greater than 100% average over 3 years*	**44.4%**	**39.43%**	**53.70%**	**56.45%**	**63.83%**	**63.34%**

Key strategies

Our key strategy and sub tasks to improve performance on the Building and Asset Renewal ratio in the 2016-20 period are:

1. *Implement the Building and Infrastructure Asset Renewal program as outlined in the Asset Management Strategy*
   - Improve tracking / allocation of asset maintenance and renewal expenditure to ensure that information on expenditure for asset maintenance and asset renewal is accurate
   - Work with industry to assess the appropriateness of depreciation rates for asset classes and individual components within asset classes
   - Look for possible efficiencies in some renewal projects though the Strategic Alliance with Hawkesbury City Council and Blue Mountains City Council, including (but not limited to) sharing of expertise in project management and design and economies of scale in purchase of materials
   - Continue to include modifications to assets required for compliance reasons (e.g. kitchen upgrades) in the renewal program

Costs, benefits and risks

Improvement in tracking expenditure on asset maintenance and renewal will incur an initial cost as processes are changed and data is checked. Once this is complete there should be no ongoing cost and minimal risk associated with this action.

Development of depreciation rates based on industry standard presents a risk – if depreciation is substantially different it will result in a need to repeat financial modelling with the different figures. This may impact on our performance in this criterion and could, if the difference is substantial, impact on other criteria as well. The benefit, however, of using standard figures for depreciation in asset planning going forward will outweigh the cost.

There is significant potential benefit to be gained through the strategic alliance; however it will require ongoing dedication of resources and political will from all three councils for the full benefit to be realised. Given current combined projects and the number of possible areas to investigate it is clear that sufficient benefit will be gained to offset all costs.

Council has a number of assets which require upgrade due to compliance issues rather than condition. Primarily these revolve around accessibility (modifications to buildings to make them accessible, including installation of accessible toilets) and food handing (upgrade of canteens in sporting amenities to meet food handling standards). Although this approach increases the overall cost of the renewal program, the reputational risk of closing non-compliant canteens and the social justice issues of non-accessible buildings are considered too great to cease this type of asset renewal.

2. *Introduction of a comprehensive asset management strategy that includes rationalisation of assets*

- Preparation and endorsement of the Asset Management Strategy
- Completion of the Public Open Space Reinvestment Project
- Finalisation of the Neighbourhood Facilities Management Study and endorsement of an action plan
- Completion of a Recreation Study to clarify recreational needs of the community

Costs, benefits and risks

Preparation and endorsement of the Asset Management Strategy of itself does not represent significant cost, however it plays a major role in reducing risk and has significant overall benefit if used properly within the framework of asset management. There is a risk that the strategy, once prepared and adopted, will not be used properly, meaning that the benefits associated with it will not be realised.

Disposal of assets, although generating an income, also comes at a cost. Significant investigation and community engagement is required both to identify assets for disposal and appropriate use of funds. There is also a risk of community backlash to the potential rationalisation of assets, resulting in a separate risk of lack of political will to implement the findings of the Open Space Reinvestment Project and the Neighbourhood Facilities Review. In general both Councillors and the community seem to accept the need to rationalise assets, however this does not mean there will be agreement to dispose of particular assets, especially if the local community mobilise to protect them. Lack of political will to implement finding and actually dispose of assets is the single biggest risk to this strategy.

Preparation of the Leisure and Recreation Study will come at a cost; however it is necessary to properly plan future service delivery and has been allocated funding for 2015-16. Continuing to deliver a service uninformed of community needs and expectations represents a greater overall cost to the community.

3. *Resolution of key issues identified through the Assets Review*
   - Definition of and allocation of responsibility for Strategic Asset Management, through creation of a specific Strategic Asset Management team to be located within the Corporate Division, maximising links with Integrated Planning and Reporting and financial planning
   - Confirmation of responsibility for all asset classes and sub classes
   - Improved information on value, remaining useful life, maintenance and renewal requirements for all asset classes, including those not currently included in Asset Management Plans
   - Up to date Asset Management Plan prepared and adopted for all asset classes, including those not currently included in asset management plans
   - Accurate planning for maintenance and renewal of all asset classes, including those not currently included in asset management plans

Costs, benefits and risks

There are significant benefits to be gained from implementing the asset review, particularly around prioritisation of work, clarification of responsibility and optimising decision making. Up to date asset management plans linked with the Community Plan, Delivery Program and Long Term Financial Plan will ensure asset management responds to community needs and is properly funded. Accurate information around remaining useful life, maintenance requirements and associated risk will allow for informed decision making as part of the budget process each year.

Asset Management Plans are currently being prepared or have been prepared for the major classes of transport (roads, footpaths, cycle ways, bridges and associated infrastructure); drainage; parks and sportsgrounds; buildings and fleet and plant. It is proposed to include street trees as an asset under parks and sportsgrounds, and public art / public domain (including CCTV cameras and associated infrastructure) as an asset either under buildings or as a separate asset class.

Combined, these benefits will not just improve performance against the building and asset renewal ratio but will contribute to improved performance across all benchmarks. Gains will be expressed primarily through operating efficiency – achieving more with less – and better targeting of spending, rather than overall reduction in costs.

The asset review was implemented as it became clear that there was significant risk associated with the systems, process and resources allocated to asset management. Risks identified included strategic risks to the reputation and profile of council if assets used by the community were non-compliant with relevant standards, operational risk associated with physical failure of assets and financial risk associated with unexpected major expenditure to maintain assets in working condition. Although the majority of the findings of the review do not have significant real cost, there is substantial opportunity cost as resources currently used elsewhere must be diverted to asset management. Depending on the results of the capacity review and services review, these resources may be able to be found within the organisation; however there may also be a need to increase overall resources (particularly staff) to properly address the issues raised. If this is not done, all the risks that were present at the inception of the review will continue to exist.

Specifically, allocation of responsibility for Strategic Asset Management will represent a cost. This will involve a change to the current structure of the organisation to create a dedicated team within the Corporate Division responsible for linking strategic asset management with Integrated Planning and Reporting, including financial planning and budgetary processes. At this stage it is not yet known whether this will represent primarily an opportunity cost (through movement of existing staff) or an additional cost if new skills need to be brought into the organisation. There may also be a real cost involved in training. There is minimal risk associated with implementing this action; however there is a high risk of continued difficulties and gaps in asset management if it is not implemented.

Collection of better information will come at a cost, particularly for drainage assets. This is likely to be both a real cost and an opportunity cost. Benefits will be reliable information for inclusion in the asset management plan and ongoing financial planning.

Similarly to collection of information, there will be both real and opportunity costs associated with preparation and maintenance of up-to-date asset management plans. Lack of resourcing for asset management is a key finding of the asset review; however the services reviews for asset based services have not identified sufficient capacity to absorb this role without additional resources. There is, however, a significant risk if this cost – real and opportunity – is not met to improve asset management and asset planning.

Outcome	Milestone
Improvement in financial benchmarks realised as per modelling (with a 5% tolerance)	Tracked as per reporting outlined in section 1
Improved tracking of expenditure	In place by 30 June 2015
Endorsement by all three councils of the scope of benefit to be explored through the Strategic Alliance	First meeting – 21 May 2015 Areas for investigation for potential mutual benefit agreed – October 2015
Identified responsibility for strategic asset management incorporated into the Organisational Structure	Desired structure, resourcing and skills identified by 31 March 2016, implemented from 1 July 2016
Endorsement of the Asset Management Strategy, including documented depreciation rates	*Proposed to go to PRC on 14 September* Endorsed by 31 December 2015
Sale of some assets currently within Council's open space portfolio	Initial sales by July 2017 Further sales by July 2020
Sale of some assets currently within Council's	Initial sales by July 2017

building portfolio	Further sales by July 2020
Completion of Recreation Study	Study completed by July 2017

Impact on other benchmarks

A summary of the expected impact on other benchmarks is outlined below. Additionally, comprehensive financial modelling is provided in section 3 which includes anticipated performance against each benchmark.

Operating performance ratio	Increased spending on asset renewal will redirect operating expenses and so have a positive impact on this benchmark. Under this plan, this increased expenditure is partly offset by ongoing additional income from the SRV, one-off additional income from sale of assets and a reduced backlog allowing resources to be diverted. Moderate long term improvement is expected.
Own source revenue	Sale of assets will provide one off increases to own source revenue, so modelling indicates irregular improvement in this benchmark. It is also possible, as renewal progresses and assets are improved, that there will be potential for additional income generation through fees and charges. This has not been modelled at this stage as it is too difficult to predict if any increase will occur, or how much it could be.
Infrastructure Backlog Ratio	Increased spending on asset renewal is expected to also reduce the infrastructure backlog, so the improvement plan for Building and Asset Renewal Ratio will have a positive impact on the Infrastructure Backlog Ratio as well.
Asset Maintenance Ratio	Penrith City Council currently meets the asset maintenance benchmark. It is likely that some of the expenditure allocated to asset maintenance in the past has actually been asset renewal, so more accurate distribution of this expenditure has resulted in a fall in Penrith City Council's projected performance against this benchmark, however even with this reallocation this benchmark will still be met.
Debt service ratio	No impact is expected on this benchmark.
Real operating expenditure	Real Operating Expenditure may decrease as a result of redirecting spending on asset renewal. The proposed engagement program commencing in July 2015 will establish the levels of service expected by the community. Given, however, that increased levels of service agreed with the community through the IPR process are excluded from the calculations the impact on the benchmark itself may be removed.

Assumptions

In addition to the general assumptions, the following key assumptions underpin this improvement plan:

1. $4 million per year will be added to the current allocation for building asset renewal for the first 8 years, giving a total building asset renewal budget per annum of $6 million. This is to be funded

in conjunction with the proposed Special Rate Variation of 2.4% in addition to the renewal of the existing AREAS SRV. The program will address backlog, renewal, compliance and agreed upgrade; with backlog and renewal works identified by the Asset Management Plan taking priority.

2. Asset renewal is defined as follows:
   Asset renewal is any capital expenditure on an asset which does not increase its capacity or service level, including capital works which bring it into compliance with current construction standards (e.g. replacing a toilet with an accessible toilet, and associated works to make the building accessible)
3. Funding asset renewal to the same level as anticipated depreciation is not reasonable for Penrith City Council at this time, given the age, expected useful life and growth in assets arising from development of new release areas. This position will be reviewed as part of reviewing the Asset Management Strategy and Asset Management Plans and an appropriate target set to ensure renewal funding is sufficient to reduce or eliminate backlog.

Infrastructure Backlog Ratio

$$\frac{\text{Estimated costs to bring assets to a 'satisfactory' condition}}{\text{Total written down value of infrastructure, buildings, other structures and depreciable land improvements}}$$

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Infrastructure Backlog Ratio *Less than 2%*	**4.43%**	**1.6%**	**1.44%**	**1.28%**	**1.17%**	**1.09%**

Key strategies

Council has identified a number of key strategies to improve performance on the Infrastructure Backlog Ratio from 2016-2020. More detailed sub-tasks for the next few years have also been identified. As each set of sub tasks is completed, additional tasks (if required) will be developed and included in the Operational Plan.

1. *Introduction of a comprehensive asset management strategy that includes rationalisation of assets*
   - Preparation and endorsement of the Asset Management Strategy
   - Completion of the Public Open Space Reinvestment Project
   - Finalisation of the Neighbourhood Facilities Management Study and endorsement of an action plan
   - Completion of a Recreation Study to clarify recreational needs of the community

   ### Costs, benefits and risks

   Preparation and endorsement of the Asset Management Strategy of itself does not represent significant cost, however it plays a major role in reducing risk and has significant overall benefit if used properly within the framework of asset management. There is a risk that the strategy, once prepared and adopted, will not be used properly, meaning that the benefits associated with it will not be realised.

   Disposal of assets, although generating an income, also comes at a cost. Significant investigation and community engagement is required both to identify assets for disposal and appropriate use of funds. There is also a risk of community backlash to the potential rationalisation of assets, resulting in a separate risk of lack of political will to implement the findings of the Open Space Reinvestment Project and the Neighbourhood Facilities Review. In general both Councillors and the community seem to accept the need to rationalise assets, however this does not mean there will be agreement to dispose of particular assets, especially if the local community mobilise to protect them. Lack of political will to implement finding and actually dispose of assets is the single biggest risk to this strategy.

   Preparation of the Recreation Study will come at a cost; however it is necessary to properly plan future service delivery. Continuing to deliver a service uninformed of community needs and expectations represents a greater overall cost to the community.

2. *Update Asset Management Plans to identify contemporary asset service standards and asset risk management, following comprehensive community engagement*
   - Preparation and endorsement of an up to date Asset Management Plan for all asset classes
   - Endorse a clear definition of 'backlog'; based on risk with the level of backlog reassessed annually
   - Establish a clear standard for 'satisfactory' for key assets in conjunction with the community
   - Clarify links between the Asset Management Plan, Long Term Financial Plan and Annual Report

- Review assumptions made around backlog by asset managers to ensure consistency and accuracy
- Develop a consistent program for forecasting backlog in for all asset types, based on risk

Costs, benefits and risks

There are clear benefits to developing and maintaining a contemporary asset management plan. The most significant changes to current practice are a risk based definition of 'backlog' and extensive community engagement to develop a mutual understanding of 'satisfactory' and set appropriate levels of service for all asset classes going forward. This will allow more accurate forecasting of backlog, renewal, upgrade and maintenance requirements which can be incorporated into the Long Term Financial Plan and annual budgeting process.

Costs associated with these actions are primarily resource based and can be covered through current resource allocation. Work on an updated Asset Management Plan has already been funded and should be complete by 31 December 2015. A comprehensive community engagement program for 2015-16 has also been developed and resourced; resources will need to be allocated in future years for this program to continue. There may also be some cost associated with updating or modifying the asset management system to facilitate modelling of future backlog, based on the definition included in the assumptions.

Benefits of these actions all relate to a consistent approach to asset planning and management, based on meeting community expectations. The most significant risk is that these expectations will exceed council's ability to deliver, or that backlog will not be able to be funded. A secondary risk is political expectation that new assets will be delivered when asset management planning indicates that priority should be with renewal works.

3. *Confirmation of service levels following comprehensive community engagement*
   - Engage with the community around purpose of and required levels of service for building and road assets; ensuring that there is a balance between a risk based approach and desired level of service
   - Following completion of the recreation study, engage with the community around the purpose of and required levels of service for recreational assets

Costs, benefits and risks

As previously discussed, community engagement comes at a cost. Resources have been allocated to undertake a comprehensive program from July 2015 to June 2016 (primarily focusing on transport and building assets), however resourcing will need to continue to facilitate ongoing engagement at an appropriate level for other asset classes.

The benefits of effective community engagement are clear – understanding what the community values and the expectations they have for various asset classes will enable council to prioritise works and allocate funding to meet those needs. There are also a number of risks, however, which will limit the usefulness of the engagement program and mean that council is unable to develop a targeted works program that allocates resources to respond to community expectations. These include:

- Conflicting or inconsistent messages from different section of the community around priorities for asset provision or expected standards
- High community expectations without an associated willingness to fund higher levels of service
- Community priorities that are inconsistent with political priorities

These risks are best managed through clear communication and ensuring that engagement is meaningful and representative.

4. *Scaling of asset standards and levels. The Asset Management Strategy will identify assets that are critical to the council's operations; expenditure will be in proportion to standard, level and risk rating*

Costs, benefits and risks

Development of the asset management strategy has been costed and resourced, so no additional cost is expected to implement this action. Benefits relate to planning of maintenance and renewal, and clarification of expectations relating to different categories of assets within asset classes. The most significant risk will arise from individual sections of the community applying political pressure to increase the standard of individual assets, which has the potential to create competing demands for resources and set unfortunate precedents.

Outcome	Milestone
Improvement in financial benchmarks realised as per modelling (with a 5% tolerance)	Tracked as per reporting outlined in section 1
Endorsement of the Asset Management Policy	*Proposed to go to PRC on 14 September* Endorsed by 31 December 2015
Endorsement of the Asset Management Strategy, including risk, priorities, critical assets and levels of service	*Proposed to go to PRC on 14 September* Endorsed by 31 December 2015
Endorsement of Asset Management Plan, including maintenance expenditure, renewal expenditure and anticipated backlog	By 30 June each year
An agreed program and mechanism to rationalise identified open space and building assets including options for reinvestment of funds	By June 2016

Impact on other indicators

Operating performance ratio	Minimal impact expected on this benchmark.
Own source revenue	There is potential for improvement in own source revenue as building assets which better meet the needs of the community will possibly attract higher fees for use. This is unlikely to be significant over the initial period of 4-5 years, but may improve after that. Options for setting targets for fees generated to make a set contribution to cost of service delivery will be investigated as an outcome of the service reviews. As the asset rationalisation program is implemented one-off increases in revenue through sale of assets will also be reflected in this benchmark.
Building and Asset Renewal Ratio	Limited impact is expected on this benchmark given its relationship with depreciation. However, it is expected that renewal requirements will change as a result of community engagement, asset rationalisation and a greater concentration on risk based renewal, and this will be reflected in asset management plans.
Asset Maintenance Ratio	Rationalisation of some assets has the potential to reduce required maintenance, particularly if older buildings with higher maintenance requirements are part of the rationalisation program.
Debt service ratio	No impact is expected on this benchmark.
Real operating expenditure	Minimal impact expected on this benchmark over the next five years. As backlog reduces resources will be reallocated to asset renewal, resulting in no overall reduction in costs.

Assumptions

In addition to the general assumptions, the following key assumptions underpin this improvement plan:

1. Asset backlog is defined as follows:
   Asset backlog is unfunded high residual risk associated with assets essential to achieving the outcomes stated in Council's Community Strategic Plan

Real operating expenditure

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

	FFF	2016-17	2017-18	2018-19	2019-20	2020-21
Real Operating Expenditure *Decrease per capita over time*	**0.86**	**0.90**	**0.88**	**0.86**	**0.84**	**0.82**

Key strategies

Our key strategies to improve real operating expenditure in the 2016-20 period are:

1. *Introduce service level agreements and service specifications that reduce duplication and double handling*
   - Identify and prioritise service relationships that would benefit from a service level agreement
   - Develop service level agreements according to a prioritised schedule, following a standard process
   - Review service specifications according to a prioritised schedule, following a standard process

   ### Costs, benefits and risks
   Preparation of service level agreements and review of service specifications will represent a cost, but primarily an opportunity cost as resources are diverted from other tasks. This work has been programmed for 2015-16 and 2016-17 so impact on resources has already been estimated. There may also be additional 'real' cost associated with this work if software or modelling tools are required to support it. Some are already in place, e.g. Promapp, however additional licencing or additional software may be needed as the process is developed.

   The key risk involved is this work will be undertaken, but that, once complete, it is not adopted by the organisation and therefore benefits are not realised. The need for change management, engagement and formal processes to ensure that managers adhere to new processes is being considered as the work program is developed, which should minimise this risk. Even given these strategies, however, it is expected that it will take several years once work is complete for a streamlines process to be embedded in the organisation and for full benefits to begin to be realised.

2. *Improve overall performance of key business processes*
   - Complete the business process review in conjunction with ArcBlue and develop a program for actioning endorsed recommendations

   ### Costs, benefits and risks
   Initial recommendations of the ARCBlue review of procurement include allocating additional staff resources to the Finance Service to implement the recommendations, to a maximum estimated cost of $100,000 per year. This is expected to generate $2.4 million (gross) in benefits provided implementation is successful.

   Risks associated with actual implementation are minimal, the greatest risk is that recommendations for savings, once agreed to, will not be fully implemented meaning that benefit is not fully realised.

3. *Comprehensive improvement plans that show a decrease in operating expenditure per capita over time achieved through savings realised through improved productivity and efficiency in service delivery and asset management*

- Complete the service reviews and develop a program for actioning endorsed recommendations
- Complete the assets review and develop a program for actioning endorsed recommendations
- Adopt targets for renewable energy supported by business case, and implement strategies to reduce energy and water use
- Develop a Workforce Strategy that identifies training and skill needs, job descriptions, demographic trends, barriers and opportunities to increase the flexibility and responsiveness of the workforce

Costs, benefits and risks

The benefits of the service review and assets review were established prior to commencing the process – anecdotal evidence is clear that there is potential for both cost saving and increased efficiency in both service delivery and asset management. The costs of undertaking these reviews has been calculated and allocated in the 2014-15 and 2015-16 budget. As recommendations are adopted from the various reviews where is it possible to track efficiencies gained this is being done, and will be reported through the mechanisms outlined above.

Implementing recommendations will, in some cases, incur additional cost. A preliminary examination of financial and resourcing implications of recommendations is undertaken as they are identified, if these implications appear substantial the initial task is always to define costs and benefits further to be sure that a decision to act on any recommendation is well informed. Costs must be defined and appropriate resources allocated prior to any recommendation being included in the Operational Plan for action.

There are a number of risks associated with implementation of the improvement for these benchmarks, the most significant being a lack of willingness to implement recommendations arising from the service reviews, assets review, ICT review and business process review. This may be due to competing political priorities, or due to other organisational factors including resistance to change. A communication strategy, including a staff communication panel, has already been implemented to assist in the change process, disseminate information across the organisation about proposed change and expected benefits, and provide a path for staff to raise issues of concern.

Failure to implement the recommendations will result in either identified savings and operational efficiencies not being realised, or being realised over a longer timeframe than anticipated. As the details of recommendations and their impacts become clearer it will be possible to assess the exact level and nature of the risk. It is possible, however that some of the proposed changes arising from this review will result in structural change or require allocation of substantial resources, so the risk must be managed. As the various reviews are completed and recommendations finalised this risk will be continually reassessed, to ensure that, where possible, the severity of the risk is well understood and mitigation strategies are in place.

Energy and water use represent substantial ongoing operating costs. Council has saved over $5 million in reduced energy costs due to efficiency initiatives implemented since 2002. Focus has now shifted to potential savings through implementation of renewable energy. These are always investigated for cost / benefit and a payback period established before a decision I made to implement, maximising benefit and minimising risk. Although less of a focus, water saving initiatives are also investigated and reported.

One of the key initial findings from the services review is the need for a more flexible workforce going forward, to respond to the changing needs of the community and new methods of service delivery. Given that workforce planning is a requirement of IP&R a decision has already been taken to update the workforce strategy to address key issue including an ageing workforce, need for up skilling in several areas, need for multiskilling (particularly in outdoor staff) and options to increase flexibility within job descriptions and work environments. Development of the strategy itself will be primarily an opportunity cost as resources will need to be diverted to complete it. Once recommendations are known, they will be assessed for cost / benefit prior to implementation.

4. *Pursue efficiencies, economies of scale, resource and knowledge sharing through the Strategic Alliance with Blue Mountains City Council and Hawkesbury City Council*
   - Investigate opportunities for joint advocacy and lobbying
   - Investigate opportunities for knowledge sharing and resource sharing

Costs, benefits and risks

On 20th April Council agreed to investigate a governance structure to facilitate a Strategic Alliance with Blue Mountains City Council and Hawkesbury City Council. The Strategic Alliance with Blue Mountains City Council and Hawkesbury City Council has the potential for significant benefit for all three councils, primarily in the areas of strategic capacity; knowledge sharing and identification of tourism and marketing opportunities. In some cases this is already occurring – examples include joint submission to state government on sub-regional planning matters, sharing of knowledge in the areas of housing demand, and recycling of road surface materials between Penrith and Blue Mountains.

There is intent among all parties to continue to look for specific opportunities to share resources and utilise economies of scale, however any initiative in these areas must first be negotiated with the Councillors and potentially the community of each council. This presents a risk if agreement cannot be reached.

Outcome	Milestone
Improvement in financial benchmarks realised as per modelling (with a 5% tolerance)	Tracked as per reporting outlined in section 1
Endorsement by all three councils of the scope of benefit to be explored through the Strategic Alliance	First meeting – 21 May 2015 Areas for investigation for potential mutual benefit agreed – October 2015
Service reviews completed for all services and recommendations adopted	All reviews complete - December 2015 First stage implementation – June 2016
Business process review completed and recommendations adopted	Complete – September 2015 First stage implementation – December 2015
Service level agreements in place for all identified service relationships	December 2016
New service specifications in place for all services	June 2017
Development of a new Workforce Strategy as part of the Resourcing Strategy	Adopted by June 2017

Impact on other indicators

Operating performance ratio	Improvement expected, as income increases and costs decrease. This may be offset by increased levels of service agreed with the community through the engagement process; however this process will focus on levels of service within Council's capacity to deliver. Council's continued and increased focus on asset renewal will also contribute to this improvement.
Own source revenue	No impact expected
Building and Asset Renewal Ratio	No impact expected
Infrastructure Backlog Ratio	No impact expected – as backlog is reduced additional funds will be allocated to asset renewal

Asset Maintenance Ratio	Council currently meets the asset maintenance benchmark. It is likely that some of the expenditure allocated to asset maintenance is actually asset renewal, so more accurate distribution of this expenditure may result in a fall in Penrith City Council's performance against the Asset Maintenance benchmark.
Debt service ratio	No impact expected

Assumptions

In addition to the general assumptions previously listed, calculation of this benchmark is based on the population growth projections prepared by the Department of Planning, as follows:

	2011	2016	2017	2018	2019	2020
Total population	184,600	203,950	207,940	211,930	215,920	219,910

Council subscribes to .id (informed decisions) and through this service will monitor projected population growth. If growth is substantially different to that assumed by the Department of Planning clearly this will impact on the forecast for this benchmark.